

Financial Statements of the Government of New Zealand

for the year ended 30 June 2019

© Crown Copyright Reserved
2703-1993 (ISSN Print)
2703-2000 (ISSN Online)



This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Crown and abide by the other licence terms.

To view a copy of this licence, visit <https://creativecommons.org/licenses/by/4.0/> Please note that no departmental or governmental emblem, logo or Coat of Arms may be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

Internet

The URL for this document on the Treasury's website at October 2019 is <https://treasury.govt.nz/publications/year-end/financial-statements-2019>

The Persistent URL for this document is <http://purl.oclc.org/nzt/f-2052>

Contents

Ministerial Statement	1
Statement of Responsibility	2
Commentary on the Financial Statements	3
Fiscal Overview	4
At a Glance	6
Summary	8
Revenue	11
Expenses	13
Operating Balance	16
Debt	18
Total Crown Balance Sheet	21
Year End Results Compared to <i>Budget 2019</i>	25
Historical Financial Information	28
Independent Audit Report of the Controller and Auditor-General	31
Audited Financial Statements of the Government of New Zealand	41
Statement of Financial Performance	42
Analysis of Expenses by Functional Classification	43
Statement of Comprehensive Revenue and Expense	44
Statement of Changes in Net Worth	44
Statement of Cash Flows	45
Statement of Financial Position	48
Statement of Segments	49
Notes to the Financial Statements	51
Note 1: Basis of Reporting	51
Note 2: Key Assumptions and Judgements	58
Note 3: Sovereign Revenue	63
Note 4: Sales of Goods and Services	64
Note 5: Investment Income/(Expense)	65
Note 6: Other Revenue	66
Note 7: Transfer Payments and Subsidies	67
Note 8: Personnel Expenses	68
Note 9: Other Operating Expenses	68
Note 10: Net Gains and Losses on Non-Financial Instruments	69
Note 11: Insurance	69
Note 12: Receivables	77
Note 13: Marketable Securities, Deposits and Derivatives in Gain	79
Note 14: Share Investments	80
Note 15: Advances	80
Note 16: Property, Plant and Equipment	83
Note 17: Equity Accounted Investments	98

Note 18: Payables	99
Note 19: Borrowings	100
Note 20: Retirement Plan Liabilities	102
Note 21: Provisions	107
Note 22: Minority Interests	109
Note 23: Capital Objectives and Fiscal Policy	110
Note 24: Commitments	113
Note 25: Contingent Liabilities and Contingent Assets	114
Note 26: Financial Instruments	124
Note 27: Impact of Adoption of PBE IFRS 9: <i>Financial Instruments</i>	137
Note 28: Related Parties	140
Note 29: Events Subsequent to Balance Date	140
Supplementary Statements	141
Statement of Unappropriated Expenditure	141
Statement of Expenses or Capital Expenditure Incurred in Emergencies	149
Statement of Trust Money	149
Additional Financial Information	153
Fiscal Indicator Analysis	154
Core Crown Residual Cash	155
Debt	156
Information on State-owned Enterprises and Crown Entities	157
Glossary of Terms	160

List of Tables

Table 1 – Financial results	6
Table 2 – Breakdown of revenue	11
Table 3 – Increase in core Crown tax revenue in nominal terms	11
Table 4 – Breakdown of expenses	13
Table 5 – Movement in core Crown expenses	13
Table 6 – Increase in the rail freight network valuation	15
Table 7 – Total Crown operating balance (excluding minority interests)	16
Table 8 – Net debt, residual cash and gross debt	18
Table 9 – Movement in residual cash	18
Table 10 – Cash proceeds from debt programme	20
Table 11 – Net worth	21
Table 12 – Composition of the total Crown balance sheet	21
Table 13 – Financial instrument sensitivities	24
Table 14 – Long-term liability sensitivities	24
Table 15 – Comparison to Budget 2019	25
Table 16 – Core Crown tax revenue compared to Estimated Actuals	25

List of Figures

Figure 1 – Core Crown tax revenue and nominal GDP growth	8
Figure 2 – Core Crown revenue and core Crown expenses	8
Figure 3 – Operating balance (excluding minority interests)	8
Figure 4 – Core Crown residual cash	9
Figure 5 – Net core Crown debt	9
Figure 6 – Net worth	10
Figure 7 – Core Crown tax revenue	11
Figure 8 – Other revenue	12
Figure 9 – Core Crown expenses	14
Figure 10 – Composition of core Crown expenses	14
Figure 11 – Components of OBEGAL by segment	16
Figure 12 – Operating balance (excluding minority interests)	17
Figure 13 – Discount rates	17
Figure 14 – Net debt	18
Figure 15 – Net core Crown capital cash flows	19
Figure 16 – Profile of net core Crown capital cash flows (excluding NZS Fund)	19
Figure 17 – Gross debt	20
Figure 18 – Net worth	21
Figure 19 – Movements in PPE by asset classes	22
Figure 20 – Movement in borrowings by types	23
Figure 21 – Core Crown tax revenue variance to Estimated Actuals	25
Figure 22 – Core Crown expenses variance to Estimated Actuals	26

Ministerial Statement

Overall, the 2018/19 year-end results are strong. They demonstrate the Coalition Government is delivering both increased investment to address our long-term infrastructure and social deficits, together with continued delivery of responsible fiscal management.

The results show the operating balance before gains and losses (OBEGAL) surplus increasing and the Crown's net worth growing. Net core Crown debt as a percentage of GDP has decreased to 19.2% – below both the previous year's forecast and the Budget 2019 forecast.

These results demonstrate the continuing strength in the economy, with nominal GDP growing by 3.6% for the year ended 30 June 2019. Core Crown tax revenue rose from the previous year with all major tax types increasing. 2018/19 saw more people in employment, increases in average wages, additional domestic consumption and higher individual and corporate profits. The Treasury notes that some of the strength in tax revenue was partly due to the improvements in the recognition of tax revenue, enabled by the transition of the administration of income tax to START (Simplified Tax and Revenue Technology).

Both nominal private and general government consumption expanded by 5.0% in the year while residential investment increased by 7.9%. Nominal business investment grew by 2.9%. Expenditure as a percentage of GDP was 29.0%, in line with The Treasury's Budget 2019 forecast of 29.1%. Core Crown expenditure rose 8.0% from the previous year, largely due to the Government's increased investment in health and education, and continued expenditure on superannuation.

The operating balance before gains and losses (OBEGAL) reached a surplus of \$7.5 billion, an increase of \$2.0 billion when compared to 2017/18. This is \$4.0 billion ahead of the OBEGAL position forecast at Budget 2019, and the largest surplus since 2008. The variation from the forecast is largely due to one-off factors that are not likely to continue over time, such as the \$2.6 billion from the revaluation of rail assets.

Losses from the valuation of the Crown's long-term liabilities (ACC and Government Superannuation Fund) arose from changes in assumptions used to value these liabilities. This resulted in losses on non-financial instruments of \$14.1 billion for the year. Investment gains of \$4.4 billion (primarily in NZSF and ACC) reflected strong market performance. When these gains and losses are combined with the OBEGAL result, the total Crown operating balance was a deficit of \$2.3 billion. The operating balance can fluctuate between years, due to its sensitivity to market conditions, such as equity markets and discount rates.

The Crown's assets increased by \$25.8 billion to reach \$365.8 billion at 30 June. Total Crown liabilities increased by \$15.1 billion to \$219.4 billion. Net worth attributable to the Crown increased by \$10.1 billion to \$139.7 billion, reflecting upward valuation of the Crown's physical assets, partly offset by the operating balance deficit.

The Government's investment programme meant capital spending exceeded net cash from the core Crown's operations, resulting in the core Crown recording a residual cash deficit of \$0.7 billion. This led to net core Crown debt of \$57.7 billion, \$0.2 billion higher than at 2017/18. In GDP terms, net core Crown debt fell from 19.9% in 2017/18 to 19.2% this year.

All together these accounts represent a sound and resilient position, as recognised by international observers and ratings agencies. As a country we are well positioned to deal with a slowing global economy in the tail end of the economic cycle. The government will deliver our investments to deal with the long-standing issues in our economy and society. We are delivering new infrastructure investment, lifting productivity, mitigating and adapting to climate change, improving child wellbeing and addressing the other social deficits this Government inherited.



Hon Grant Robertson
Minister of Finance

30 September 2019

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 Government Reporting Entity. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period.



Caralee McLiesh
Secretary to the Treasury

30 September 2019

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 2019 and its operations for the year ended on that date.



Hon Grant Robertson
Minister of Finance

30 September 2019



Commentary on the Financial Statements

Fiscal Overview

FISCAL STRATEGY

Operating revenue

Ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

Operating expenses

Maintain its expenditure to within the recent historical range of spending as a ratio of GDP. Ensure expenditure is phased, controlled, and directed to maximise its benefits, in particular prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

Operating balance (before gains and losses)

Deliver a sustainable operating surplus (before gains and losses) across an economic cycle.

Total Crown

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

\$119.3b
TOTAL REVENUE

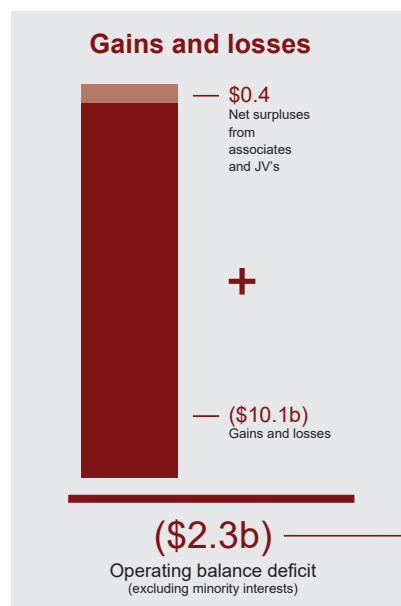
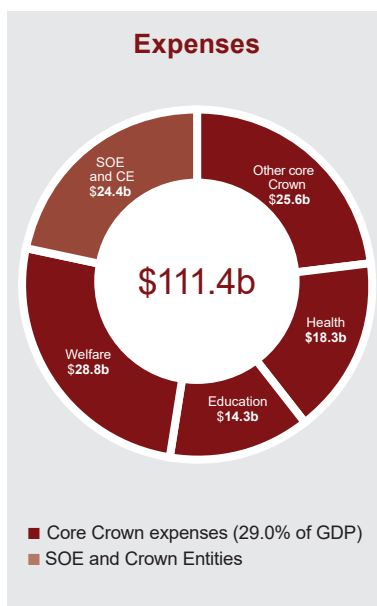
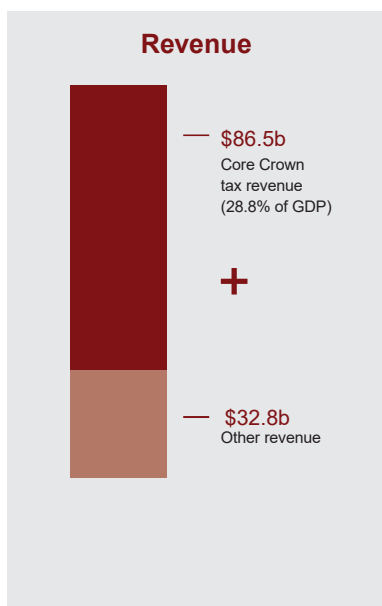
—

\$111.4b
TOTAL EXPENSES

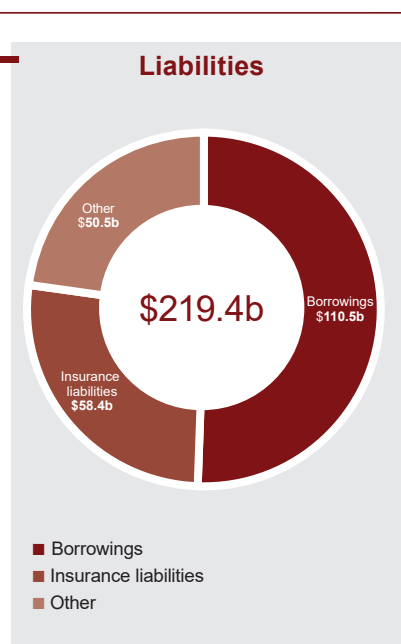
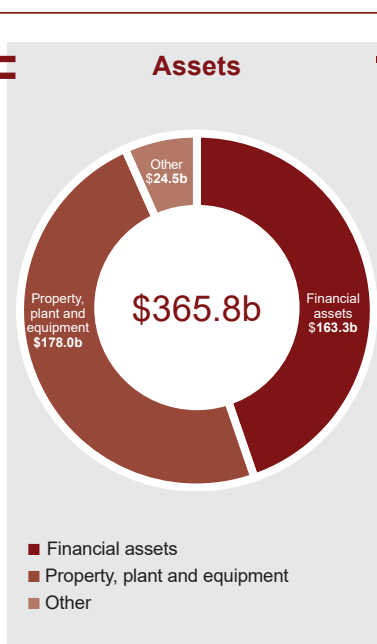
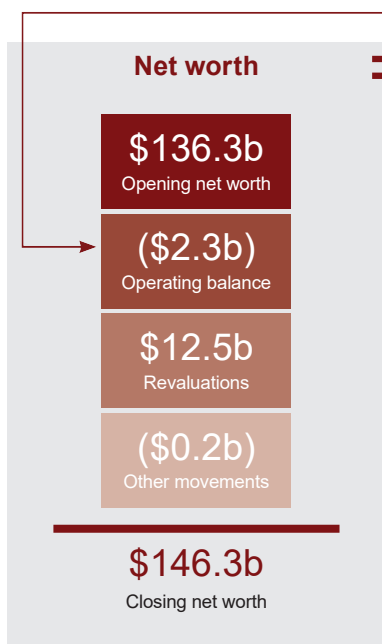
=

\$7.5b
OBEGAL (excluding minority interests)

- minority interests \$0.4b



2019 FINANCIAL RESULTS



Numbers may not add due to rounding.

Net worth

Strengthen net worth consistent with the debt and operating balance objectives.

Debt

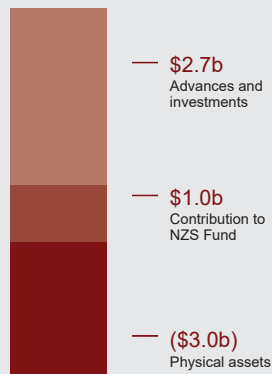
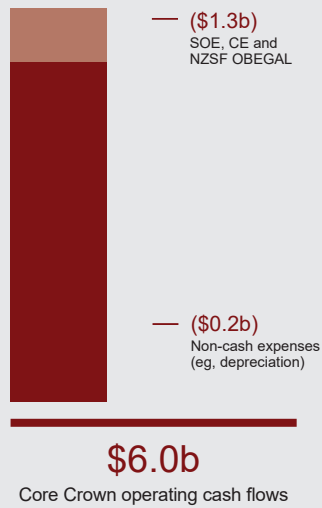
Maintain total debt at prudent levels. Reduce the level of net core Crown debt to 20% of GDP within five years of taking office, and maintain it at prudent levels thereafter.

Moving from total Crown accrual measure to core Crown cash measure

Core Crown

Movement in net core Crown debt

$$\begin{array}{rcl}
 + & \text{\$7.5b OBEGAL +} & \\
 & \text{\textbf{(\$1.5b)}} & \\
 & \text{NON-RESIDUAL CASH ITEMS} & \\
 & - & \\
 & \text{\textbf{\$6.7b}} & \\
 & \text{CAPITAL ITEMS} & \\
 & = & \\
 & \text{\textbf{(\$0.7b)}} & \\
 & \text{RESIDUAL CASH DEFICIT} &
 \end{array}$$



Net core Crown debt

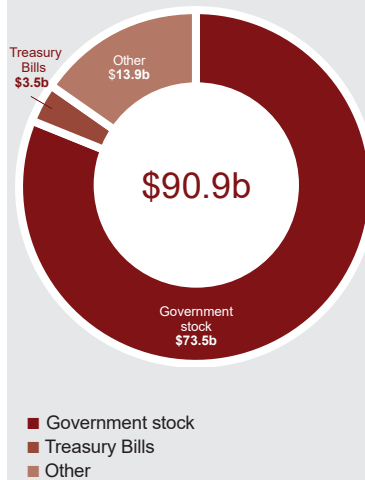
\$57.5b
Opening net core Crown debt

(\$0.7b)
Residual cash

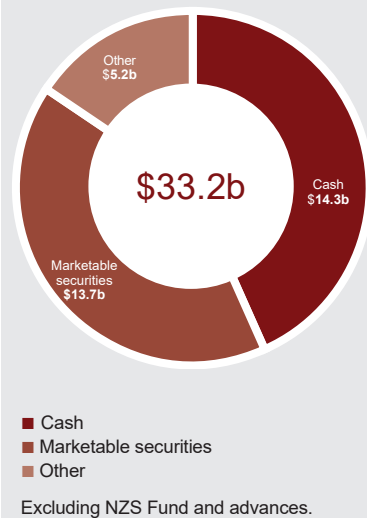
\$0.5b
Other movements

\$57.7b
Closing net core Crown debt
19.2% of GDP

Gross sovereign issued debt



Core Crown financial assets



At a Glance

The Government's fiscal position has continued to strengthen this year with a surplus in the operating balance before gains and losses (OBEGAL), net core Crown debt reduced as a share of the economy and net worth increased in nominal terms.

- Core Crown tax revenue was \$6.2 billion more than last year and was higher than the *Budget 2019* forecast by \$1.8 billion (page 11).
- Core Crown expenses were \$6.4 billion higher than last year, but \$0.3 billion less than Budget 2019 forecast (page 13).
- Core Crown residual cash was a deficit of \$0.7 billion, compared to last year's residual cash surplus of \$1.3 billion. This was a result of higher capital cash flows than the operating cash flows (page 18).
- Gross debt decreased nominally by \$3.6 billion to \$84.4 billion from the prior year, and decreased as a percentage of GDP to 28.1% (page 20).
- Net core Crown debt increased in nominal terms by \$0.2 billion largely as a result of the residual cash deficit in the current year, but continued to decrease as a percentage of GDP (to 19.2%) (page 18).
- Outside of the core Crown, State-owned enterprises and Crown entities' contribution to OBEGAL was higher than last year by \$1.8 billion (page 16).
- The OBEGAL surplus of \$7.5 billion was \$2.0 billion higher than last year (page 16). However, the level of this year's surplus is partly owing to one-off positive items. For example, the \$2.6 billion positive impact from the KiwiRail impairment reversal.
- The total Crown operating balance (excluding minority interests) was a deficit of \$2.3 billion largely a result of total Crown net losses of \$10.1 billion arising from changes in long-term liability valuation assumptions (page 17).
- Net worth increased by \$10.7 billion. This is largely owing to uplifts on the property, plant and equipment, partially offset by the operating balance deficit (page 21).

Table 1 – Financial results

Year ended 30 June						Forecast 30 June 2019	
	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
\$ million							
Core Crown tax revenue ¹	66,636	70,445	75,644	80,224	86,468	83,901	84,650
Core Crown expenses	72,363	73,929	76,339	80,576	87,022	86,720	87,300
Residual cash	(1,827)	(1,322)	2,574	1,346	(710)	(3,875)	(2,785)
Gross debt ²	86,125	86,928	87,141	88,053	84,449	81,853	83,287
as a percentage of GDP	35.2%	33.8%	31.8%	30.4%	28.1%	26.9%	27.8%
Net core Crown debt ³	60,631	61,880	59,480	57,495	57,736	64,204	60,299
as a percentage of GDP	24.7%	24.1%	21.7%	19.9%	19.2%	21.1%	20.1%
OBEGAL ⁴	414	1,831	4,069	5,534	7,508	3,737	3,465
Operating balance ⁴	5,771	(5,369)	12,317	8,396	(2,274)	6,773	(284)
Total borrowings	112,580	113,956	111,806	115,652	110,477	112,890	112,057
Net worth	92,236	95,521	116,472	135,637	146,313	130,317	136,166

1 Core Crown tax revenue is higher than total Crown tax revenue owing to eliminations.

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

3 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

4 Excluding minority interests.

A comparison of the year end results against *Budget 2019* is included on pages 25 to 27.

These financial statements¹ contain the audited results for the financial year ended 30 June 2019. The results are compared against previous years and against forecasts for the 2018/19 year:

- *Budget 2018* refers to the *2018 Budget Economic and Fiscal Update* published in May 2018, and
- *Budget 2019* refers to the *2019 Budget Economic and Fiscal Update* published in May 2019.

The financial statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2019.

This commentary should be read in conjunction with the financial statements on pages 42 to 140.

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. Total Crown is comprised of the core Crown, State-owned Enterprises (including mixed ownership model companies) and Crown entities.

Summary

Growth in the economy has resulted in an increase in core Crown tax revenue...

Nominal GDP grew by 3.6% in the year to reach \$300.0 billion while real GDP increased 2.6%.

Real activity was supported by population growth with New Zealand's population growing 1.6% in the year to date. Both nominal private and general government consumption expanded by 5.0% while residential investment increased by 7.9%. Increased consumer spending has been supported by higher wage growth with the average hourly earnings increasing 3.5% in the year.

In addition, higher corporate profits and individuals income was partly driven by an increase in business investment of 2.9%.

The above economic conditions have contributed to an increase in core Crown tax revenue, which is up \$6.2 billion from last year to \$86.5 billion. Growth in core Crown tax revenue in 2018/19 was greater than GDP growth, primarily owing to system changes impacting how tax revenue is calculated.

Other core Crown revenue increased by \$0.6 billion to \$7.2 billion.

... while spending decisions have driven an increase in core Crown expenses...

As a share of the economy, core Crown expenses increased to 29.0% of GDP (27.8% of GDP in 2018); in nominal terms, core Crown expenses increased by \$6.4 billion (8.0%) to \$87.0 billion.

The largest drivers of growth in nominal core Crown expenditure were the Government's *100-Day Plan*, *Budget 2018* and *Budget 2019* decisions. At the time of announcement, these decisions increased core Crown expenses in 2018/19 by around \$4.7 billion. In addition, expenditure on social assistance and the transport sector made up most of the remaining increase in core Crown expenses.

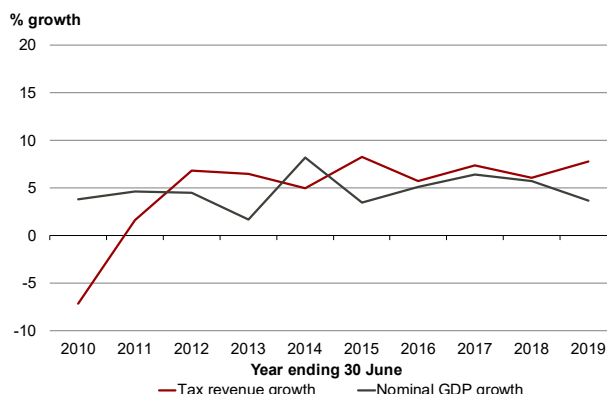
The increase in core Crown expenditure was the largest year-on-year increase since 2011.

...there are some large positive one-off items this year...

A portion of the strength in tax revenue is from the transition to the new processes and system used to calculate tax revenue. Refer to page 12 for more information.

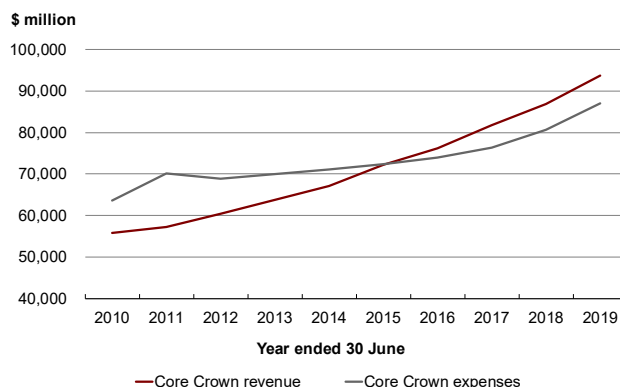
Also, total expenses have been partially offset by the reversal of KiwiRail's previous impairment expense of \$2.6 billion. This increase resulted from a change in the valuation approach of the rail network from a commercial basis to a public benefit basis. Refer to the box on page 15.

Figure 1 – Core Crown tax revenue and nominal GDP growth



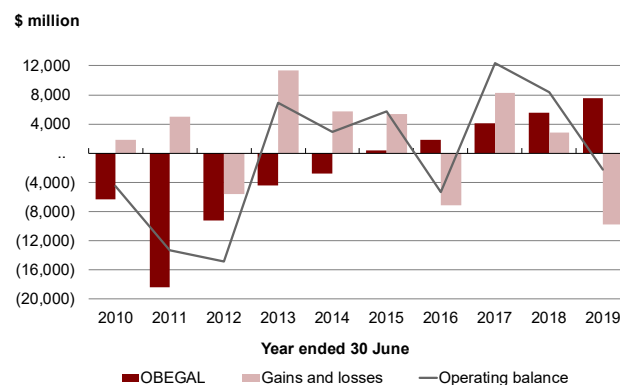
Source: The Treasury

Figure 2 – Core Crown revenue and core Crown expenses



Source: The Treasury

Figure 3 – Operating balance (excluding minority interests)



Source: The Treasury

... which have increased the OBEGAL surplus...

The OBEGAL surplus of \$7.5 billion for 2018/19 increased by \$2.0 billion from last year. However, the level of this year's surplus is owing to some large one-off positive items. For example, excluding the \$2.6 billion positive impact from KiwiRail, the current year's surplus is lower than the previous year.

... however net losses more than offset the OBEGAL surplus.

Overall, total net losses for the year were \$10.1 billion, largely owing to \$14.1 billion of valuation losses in relation to long-term liability valuations for Accident Compensation Corporation (ACC) and the Government Superannuation Fund (GSF). This compares to valuation losses of \$2.4 billion last year.

The valuation losses were partially offset by investment gains of \$4.4 billion in 2018/19, mostly from New Zealand Superannuation Fund (NZS Fund) and ACC recording gains from their investment activities of \$1.9 billion and \$1.5 billion respectively.

When these net losses are combined with the OBEGAL surplus, the operating balance was a deficit of \$2.3 billion.

The Crown's operating balance is particularly sensitive to changes in some key assumptions used to value assets and liabilities. For example, this year a decrease in discount rates added \$10.8 billion to the ACC liability. More details of balance sheet sensitivities can be found on page 24.

These one-off items do not flow into the cash available to the Crown...

The one-off items mentioned above are non-cash in nature, therefore, they do not impact the level of cash available for the Crown. Cash from core Crown operating activities of \$6.0 billion has been generated, \$1.2 billion less than last year.

... and core Crown capital spending exceeds cash from operations...

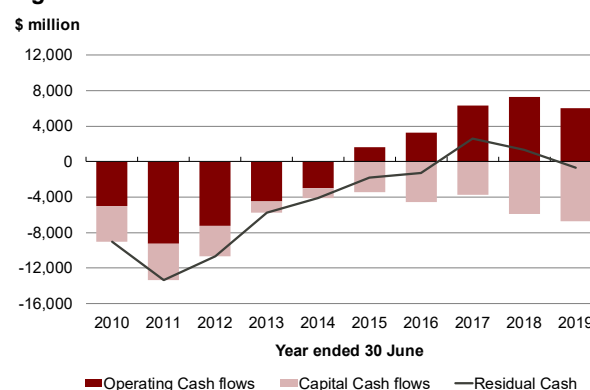
Capital spending of \$6.7 billion was \$0.8 billion higher than last year. The core Crown capital spending largely consisted of purchases of physical assets of \$3.0 billion, investment in Crown entities of \$2.7 billion and the Government's contributions to NZS Fund of \$1.0 billion.

... resulting in a core Crown cash deficit, increasing net core Crown debt...

Taking into account both operating and capital activities of the Crown, there is a cash shortfall (residual cash deficit) this year of \$0.7 billion.

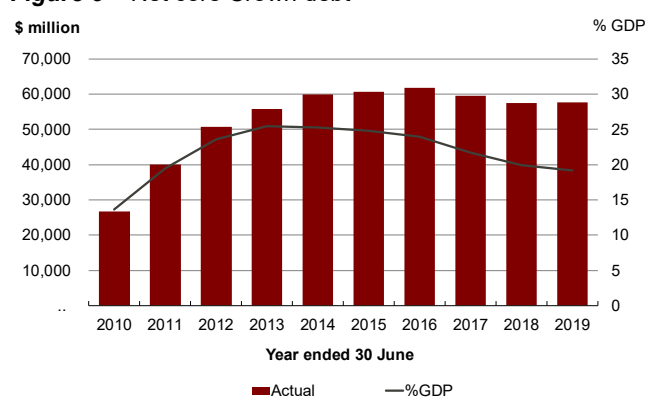
Net core Crown debt of \$57.7 billion increased by \$0.2 billion from last year. As a percentage of GDP, net core Crown debt has continued to fall, from 19.9% in 2017/18 to 19.2% in 2018/19.

Figure 4 – Core Crown residual cash



Source: The Treasury

Figure 5 – Net core Crown debt¹



Source: The Treasury

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

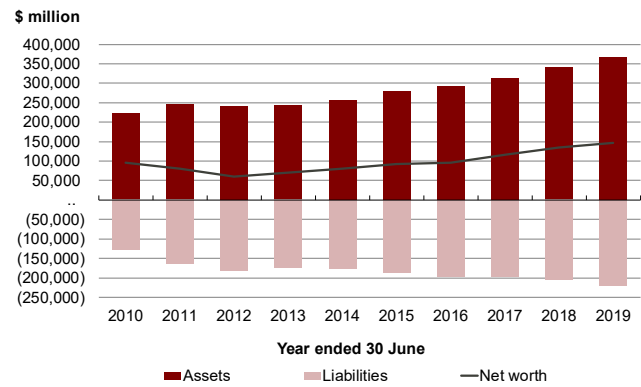
... while the revaluation of physical assets increased net worth.

Alongside the operating balance deficit of \$2.3 billion, revaluation uplifts of physical assets increased by \$12.5 billion. There was also a one-off increase in the student loan valuation of \$0.6 billion. As a result, net worth increased by \$10.7 billion to \$146.3 billion.

Total assets grew by \$25.8 billion to \$365.8 billion, while liabilities increased by \$15.1 billion to \$219.4 billion.

Increases in property, plant and equipment and financial assets such as NZS Fund investments contributed to the growth in assets while an increase in long-term liabilities was the main driver of the increased liability.

Figure 6 – Net worth



Source: The Treasury

Revenue

Total Crown revenue was \$119.3 billion, an increase of \$9.3 billion from last year largely owing to increased core Crown tax revenue.

Table 2 – Breakdown of revenue

Year ended 30 June \$ million	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Forecast 30 June 2019	
						Budget 2018	Budget 2019
Core Crown tax revenue	66,636	70,445	75,644	80,224	86,468	83,901	84,650
Core Crown other revenue	5,577	5,676	6,138	6,554	7,157	7,064	6,949
Core Crown revenue	72,213	76,121	81,782	86,778	93,625	90,965	91,599
Crown entities, SOEs and eliminations (Other)	21,592	21,295	21,640	23,195	25,668	24,332	24,819
Total Crown revenue	93,805	97,416	103,422	109,973	119,293	115,297	116,418
% of GDP							
Core Crown tax revenue	27.2%	27.4%	27.6%	27.7%	28.8%	27.5%	28.2%
Core Crown other revenue	2.3%	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%
Core Crown revenue	29.5%	29.6%	29.9%	30.0%	31.2%	29.9%	30.6%
Crown entities, SOEs and eliminations (Other)	8.8%	8.2%	7.9%	8.0%	8.6%	8.0%	8.2%
Total Crown revenue	38.3%	37.8%	37.8%	38.0%	39.8%	37.9%	38.8%

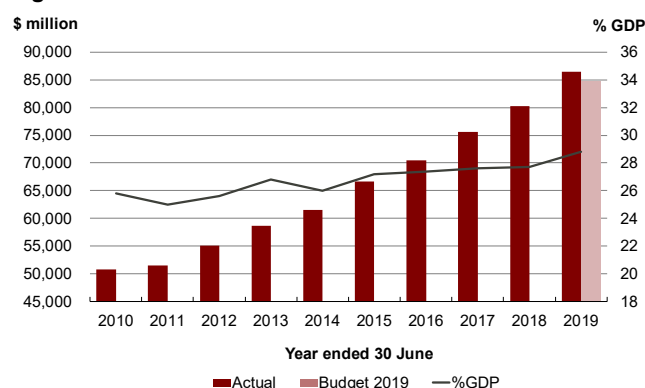
Core Crown Tax Revenue

Core Crown tax revenue was \$86.5 billion, up \$6.2 billion (7.8%) from the year before. The increase in core Crown tax revenue was broadly a result of more people in employment, increases in average wages, additional domestic spending, and higher corporate and individual profits. In addition, some of the strength was driven by the recent transition to the new Simplified Tax and Revenue Technology (START) system, implemented in April 2019 by the Inland Revenue Department that is used to calculate tax revenue. For more details, refer to the box page 12.

Most major tax types increased over the year with four tax types making up most of the increase (Table 3):

- Source deductions increased by \$2.2 billion (7.0%). This increase was owing to growth in the number of people in employment, and the effect of rising average tax rates.
- Corporate tax revenue increased by \$1.8 billion (13.0%), mainly owing to profit growth and changes to the way the new START system calculates tax revenue.
- Goods and Services Tax (GST) was \$1.0 billion (5.0%) higher than last year, with most of the growth coming from domestic consumption, which was up 5.0% on the previous year.
- Other individuals tax was \$0.5 billion (10.3%) higher than last year, mainly owing to income growth, and the correction of some Portfolio Investment Rates (charged on the investment returns of KiwiSaver accounts and managed funds) as a result of transitioning to Inland Revenue Department's new system.

Figure 7 – Core Crown tax revenue



Source: The Treasury

Table 3 – Increase in core Crown tax revenue in nominal terms

Year ended 30 June	(\$ billion)
2018 core Crown tax revenue	80.2
Source deductions	2.2
Corporate tax	1.8
GST	1.0
Other individuals tax	0.5
Other movements	0.8
2019 core Crown tax revenue	86.5

Source: The Treasury

Revenue (continued)

Core Crown tax revenue recognition process change

For financial reporting purposes, tax revenue is recognised when taxable income is earned by a taxpayer and it can be reliably measured. The recognition of tax revenue requires a degree of estimation. Over recent years, the Inland Revenue Department has been working to improve the accuracy of this estimation. Actual tax revenue is not known until the tax returns for the period have been filed. This usually happens sometime after the publication of the financial statements. For example, the final calculation of the income tax for a 31 March 2019 taxpayer may not be due until April 2020.

In April 2019, the administration of income tax (mainly corporate and individuals tax) moved to Inland Revenue Department's new system, START (Simplified Tax and Revenue Technology). Other tax types (eg, GST) transitioned to START in previous years, but income tax is the most complex to estimate for reporting purposes. START has improved the way tax revenue is recognised as estimates are based on the most recently-available data for each individual and corporate taxpayer. The previous process relied on the forecast of provisional tax revenue. This change in process has resulted in bringing forward the recognition of some tax revenue for the 2018/19 year (cash has not changed).

The fundamental change in the approach means that it is not practical to estimate the amount of tax revenue brought forward this year from transitioning to START.

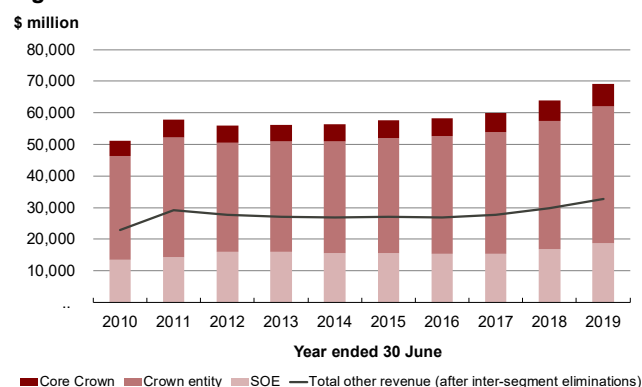
The key judgements and assumptions underpinning tax revenue estimates are discussed in note 2 (page 61) of the financial statements.

Other Revenue

Total Crown other revenue was \$32.8 billion, an increase of \$3.1 billion from the previous year. Other revenue includes fees and levies (eg, ACC levies), revenue from operations of Crown entities and State-owned enterprises (SOEs), interest revenue and dividend revenue.

Core Crown other revenue increased by \$0.6 billion to \$7.2 billion. A portion of this increase was owing to revenue from the New Zealand Emissions Trading Scheme (ETS) of \$0.2 billion. This increase was owing to more carbon units being surrendered to the Crown and an increase in the price of these surrendered units. The balance of the increase reflects small movements across various entities.

Figure 8 – Other revenue



Source: The Treasury

The SOE and Crown entity sectors (including inter-segment eliminations) recorded revenue of \$25.7 billion, an increase of \$2.5 billion from the prior year. This increase related largely to sales of goods and services in the SOE sector and an increase in Earthquake Commission's (EQC) insurance revenue owing to increased levy revenue and higher reinsurance income.

Expenses

Total Crown expenses were \$111.4 billion in the current year, \$7.4 billion more than last year. Most of the increase occurred within the core Crown segment (\$6.4 billion). The increase in Crown entities and SOEs (including eliminations) was \$3.6 billion, but this is offset by a reversal of KiwiRail's previous impairment expenses of \$2.6 billion, resulting in a net increase of \$1.0 billion since last year. Refer to page 15 for the details on KiwiRail's impairment expenses.

Table 4 – Breakdown of expenses

Year ended 30 June						Forecast 30 June 2018	
\$ million	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
Social security and welfare	23,523	24,081	25,294	25,999	28,844	28,949	28,961
Health	15,058	15,626	16,223	17,159	18,268	18,071	18,277
Education	12,879	13,158	13,281	13,629	14,293	14,663	14,312
Core government services	4,134	4,102	3,957	4,670	5,314	5,046	5,326
Law and order	3,515	3,648	3,882	4,184	4,625	4,419	4,757
Other core Crown expenses	13,254	13,314	13,702	14,935	15,678	15,572	15,667
Core Crown expenses	72,363	73,929	76,339	80,576	87,022	86,720	87,300
Crown entities, SOEs and eliminations (Other)	20,701	21,208	22,668	23,438	24,417	24,396	25,259
Total Crown expenses	93,064	95,137	99,007	104,014	111,439	111,116	112,559
% of GDP							
Social security and welfare	9.6%	9.4%	9.2%	9.0%	9.6%	9.5%	9.7%
Health	6.1%	6.1%	5.9%	5.9%	6.1%	5.9%	6.1%
Education	5.3%	5.1%	4.8%	4.7%	4.8%	4.8%	4.8%
Core government services	1.7%	1.6%	1.4%	1.6%	1.8%	1.7%	1.8%
Law and order	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.6%
Other core Crown expenses	5.5%	5.1%	5.2%	5.2%	5.2%	5.1%	5.2%
Core Crown expenses	29.6%	28.7%	27.9%	27.8%	29.0%	28.5%	29.1%
Crown entities, SOEs and eliminations (Other)	8.4%	8.3%	8.3%	8.1%	8.1%	8.0%	8.4%
Total Crown expenses	38.0%	37.0%	36.2%	35.9%	37.1%	36.5%	37.6%

Core Crown Expenses

The core Crown expenses increase of \$6.4 billion is the largest year on year increase since 2011. The expenditure, as a share of the economy was higher than the previous year at 29.0% of GDP (Figure 9).

The largest drivers of growth in core Crown expenditure were the Government's *100-Day Plan*, *Budget 2018* and *Budget 2019* decisions.

On announcement, the combination of these decisions were expected to increase core Crown expenses, by around \$4.7 billion in 2018/19.

Table 5 – Movement in core Crown expenses

Year ended 30 June	(\$ billion)
2018 core Crown expenses	80.6
Budget decisions	4.7
New Zealand Superannuation	0.9
Transport expenses	0.3
Other movements	0.5
2019 core Crown expenses	87.0

Source: The Treasury

Expenses (continued)

The budget decisions with the biggest financial impact related to social security and welfare. This was mainly funding for the Families Package. Decisions impacting health expenses were the second largest financial impact, increasing by around \$1.0 billion from 2017/18.

In addition:

- New Zealand Superannuation costs were higher than last year by \$0.9 billion. This was owing to an increase in recipient numbers from an average of around 741,300 in 2017/18, to 767,000 in 2018/19 and increased payment rates.
- Transport expenses increased by \$0.3 billion from the prior year, owing to an increase in state highway maintenance.

Figure 10 shows the composition of core Crown expenses by key areas of Government spending. The three spending areas of social security and welfare, health and education expenses make up 70% of all core Crown spending.

Other core Crown expenses (18%) includes other areas of spending (eg, transport, economic, defence, and environmental protection and finance costs) and these levels of spending remained consistent with spending in the prior year.

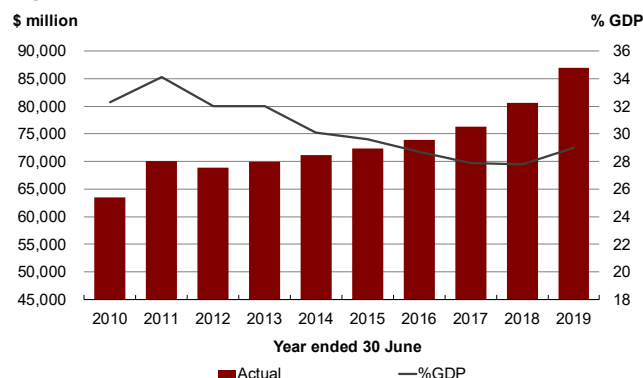
Other Expenses

The SOE and Crown entity sectors (including inter-segment eliminations) recorded net expenses of \$24.4 billion. Excluding the \$2.6 billion one-off reversal of KiwiRail's impairment expenses, the expenditure was \$27.0 billion, and an increase of \$3.6 billion or 15% from 2017/18.

The following key areas contributed to most of the \$3.6 billion increase:

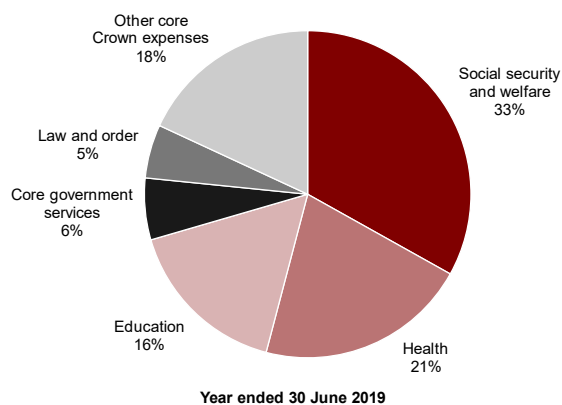
- DHB expenses were higher than the previous year as a result of increased cost of health services and additional personnel expenses from estimated liabilities under the Holidays Act 2003.
- Higher insurance expenses in ACC mostly reflecting additional claims.
- The SOE sector's higher expenses were consistent with higher revenue, although the growth in expenses was at a lower rate compared to revenue growth.

Figure 9 – Core Crown expenses



Source: The Treasury

Figure 10 – Composition of core Crown expenses



Source: The Treasury

Rail network

Background

The rail network comprises around 3,700 kilometres of track (excluding yards and sidings) and is used primarily for freight transport. In addition, it is also used by KiwiRail for long distance passenger transport and 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 regional authorities in relation to the metro services.

Since the restructuring of KiwiRail as a profit-oriented entity in 2012, the rail network infrastructure used for freight services (including dual use assets required for freight operations) has been valued at fair value, reflecting the recoverable 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 were reported in these financial statements at an optimised depreciated replacement cost basis, reflecting the community benefits of this investment rather than treating this portion as a cash generating asset at a whole-of-Government level. Those valuation approaches reflected the government purpose in holding the assets.

Change in valuation method

Following a review to consider the context of KiwiRail's purpose within a multi modal transport system, the underlying assumption of the benefits of rail were reframed as: *"Rail enables access and mobility, transporting people and goods to where they need to go, supporting productivity and business growth, reducing emissions, congestion and road deaths, and strengthening social and cultural connections between communities"*. As a consequence, a valuation for the rail freight network that only reflected its cash generating potential was no longer appropriate.

These financial statements include the valuation of all the rail infrastructure using an Optimised Depreciated Replacement Cost method. To the extent that the assets deliver public benefits and would be replaced, a replacement cost approach is used, depreciated to reflect the extent the assets are through their useful lives. The valuation is 'optimised' by reporting components within the network that do not produce benefits, as surplus assets that are measured at their recoverable amount.

Fiscal impacts

The impact is to increase the value of the rail freight network to \$6.3 billion compared to a value of \$1.0 billion that would have been reported under the previous basis. Table 6 shows how the increase flows through these financial statements.

Table 6 – Increase in the rail freight network valuation

Year ended 30 June	(\$ billion)
Increase in the rail freight network value	5.3
Reflected through:	
Reversal of prior year impairments that impacts OBEGAL	2.6
Increase in the revaluation reserves that impacts net worth	2.3
Other movements (eg, additions and disposals)	0.4
Total increase in net worth	5.3

Source: The Treasury

Operating Balance

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

Year ended 30 June						Forecast 30 June 2019	
\$ million	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
Total Crown OBEGAL	414	1,831	4,069	5,534	7,508	3,737	3,465
Gains and losses:							
ACC actuarial gain/(loss)	(1,352)	(5,099)	387	(1,881)	(11,367)	-	(3,676)
GSF actuarial gain/(loss)	(322)	(2,028)	964	(553)	(2,759)	-	(1,017)
Student loans gain/(loss)	-	-	-	-	981	-	-
ETS net position	(366)	(1,503)	73	(462)	(225)	-	(558)
Investment portfolios:							
NZS Fund	3,156	(76)	5,512	3,564	1,986	2,641	1,677
ACC	2,397	1,420	901	1,713	1,534	215	(480)
Other gains/(losses) ¹	1,844	86	411	481	68	180	305
Total Crown gains/(losses)	5,357	(7,200)	8,248	2,862	(9,782)	3,036	(3,749)
Total Crown operating balance	5,771	(5,369)	12,317	8,396	(2,274)	6,773	(284)
% of GDP							
Total Crown OBEGAL	0.2%	0.7%	1.5%	1.9%	2.6%	1.2%	1.2%
Total Crown gains/(losses)	2.2%	(2.8)%	3.0%	1.0%	(3.3)%	1.1%	(1.3)%
Total Crown Operating balance	2.4%	(2.1)%	4.5%	2.9%	(0.8)%	2.2%	(0.1)%

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

OBEGAL (Operating Balance before Gains and Losses)

The OBEGAL surplus of \$7.5 billion is an improvement of \$2.0 billion from last year.

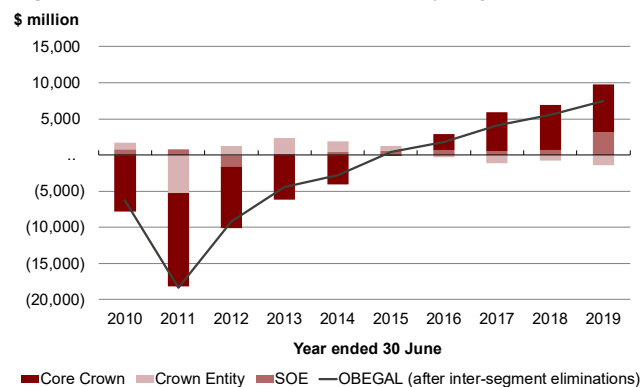
Figure 11 shows the composition of OBEGAL from the different reporting segments of the Government.

The core Crown segment is consistent with last year with an OBEGAL surplus of \$6.6 billion.

For the year ended 30 June 2019, the SOE segment reported a surplus of \$3.2 billion, up \$2.5 billion from last year largely owing to the change in rail freight network valuation methodology (refer to the box on page 15). In addition, increased revenue from SOEs outpaced the increase in operating expenditure.

The Crown entity segment reported a deficit of \$1.5 billion, more than the previous year's deficit of \$0.8 billion. The primary driver of this relates to higher DHB deficits, and increased ACC insurance expenditure of \$1.0 billion.

Figure 11 – Components of OBEGAL by segment



Source: The Treasury

Operating Balance (continued)

Operating Balance

When the net losses (\$10.1 billion) and the net surplus from associates and joint ventures (\$0.3 billion) for the year are combined with the OBEGAL surplus, this resulted in a total Crown operating balance deficit of \$2.3 billion. This year's deficit of \$2.3 billion compares to last year's operating balance surplus of \$8.4 billion, a \$10.7 billion change.

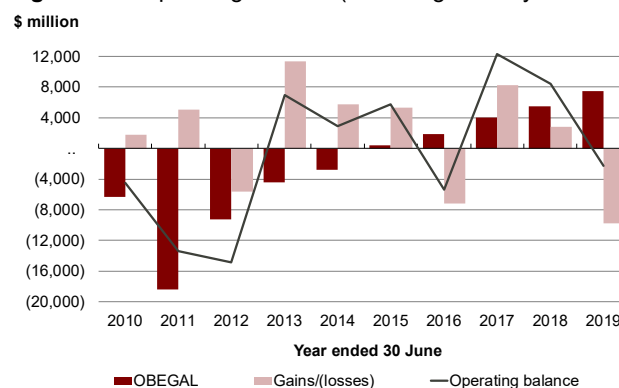
Total net losses for the year were \$10.1 billion compared to the prior year's gains of \$2.4 billion.

Gains on financial instruments of \$4.4 billion (compared to \$5.3 billion last year), mainly reflect continued favourable investment performance (primarily in NZS Fund and ACC) and a gain of \$0.7 billion on student loans owing to a decrease in the discount rate (used to value expected loan repayments in today's dollars). The current year saw volatility in financial markets offset by favourable movements in exchange rates, resulting in investment gains being \$0.9 billion lower than last year.

Losses on non-financial instruments of \$14.3 billion (compared to \$2.8 billion of losses last year) largely consisted of actuarial losses on the ACC and GSF long term liabilities. These losses were mainly owing to decreases in the discount rates used to value all outstanding claims in today's dollars. Liabilities with long durations such as ACC and GSF are particularly sensitive to discount rate movements. If discount rates reduce, the liability in today's dollar increases.

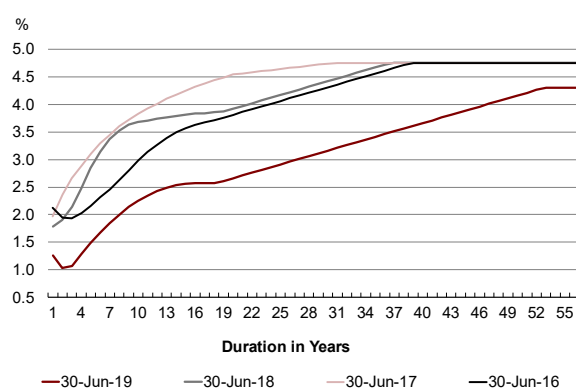
Figure 13 shows a comparison of the yield curve of forward discount rates used to value the ACC and GSF liabilities over the last four years.

Figure 12 – Operating balance (excluding minority interests)



Source: The Treasury

Figure 13 – Discount rates



Source: The Treasury

Debt

Table 8 – Net debt, residual cash and gross debt

Year ended 30 June	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Forecast 30 June 2019	
						Budget 2018	Budget 2019
Net debt ¹ (\$m)	60,631	61,880	59,480	57,495	57,736	64,204	60,299
Net debt (% GDP)	24.8%	24.0%	21.7%	19.9%	19.2%	21.1%	20.1%
Residual cash (\$m)	(1,827)	(1,322)	2,574	1,346	(710)	(3,875)	(2,785)
Residual cash (% GDP)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(1.3%)	(0.9%)
Gross debt ² (\$m)	86,125	86,928	87,141	88,053	84,449	81,853	83,287
Gross debt (% GDP)	35.2%	33.8%	31.8%	30.4%	28.1%	26.9%	27.8%
Total Borrowings (\$m)	112,580	113,956	111,806	115,652	110,477	112,890	112,057
Total Borrowings (% GDP)	46.0%	44.3%	40.8%	39.9%	36.8%	37.1%	37.4%

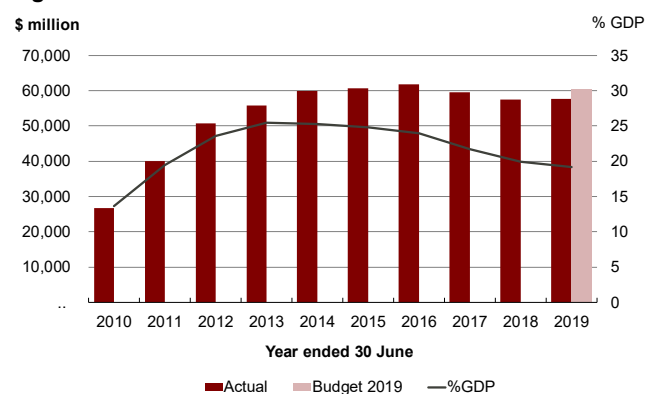
1 Net debt is defined as net core Crown debt excluding the NZS Fund and advances.

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

Net Debt

Net debt has increased by \$0.2 billion from \$57.5 billion in 2017/18 to \$57.7 billion in 2018/19. This is largely owing to a residual cash deficit of \$0.7 billion, explained below. Partly offsetting the residual cash deficit was an increase in circulating currency of \$0.4 billion, driven by public demand for currency. As a share of the economy, net debt continued to fall (19.2% of GDP versus 19.9% of GDP a year earlier).

Figure 14 – Net debt



Source: The Treasury

Residual Cash

Net cash flows from core Crown capital spending for the year exceeded net operating cash flows, resulting in a residual cash deficit of \$0.7 billion. This compares to a residual cash surplus of \$1.3 billion last year. Table 9 summarises the key residual cash movements from last year to the current year.

- Tax receipts were \$3.6 billion higher than last year, partly driven by the increases in core Crown revenue from economic growth and particularly, the labour market.
- Sovereign other receipts were \$0.5 billion higher than last year mainly owing to more ETS participants taking the 'fixed-price option' where they can pay the Government \$25 for each unit they are liable to surrender to meet their obligations.
- Operating payments (including interest) were \$5.5 billion higher than last year, broadly in line with the increase in core Crown expenses.

Table 9 – Movement in residual cash

Year ended 30 June	(\$ billion)
2018 core Crown residual cash surplus	1.3
Increase in tax receipts	3.6
Increase in sovereign other receipts	0.5
Increase in operating payments	(5.5)
Increase in capital spending	(0.8)
Other movements	0.2
2019 core Crown residual cash deficit	(0.7)

Source: The Treasury

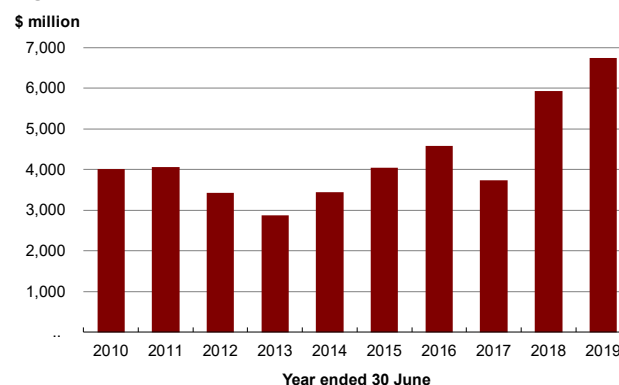
Debt (continued)

Capital spending for 2018/19 totalled \$6.7 billion, an increase of \$0.8 billion from the previous year. Capital spending included:

- Net purchase of physical assets of \$3.0 billion, including \$0.9 billion by the Ministry of Education in relation to school property, \$0.7 billion for defence equipment, \$0.4 billion for prisons, and \$0.2 billion for hospitals.
- Net investments of \$2.7 billion, the largest of which was the Crown's \$1.1 billion contributions to NZTA for state highways. Other investments included \$0.3 billion in KiwiRail, \$0.3 billion to Crown Infrastructure Partners Limited and \$0.2 billion for DHBs.
- Net cash from advances (eg, Student loans) were a net outflow of \$0.1 billion.
- Government contributions to the NZS Fund were \$1.0 billion this year, an increase of \$0.5 billion from the previous year.

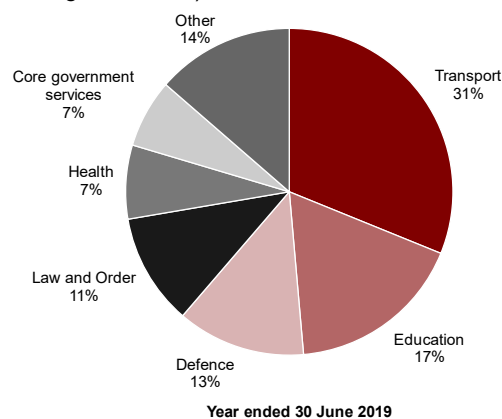
Figure 16 analyses capital cash flows by sector excluding NZS Fund. This shows that 48% of capital spending (\$2.8 billion) was within the transport and education sectors. The total spend in the transport sector was \$1.8 billion (31%), largely for the state highway network. The education sector spent \$1.0 billion (17%) purchasing physical assets for schools and upgrading existing property.

Figure 15 – Net core Crown capital cash flows



Source: The Treasury

Figure 16 – Profile of net core Crown capital cash flows (excluding NZS Fund)



Source: The Treasury

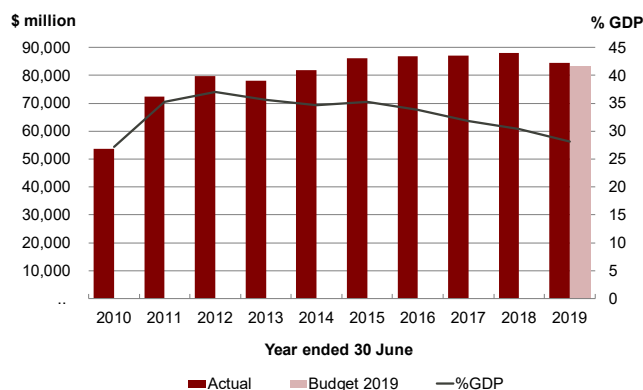
Debt (continued)

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, decreased by \$3.7 billion from \$88.1 billion in 2017/18 to \$84.4 billion this year (Figure 17). As a percentage of the economy, gross debt decreased by 2.3% to 28.1% of GDP (30.4% of GDP a year earlier).

The decrease in nominal gross debt was predominantly owing to the increase in repurchases and repaying bonds on maturity outpacing the issuance of Government bonds. In addition, derivatives in loss decreased as a result of market movements, particularly in relation to exchange rate movements.

Figure 17 – Gross debt



Source: The Treasury

The Crown's borrowing programme

The total level of borrowing outstanding (denominated in Government Bonds and Treasury Bills) as at 30 June 2019 was \$4.3 billion lower than at the end of the previous year. The proceeds from bond issuance during the year contributed to funding the March 2019 bond maturity and beginning repurchases of the April 2020 bond. Repurchasing the April 2020 bond prior to maturity assists in smoothing the Crown's cash profile, reducing risk, and minimising any residual market impacts associated with the maturity of this bond.

Table 10 – Cash proceeds from debt programme

Year ended 30 June						Forecast 30 June 2019	
	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
\$ million							
Issue of government bonds	8,058	8,079	7,847	7,043	8,372	7,862	8,430
Repayment of government bonds	(8,684)	(1,779)	(6,080)	(6,828)	(11,908)	(11,240)	(11,974)
Net issue/(repayment) of short-term borrowing ¹	4,179	(3,513)	160	100	730	(2,000)	(705)
Total market debt cash flows	3,553	2,787	1,927	315	(4,266)	(5,378)	(4,249)
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(482)	(139)	(830)	-	-	-	-
Net issue/(repayment) of short-term borrowing	(480)	(100)	-	-	-	-	-
Total non-market debt cash flows	(962)	(239)	(830)	-	-	-	-
Total debt programme cash flows	2,591	2,548	1,097	315	(4,266)	(5,378)	(4,249)

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

Total Crown Balance Sheet

Table 11 – Net worth

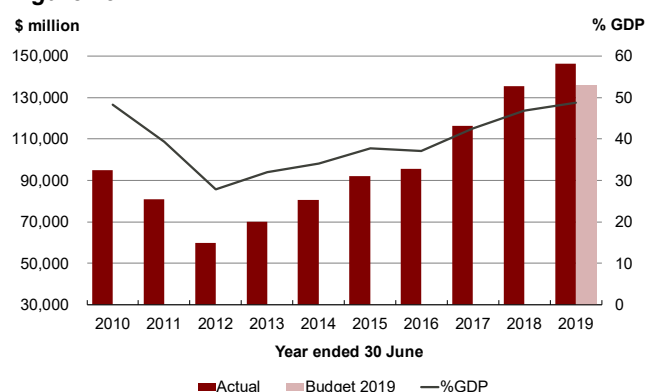
Year ended 30 June						Forecast 30 June 2019	
\$ million	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
Net worth attributable to the Crown	86,454	89,366	110,532	129,644	139,746	124,457	129,999
Net worth attributable to minority interests	5,782	6,155	5,940	5,993	6,567	5,860	6,167
Total net worth	92,236	95,521	116,472	135,637	146,313	130,317	136,166
Net worth as a % of GDP	37.7%	37.1%	42.5%	46.9%	48.8%	42.8%	45.4%

Net Worth

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference primarily consists of the accumulation of past operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts in the physical assets.

Net worth was \$146.3 billion at 30 June 2019, an increase of \$10.7 billion from a year earlier. This was largely owing to revaluation uplifts of the Crown's assets (eg, the rail and state highway networks). As a share of the economy, net worth grew 1.9% from 46.9% of GDP in 2017/18 to 48.8% of GDP in the current year.

Figure 18 – Net worth



Source: The Treasury

Total Crown Balance Sheet

Total Crown assets were \$365.8 billion at 30 June 2019, a \$25.8 billion increase from last year. This growth was largely in property, plant and equipment (PPE) of \$19.0 billion, while financial assets grew by \$5.8 billion and other assets by \$1.0 billion.

Total Crown liabilities were \$219.4 billion, an increase of \$15.1 billion from the previous year. This is largely owing to an increase of \$13.3 billion in ACC insurance liabilities mainly arising from a decrease in discount rates.

Table 12 – Composition of the total Crown balance sheet

Year ended 30 June						Forecast 30 June 2019	
\$ million	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Budget 2018	Budget 2019
Financial assets	135,787	138,255	147,050	157,520	163,304	149,662	153,767
Property, plant and equipment	124,558	134,499	144,550	159,018	178,025	155,867	164,316
Other assets	18,869	19,925	22,009	23,394	24,427	23,404	23,295
Total assets	279,214	292,679	313,609	339,932	365,756	328,933	341,378
Borrowings	112,580	113,956	111,806	115,652	110,477	112,890	112,057
Insurance liabilities	36,431	42,126	42,786	45,294	58,364	44,732	49,794
Other liabilities	37,967	41,076	42,545	43,349	50,602	40,994	43,361
Total liabilities	186,978	197,158	197,137	204,295	219,443	198,616	205,212
Total net worth	92,236	95,521	116,472	135,637	146,313	130,317	136,166
Minority interests	(5,782)	(6,155)	(5,940)	(5,993)	(6,567)	(5,860)	(6,167)
Net worth attributable to the Crown	86,454	89,366	110,532	129,644	139,746	124,457	129,999

Total Crown Balance Sheet (continued)

Financial Assets

Financial assets at \$163.3 billion were \$5.8 billion higher than last year.

The following key areas contributed to the increase:

- The financial asset portfolio managed by NZS Fund and ACC grew reflecting investment performance, as discussed earlier. The primary purpose of these assets is to help pay for ACC claims and fund future New Zealand superannuation costs.
- Growth in Kiwi Group Holdings loans and advances of \$2.1 billion.
- An increase in student loans of \$1.4 billion. This is owing to a one-off increase of \$0.6 billion as a result of a new accounting standard and changes in the valuation assumptions, particularly discount rates.
- Offsetting the above is a decrease in financial assets that are included as part of the calculation of net core Crown debt of \$4.7 billion to fund the Crown's borrowing programme and residual cash deficit.

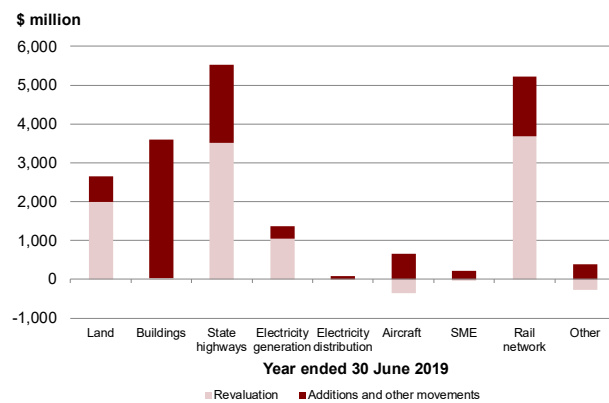
Property, Plant and Equipment

The \$19.0 billion increase in PPE was across a number of classes such as state highways, the rail network, housing, and electricity generation assets. The increase is mainly from additions and revaluation changes.

As seen in Figure 19, the largest uplifts in PPE related to the following asset classes:

- The value of state highways (including land) increased by \$5.5 billion, mainly reflecting the continued valuation improvements, the development of new state highway assets and improvements to existing state highway network.
- The rail network increased by \$5.2 billion mainly owing to the network now being valued as a public benefit asset (detailed on page 15 – Rail network box).
- The housing portfolio managed by Housing New Zealand Corporation increased by \$1.7 billion of which \$1.2 billion relates to an increase in houses, with the remainder of the increase owing to revaluation uplifts at 30 June 2019.
- Electricity generation assets increased by \$1.4 billion mainly due to changes in the assumptions used in the valuations of these assets.

Figure 19 – Movements in PPE by asset classes



Source: The Treasury

Total Crown Balance Sheet (continued)

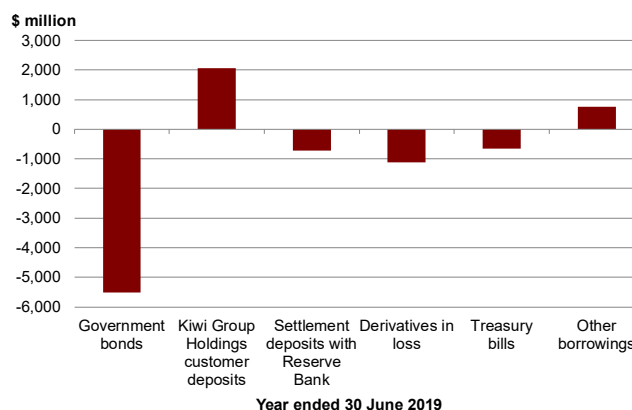
Borrowings

Total borrowings represents the borrowings undertaken by the core Crown, Crown entities and SOEs. Borrowings at \$110.5 billion was \$5.2 billion less than last year.

The overall decrease is driven by a combination of factors as seen in Figure 20:

- Government bonds decreased by \$5.5 billion owing to changes in the Crown's borrowing programme (discussed on page 20).
- Derivatives in loss decreased by \$1.1 billion as a result of market movements, particularly movements in exchange rates (mentioned in the gross debt narrative above).
- Borrowings by Crown entities increased by \$1.4 billion to fund capital projects by NZTA and Housing New Zealand. This is partly offset by a decrease of small movements across various entities.
- Kiwi Group Holdings borrowings (eg, customer deposit held) increased by \$2.1 billion, which offsets the increase in Kiwi Group Holdings advances (eg, mortgages) discussed on page 22.

Figure 20 – Movement in borrowings by types



Source: The Treasury

Insurance and Retirement Liabilities

ACC's insurance liability increased this year by \$13.3 billion from \$43.3 billion to \$56.6 billion. GSF liabilities also increased by \$2.2 billion from \$11.0 billion to \$13.2 billion. The increases were owing to actuarial valuation changes driven largely by a decrease in the discount rates and changes in inflation assumptions.

Total Crown Balance Sheet (continued)

Sensitivities and Risks to the Crown Balance Sheet

Many of the assets and liabilities on the Crown's balance sheet are measured at "fair value" in order to disclose current estimates of what the Crown owns and owes. Fair value can be calculated using comparable market prices, but where these are not available, values can be estimates based on certain assumptions. While the measurement at fair value is more relevant for decision making purposes, it can be volatile, resulting in fluctuations in the value of the assets and liabilities with changes in the underlying assumptions. Below is a summary of some of the key sensitivities to the valuation of the Crown's major assets and liabilities.

Interest rates, share prices and exchange rates

Financial assets were \$163.3 billion at 30 June 2019, a significant proportion of the Crown's balance sheet and increasing by \$69.9 billion over the last 10 years. Entities like NZS Fund and ACC hold investments to make financial returns, and those asset values are dependent on market prices, interest rates and exchange rates, which can all be volatile. Table 13 shows the sensitivity of the financial assets to changes in these variables.

Table 13 – Financial instrument sensitivities

Impact on operating balance	% change	\$ million
New Zealand interest rates	+ 1 %	(476)
	- 1 %	701
Share prices	+ 10 %	4,023
	- 10 %	(4,023)
NZD exchange rate	+ 10 %	(1,353)
	- 10 %	1,538

Source: The Treasury

Discount rates and inflation rates

The Crown has two significant liabilities that have long durations. Both the ACC insurance and GSF retirement liabilities are valued by actuaries and are based on present valuing estimated future cash flows, some up to 80 years into the future. Inflation rates are used to help estimate future cash flows while discount rates are used to determine the value of those future cash flows in today's dollars. Changes in these assumptions can have significant impacts on the valuation because the cash flows are so large and over such long periods (eg, ACC's cash flows of \$87.1 billion are discounted to \$53.3 billion). Table 14 shows the impact that a 1% change in inflation and discount rates would have on these liabilities (and the gain or loss as a result of the change). For example, this year, a change in the discount rate for ACC's short term cash flow duration decreased by 1.09%, which contributed to a large actuarial loss flowing through to the Crown's operating balance.

Changes in other estimates

Outside of market factors, valuations are subject to a number of judgements and estimates. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information.

New and updated information is a source of valuation volatility, especially if changes in assumptions are significant one-off adjustments in any given year. Some examples of this include:

- Student loans: assumptions around the expectations of student incomes and repayment rates affects the value of these loans, with changes being reported as gains or losses.
- Property, plant and equipment asset revaluations: revaluations of these assets, using a combination of market data and assumptions, led to a \$12.5 billion increase, mainly on the rail network (refer to the box on page 15) and state highway networks.

Other risks to the balance sheet

In addition to those items on the balance sheet there are a number of liabilities or assets that may arise in the future but are not yet included; either because they are dependent on an uncertain future event occurring (eg, outcome of litigation) or the liability or asset cannot be measured reliably. If these contingencies crystallise, there will be associated impacts on the operating balance. Refer to note 25 for a list of these areas as at 30 June 2019.

Table 14 – Long-term liability sensitivities

Impact on operating balance \$ million	Discount rate		Inflation rate	
	+ 1 %	- 1 %	+ 1 %	- 1 %
ACC outstanding claims	8,594	(11,977)	(12,059)	8,575
GSF retirement liability	1,971	(2,407)	(2,202)	1,857

Source: The Treasury

Year End Results Compared to Budget 2019

The *Budget Economic and Fiscal Update 2019* (*Budget 2019*) was published on 30 May 2019.

Table 15 – Comparison to Budget 2019

Year ended 30 June \$ million	Actual 2019	Budget 2019	Variance to Budget 2019 ¹ \$m	Variance to Budget 2019 %
Core Crown tax revenue	86,468	84,650	1,818	2.1
Core Crown expenses	87,022	87,300	278	0.3
OBEGAL (excluding minority interests)	7,508	3,465	4,043	116.7
Operating balance (excluding minority interests)	(2,274)	(284)	(1,990)	700.7
Residual cash	(710)	(2,785)	2,075	74.5
Gross debt	84,449	83,287	(1,162)	(1.4)
as a percentage of GDP	28.1%	27.8%		
Net debt	57,736	60,299	2,563	4.3
as a percentage of GDP	19.2%	20.1%		
Total Borrowings	110,477	112,057	1,580	1.4
Net worth	146,313	136,166	10,147	7.5

1 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.

Core Crown Tax Revenue

Core Crown tax revenue was \$1.8 billion (2.1%) higher than expected in *Budget 2019*, with the largest differences being as follows:

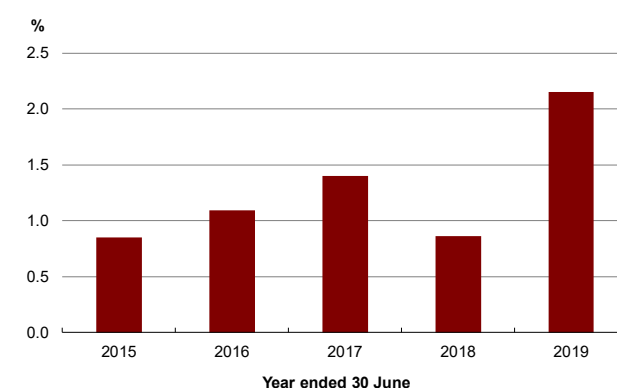
- Other individual tax and corporate tax revenue were \$1.1 billion (23.1%) and \$0.4 billion (2.7%) above forecast. This is mainly owing to expected growth in profits and the new simplified tax and revenue system implemented by Inland Revenue.
- Source deduction revenue was \$0.2 billion (0.6%) above forecast. Labour market data released in early August show that employment growth and wage growth were both above forecast through the June quarter, likely contributing to the favourable forecast variance.

Table 16 – Core Crown tax revenue compared to Estimated Actuals

Year ended 30 June	(\$ billion)
Budget 2019 core Crown tax revenue	84.7
Other individuals tax	1.1
Corporate tax	0.4
Source deductions	0.2
Other movements	0.1
Actual 2019 core Crown tax revenue	86.5

Source: The Treasury

Figure 21 – Core Crown tax revenue variance to Estimated Actuals



Source: The Treasury

Year End Results Compared to *Budget 2019* (continued)

Core Crown Expenses

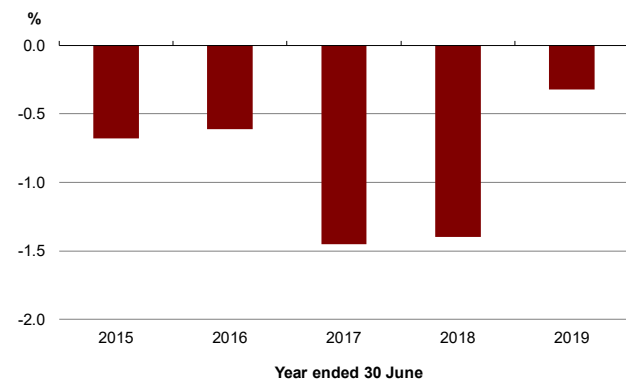
Core Crown expenses were \$0.3 billion (0.3%) lower than expected. Excluding the top-down adjustment of \$0.8 billion core Crown expenses were \$1.1 billion (\$1.3%) lower than expected.

The lower than forecast result was largely owing to expenditure now expected to be spent in the 2019/20 fiscal year and lower than anticipated demand for some services. The most significant variances were in the transport, education, and primary industries sectors.

OBEGAL

The OBEGAL surplus was \$4.0 billion higher than *Budget 2019* forecast. The variance against *Budget 2019* relates to the favourable variances in core Crown revenue and core Crown expenses. In addition, SOEs results were \$2.7 billion higher than forecast, largely owing to the change in the valuation method of the rail freight network owing to assumptions around its purpose. This valuation change resulted in the reversal of previous years' impairment expenses of \$2.6 billion. However, the higher than forecast Crown entities deficits (\$0.8 billion) partially offsets the favourable SOE segment's results.

Figure 22 – Core Crown expenses variance to Estimated Actuals



Source: The Treasury

Operating Balance

The total Crown operating balance deficit of \$2.3 billion was \$2.0 billion higher than the deficit forecast in *Budget 2019*. Although the OBEGAL surplus was \$4.0 higher than expected, this was more than offset by actuarial losses. Increased actuarial losses from forecast of \$9.4 billion was partially offset by increased gains of \$2.4 billion on the Crown's investment portfolios primarily managed by NZS Fund and ACC. The actuarial losses were owing to updated discount rates at 30 June 2019 which were lower than the 31 January rates used at *Budget 2019*, and changes in the inflation assumptions.

Residual Cash

The residual cash deficit was \$2.1 billion less than the deficit forecast at *Budget 2019*, as a result of lower than forecast operating payments of \$1.2 billion and higher than forecast core Crown tax receipts of \$0.5 billion. Capital payments were in line with the forecast.

Core Crown operating payments were lower than forecast, driven from timing delays and demand for services.

The increase in tax receipts was driven by source deductions and corporate tax receipts which were \$0.2 billion and \$0.4 billion respectively above forecast.

In addition, receipts from the ETS were \$0.4 billion higher than forecast as a result of more ETS participants taking the fixed-price option where they can pay the Government \$25 for each unit they are liable to surrender to meet their obligations.

Net Debt

Net debt at \$57.7 billion (19.2% of GDP) was \$2.6 billion below forecast, mainly driven by the lower residual cash of \$2.1 billion compared to forecast. As capital spending exceeds the cash flows from operating activities, this indicates that some capital spending is continuing to be funded through borrowings. In addition to the \$2.1 billion residual cash variance, higher circulating currency driven by public demand for currency, and gains and losses on financial assets and financial liabilities each contributed \$0.2 billion to the net core Crown debt variance from forecast.

Gross Debt

Gross debt at \$84.4 billion (28.1% of GDP) was \$1.2 billion higher than forecast.

Year End Results Compared to *Budget 2019* (continued)

Total Borrowings

Total borrowings at 30 June 2019 were \$110.5 billion and were \$1.6 billion lower than the *Budget 2019* forecast.

Net Worth

Net worth was \$10.1 billion higher than the *Budget 2019* forecast, mainly owing to an upwards revaluation of physical assets of \$12.5 billion, partially offset by the operating balance deficit of \$2.3 billion. Revaluations usually occur at 30 June and are not forecast. The largest revaluations were to the rail freight and state highway networks.

Historical Financial Information

Year ended 30 June \$ million	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual
Statement of financial performance										
Core Crown tax revenue	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,224	86,468
Core Crown other revenue	5,013	5,642	5,347	5,154	5,530	5,577	5,676	6,138	6,554	7,157
Core Crown revenue	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,625
Crown entities, SOE revenue and eliminations	17,976	23,448	22,321	21,873	21,443	21,592	21,295	21,640	23,195	25,668
Total Crown revenue	73,733	80,647	82,749	85,678	88,536	93,805	97,416	103,422	109,973	119,293
Social security and welfare	20,814	21,724	21,956	22,459	23,026	23,523	24,081	25,294	25,999	28,844
Health	13,128	13,753	14,160	14,498	14,898	15,058	15,626	16,223	17,159	18,268
Education	11,724	11,650	11,654	12,504	12,300	12,879	13,158	13,281	13,629	14,293
Core government services	2,974	5,563	5,428	4,294	4,502	4,134	4,102	3,957	4,670	5,314
Law and order	3,103	3,312	3,338	3,394	3,463	3,515	3,648	3,882	4,184	4,625
Other core Crown expenses	11,811	14,097	12,403	12,813	12,985	13,254	13,314	13,702	14,935	15,678
Core Crown expenses	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	87,022
Crown entities, SOE expenses and eliminations	16,494	28,944	23,050	20,068	20,005	20,701	21,208	22,668	23,438	24,417
Total Crown expenses	80,048	99,043	91,989	90,030	91,179	93,064	95,137	99,007	104,014	111,439
OBEGAL (excluding minority interests)	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,508
Gains/(losses)	1,806	5,036	(5,657)	11,339	5,741	5,357	(7,200)	8,248	2,862	(9,782)
Operating balance (excluding minority interests)	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	(2,274)
Statement of financial position										
Property, plant and equipment	113,330	114,854	108,584	109,833	116,306	124,558	134,499	144,550	159,018	178,025
Financial assets	95,971	115,362	116,178	118,779	123,918	135,787	138,255	147,050	157,520	163,304
Other assets	14,054	14,999	15,556	15,804	16,600	18,869	19,925	22,009	23,394	24,427
Total assets	223,355	245,215	240,318	244,416	256,824	279,214	292,679	313,609	339,932	365,756
Borrowings	69,733	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,477
Other liabilities	58,634	74,083	80,004	74,318	72,708	74,398	83,202	85,331	88,643	108,966
Total liabilities	128,367	164,328	180,538	174,405	176,127	186,978	197,158	197,137	204,295	219,443
Net worth	94,988	80,887	59,780	70,011	80,697	92,236	95,521	116,472	135,637	146,313
Minority interests	402	308	432	1,940	5,211	5,782	6,155	5,940	5,993	6,567
Net worth attributable to the Crown	94,586	80,579	59,348	68,071	75,486	86,454	89,366	110,532	129,644	139,746
Cash position										
Core Crown residual cash	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)
Debt Indicators										
Net debt	26,738	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736
Gross debt	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual
Nominal GDP (revised)	196,734	205,829	215,121	218,756	236,722	244,860	257,419	273,843	289,504	300,032
Statement of financial performance										
Core Crown tax revenue	25.8%	25.0%	25.6%	26.8%	26.0%	27.2%	27.4%	27.6%	27.7%	28.8%
Core Crown other revenue	2.5%	2.8%	2.5%	2.4%	2.3%	2.3%	2.2%	2.3%	2.3%	2.4%
Core Crown revenue	28.3%	27.8%	28.1%	29.2%	28.3%	29.5%	29.6%	29.9%	30.0%	31.2%
Crown entities, SOE and elimination revenue	9.2%	11.4%	10.4%	10.0%	9.1%	8.8%	8.2%	7.9%	8.0%	8.6%
Total Crown revenue	37.5%	39.2%	38.5%	39.2%	37.4%	38.3%	37.8%	37.8%	38.0%	39.8%
Social security and welfare	10.6%	10.6%	10.2%	10.3%	9.7%	9.6%	9.4%	9.2%	9.0%	9.6%
Health	6.7%	6.7%	6.6%	6.6%	6.3%	6.1%	6.1%	5.9%	5.9%	6.1%
Education	6.0%	5.7%	5.4%	5.7%	5.2%	5.3%	5.1%	4.8%	4.7%	4.8%
Core government services	1.5%	2.7%	2.5%	2.0%	1.9%	1.7%	1.6%	1.4%	1.6%	1.8%
Law and order	1.6%	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%
Other core Crown expenses	5.9%	6.8%	5.7%	5.8%	5.5%	5.5%	5.1%	5.2%	5.2%	5.2%
Core Crown expenses	32.3%	34.1%	32.0%	32.0%	30.1%	29.6%	28.7%	27.9%	27.8%	29.0%
Crown entities, SOE and elimination expenses	8.4%	14.0%	10.8%	9.2%	8.4%	8.4%	8.3%	8.3%	8.1%	8.1%
Total Crown expenses	40.7%	48.1%	42.8%	41.2%	38.5%	38.0%	37.0%	36.2%	35.9%	37.1%
OBEGAL (excluding minority interests)	(3.2%)	(8.9%)	(4.3%)	(2.0%)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.5%
Gains/(losses)	0.9%	2.4%	(2.6%)	5.2%	2.4%	2.2%	(2.8%)	3.0%	1.0%	(3.3%)
Operating balance (excluding minority interests)	(2.3%)	(6.5%)	(6.9%)	3.2%	1.2%	2.4%	(2.1%)	4.5%	2.9%	(0.8%)
Statement of financial position										
Property, plant and equipment	57.6%	55.8%	50.5%	50.2%	49.1%	50.9%	52.2%	52.8%	54.9%	59.3%
Financial assets and sovereign receivables	48.8%	56.0%	54.0%	54.3%	52.3%	55.5%	53.7%	53.7%	54.4%	54.4%
Other assets	7.1%	7.3%	7.2%	7.2%	7.1%	7.6%	7.8%	8.0%	8.1%	8.2%
Total assets	113.5%	119.1%	111.7%	111.7%	108.5%	114.0%	113.7%	114.5%	117.4%	121.9%
Borrowings	35.4%	43.8%	46.7%	45.8%	43.7%	46.0%	44.3%	40.8%	39.9%	36.8%
Other liabilities	29.8%	36.0%	37.2%	33.9%	30.7%	30.4%	32.3%	31.2%	30.7%	36.3%
Total liabilities	65.2%	79.8%	83.9%	79.7%	74.4%	76.4%	76.6%	72.0%	70.6%	73.1%
Net worth	48.3%	39.3%	27.8%	32.0%	34.1%	37.6%	37.1%	42.5%	46.8%	48.8%
Minority interests	0.2%	0.2%	0.2%	0.9%	2.2%	2.3%	2.4%	2.1%	2.0%	2.2%
Net worth attributable to the Crown	48.1%	39.1%	27.6%	31.1%	31.9%	35.3%	34.7%	40.4%	44.8%	46.6%
Cash position										
Core Crown residual cash	(4.6%)	(6.5%)	(4.9%)	(2.6%)	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)
Debt Indicators										
Net debt	13.6%	19.5%	23.6%	25.5%	25.3%	24.8%	24.0%	21.7%	19.9%	19.2%
Gross debt	27.2%	35.2%	37.0%	35.6%	34.6%	35.2%	33.8%	31.8%	30.4%	28.1%



Independent Audit Report of the Controller and Auditor-General



TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE YEAR ENDED 30 JUNE 2019

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 2019 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 42 to 152 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2019, 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 2019, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2019;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2019; and
- a statement of trust money administered by departments for the year ended 30 June 2019.

In my opinion, the financial statements of the Government on pages 42 to 152:

- present fairly, in all material respects, the Government's:
 - financial position as at 30 June 2019;
 - financial performance and cash flows for the year ended on that date;
 - borrowings as at 30 June 2019;
 - unappropriated expenditure for the year ended 30 June 2019;
 - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2019; and
 - trust money administered by departments for the year ended 30 June 2019;
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards.

My audit was completed on 30 September 2019. This is the date on which my opinion is expressed.

The basis for my opinion is explained below and I outline the key audit matters addressed in my audit. I outline the responsibilities of the Treasury and the Minister of Finance and my responsibilities for the financial statements of the Government. I also comment on other information and explain my independence.

Basis for opinion

I carried out my audit in accordance with *The Auditor-General's Auditing Standards*, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with *The Auditor-General's Auditing Standards*.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the Government for the current year. In applying my professional judgement to determine key audit matters, I considered those matters that are complex, have a high degree of uncertainty, or are important to the public because of their size or nature. I have included the entitlements under the Holidays Act 2003 as a key audit matter because of the significant uncertainties associated with the obligations to remediate issues under the Act. There is also understandably, much public interest in this matter because it affects many current and former public servants.

The key audit matters addressed in my audit of the financial statements of the Government as a whole, and in forming my opinion thereon, are as follows.

Recognising tax revenue	How we addressed this matter
<p>The Government recognised tax revenue of \$85.7 billion for the year ended 30 June 2019. Of that amount \$56.4 billion was direct income tax, primarily from individuals and companies.</p> <p>As outlined in Note 2, direct income tax from companies and other persons is subject to significant assumptions and judgements because of the timing differences between the reporting date and when taxpayers file tax returns.</p> <p>To record direct income tax revenue, judgement is applied to estimating:</p> <ul style="list-style-type: none"> - the amount of tax revenue to be collected from provisional taxpayers who have not yet filed their final tax return; - the amount of tax revenue where payments have been received but no provisional or final tax return has been filed; and - the amount of tax revenue to be collected from, or refunded to, taxpayers who are not subject to provisional tax. <p>During the year, a new IT system was implemented by Inland Revenue, which changed the process for estimating direct income tax revenue. It is now based on individual taxpayers, rather than macro-economic cash flow forecasts. The change in process for estimating direct income tax revenue means that some different assumptions and judgements have had to be applied this year.</p>	<p>We obtained an understanding of the systems, processes, and controls for the receipt and review of provisional and final tax returns, tax assessments, and tax revenue receipts. This included understanding Inland Revenue's new IT system.</p> <p>We reviewed the assumptions and judgements applied in the new process for estimating direct income tax revenue.</p> <p>We assessed controls in place over significant reconciliation processes.</p> <p>We tested the underlying data used in the various tax revenue estimation models to ensure that it was relevant and was used appropriately. We did this by reviewing evidence to support key assumptions. We also tested the sensitivity of key assumptions.</p> <p>I am satisfied that the assumptions and judgements applied in estimating direct income tax revenue use the best information available, and are reasonable and supportable.</p>
Valuing property, plant, and equipment	How we addressed this matter
<p>The Government owns significant physical assets totalling \$178.0 billion.</p> <p>The valuation of some of these assets requires significant judgement. There are uncertainties inherent in the valuation of these assets, the quality of data available, and the benefits these assets provide. I have identified some specific assets where such judgements are evident.</p> <p>State highway network</p> <p>As outlined in Note 16, the state highway network (excluding land) has been valued at \$37.2 billion at 30 June 2019 by an independent external valuer. Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, which include assumptions about: quantities and rates used in the construction of state highway network components, the remaining life of the assets, and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the state highway valuation.</p>	<p>We obtained an understanding of how the state highway network is valued, the significant estimates and assumptions used, and their reasonableness. This involved confirming the competence, capabilities, and objectivity of the valuer, challenging the valuer's key assumptions, and assessing the valuation procedures, including the information extracted from databases. We also considered whether there were any limitations placed on the valuer and the appropriateness of centrally calculated rates that were applied to the valuation.</p> <p>We also carried out audit procedures to confirm that key controls were operating over the systems and processes used to record cost and other asset information about the state highway network.</p>

Valuing property, plant, and equipment	How we addressed this matter
<p>There continue to be uncertainties associated with the valuation of the state highway network. As part of the continuing valuation improvement programme, the costs relating to the formation component have been updated. Work continues on improving the data quality that underpins the valuation.</p> <p>Some of the costs associated with road construction (for example, traffic management) in urban areas have been assessed as a significant part of the network that may be undervalued. An allowance to recognise these costs has been included since 2014 where a reliable estimate can be made. This year a unit rate was determined for these costs and included in the valuation.</p> <p>Rail network</p> <p>As outlined in Note 16, the rail network has been valued at \$ 6.4 billion at 30 June 2019. In arriving at this value, the entire rail network (used for both freight and metro transport) has been valued on the basis of its public benefit nature.</p> <p>In previous years, the freight part of the network has been valued on a commercial basis. The extent to which the Government views the freight part of the network as commercial has been open to debate for a number of years.</p> <p>The Government is currently reviewing rail, to define its purpose, determine the appropriate structure and capital requirements, and determine how to fund it in future.</p> <p>This review is ongoing and it recognises the challenges in making investment decisions, given the duality of commercial “for profit” activities that align with a State-owned enterprise’s commercial mandate, and other “public benefit” activities that deliver social benefits rather than commercial returns. It also recognises the challenges of integrating relatively short-term funding commitments with prudent investment decisions for long-life assets such as rail infrastructure.</p> <p>Cabinet received the first of three review reports in May 2019. The paper noted that all rail, including freight, contributes to national and regional economic growth and reduces emissions and congestion, reduces road deaths and injuries, facilitates wider social benefits, and provides resilience and connection between communities.</p> <p>Cabinet agreed in principle to a resilient and reliable rail system to deliver the outcomes for transport and wider benefits the Government seeks, and budget decisions were made on this basis.</p> <p>As a consequence of that agreement, it is no longer appropriate for the Government to value the rail freight network on a commercial basis.</p> <p>Therefore, the rail network assets are recorded at Optimised Depreciated Replacement Cost in these financial statements, in keeping with Public Benefit Entity accounting standards.</p>	<p>I am satisfied that the value of the state highway network at 30 June 2019 is reasonable and consistent with valuation practices, and that the disclosures outlining the inherent uncertainties in the valuation are appropriate.</p> <p>We considered the evidence to support the public benefit nature of the rail network. This evidence included reviewing:</p> <ul style="list-style-type: none"> - the first Cabinet paper about the rail review; - Budget announcements - strategy documents; and - forecast results. <p>Although the rail review is still underway, it is sufficiently advanced and provided enough evidence to support valuing the rail network on the basis of its public benefit nature.</p> <p>The evidence showed that the Government intends to seek wider social benefits from its investment in rail.</p> <p>Based on Cabinet decisions and associated budget announcements, I am satisfied that the judgement to value the rail network on a public benefit basis in the Government’s financial statements is appropriate.</p> <p>We obtained an understanding of how the rail network is valued, the significant estimates and assumptions used, and the reasonableness of them. This involved confirming the competence, capabilities, and objectivity of the valuer, challenging the valuer’s key assumptions, and assessing the valuation procedures, including the information extracted from databases.</p> <p>We considered whether there were any limitations placed on the valuer and the appropriateness of centrally calculated rates that were applied to the valuation.</p> <p>We also carried out audit procedures to confirm that key controls were operating over the systems and processes used to record cost and other asset information related to the rail network.</p> <p>We ensured that the revaluation movements and reversals of previous impairments were correctly accounted for.</p> <p>I am satisfied that the value of the rail network at 30 June 2019 is reasonable and consistent with valuation practices, and that the adjustments to reflect the change in the valuation are appropriate.</p>

Valuing property, plant, and equipment	How we addressed this matter
<p>Electricity generation assets</p> <p>As outlined in Note 16, the electricity generation assets, which are at least 51% owned by the Government, are valued at \$17.2 billion at 30 June 2019. The valuation of these assets is carried out by specialist valuers because of the complexity and significance of the assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create.</p> <p>As a result, small changes to these assumptions, in particular, the forecast prices of electricity and the discount rates used to determine the present value of these prices – could significantly change the value of these assets.</p>	<p>We obtained an understanding of how electricity generation assets are valued. This involved confirming the competence, capabilities, and objectivity of the valuers, testing the valuers' procedures for carrying out the valuations, including the information they used to carry them out, and challenging the valuers' critical assumptions and judgements. We also used our own valuation specialists to assess the valuers' procedures.</p> <p>We tested the sensitivity of the key underlying assumptions used by the valuers to ensure that they were reasonable, and we compared the forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available.</p> <p>I am satisfied that the valuation of electricity generation assets at 30 June 2019 is reasonable, and that the disclosures appropriately outline the sensitivity and the complexity of the valuation of electricity generation assets.</p>
Valuing insurance and superannuation liabilities	How we addressed this matter
<p>The Government has insurance liabilities of \$58.4 billion and public servants' superannuation liabilities of \$13.2 billion as at 30 June 2019. The valuation of these liabilities is complex and requires actuaries to estimate the value, based on assumptions about the future. I have identified some specific liabilities because of the significance of the value of those liabilities and the uncertainties inherent in the valuations.</p> <p>Accident Compensation Corporation's outstanding claims liability</p> <p>As outlined in Note 11, the outstanding claims liability of the Accident Compensation Fund (ACC) has been valued at \$53.3 billion at 30 June 2019 by an independent actuary.</p> <p>Key assumptions used to value the outstanding claims liability include:</p> <ul style="list-style-type: none"> - selecting an appropriate risk-free discount rate to present value future cash flows; - selecting an appropriate risk margin for the inherent uncertainty in the estimate of the present value of future cash flows; - estimating the effects of inflation and innovation on future medical costs; and - estimating the length of rehabilitation from injuries. <p>The sensitivity of each assumption is analysed in Note 11. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large impact on the value of the liability, as well as the actuarial gain or loss recognised.</p>	<p>We obtained an understanding of how ACC's outstanding claims liability is valued by assessing the reasonableness of the approach taken. We also reviewed ACC's key assumptions for each significant claim type to ensure that these were appropriate.</p> <p>We tested the systems and controls and carried out detailed testing of the process for recording claims.</p> <p>We tested key assumptions by evaluating them against past claims experience. We assessed the reasonableness of forecasts that diverged from past experience by looking at the evidence supporting the forecasts.</p> <p>We engaged our own actuary to review the scope, approach, and reasonableness of the estimate of the liability.</p> <p>We tested the reconciliations of the underlying claims data to ACC's systems, examined the sensitivity analysis for movements in key assumptions, and evaluated the related financial statement disclosures.</p> <p>I am satisfied that the assumptions and judgements applied in estimating ACC's outstanding claims liability at 30 June 2019 are reasonable, and that the disclosures outline the sensitivity of the valuation to changes in assumptions.</p>

Valuing insurance and superannuation liabilities	How we addressed this matter
<p>Government Superannuation Fund's unfunded liability</p> <p>As outlined in Note 20, the Government's liability for public servants' superannuation entitlements for past and current members of the Government Superannuation Fund has been valued at \$13.2 billion at 30 June 2019 by an independent actuary.</p> <p>The present value of the unfunded liability is also sensitive to the estimated return on the Fund's assets, expected rates of salary increases for public servants who are members of the Fund, and estimated inflation and discount rates. The Fund'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.</p> <p>The sensitivity of critical assumptions and judgements is analysed in Note 20. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large effect on the value of the liability.</p>	<p>We obtained an understanding of how the Government's liability for public servants' superannuation entitlements is valued. This involved confirming the competence, capabilities, and objectivity of the actuary, as well as testing the actuary's valuation procedures. We engaged our own actuary to review the assumptions, judgements, and procedures used to value the liability.</p> <p>We tested key controls that ensure the completeness and accuracy of membership data that was used in the actuary's valuation.</p> <p>We evaluated the appropriateness of key assumptions used in estimating the return on assets owned by the Fund and compared the expected rates of salary increases against external benchmarks.</p> <p>I am satisfied that the Government's reported liability for public servants' superannuation entitlements at 30 June 2019 is reasonable, and that the disclosures outline the sensitivities of the valuation to changes in assumptions.</p>
Valuing financial assets and liabilities	How we addressed this matter
<p>As outlined in Note 26, as at 30 June 2019, the Government had financial assets of \$145.1 billion (of which \$89.6 billion was valued at fair value and \$55.5 billion was valued at amortised cost) and financial liabilities of \$128.7 billion (of which \$8.4 billion was valued at fair value and \$120.3 billion was valued at amortised cost).</p> <p>Financial assets and liabilities measured at fair value include derivatives (which have a principal value of \$222.2 billion), marketable securities, and share investments.</p> <p>Where quoted market prices are not available to determine the value of financial assets and liabilities, fair value must be estimated. This is done by applying a valuation approach that is most appropriate for the asset or liability, such as using valuation models. Inputs into the models will use market data when available; otherwise inputs are derived from non-market data, which requires judgement.</p> <p>The fair value of financial assets and financial liabilities that are valued using non-observable inputs are valued at \$15.4 billion and \$0.2 billion respectively.</p>	<p>We obtained an understanding of the valuation techniques, controls, and inputs used to determine the fair value of financial assets and liabilities.</p> <p>We also carried out a range of audit procedures that reflected the nature of the financial assets and liabilities being valued, the valuation techniques adopted, and the uncertainties that existed in determining their fair values. These audit procedures included:</p> <ul style="list-style-type: none"> - testing the internal controls in place over data relating to financial assets and liabilities that have been entered into financial and treasury systems; - obtaining an understanding of the controls and valuation approaches applied where a fund manager carries out the valuation; - comparing the fair value of financial assets and liabilities to independent information and investigating any significant variances; and - assessing the appropriateness of the inputs used for valuing financial assets and liabilities where the fair value was dependent on non-observable inputs. <p>I am satisfied that the fair values of financial assets and liabilities at 30 June 2019 are reasonable and that the disclosures outline the significant judgements.</p>

Entitlements under the Holidays Act 2003	How we addressed this matter
<p>As outlined in Note 25, a number of entities have started or completed a review of current and historical payroll calculations to ensure compliance with the Holidays Act 2003 and other relevant legislation.</p> <p>Where possible, provision has been made in the financial statements of the Government for obligations arising from those reviews and where settlement has not been made in the current or previous financial years.</p> <p>To the extent that an obligation cannot reasonably be quantified at 30 June 2019, an unquantified contingent liability has been disclosed. Entities continue to calculate the potential liability required to remediate the issues associated with these entitlements. In the case of certain sectors, in particular for District Health Boards (DHBs), there are complexities and the calculation of the liability is taking longer than expected to resolve. Entities in these sectors employ many people and the liabilities to settle these obligations remain uncertain.</p> <p>As outlined in Note 21, DHBs have recognised provisions. However, the Government has noted that the indicative potential liability could be within a range of \$550 million to \$650 million. This is based on selecting a small, non-statistical sample of former and current employees, applying a number of assumptions, agreed to by the sector and then calculating an indicative liability by extrapolating the result over the known population. A significant amount of work is still required to finalise the liability, and therefore, there remains a high level of uncertainty over this liability which could fall outside the range of \$550 million to \$650 million.</p>	<p>For those entities most significantly affected, we obtained an understanding of the progress made in resolving the payroll calculation issues and we assessed the reasonableness of the approach to the financial reporting of these issues.</p> <p>We carried out a range of procedures to audit the liabilities recognised, including:</p> <ul style="list-style-type: none"> - reviewing processes followed for valuing the liabilities and testing a sample of transactions, - ensuring the completeness of the data used in the valuation of the liability, - assessing the competence, capabilities, and objectivity of independent experts who were involved in the valuation, - challenging critical assumptions and judgements made in estimating the liabilities; and - reviewing the disclosures made. <p>I am satisfied that the liabilities recognised for entitlements are materially correct and that, in those cases where a liability cannot be reliably measured, the disclosures are appropriate.</p>

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

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

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

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

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

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

In carrying out their respective responsibilities for the financial statements of the Government, the Treasury and the Minister of Finance are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

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

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *The Auditor-General's Auditing Standards* will always detect a material misstatement. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers make based on the financial statements of the Government.

For the budget information reported in the financial statements of the Government, my procedures were limited to checking that the amounts agree to the Government's relevant published budgets.

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

As part of an audit in accordance with *The Auditor-General's Auditing Standards*, I exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Government, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, because fraud can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control used by the Treasury to prepare the financial statements of the Government.
- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Treasury.
- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Treasury to prepare the financial statements of the Government, up to the date of my auditor's report, based on the audit evidence I have obtained.
- I evaluate the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

I communicate with the Treasury, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that I identify during my audit.

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

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

Other information

The Treasury is responsible for the other information. The other information comprises the information included on pages 1 to 162, but does not include the financial statements of the Government and my auditor's report thereon.

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

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

Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the Auditor-General's independence requirements, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code).

As an Officer of Parliament, I am constitutionally and operationally independent of the Government. The Auditor-General was, before starting his term as Auditor-General on 2 July 2018, the Deputy Director-General for the Ministry for Primary Industries. As Deputy Auditor-General, I have dealt with all matters relating to the Ministry for Primary Industries. Other than this matter, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.



Greg Schollum
Deputy Controller and Auditor-General
Wellington, New Zealand



Financial Statements of the Government of New Zealand

Statement of Financial Performance

for the year ended 30 June 2019

2019 Forecast at				Actual	
Budget	Budget			30 June	30 June
2018	2019			2019	2018
\$m	\$m			\$m	\$m
				Note	
		Revenue			
83,241	83,957	Taxation revenue	3	85,723	79,596
5,633	5,827	Other sovereign revenue	3	6,028	5,223
88,874	89,784	Total sovereign revenue		91,751	84,819
19,237	19,386	Sales of goods and services	4	19,885	18,228
2,966	2,694	Interest revenue	5	2,685	2,798
4,220	4,554	Other revenue	6	4,972	4,128
26,423	26,634	Total revenue earned through operations		27,542	25,154
115,297	116,418	Total revenue (excluding gains)		119,293	109,973
		Expenses			
28,394	28,192	Transfer payments and subsidies	7	28,190	25,366
24,369	24,977	Personnel expenses	8	25,983	23,690
4,840	4,972	Depreciation	16	4,557	4,275
44,976	45,692	Other operating expenses	9	42,774	41,614
4,045	3,987	Interest expenses	5	4,059	4,151
4,877	5,274	Insurance expenses	11	5,876	4,918
760	265	Forecast new operating spending		-	-
(1,145)	(800)	Top-down expense adjustment		-	-
111,116	112,559	Total expenses (excluding losses)		111,439	104,014
444	394	Less minority interests share of operating balance before gains and losses		346	425
3,737	3,465	Operating balance before gains and losses (OBEGAL) (excluding minority interests)		7,508	5,534
2,887	1,445	Net gains/(losses) on financial instruments	5	4,397	5,331
(83)	(5,340)	Net gains/(losses) on non-financial instruments	10	(14,348)	(2,802)
2,804	(3,895)	Total gains/(losses)		(9,951)	2,529
17	76	Less minority interests share of total gains/(losses)		115	87
2,787	(3,971)	Gains/(losses) (excluding minority interests)		(10,066)	2,442
249	222	Net surplus from associates and joint ventures		284	420
6,773	(284)	Operating balance (excluding minority interests)		(2,274)	8,396
		Operating balance consists of:			
6,773	(284)	Operating balance (excluding minority interests)		(2,274)	8,396
461	470	Minority interests share of operating balance	22	461	512
7,234	186	Operating balance (including minority interests)		(1,813)	8,908

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 2019

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Total Crown expenses		
33,660	33,777	Social security and welfare	34,006	30,195
17,507	17,850	Health	18,660	16,746
15,509	15,235	Education	15,280	14,607
4,755	4,914	Core government services	4,880	4,495
4,816	5,182	Law and order	5,050	4,494
9,150	9,982	Economic and industrial services	10,433	8,928
10,938	11,205	Transport and communications	8,429	9,940
2,366	2,410	Defence	2,390	2,239
1,057	1,123	Environmental protection	1,108	1,227
2,603	2,582	Heritage, culture and recreation	2,503	2,518
2,090	2,428	Primary services	2,395	2,134
2,318	2,132	Housing and community development	2,020	1,878
135	173	GSF pension expenses	130	163
552	114	Other	96	299
4,045	3,987	Finance costs	4,059	4,151
760	265	Forecast new operating spending	-	-
(1,145)	(800)	Top-down expense adjustment	-	-
111,116	112,559	Total Crown expenses (excluding losses)	111,439	104,014

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZ Superannuation Fund and the Reserve Bank, but not Crown entities and State-owned Enterprises. Details of unappropriated expenditure can be found on pages 141 to 148.

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Core Crown expenses		
28,949	28,961	Social security and welfare	28,844	25,999
18,071	18,277	Health	18,268	17,159
14,663	14,312	Education	14,293	13,629
5,046	5,326	Core government services	5,314	4,670
4,419	4,757	Law and order	4,625	4,184
3,307	3,028	Economic and industrial services	3,006	2,732
2,622	3,212	Transport and communications	2,889	2,559
2,374	2,418	Defence	2,395	2,251
1,058	1,125	Environmental protection	1,119	1,238
756	1,088	Primary services	960	807
880	913	Heritage, culture and recreation	918	850
878	711	Housing and community development	727	552
122	159	GSF pension expenses	116	150
552	114	Other	96	299
3,408	3,434	Finance costs	3,452	3,497
760	265	Forecast new operating spending	-	-
(1,145)	(800)	Top-down expense adjustment	-	-
86,720	87,300	Total core Crown expenses (excluding losses)	87,022	80,576

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 2019

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
7,234	186	Operating balance (including minority interests)	(1,813)	8,908
		Other comprehensive revenue and expense		
-	(33)	Revaluation of physical assets	12,179	10,090
-	-	Share of associates revaluation of physical assets	294	578
69	240	Transfers to/(from) reserves	(202)	59
		(Gains)/losses transferred to the		
-	9	statement of financial performance	(2)	(25)
-	-	Foreign currency translation differences on	(49)	122
		foreign operations		
(50)	(24)	Other movements	(12)	(34)
19	192	Total other comprehensive revenue and expense	12,208	10,790
7,253	378	Total comprehensive revenue and expense	10,395	19,698
		Attributable to:		
445	651	- minority interests	952	586
6,808	(273)	- the Crown	9,443	19,112
7,253	378	Total comprehensive revenue and expense	10,395	19,698

Statement of Changes in Net Worth

for the year ended 30 June 2019

2019 Forecast at			Note	Actual		
Budget	Budget			Taxpayer	Reserves	Minority
2018	2019			funds		interests
\$m	\$m			\$m	\$m	\$m
116,472	116,472	Net worth at 30 June 2017		26,456	84,076	5,940
7,446	8,908	Operating balance		8,396	-	512
(22)	10,668	Net revaluations	16	-	10,598	70
273	59	Transfers to/(from) reserves		12	49	(2)
		(Gains)/losses transferred to the				
5	(25)	statement of financial performance		-	(25)	-
		Foreign currency translation differences on				
32	122	foreign operations		-	115	7
(97)	(34)	Other movements		(23)	(10)	(1)
7,637	19,698	Total comprehensive revenue and expense		8,385	10,727	586
(542)	(533)	Transactions with minority interests	22	-	-	(533)
123,567	135,637	Net worth at 30 June 2018		34,841	94,803	5,993
-	628	Impact of adoption NZ PBE IFRS 9	27	599	60	-
123,567	136,265	Adjusted opening net worth		35,440	94,863	5,993
7,234	186	Operating balance		(2,274)	-	461
-	(33)	Net revaluations	16	-	11,884	589
69	240	Transfers to/(from) reserves		130	(255)	(77)
		(Gains)/losses transferred to the				
-	9	statement of financial performance		-	(2)	-
		Foreign currency translation differences on				
-	-	foreign operations		-	(39)	(10)
(50)	(24)	Other movements		(18)	17	(11)
7,253	378	Total comprehensive revenue and expense		(2,162)	11,605	952
(503)	(477)	Transactions with minority interests	22	-	-	(378)
130,317	136,166	Net worth at 30 June 2019		33,278	106,468	6,567

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

Statement of Cash Flows

for the year ended 30 June 2019

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Cash Flows From Operations		
		Cash was provided from		
81,963	82,622	Taxation receipts	83,018	78,566
4,710	4,860	Other sovereign receipts	5,187	4,594
19,260	19,331	Sales of goods and services	19,817	18,387
2,462	2,462	Interest receipts	2,562	2,466
4,909	4,271	Other operating receipts	4,586	4,038
113,304	113,546	Total cash provided from operations	115,170	108,051
		Cash was disbursed to		
29,308	28,156	Transfer payments and subsidies	27,982	25,382
71,438	73,036	Personnel and operating payments	72,177	67,687
4,052	4,056	Interest payments	4,025	4,098
760	265	Forecast new operating spending	-	-
(1,145)	(800)	Top-down expense adjustment	-	-
104,413	104,713	Total cash disbursed to operations	104,184	97,167
8,891	8,833	Net cash flows from operations	10,986	10,884
		Cash Flows From Investing Activities		
		Cash was provided from		
300	182	Sale of physical assets	305	418
108,834	125,116	Sale of shares and other securities	104,587	102,569
-	-	Sale of intangible assets	1	-
3,165	1,834	Repayment of advances	2,268	1,898
42	111	Sale of investments in associates	280	127
112,341	127,243	Total cash provided from investing activities	107,441	105,012
		Cash was disbursed to		
10,491	10,025	Purchase and construction of physical assets	8,830	8,090
102,717	115,523	Purchase of shares and other securities	100,642	107,361
723	913	Purchase of intangible assets	792	817
3,368	3,563	Advances made	4,170	2,397
462	146	Acquisition of investments in associates	144	505
1,267	458	Forecast new capital spending	-	-
(600)	(1,250)	Top-down capital adjustment	-	-
118,428	129,378	Total cash disbursed to investing activities	114,578	119,170
(6,087)	(2,135)	Net cash flows from investing activities	(7,137)	(14,158)
2,804	6,698	Net cash flows from operating and investing activities	3,849	(3,274)

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

Statement of Cash Flows (continued)

for the year ended 30 June 2019

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
2,804	6,698	Net cash flows from operating and investing activities	3,849	(3,274)
		Cash Flows From Financing Activities		
		Cash was provided from		
196	233	Issue of circulating currency	437	395
7,862	8,430	Issue of Government bonds	8,372	7,043
449	241	Issue of foreign currency borrowings	1,877	358
11,912	18,332	Issue of other New Zealand dollar borrowings	16,344	16,950
20,419	27,236	Total cash provided from financing activities	27,030	24,746
		Cash was disbursed to		
11,240	11,974	Repayment of Government bonds	11,908	6,828
(9)	2,392	Repayment of foreign currency borrowings	389	1,028
12,554	16,083	Repayment of other New Zealand dollar borrowings	16,874	13,895
532	518	Dividends paid to minority interests	504	541
24,317	30,967	Total cash disbursed to financing activities	29,675	22,292
(3,898)	(3,731)	Net cash flows from financing activities	(2,645)	2,454
(1,094)	2,967	Net movement in cash	1,204	(820)
18,068	19,340	Opening cash balance	19,340	18,732
2	(93)	Foreign-exchange gains/(losses) on opening cash	348	1,428
16,976	22,214	Closing cash balance	20,892	19,340

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

Statement of Cash Flows (continued)

for the year ended 30 June 2019

2019 Forecast at		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance	Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
8,891	8,833	Net Cash Flows from Operations	10,986	10,884
		Gains/(losses)		
2,887	1,445	Net gains/(losses) on financial instruments	4,397	5,331
(83)	(5,340)	Net gains/(losses) on non-financial instruments	(14,348)	(2,802)
17	76	Less minority interests share of net gains/(losses)	115	87
2,787	(3,971)	Total gains/(losses)	(10,066)	2,442
		Other Non-cash Items in Operating Balance		
(4,840)	(4,972)	Depreciation	(4,557)	(4,275)
(729)	(751)	Amortisation and impairment of non-financial assets	(934)	(906)
(762)	(902)	Cost of concessionary lending	(763)	(704)
(16)	158	Impairment of financial assets (excl receivables)	(41)	105
-	-	Reversal of Rail network impairment	2,576	-
592	594	Change in accumulating pension expenses	571	568
(623)	(824)	Change in accumulating insurance expenses	(1,703)	(628)
264	(532)	Other non-cash items	(39)	529
(6,114)	(7,229)	Total other non-cash items in operating balance	(4,890)	(5,311)
		Movements in Working Capital		
1,270	1,163	Increase/(decrease) in receivables	4,188	1,614
485	53	Increase/(decrease) in accrued interest	48	265
(23)	75	Increase/(decrease) in inventories	175	177
(7)	67	Increase/(decrease) in prepayments	36	(8)
(108)	39	Decrease/(increase) in deferred revenue	(97)	(200)
(408)	686	Decrease/(increase) in payables/provisions	(2,654)	(1,467)
1,209	2,083	Total movements in working capital	1,696	381
6,773	(284)	Operating balance (excluding minority interests)	(2,274)	8,396

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

Statement of Financial Position

as at 30 June 2019

2019 Forecast at			Note	Actual	
Budget 2018 \$m	Budget 2019 \$m			30 June 2019 \$m	30 June 2018 \$m
		Assets			
16,976	22,214	Cash and cash equivalents		20,892	19,340
20,770	21,622	Receivables	12	24,287	21,385
42,630	38,533	Marketable securities, deposits and derivatives in gain	13	44,453	51,117
39,344	39,267	Share investments	14	40,615	36,256
29,942	32,131	Advances	15	33,057	29,422
1,036	1,418	Inventory		1,519	1,344
2,637	2,914	Other assets		2,887	2,817
155,867	164,316	Property, plant & equipment	16	178,025	159,018
15,384	15,729	Equity accounted investments	17	16,109	15,416
3,980	4,026	Intangible assets and goodwill		3,912	3,817
1,452	458	Forecast new capital spending		-	-
(1,085)	(1,250)	Top-down capital adjustment		-	-
328,933	341,378	Total assets		365,756	339,932
		Liabilities			
6,636	6,609	Issued currency		6,813	6,375
13,484	13,726	Payables	18	17,723	14,877
2,414	2,384	Deferred revenue		2,523	2,424
112,890	112,057	Borrowings	19	110,477	115,652
44,732	49,794	Insurance liabilities	11	58,364	45,294
9,987	11,414	Retirement plan liabilities	20	13,179	10,991
8,473	9,228	Provisions	21	10,364	8,682
198,616	205,212	Total liabilities		219,443	204,295
130,317	136,166	Total assets less total liabilities		146,313	135,637
		Net Worth			
40,293	35,205	Taxpayer funds		33,278	34,841
84,089	94,686	Property, plant and equipment revaluation reserve	16	106,502	94,750
75	108	Other reserves		(34)	53
124,457	129,999	Total net worth attributable to the Crown		139,746	129,644
5,860	6,167	Net worth attributable to minority interests	22	6,567	5,993
130,317	136,166	Total net worth		146,313	135,637

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

Statement of Segments

	Current Year Actual vs Estimated Actuals (Budget 2019)									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast
	2019	Budget	2019	Budget	2019	Budget	2019	Budget	2019	Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue										
Taxation revenue	86,468	84,650	-	-	-	-	(745)	(693)	85,723	83,957
Other sovereign revenue	1,977	1,963	5,588	5,399	-	-	(1,537)	(1,535)	6,028	5,827
Revenue from core Crown funding	-	-	30,602	30,940	216	191	(30,818)	(31,131)	-	-
Sales of goods and services	1,672	1,638	2,224	2,251	16,533	16,092	(544)	(595)	19,885	19,386
Interest revenue	1,099	1,098	1,016	1,054	1,014	987	(444)	(445)	2,685	2,694
Other revenue	2,409	2,250	3,845	3,591	873	867	(2,155)	(2,154)	4,972	4,554
Total Revenue (excluding gains)	93,625	91,599	43,275	43,235	18,636	18,137	(36,243)	(36,553)	119,293	116,418
Expenses										
Transfer payments and subsidies	29,119	29,128	-	-	-	-	(929)	(936)	28,190	28,192
Personnel expenses	7,844	7,662	15,085	14,321	3,096	3,033	(42)	(39)	25,983	24,977
Other operating expenses	46,608	47,611	29,528	29,481	10,945	13,128	(33,874)	(34,282)	53,207	55,938
Interest expenses	3,451	3,434	117	78	1,045	1,041	(554)	(566)	4,059	3,987
Forecast new operating spending	-	265	-	-	-	-	-	-	-	265
Top-down expense adjustment	-	(800)	-	-	-	-	-	-	-	(800)
Total Expenses (excluding losses)	87,022	87,300	44,730	43,880	15,086	17,202	(35,399)	(35,823)	111,439	112,559
Minority interest share of operating balance before gains/(losses)	(9)	-	-	-	(355)	(414)	18	20	(346)	(394)
Operating Balance before gains and losses (excluding minority interests)	6,594	4,299	(1,455)	(645)	3,195	521	(826)	(710)	7,508	3,465
Gains/(losses) and other items	463	562	(7,739)	(2,319)	168	144	(2,674)	(2,136)	(9,782)	(3,749)
Operating Balance (excluding minority interests)	7,057	4,861	(9,194)	(2,964)	3,363	665	(3,500)	(2,846)	(2,274)	(284)
Assets										
Financial assets	106,471	99,866	57,604	52,577	27,624	26,935	(28,395)	(25,611)	163,304	153,767
Property, plant and equipment	44,084	42,677	93,731	87,878	40,210	33,762	-	(1)	178,025	164,316
Investments in associates, CEs and SOEs	48,432	48,728	13,311	12,858	290	322	(45,924)	(46,179)	16,109	15,729
Other assets	3,912	3,993	1,795	1,696	2,682	2,727	(71)	(58)	8,318	8,358
Forecast adjustments	-	(792)	-	-	-	-	-	-	-	(792)
Total Assets	202,899	194,472	166,441	155,009	70,806	63,746	(74,390)	(71,849)	365,756	341,378
Liabilities										
Borrowings	91,739	91,722	6,931	6,838	32,563	32,418	(20,756)	(18,921)	110,477	112,057
Other liabilities	39,271	34,684	69,507	58,214	9,315	8,423	(9,127)	(8,166)	108,966	93,155
Total Liabilities	131,010	126,406	76,438	65,052	41,878	40,841	(29,883)	(27,087)	219,443	205,212
Net Worth	71,889	68,066	90,003	89,957	28,928	22,905	(44,507)	(44,762)	146,313	136,166
Cost of Acquisition of Physical Assets (Cash)	2,748	2,933	4,295	4,875	1,787	2,217	-	-	8,830	10,025

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2019 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2018 \$m
Revenue										
Taxation revenue	86,468	80,224	-	-	-	-	(745)	(628)	85,723	79,596
Other sovereign revenue	1,977	1,638	5,588	4,966	-	-	(1,537)	(1,381)	6,028	5,223
Revenue from core Crown funding	-	-	30,602	29,017	216	139	(30,818)	(29,156)	-	-
Sales of goods and services	1,672	1,598	2,224	2,269	16,533	14,911	(544)	(550)	19,885	18,228
Interest revenue	1,099	1,175	1,016	1,032	1,014	964	(444)	(373)	2,685	2,798
Other revenue	2,409	2,143	3,845	3,176	873	858	(2,155)	(2,049)	4,972	4,128
Total Revenue (excluding gains)	93,625	86,778	43,275	40,460	18,636	16,872	(36,243)	(34,137)	119,293	109,973
Expenses										
Transfer payments and subsidies	29,119	26,237	-	-	-	-	(929)	(871)	28,190	25,366
Personnel expenses	7,844	7,249	15,085	13,546	3,096	2,935	(42)	(40)	25,983	23,690
Other operating expenses	46,608	43,593	29,528	27,584	10,945	11,731	(33,874)	(32,101)	53,207	50,807
Interest expenses	3,451	3,497	117	95	1,045	1,058	(554)	(499)	4,059	4,151
Total Expenses (excluding losses)	87,022	80,576	44,730	41,225	15,086	15,724	(35,399)	(33,511)	111,439	104,014
Minority interest share of operating balance before gains/(losses)	(9)	(2)	-	-	(355)	(448)	18	25	(346)	(425)
Operating Balance before gains and losses (excluding minority interests)	6,594	6,200	(1,455)	(765)	3,195	700	(826)	(601)	7,508	5,534
Gains/(losses) and other items	463	3,243	(7,739)	291	168	161	(2,674)	(833)	(9,782)	2,862
Operating Balance (excluding minority interests)	7,057	9,443	(9,194)	(474)	3,363	861	(3,500)	(1,434)	(2,274)	8,396
Assets										
Financial assets	106,471	104,255	57,604	51,302	27,624	25,287	(28,395)	(23,324)	163,304	157,520
Property, plant and equipment	44,084	41,279	93,731	84,300	40,210	33,438	-	1	178,025	159,018
Investments in associates, CEs and SOEs	48,432	45,838	13,311	12,698	290	250	(45,924)	(43,370)	16,109	15,416
Other assets	3,912	3,656	1,795	1,659	2,682	2,729	(71)	(66)	8,318	7,978
Total Assets	202,899	195,028	166,441	149,959	70,806	61,704	(74,390)	(66,759)	365,756	339,932
Liabilities										
Borrowings	91,739	97,749	6,931	5,517	32,563	30,628	(20,756)	(18,242)	110,477	115,652
Other liabilities	39,271	34,758	69,507	53,974	9,315	8,517	(9,127)	(8,606)	108,966	88,643
Total Liabilities	131,010	132,507	76,438	59,491	41,878	39,145	(29,883)	(26,848)	219,443	204,295
Net Worth	71,889	62,521	90,003	90,468	28,928	22,559	(44,507)	(39,911)	146,313	135,637
Cost of Acquisition of Physical Assets (Cash)	2,748	2,334	4,295	3,991	1,787	1,765	-	-	8,830	8,090

Notes to the Financial Statements

Note 1: Basis of Reporting

Statement of compliance

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

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

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

The use of public resources by the Government is primarily governed by the Public Finance Act 1989, the 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 2019.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2019.

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 historical cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows).

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

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

Comparatives

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

Comparatives referred to as Budget 2018 were 2019 forecasts published in the *2018 Budget Economic and Fiscal Update*, while Budget 2019 were 2019 forecasts published in the *2019 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 forecast estimates.

Note 1: Basis of Reporting (continued)

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

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 State-owned Enterprises (SOE) are reported at historic cost in this segment with no impairment. This ensures losses in those entities are reflected in the appropriate segment.
- **Crown entities:** This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).
- **State-owned Enterprises:** This group includes entities governed by the State-owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand Limited, Mercury NZ Limited, Meridian Energy Limited and Genesis Energy Limited. 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) and published by the United Nations Statistical Division.

Accounting Standards issued and not yet effective and not early adopted

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

Financial Instruments

In March 2019, PBE IPSAS 41 Financial Instruments was issued. This new standard will supersede PBE IFRS 9: Financial Instruments and is effective for reporting periods beginning on or after 1 Jan 2022. This new standard is based on IPSAS 41 Financial Instruments, prepared by the IPSASB, and is substantially converged with IFRS 9 Financial Instruments prepared by the IASB. As a consequence of the identical, or almost identical, requirements in PBE IFRS 9 and PBE IPSAS 41, any impact on these financial statements from PBE IPSAS 41 Financial Instruments is likely to be minimal.

These financial statements early adopted PBE IFRS 9: Financial Instruments. That standard introduced a number of changes to the recognition and measurement of financial instruments, including new classification and measurement requirements for financial assets, new hedging requirements and a new impairment model for financial assets. Its main impact in these financial statements has been on the measurement of student loans (refer note 27).

PBE IFRS 9: Financial Instruments was issued in January 2017 because of concerns that once NZ IFRS 9 Financial Instruments (the relevant accounting standard for profit oriented entities) became effective, significant differences between the IFRS-based standard and the IPSAS-based standard on financial instruments would adversely impact the compliance costs for groups such as the Government that include both public benefit entities (PBEs) and for-profit entities, and on the understandability of those group financial statements. These differences would be problematic until the IPSAS-based standard on financial instruments was updated to reflect the changes in the IFRS-based standard.

Note 1: Basis of Reporting (continued)**Consolidated Financial Statements**

In January 2017 a suite of accounting standards was issued dealing with consolidation and group reporting issues that are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. These standards include PBE IPSAS 35 Consolidated Financial Statements, PBE IPSAS 36 Investments in Associates and Joint Ventures, PBE IPSAS 37 Joint Arrangements and PBE IPSAS 38 Disclosure of Interests in Other Entities. The Crown intend to adopt these standards in the 2019/20 Financial Statements of the Government.

The analysis to date of these standards against the entities in which the Government has an interest, suggests any significant impact on which entities are consolidated in the financial statements is unlikely. The New Zealand Superannuation Fund will likely be consolidated as an investment entity rather than on the current line-by-line basis. As a consequence, any controlling interests it has in entities it has invested in will be reported on a fair value basis.

Employee Benefits

PBE IPSAS 39 Employee Benefits issued in January 2017 (updating the existing standard PBE IPSAS 25 Employee Benefits) is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Crown intends to adopt it in the 2019/20 Financial Statements of the Government.

The new standard will have an impact on the way the Government Superannuation Fund defined benefit pension scheme is presented in the financial statements with actuarial gains/losses being presented in the Statement of Comprehensive Revenue and Expense rather than as a gain or loss in the Statement of Financial Performance (refer to note 10 for values). Improved clarity over the scope of employee benefits may mean the recognition of other responsibilities of the Crown, such as veterans' benefits.

Other Accounting Standards

A number of accounting standards have been issued for profit-oriented entities and/or not-for-profit entities (eg, charities) but not for public sector entities. They have therefore affected, or will affect separate reporting by those entities, but are not yet applicable, nor available for adoption by the Government. They are, however, under active consideration by public sector accounting standard setters. These standards include:

- NZ IFRS 15 Revenue from Contracts with Customers that became effective for profit entities for reporting periods beginning on or after 1 Jan 2018. This standard revised principles to be applied in reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.
- NZ IFRS 16 Leases that became effective for profit-oriented entities effective for reporting periods beginning on or after 1 Jan 2019. This standard replaces the operating lease/financing lease distinction with a requirement that for leases of more than one year, the lessee is now required to report a right-of-use asset at fair value, which amortises over the term of the arrangement, and a financial liability for the lease obligation, on which interest is paid, and which is settled over the term of the lease.

NZ IFRS 17 Insurance Contracts and PBE IFRS 17 Insurance Contracts effective for profit-oriented entities and not-for-profit entities for reporting periods beginning on or after 1 January 2021 and 1 January 2022 respectively. This standard establishes revised principles for the recognition, measurement, presentation and disclosure of insurance contracts.

For-profit entities within the Government reporting entity (eg, SOEs) will need to adopt these NZIFRSs for their separate financial statements when effective, but must report for these financial statements using the Crown accounting policies based on PBE standards.

Note 1: Basis of Reporting (continued)**Government Reporting Entity as at 30 June 2019****Reporting entity**

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

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

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

Basis of combination

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

Core Crown entities

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

Other entities

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

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

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

Tertiary education institutions are equity-accounted for the reasons explained in note 17.

City Rail Link Limited is reported as a jointly controlled entity as a consequence of the agreements with Auckland Council in these financial statements for the period ended 30 June 2019 and is also equity accounted. This treatment recognises our share of these entities' net assets, including asset revaluation movements, surpluses and deficits.

Note 1: Basis of Reporting (continued)

The following tables list the entities within each institutional component.

Core Crown Segment**Departments**

Crown Law Office
 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 Housing and Urban Development

Ministry of Justice (Includes Te Arawhiti – Office for the Māori Crown Relations as a departmental agency)
 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
 Oranga Tamariki, Ministry for Children
 Parliamentary Counsel Office
 Parliamentary Service
 Serious Fraud Office
 State Services Commission (Includes Social Investment Agency as a departmental agency)
 Statistics New Zealand
 Te Kāhui Whakamana Rua Tekau mā Iwa — Pike River Recovery Agency
 The Treasury

Offices of Parliament

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

Others

New Zealand Superannuation Fund
 Reserve Bank of New Zealand

State-owned Enterprises Segment**State-owned Enterprises**

Airways Corporation of New Zealand Limited
 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 (in liquidation)
 Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
 Mercury NZ Limited
 Meridian Energy Limited

Other

Air New Zealand Limited
 Kiwi Group Holdings Limited (including Kiwibank)

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

Accident Compensation Corporation	Maritime New Zealand
Accreditation Council	Museum of New Zealand Te Papa Tongarewa Board
Arts Council of New Zealand Toi Aotearoa	New Zealand Antarctic Institute
Broadcasting Commission	New Zealand Artificial Limb Service
Broadcasting Standards Authority	New Zealand Blood Service
Callaghan Innovation	New Zealand Film Commission
Children's Commissioner	New Zealand Lotteries Commission
Civil Aviation Authority of New Zealand	New Zealand Productivity Commission
Commerce Commission	New Zealand Qualifications Authority
Crown Irrigation Investments Limited	New Zealand Symphony Orchestra
Crown Research Institutes (7)	New Zealand Tourism Board
District Health Boards (20)	New Zealand Trade and Enterprise
Drug Free Sport New Zealand	New Zealand Transport Agency
Earthquake Commission	New Zealand Venture Investment Fund Limited
Education New Zealand	New Zealand Walking Access Commission
Electoral Commission	Office of Film and Literature Classification
Electricity Authority	Pharmaceutical Management Agency
Energy Efficiency and Conservation Authority	Privacy Commissioner
Environmental Protection Authority	Public Trust
External Reporting Board	Radio New Zealand Limited
Financial Markets Authority	Real Estate Agents Authority
Fire and Emergency New Zealand	Retirement Commissioner
Government Superannuation Fund Authority	School Boards of Trustees (2,418)
Guardians of New Zealand Superannuation	Social Workers Registration Board
Health and Disability Commissioner	Sport and Recreation New Zealand
Health Promotion Agency	Takeovers Panel
Health Quality and Safety Commission	Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Health Research Council of New Zealand	Te Taura Whiri i te Reo Māori (Māori Language Commission)
Heritage New Zealand Pouhere Taonga	Television New Zealand Limited
Housing New Zealand Corporation	Tertiary Education Commission
Human Rights Commission	Transport Accident Investigation Commission
Independent Police Conduct Authority	WorkSafe New Zealand
Law Commission	

Note 1: Basis of Reporting (continued)

Crown entities Segment (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
 Asia New Zealand Foundation
 Fish and Game Councils (12)
 Game Animal Council
 Leadership Development Centre Trust
 Māori Trustee
 National Pacific Radio Trust
 New Zealand Fish and Game Council
 New Zealand Game Bird Habitat Trust Board
 New Zealand Government Property Corporation
 New Zealand Lottery Grants Board
 Ngāi Tahu Ancillary Claims Trust
 Pacific Co-operation Foundation
 Pacific Island Business Development Trust
 Reserves Boards (21)
 Te Ariki Trust

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

Crown Asset Management Limited
 Crown Infrastructure Partners Limited
 Education Payroll Limited
 New Zealand Green Investment Finance Limited
 Ōtākaro Limited
 Predator Free 2050 Limited
 Research and Education Advanced Network New Zealand Limited
 Southern Response Earthquake Services Limited
 Tāmaki Redevelopment Company Limited
 The Network for Learning Limited

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

Te Urewera

Others

Teaching Council of Aotearoa New Zealand
 Regenerate Christchurch
 Christ Church Cathedral Reinstatement Trust

Other entities not fully consolidated into the financial statements of the Government with only the Crown's interest in them being included

Crown entities

Tertiary Education Institutions (27)

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

City Rail Link Limited

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

Note 2: Key Assumptions and Judgements

These financial statements reflect the Government's financial position (service potential and financial capacity) as at 30 June 2019, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

Key assumptions

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

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

The Rail Freight Network illustrates the impact of the asset purpose assumption. Treated as a for-profit asset since 2012, this asset had a carrying value of \$186 million as at 30 June 2018 based on the amount of cash that could be generated or recovered from it. Following a review to consider the context of rail's purpose within a multi modal transport system, the underlying assumption of the benefits of rail were framed as: Rail enables access and mobility, transporting people and goods to where they need to go, supporting productivity and business growth, reducing emissions, congestion and road deaths, and strengthening social and cultural connections between communities. As a consequence, a valuation limited to its cash generating potential was no longer appropriate. In this year's financial statements, the rail freight network is valued using an optimised depreciated replacement cost methodology at \$5,428 million. For further information, see note 16.

Note 2: Key Assumptions and Judgements (continued)

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

Economic variable	Assumptions and 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 most commonly used to indicate the inflation rate. However, some costs (referred to as superimposed inflation) are assumed to increase faster than the rate of 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 4.30%. 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/discount rates
Amount and duration of future cash flows	Judgements around the amount and duration of future cash flows are critical for valuations. Some examples of this are: <ul style="list-style-type: none"> • the length of rehabilitation from injuries for the ACC obligation • mortality rates for the GSF obligation • repayment rates of student loans. <p>These assumptions are largely based on extrapolating historical experience. As time goes on, better information becomes available and estimates are updated to reflect more current information.</p>

Sensitivity of key assumptions

The tables below outline the sensitivity of the key assumptions discussed above on the significant valuations included in the statement of financial position. They do not include second or third-order effects on forecast revenues and expenses. A negative impact on the Operating Balance is designated by the use of brackets.

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 2019 financial assets totalled \$145.0 billion (2018: \$142.5 billion) while financial liabilities totalled \$128.2 billion (2018: \$131.4 billion).

	Impact on operating balance	
	2019 \$m	2018 \$m
NZ dollar exchange rate strengthens by 10%	(1,353)	(846)
NZ dollar exchange rate weakens by 10%	1,538	983
Share prices strengthen by 10%	4,023	3,580
Share prices weaken by 10%	(4,023)	(3,580)
Increase in NZ interest rates 1% (100 basis points)	(476)	(472)
Decrease in NZ interest rate 1% (100 basis points)	701	532
NZD carbon price increases by \$1	(118)	(120)
NZD carbon price decreases by \$1	118	120

In relation to assumptions concerning property prices, land and buildings account for 54% (2018: 57%) of total property, plant and equipment and 63% (2018: 67%) of the asset revaluation reserve. A significant decline in property prices would not impact the operating balance but would reduce net worth.

Note 2: Key Assumptions and Judgements (continued)

Long term liabilities such as the ACC liability \$56.6 billion (2018: \$43.3 billion) and the GSF retirement plan \$13.2 billion (2018: \$11.0 billion) are particularly sensitive to the assumptions associated with estimating discounted cash flows. The table below outlines the sensitivity of those liabilities to key assumptions:

	Change	Impact on operating balance	
		2019 \$m	2018 \$m
Sensitivity of assumptions			
Risk-free discount rate	+1%	10,565	7,392
	-1%	(14,384)	(9,559)
Inflation rates (including superimposed inflation)	+1%	(14,261)	(9,566)
	-1%	10,432	7,375
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims (ACC only)	+1%	(5,465)	(3,272)
	-1%	4,922	2,555
Average weighted term to settlement from reporting date (ACC only)	+1 year	41	470
	-1 year	(44)	(479)

Note 2: Key Assumptions and Judgements (continued)**Areas of significant estimation**

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

Key estimation	Basis of estimation
Recognition of tax revenue and associated receivables	<p>The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income.</p> <p>Income tax</p> <p>Income tax revenue is recognised on an accruals basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.</p> <p>Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year provisional or terminal assessments. The outcome of income tax revenue and refunds is not known with certainty until income tax returns for the period have been filed. This usually occurs sometime after the publication of these financial statements.</p> <p>The measurement of the tax revenue accruals requires significant estimates. Key features of the estimation used include:</p> <ul style="list-style-type: none"> • Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, provisional tax assessments are accrued based on the provisional tax method adopted by the taxpayer. • Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period or where the payment is more than the provisional tax assessment submitted, their credit balance is accrued as revenue. • For taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable based on prior year returns. <p>Change in estimations</p> <p>Over recent years, Inland Revenue (IR) have been working to improve the processes used to recognise income tax revenue through IR's business transformation programme. This year further refinements were achieved as a result of the administration of income tax moving to IR's new system, START (Simplified Tax and Revenue Technology). The improvements from START include a new process for the estimation of income tax with income tax now estimated for all taxpayers every month based on their provisional tax method. Previously income tax was recognised based on provisional tax due and forecast provisional tax payments. This process change has had the effect of bringing forward the recognition of some tax revenue for the 2018/19 fiscal year. The Budget 2019 fiscal forecasts assumed a transitional adjustment, increasing tax revenue by \$0.6 billion in the 2018/19 fiscal year. Due to the fundamental differences between the models, it is not practical to estimate the effect of the change on current and future years.</p>

Note 2: Key Assumptions and Judgements (continued)

Key estimation	Basis of estimation
Electricity generation assets	<p>These financial statements report the value of electricity generation assets at \$17.2 billion (2018: \$15.9 billion). The assets are made up mainly of hydro, thermal stations and wind farms owned by three electricity generation mixed ownership model entities. There are a range of reasonable judgements and assumptions that could be used in estimating the fair value of these assets.</p> <p>These judgements and assumptions predominantly relate to future revenue streams (eg, wholesale electricity prices, generation volumes) and operating expenses, as well as the discount rate used to calculate the present value of those revenues and expenses. The assumptions and sensitivity analysis of these are set out in note 16.</p> <p>These key assumptions are subject to significant uncertainties driven by unobservable market data, such as growth expectations within various sectors of the economy, planned capital projects and varying risk factors. These assumptions interact dynamically with each other. For example, wholesale electricity prices can affect the amount of generation volumes and operating costs.</p>
State Highway network (excluding land)	<p>These financial statements report the value of the state highway network at \$37.2 billion (2018: \$31.7 billion). There are necessarily significant assumptions and judgements required in determining the replacement values assigned to different components (pavement, formation, bridges, etc) of the state highway network, the appropriate overhead cost factors to apply and the life of component assets for depreciation. These assumptions and sensitivity analysis are set out in note 16.</p>

Other uncertainties

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

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 1989 and Treasury Instructions. Government-wide financial resilience is supported through relatively low debt levels, a strong financial position and effective budgeting.

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

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

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

Derivative financial instruments are often used across the portfolios to manage exposure to interest rate, and foreign currency risk. Refer to pages 131 and 132 for further derivative information.

Note 3: Sovereign Revenue

2019 Forecast at		Actual	
Budget	Budget	30 June	30 June
2018	2019	2019	2018
\$m	\$m	\$m	\$m
Direct Income Tax Revenue			
Individuals			
32,248	32,683	32,879	30,721
6,968	6,782	7,663	6,819
(1,764)	(2,614)	(2,429)	(2,102)
572	558	585	559
38,024	37,409	38,698	35,997
Corporate Tax			
13,301	14,376	14,892	13,022
(207)	(196)	(343)	(157)
669	655	650	627
-	-	-	3
13,763	14,835	15,199	13,495
Other Direct Income Tax			
1,737	1,613	1,659	1,531
769	743	838	753
2,506	2,356	2,497	2,284
54,293	54,600	56,394	51,776
Indirect Income Tax Revenue			
Goods and Services Tax			
35,339	35,721	35,860	33,899
(13,370)	(13,745)	(13,998)	(13,086)
21,969	21,976	21,862	20,813
Other Indirect Taxation			
1,969	1,976	1,982	1,898
1,741	1,959	1,980	1,807
1,500	1,655	1,673	1,551
1,053	1,066	1,086	1,017
172	177	172	172
544	548	574	562
6,979	7,381	7,467	7,007
28,948	29,357	29,329	27,820
83,241	83,957	85,723	79,596
Other Sovereign Revenue			
2,874	2,851	3,014	2,643
581	573	579	568
384	387	387	309
227	225	225	231
96	107	124	118
1,471	1,684	1,699	1,354
5,633	5,827	6,028	5,223
88,874	89,784	91,751	84,819

1 Includes customs excise-equivalent duty.

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

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. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

Note 3: Sovereign Revenue (continued)

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

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

Note 4: Sales of Goods and Services

2019 Forecast at			Actual	
Budget 2018 \$m	Budget 2019 \$m		30 June 2019 \$m	30 June 2018 \$m
9,524	9,994	Sales of goods	10,356	9,155
9,713	9,392	Rendering of services	9,529	9,073
19,237	19,386	Total sales of goods and services	19,885	18,228

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 pattern of recognition better represents the stage of completion of the transaction.

Note 5: Investment Income/(Expense)

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Interest Revenue		
1,230	1,335	Other financial assets classified as amortised cost	1,356	1,223
		Financial assets classified as fair value through the operating		
1,149	927	balance	935	967
584	432	Student loans (interest unwind) ¹	394	604
3	-	Financial assets classified as held for trading ²	-	4
2,966	2,694	Total interest revenue	2,685	2,798
		Interest Expense		
4,127	3,700	Financial liabilities classified as amortised cost	3,812	3,803
		Financial liabilities classified as fair value through the		
(118)	263	operating balance	198	309
36	24	Interest unwind on provisions and other interest	49	39
4,045	3,987	Total interest expenses	4,059	4,151
(1,079)	(1,293)	Net interest income/(expense)	(1,374)	(1,353)
		Gains and Losses on Financial Instruments		
		Foreign exchange gains on financial assets and financial liabilities		
-	28	measured at amortised cost	291	1,486
		Foreign exchange losses on financial assets and financial liabilities		
-	(221)	measured at amortised cost	(7)	(183)
		Change in fair value of financial assets and financial liabilities		
-	-	classified as held for trading ²	-	4
		Gains/(losses) on disposal of financial assets and financial		
(5)	128	liabilities measured at amortised cost	(112)	(107)
		Change in fair value of financial assets and financial liabilities		
2,131	(729)	classified as fair value through the operating balance	2,306	7,491
		Change in fair value of student loans classified as fair value		
-	192	through the operating balance	981	-
2,126	(602)	Net gains/(losses) on financial assets and financial liabilities	3,459	8,691
761	2,047	Net gain/(loss) on derivatives	938	(3,360)
2,887	1,445	Net gains/(losses) on financial instruments	4,397	5,331
		Other investment income/(expense)		
951	990	Dividend income (refer to note 6)	1,086	877
951	990	Total other investment income/(expense)	1,086	877
2,759	1,142	Total investment income/(expense)	4,109	4,855

- 1 Student loans are advanced on an interest-free basis and repayments are income-contingent, therefore they are discounted to reflect their fair value. The interest unwind reflects the increase in value as the period to repayment reduces (refer note 15). Valuation of student loans changed with the adoption of PBE IFRS 9. Effective from 1 July 2018 these are measured at fair value through the operating balance (FVTOB) (see note 27 for more details), and the interest unwind has been calculated using the market discount rate at the beginning of the year (refer note 15). In 2018, when student loans were classified as amortised cost, the interest unwind was calculated using the effective interest method based on the interest rates allocated in the year loans were drawn down.
- 2 Financial assets classified as held for trading category was removed by PBE IFRS 9. For more details please refer to note 27.

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

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

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

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

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

Note 6: Other Revenue

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
951	990	Dividends	1,086	877
663	706	Donations	754	726
667	606	Rental revenue ¹	616	581
1	288	EQC insurance claim on reinsurers	460	83
187	235	Sale of royalties	259	270
1,751	1,729	Other revenue	1,797	1,591
4,220	4,554	Total other revenue	4,972	4,128

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

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

- 1 Rental revenue has been restated for Budget 2018 to eliminate the income related rent subsidy between government reporting entities consistent with the approach taken in Budget 2019 and June actuals.

Note 7: Transfer Payments and Subsidies

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
14,539	14,562	New Zealand superannuation	14,562	13,699
2,628	2,271	Family tax credit	2,131	1,639
1,712	1,854	Jobseeker support and emergency benefit	1,854	1,697
1,508	1,641	Accommodation assistance	1,640	1,204
1,555	1,556	Supported living payment	1,556	1,541
1,084	1,116	Sole parent support	1,115	1,117
966	892	KiwiSaver subsidies	951	897
693	697	Official development assistance	708	643
560	543	Other working for families tax credits	635	556
581	583	Student allowances	583	511
443	441	Winter energy payment	441	-
379	386	Disability allowances	386	379
268	299	Hardship assistance	300	355
218	225	Orphan's/unsupported child's benefit	225	225
80	52	Best start	48	-
110	27	Income related rent subsidy ¹	45	19
1,070	1,047	Other social assistance benefits	1,010	884
28,394	28,192	Total transfer payments and subsidies	28,190	25,366

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

- 1 The income related rent subsidy has been restated for Budget 2018 to eliminate the subsidies between government reporting entities, consistent with the approach taken in Budget 2019 and June actuals.

Note 8: Personnel Expenses

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
22,830	23,121	Salaries and wages	23,622	21,812
557	615	Costs incurred on defined contribution plans (e.g. KiwiSaver)	651	628
155	188	Costs incurred on GSF and other defined benefit plans	154	174
827	1,053	Other personnel expenses	1,556	1,076
24,369	24,977	Total personnel expenses	25,983	23,690

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

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

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

Key management personnel compensation was \$10 million (2018: \$11 million). This reflects salaries, benefits and allowances. Key management personnel are the 27 Ministers of the Crown who are members of the Executive Council (including the Prime Minister) as at 30 June 2019 (2018: 28).

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

Note 9: Other Operating Expenses

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
6,137	6,130	Grants and subsidies	5,682	5,436
-	-	Reversal of Rail network impairment (refer to note 16)	(2,576)	-
1,582	1,592	Repairs and maintenance	2,265	2,209
1,378	1,467	Rental and leasing costs	1,431	1,363
1,294	1,348	Clinical supplies	1,343	1,290
729	751	Amortisation and impairment of non-financial assets	934	906
800	692	Impairment of financial assets	920	590
762	902	Cost of concessionary lending	763	704
710	651	Lottery prize payments	645	686
370	245	Inventory expenses	239	278
		Fees paid to audit firms other than the Auditor-General		
3	4	(refer below)	5	4
31,211	31,910	Other operating expenses	31,123	28,148
44,976	45,692	Total other operating expenses	42,774	41,614

Note 9: Other Operating Expenses (continued)

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

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

Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Other operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of entities included in 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

Audit fees paid to the Controller and Auditor-General for the audit of the financial statements of the Government and its reporting entities were \$46.5 million (2018: \$42.0 million). These fees include \$0.3 million (2018: \$0.2 million) for the audit of these financial statements. Other fees for assurance and related services paid to the Controller and Auditor-General were \$0.7 million (2018: \$1.5 million). As the Controller and Auditor-General is part of the Government reporting entity, these fees are eliminated on consolidation.

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

2019 Forecast at		Note	Actual	
Budget 2018 \$m	Budget 2019 \$m		30 June 2019 \$m	30 June 2018 \$m
-	(3,676)	11	(11,367)	(1,881)
-	(1,017)	20	(2,759)	(553)
-	(558)	21	(225)	(462)
(83)	(89)		(122)	71
-	-		125	23
(83)	(5,340)		(14,348)	(2,802)

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

Note 11: Insurance

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
<i>Insurance expense by entity</i>				
4,837	5,012	Accident Compensation Corporation (ACC)	5,362	4,363
76	207	Earthquake Commission (EQC)	476	514
(46)	(19)	Southern Response	(40)	(28)
10	74	Other	78	69
4,877	5,274	Total insurance expenses	5,876	4,918

At 30 June 2019 and 30 June 2018 the total amount paid or payable for damage in relation to the Canterbury earthquakes was reassessed and is now expected to be lower than previously expected. This reduction is recognised as a credit in the claims expense for Southern Response.

Note 11: Insurance (continued)

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Insurance liability by entity		
44,285	48,441	ACC liability	56,611	43,314
411	986	EQC property damage liability	1,342	1,453
-	186	Southern Response liability	216	401
36	181	Other (incl. Inter-segment eliminations)	195	126
44,732	49,794	Total insurance liabilities	58,364	45,294
		By component		
		Outstanding claims liability	54,834	42,351
		Unearned premium liability	2,295	2,134
		Unearned premium liability deficiency	1,235	809
		Total insurance liabilities	58,364	45,294
		By maturity		
		Expected to be settled within one year	8,996	6,920
		Expected to be outstanding for more than one year	49,368	38,374
		Total insurance liabilities	58,364	45,294
		Assets arising from insurance obligations are:		
		Receivables for premiums	3,475	2,381
		Reinsurance claim recoveries	635	236

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

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

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

The outstanding claims liability is the present value of the central estimate of expected payments for claims incurred plus a risk margin. The unearned premium liability represents premiums received to provide insurance cover after 30 June 2019. The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received).

The remainder of this note provides detailed analysis of the ACC insurance expense and liability. ACC's insurance obligations arise primarily from the accident compensation scheme provision of no fault personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

Note 11: Insurance (continued)

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Analysis of ACC Insurance Expense		
By type		
Claims expense	16,787	6,578
Movement in unearned premium deficiency liability	432	92
Other underwriting expenses	176	191
Total ACC claims and other expenses	17,395	6,861
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss) - (refer note 10)	(11,367)	(1,881)
Operating costs relating to claims	(666)	(617)
Total ACC insurance expenses (excluding gains/(losses) and operations)	5,362	4,363

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 2019 \$m	30 June 2018 \$m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	9,236	8,435
Discount and discount movement	(3,424)	(3,820)
Total current year net claims incurred	5,812	4,615
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(601)	696
Discount and discount movement	11,576	1,267
Total previous years' net claims incurred	10,975	1,963
ACC claims expense	16,787	6,578

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 2019 \$m	30 June 2018 \$m
Net ACC Underwriting Result		
Premium revenue (refer to note 3)	3,014	2,643
ACC underwriting revenue	3,014	2,643
Less claims and other expenses	(17,395)	(6,861)
Net ACC underwriting surplus/(deficit)	(14,381)	(4,218)
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	2,782	2,844
Cash payments	(4,179)	(3,904)
Net ACC operating cash flows	(1,397)	(1,060)

Note 11: Insurance (continued)

Analysis of ACC insurance liability

An independent actuarial estimate by Taylor Fry, consulting actuaries, has been made of the future expenditure relating to accidents that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The actuaries are satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
The ACC liability comprises:		
ACC outstanding claims liability	53,319	40,605
ACC unearned premium liability	2,088	1,937
ACC unearned premium liability deficiency	1,204	772
Total ACC liability	56,611	43,314
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	87,054	83,021
Discount adjustment	(39,863)	(47,069)
Risk margin	6,128	4,653
Total outstanding ACC claims liability	53,319	40,605
Discounted central estimate of future payments for outstanding claims	44,638	33,856
Claims handling expenses	2,553	2,096
Outstanding claims liability before risk margin	47,191	35,952
Risk margin	6,128	4,653
Total outstanding ACC claims liability	53,319	40,605
Movement in Outstanding ACC Claims Liability		
Opening balance	40,605	37,739
Claims incurred for the year	5,511	4,688
Claims paid out in the year	(4,856)	(4,436)
Discount rate unwind	692	733
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	634	(735)
- change in discount rate	10,793	2,724
- change in inflation rate	(60)	(108)
Closing outstanding ACC claims liability	53,319	40,605

Note 11: Insurance (continued)

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Movement in ACC Unearned Premium Liability		
Opening balance	1,937	1,870
Earning of premiums previously deferred	(1,937)	(1,870)
Deferral of premiums on current year contracts	2,088	1,937
Closing ACC unearned premium liability	2,088	1,937
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,088	1,937
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(55)	(112)
Adjusted ACC unearned premium liability	2,033	1,825
Discounted central estimate of payments for insured future claims	2,908	2,333
Risk margin	329	264
Present value of expected cash flows for future accident claims	3,237	2,597
Total ACC unearned premium liability deficiency	1,204	772

Claims development historical analysis

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

	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	30 June 2019 \$m
Estimate of ultimate claims costs:								
At the end of the								
accident year	6,794	7,264	7,192	6,884	7,914	8,038	8,828	
One year later	6,608	6,547	6,682	7,272	7,160	7,738		
Two years later	5,762	5,823	7,062	7,230	7,430			
Three years later	5,007	6,252	7,382	7,518				
Four years later	5,180	6,316	7,261					
Five years later	5,633	6,229						
Six years later	5,465							
Current estimate of								
cumulative claim costs	5,465	6,229	7,261	7,518	7,430	7,738	8,828	50,469
Cumulative payments	(1,751)	(1,914)	(2,052)	(2,059)	(2,036)	(1,966)	(1,222)	(13,000)
Outstanding claims								
undiscounted	3,714	4,315	5,209	5,459	5,394	5,772	7,606	37,469
Discount								(18,478)
Claims handling costs								2,881
2012 and prior claims (net present value)								31,434
Short tail outstanding claims								13
Total outstanding ACC claims liability								53,319

Note 11: Insurance (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 2.42% (2018: 3.51%) and a long term discount rate of 4.30% beyond 53 years (2018: 4.75% beyond 39 years).

(ii) Risk margin

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

(iii) Inflation and indexation

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

(iv) Rehabilitation rate

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

(v) Liability adequacy test

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

Note 11: Insurance (continued)

	30 June 2019 Next Year	30 June 2019 Beyond Next Year	30 June 2018 Next Year	30 June 2018 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	16 years 8 months		16 years 8 months	
Weighted average risk margin	13.0%		13.0%	
Probability of adequacy of liability	75.0%		75.0%	
Weighted average risk margin for liability adequacy test	13.0%		13.0%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate	1.3%	1.0% to 4.3%	1.8%	1.9% to 4.8%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	2.0%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Impairment benefits	1.5%	1.7% to 2.0%	1.7%	1.7% to 2.0%
Social rehabilitation benefits (serious and non serious injury)	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Hospital rehabilitation benefits	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Medical costs	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Superimposed inflation:				
Social rehabilitation benefits (serious injury care)	1.4%	0.0% to 2.0%	0.2%	0.0% to 3.2%
Social rehabilitation benefits (serious injury capital expenditure)	0.7%	0.8% to 3.2%	0.7%	0.8% to 3.2%
Hospital rehabilitation benefits	3.0%	3.0%	3.0%	3.0%
Medical costs (GPs)	2.0%	2.0%	3.0%	3.0%
Medical costs (Radiology)	2.0%	2.0%	2.0%	2.0%
Medical costs (Physiotherapists)	2.0%	2.0%	2.0%	2.0%
Medical costs others (specialists)	2.0%	2.0%	2.5%	2.5%

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

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

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

	Change	Impact on liability	
		Actual	
		30 June 2019 \$m	30 June 2018 \$m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(41)	(470)
	-1 year	44	479
Risk-free discount rate	+1%	(8,594)	(5,791)
	-1%	11,977	7,624
Inflation rates (including superimposed inflation)	+1%	12,059	7,781
	-1%	(8,575)	(5,859)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	1,874	1,494
	-1%	(1,292)	(1,206)
Social rehabilitation benefits - superimposed inflation after two years for serious injury claims	+1%	5,465	3,272
	-1%	(4,922)	(2,555)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of \$47,191 million (2018: \$35,952 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 2019. These estimated cash flows include the effects of assumed future inflation.

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
No later than 1 year	2,915	2,712
Later than 1 year and no later than 2 years	2,076	1,927
Later than 2 years and no later than 5 years	5,378	4,948
Later than 5 years and no later than 10 years	8,085	7,523
Later than 10 years and no later than 15 years	7,495	7,016
Later than 15 years and no later than 20 years	7,128	6,666
Later than 20 years and no later than 25 years	6,869	6,423
Later than 25 years and no later than 30 years	6,589	6,190
Later than 30 years and no later than 35 years	6,252	5,927
Later than 35 years and no later than 40 years	5,851	5,633
Later than 40 years and no later than 45 years	5,404	5,285
Later than 45 years and no later than 50 years	4,903	4,860
Later than 50 years	18,109	17,911
Undiscounted outstanding claims liability	87,054	83,021

Note 12: Receivables

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
11,148	12,181	Tax receivables	14,212	11,559
3,237	2,331	ACC levy receivables	2,541	2,308
827	877	Social benefit receivables	964	808
360	369	Other levies, fines and penalty receivables	505	325
15,572	15,758	Sovereign receivables	18,222	15,000
51	396	Reinsurance receivables	635	236
5,147	5,468	Trade and other receivables	5,430	6,149
20,770	21,622	Total receivables	24,287	21,385
By maturity				
19,223	19,523	Expected to be realised within one year	21,903	19,711
1,547	2,099	Expected to be outstanding for more than one year	2,384	1,674
20,770	21,622	Total receivables	24,287	21,385

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

Reinsurance receivables on paid claims and outstanding claims, are recognised as revenue in the statement of financial performance.

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

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

The Government does not hold any collateral or any other credit enhancements over receivables.

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 \$230 million (2018: \$201 million), with \$161 million (2018: \$137 million) of the adjustment relating to child support debt administered by Inland Revenue.

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

Trade and other receivables are relatively short term, with \$4,406 million (2018: \$5,668 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 12: Receivables (continued)

30 June 2019	Gross		Net
	receivable	Impairment	receivable
	\$m	\$m	\$m
Tax receivables	16,554	(2,342)	14,212
ACC levy receivables	2,656	(115)	2,541
Social benefit receivables	1,762	(798)	964
Other levies, fines and penalty receivables	3,034	(2,529)	505
Reinsurance receivables	635	-	635
Trade and other receivables	5,550	(120)	5,430
Total receivables	30,191	(5,904)	24,287

30 June 2018	Gross		Net
	receivable	Impairment	receivable
	\$m	\$m	\$m
Tax receivables	13,594	(2,035)	11,559
ACC levy receivables	2,418	(110)	2,308
Social benefit receivables	1,617	(809)	808
Other levies, fines and penalty receivables	2,855	(2,530)	325
Reinsurance receivables	236	-	236
Trade and other receivables	6,256	(107)	6,149
Total receivables	26,976	(5,591)	21,385

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate of 5.0% (2018: 5.0%).

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

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

Note 12: Receivables (continued)

	Actual	
	30 June 2019	30 June 2018
	\$m	\$m
Gross Tax Receivable		
Current	13,033	10,491
Past due	3,521	3,103
Total gross tax receivable	16,554	13,594
% past due	21.3%	22.8%
Impairment of Tax Receivables		
Opening balance	2,035	2,035
Impairment losses recognised during the year	834	619
Amounts written off as uncollectible	(527)	(619)
Closing balance	2,342	2,035
Tax Receivable Net of Impairment		
Current	13,888	11,246
Past due	324	313
Total tax receivable net of impairment	14,212	11,559
% past due	2.3%	2.7%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	946	813
Between six months and one year	421	331
Between one year and two years	633	710
Greater than two years	1,521	1,249
Total tax receivables past due (Gross)	3,521	3,103

Note 13: Marketable Securities, Deposits and Derivatives in Gain

2019 Forecast at			Actual	
Budget 2018	Budget 2019		30 June 2019	30 June 2018
\$m	\$m		\$m	\$m
		By type		
33,633	28,821	Marketable securities	32,799	40,532
4,184	3,496	Long term deposits	4,731	5,379
2,922	3,882	Derivatives in gain	4,596	3,153
1,891	2,334	IMF financial assets	2,327	2,053
42,630	38,533	Total marketable securities, deposits and derivatives in gain	44,453	51,117
		Expected Realisation		
20,512	19,771	Expected to be realised within one year	24,634	32,195
22,118	18,762	Expected to be held for more than one year	19,819	18,922
42,630	38,533	Total marketable securities, deposits and derivatives in gain	44,453	51,117

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

Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or the use of a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value.

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

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

Note 14: Share Investments

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Expected Realisation		
26,647	25,612	Expected to be realised within one year	26,907	24,109
12,697	13,655	Expected to be held for more than one year	13,708	12,147
39,344	39,267	Total share investments	40,615	36,256

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

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

Note 15: Advances

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		By type		
19,502	19,946	Kiwi Group Holdings loans and advances	20,411	18,281
9,217	10,085	Student loans	10,731	9,301
1,223	2,100	Other advances	1,915	1,840
29,942	32,131	Total advances	33,057	29,422

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

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Kiwi Group Holdings Loans and Advances		
		By maturity		
1,411	1,322	Expected to be repaid within one year	1,476	1,268
18,091	18,624	Expected to be outstanding for more than one year	18,935	17,013
19,502	19,946	Total Kiwi Group Holdings loans and advances	20,411	18,281

Kiwi Group Holdings loans and advances are measured at amortised cost. The fair value of Kiwi Group Holdings loans and advances is \$20,448 million (2018: \$18,350 million). This fair value is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

Kiwi Group Holdings loans and advances include a provision for expected credit losses of \$40 million.

Note 15: Advances (continued)

2019 Forecast at		Note	Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
Student Loans				
15,745	15,869		16,034	15,869
(6,528)	(5,784)		(5,303)	(6,568)
9,217	10,085		10,731	9,301
By maturity				
Expected to be repaid within one year			1,398	1,333
Expected to be outstanding for more than one year			9,333	7,968
Total student loans			10,731	9,301
Movement During the Year				
Opening balance			9,301	9,197
Impact of adoption NZ PBE IFRS 9		27	628	-
Net new lending (including fees)			1,361	1,336
Initial write-down to fair value			(563)	(594)
Repayments made during the year			(1,371)	(1,348)
Interest unwind		5	394	604
Movement in impairment during the year			-	106
Unwind of administration costs			36	-
Experience/actuarial adjustments:				
- Projected repayments			211	-
- Change in discount rates			734	-
Closing balance student loans			10,731	9,301

Student loans are recognised initially by writing the amount lent down to fair value. Subsequently student loans are measured at fair value through the operating balance.

Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties on an arm's-length basis.

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

Amounts recognised in the statement of financial performance in respect to student loans are as follows:

	Note	Actual	
		30 June	30 June
		2019	2018
		\$m	\$m
Interest Revenue			
Interest unwind	5	394	604
Other operating expenses			
Initial write-down to fair value		(563)	(594)
Movement in impairment during the year		-	106
Total included in other operating expenses		(563)	(488)
Net Gains/(Losses) on Financial Instruments			
Experience/actuarial adjustments: ¹			
- Projected repayments		211	-
- Change in discount rates		734	-
Unwind of administration costs		36	-
Total Net Gains/(Losses) on Financial Instruments	5	981	-

¹ The new PBE IFRS 9 accounting standard changes the student loan measurement from amortised cost to fair value, leading to gains and losses now being recognised, rather than impairment expenses.

Note 15: Advances (continued)

The student loan scheme is intended to provide a cost effective means of enabling a wide range of people to access tertiary education, gaining knowledge and skills that enhance the economic and social wellbeing of New Zealand. 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.

The Crown has early adopted PBE IFRS 9: *Financial Instruments* from 1 July 2018. As loan repayments are contingent on the income of borrowers, student loans do not meet the PBE IFRS 9 criteria for measurement at amortised cost and therefore, are now subsequently measured at fair value through the operating balance. Under the previous standard, PBE IPSAS 29, Student loans were deemed to be loans and receivables valued at amortised cost using the effective interest rate method, adjusted for impairments.

Advances and taxpayers' funds have increased by \$628 million at 1 July 2018 for the reclassification from amortised cost to fair value. The increase relates to a change in the discount rate used to present value expected repayments. Under fair value, the entire loan book is revalued using current market discount rates at each balance date. Previously, under amortised cost, market discount rates were applied for each year of lending and locked in for the duration of the loan. Refer to note 27 for further details.

The valuation of student loans is performed each year using actuarial and predictive models which reflect 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 discount rates.

	Actual	
	30 June 2019	30 June 2018
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average ¹	-	6.8%
Interest rate applied to loans for overseas borrowers	2.6%-5.0%	3.7%-5.5%
Consumer Price Index	1.4%-2.1%	1.0%-2.0%
Future salary inflation	3.0%-3.5%	2.9%-3.3%
Discount rate ¹	4.4%	-

- ¹ Under amortised cost the effective interest rate is determined using market discount rates applying for each year of the lending, which are locked in for the duration of the loan. Under fair value the discount rate reflects the market rate as at 30 June 2019.

The table below outlines the sensitivity of student loans fair value to discount rates

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Impact on fair value of a 1% increase in discount rate	(580)	(520)
Impact on fair value of a 1% decrease in discount rate	648	579

Through 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 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 16: Property, Plant and Equipment

	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
For the year ended 30 June 2019											
Gross carrying amount											
Opening balance 1 July 2018	175,377	52,693	39,109	31,702	16,124	5,850	4,686	4,373	3,492	2,418	14,930
Additions	9,523	906	3,549	2,051	115	271	682	546	36	324	1,043
Disposals	(1,157)	(131)	(135)	(78)	(1)	(18)	(31)	(4)	(11)	-	(748)
Net revaluations	9,611	1,994	39	3,512	1,045	-	(350)	(42)	(278)	3,691	-
Transfers from/(to) other asset classes	(110)	(136)	(40)	35	-	-	-	-	-	-	31
Other	(30)	11	(41)	-	(31)	-	6	-	-	2	23
Total gross carrying amount	193,214	55,337	42,481	37,222	17,252	6,103	4,993	4,873	3,239	6,435	15,279
Accumulated Depreciation and Impairment											
Opening balance 1 July 2018	16,359	-	1,930	-	246	1,753	-	1,189	354	1,230	9,657
Eliminated on disposal	(789)	-	(14)	-	-	(15)	(7)	(3)	(9)	-	(741)
Eliminated on transfer to other asset classes	(2)	-	-	-	-	-	-	-	-	-	(2)
Eliminated on revaluation	(2,452)	-	(1,925)	(497)	(739)	-	(338)	-	(282)	1,329	-
Impairment losses charged to operating balance	(2,516)	-	(4)	-	3	-	-	-	-	(2,576)	61
Depreciation expense	4,557	-	1,682	497	508	192	345	334	26	45	928
Other	32	-	38	-	(5)	-	-	-	-	-	(1)
Total accumulated depreciation and impairment	15,189	-	1,707	-	13	1,930	-	1,520	89	28	9,902
Carrying value as at 30 June 2019	178,025	55,337	40,774	37,222	17,239	4,173	4,993	3,353	3,150	6,407	5,377
By holding											
Leasehold	3,060	1	241	-	2	-	2,787	-	-	-	29
Public Private Partnerships	2,963	339	1,308	1,316	-	-	-	-	-	-	-
Freehold (excluding PPP)	172,002	54,997	39,225	35,906	17,237	4,173	2,206	3,353	3,150	6,407	5,348
Carrying value as at 30 June 2019	178,025	55,337	40,774	37,222	17,239	4,173	4,993	3,353	3,150	6,407	5,377

The total amount of property, plant and equipment under construction is \$3,805 million (2018: \$3,456 million).

The opening balance has been restated for specified cultural and heritage assets to match the prior year restatement described on the next page.

Note 16: Property, Plant and Equipment (continued)

	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
For the year ended 30 June 2018											
Gross carrying amount											
Opening balance 1 July 2017	160,631	49,640	36,491	23,829	15,875	5,666	4,112	4,042	3,677	2,021	15,278
Additions	8,966	708	2,886	2,232	315	216	669	344	38	398	1,160
Disposals	(1,864)	(167)	(229)	(11)	(1)	(31)	(26)	(13)	(3)	-	(1,383)
Net revaluations	7,697	2,491	(47)	5,651	(81)	-	(98)	24	(243)	-	-
Transfers from/(to) other asset classes	93	134	72	-	-	-	(28)	-	-	-	(85)
Other	(146)	(113)	(64)	1	16	(1)	57	(24)	23	(1)	(40)
Total gross carrying amount	175,377	52,693	39,109	31,702	16,124	5,850	4,686	4,373	3,492	2,418	14,930
Accumulated Depreciation and Impairment											
Opening balance 1 July 2017	16,081	-	1,836	-	9	1,586	-	923	580	1,082	10,065
Eliminated on disposal	(1,490)	-	(113)	-	-	(28)	(2)	(33)	(3)	-	(1,311)
Eliminated on transfer to other asset classes	(71)	-	(25)	-	-	-	(28)	-	-	-	(18)
Eliminated on revaluation	(2,530)	-	(1,347)	(383)	(267)	-	(286)	-	(251)	-	4
Impairment losses charged to operating balance	103	-	-	-	-	-	-	-	-	112	(9)
Depreciation expense	4,275	-	1,587	383	505	195	316	304	26	35	924
Other	(9)	-	(8)	-	(1)	-	-	(5)	2	1	2
Total accumulated depreciation and impairment	16,359	-	1,930	-	246	1,753	-	1,189	354	1,230	9,657
Carrying value as at 30 June 2018	159,018	52,693	37,179	31,702	15,878	4,097	4,686	3,184	3,138	1,188	5,273
By holding											
Leasehold	3,318	-	229	-	2	-	3,060	-	-	-	27
Public Private Partnerships	2,152	224	1,073	855	-	-	-	-	-	-	-
Freehold (excluding PPP)	153,548	52,469	35,877	30,847	15,876	4,097	1,626	3,184	3,138	1,188	5,246
Carrying value as at 30 June 2018	159,018	52,693	37,179	31,702	15,878	4,097	4,686	3,184	3,138	1,188	5,273

Comparatives have been restated for specified cultural and heritage assets to align the treatment of accumulated depreciation on revaluation with the Crown's accounting policy.

Note 16: Property, Plant and Equipment (continued)

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

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

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

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

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

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

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

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

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

Class of PPE	Accounting policy
Land and buildings	<p>Land and buildings are recorded at fair value and, for buildings, less depreciation and impairment accumulated since the assets were last revalued.</p> <p>Land associated with the rail network and state highways is valued using an estimate based on adjacent use, as an approximation to fair value.</p> <p>Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where applicable.</p> <p>Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer.</p> <p>When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.</p>
Specialist military equipment	<p>Specialist military equipment is recorded on an optimised depreciated replacement cost basis less depreciation and impairment accumulated since the assets were last revalued.</p> <p>Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.</p>
State highways	<p>State highways are recorded on an optimised depreciated replacement cost basis representing the cost of replacing the network asset in its current condition.</p>

Note 16: Property, Plant and Equipment (continued)

Class of PPE	Accounting policy
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.
Typically, the estimated useful lives of different classes of PPE are as follows:	
Class of PPE	Estimated useful lives
Buildings	25 to 150 years
Electricity distribution network	2 to 80 years
Other plant and equipment	3 to 30 years

Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no PPE owned by the Crown has been pledged as security for liabilities. Government-owned PPE is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal. PPE owned by State-owned Enterprises and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of \$3,691 million (2018: \$3,761 million).

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Property, plant and equipment revaluation reserve		
Opening revaluation reserve	94,750	84,164
Net revaluations	12,473	10,668
Minority interest share of revaluation reserve	(589)	(70)
Transfers from/(to) taxpayer funds	(132)	(12)
Closing revaluation reserve	106,502	94,750
Class of Asset		
Land	41,437	39,366
Buildings	25,767	23,824
State highways	22,478	18,469
Electricity generation assets	11,965	10,774
Specified cultural and heritage assets	1,535	1,520
Specialist military equipment	561	448
Rail network	2,388	11
Other reserves	371	338
Closing revaluation reserve	106,502	94,750

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 83 and 84.

Note 16: Property, Plant and Equipment (continued)**Land and Buildings****Breakdown of land and buildings
(total valuation over \$500m)****30 June 2019**

	Land \$m	Actual Buildings \$m	Total \$m
Housing stock	18,819	11,407	30,226
School property	5,772	13,627	19,399
State highway corridor land	13,745	6	13,751
Hospitals	1,230	5,968	7,198
Conservation estate	6,630	66	6,696
Rail network corridor land	3,516	-	3,516
Prisons and Department of Corrections	185	3,282	3,467
Defence Force land and buildings	1,002	2,010	3,012
Landcorp farmland and buildings	1,073	153	1,226
Ministry of Justice land and buildings	248	942	1,190
Fire Stations	311	399	710
Police stations	241	367	608
Other	2,565	2,547	5,112
Total land and buildings	55,337	40,774	96,111

30 June 2018

	Land \$m	Actual Buildings \$m	Total \$m
Housing stock	18,301	10,196	28,497
School property	5,709	13,083	18,792
State highway corridor land	12,351	7	12,358
Hospitals	1,202	5,493	6,695
Conservation estate	6,063	63	6,126
Rail network corridor land	3,522	-	3,522
Prisons and Department of Corrections	178	2,288	2,466
Defence Force land and buildings	982	1,735	2,717
Landcorp farmland and buildings	1,117	152	1,269
Ministry of Justice land and buildings	239	897	1,136
Fire Stations	296	362	658
Police stations	241	351	592
Other	2,492	2,552	5,044
Total land and buildings	52,693	37,179	89,872

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

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value Limited	Valuations based on market evidence using sales comparison data.	Annual valuation with the latest completed in the 30 June 2019 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 2019.
State highway corridor land and held properties	Darroch Ltd, a registered property valuation company, peer reviewed by WSP Opus with NZ Transport Agency (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 optimised depreciated replacement cost was used.	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 1-9 years. The latest valuation and indexation was completed as at 30 June 2019.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Quotable Value Limited rateable valuations reviewed by Logan Stone Limited	Valued based on current year rateable valuations from Quotable Value Limited. Land not matched to a rateable valuation was assessed using a calculated average per hectare rate. Land that is not subject to a full valuation in the current year is subject to a valuation update through the use of price indices from CoreLogic.	Annual valuation with the latest completed as at 30 June 2019.
Hospitals	Each District Health Board uses an independent valuer	Land values and non-specialised properties were based on market evidence while buildings were valued at ODRC.	Each DHB revalues land and buildings on a two to five year cycle with varying valuation dates.
New Zealand Railways Corporation rail corridor land	Jones Lang LaSalle Limited (JLL)	Land associated with the rail corridor was valued using an opportunity cost based on adjacent use, as an approximation to fair value.	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest full valuation completed as at 30 June 2017.
Prisons and Department of Corrections	Beca Limited	Prison complex assets considered to be specialised assets are valued using a cost approach with the land component valued using a market approach. Other non-specialised land and buildings are valued using income, market and cost approaches as appropriate.	Valuations are completed at least once every three years with the latest completed as at 30 June 2019.
NZ Defence Force Land and Buildings	WSP Opus	Valued using market based approaches for buildings outside defence areas and land. An index/ODRC method has been used for buildings inside defence areas.	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed as at 30 June 2019.

Note 16: Property, Plant and Equipment (continued)**Carrying value of other asset classes subject to revaluation****State Highways (excluding land)**

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
State highways	37,222	31,702
State Highway Components	2019 \$m	2018 \$m
Formation	14,193	11,497
Pavement (structure)	6,285	6,099
Pavement (surface)	1,039	878
Bridges	8,067	7,431
Drainage	1,770	1,564
Traffic Facilities	1,451	1,383
Culverts and subways	738	762
Other structures	3,679	2,088
Total	37,222	31,702

Accounting policy	Estimated useful lives
State highways are recorded on an ODRC basis representing the cost of replacing the network asset in its current condition. The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation). The estimated current cost is expected to change over time.	Formation – Permanent Pavement structure (subbase) – Permanent Pavement structure (base course) – 50 years Pavement surface – 9 to 14 years Bridges 90 to 100 years

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities.	WSP Opus	State Highways are valued using the ODRC of the existing asset database.	A full valuation is completed annually where the majority of assets are indexed. The latest valuation was completed as at 30 June 2019.

WSP Opus, an independent valuer, determined the valuation of the state highway as at 30 June 2019 by assigning replacement costs to the components of the state highway reported in the Road Assessment and Maintenance Management (RAMM) database and other databases as at 30 June 2018. The net capital expenditure for the year to 30 June 2019 was added to this data. The costs assigned are adjusted depending on the region and the type of terrain. The replacement cost is also adjusted for depreciation to reflect the current age and condition of the physical components. The major components of the state highway network and the optimised depreciated replacement cost of those components are shown in the table above.

State highway net revaluations increased by \$3.5 billion in 2018/19. This was driven by NZTA's continuing valuation improvement programme and changes in estimates and assumptions including updates by an independent cost estimator (BondCM). The two most significant areas of uplift are:

- unit prices applied to formation costs were reviewed and some carriageways were reclassified to more appropriate formation terrain types for recently completed projects. This resulted in an uplift of \$1.8 billion, and
- the inclusion of a unit rate for brownfield costs applied to the overhead rate resulted in an uplift of \$1.2 billion.

Note 16: Property, Plant and Equipment (continued)

Significant estimates and assumptions have been applied to the valuation, which include assumptions on: quantities used in the construction of state highway components, the unit cost to apply and the life of the assets. Changes to these underlying estimates and assumptions can cause a material movement in the valuation and are reviewed on a periodic basis. The main assumptions affecting the state highway valuation are:

	2019	2018
Asset Lives		
Formation	Permanent	Permanent
Pavement structure – subbase	Permanent	Permanent
Pavement structure – base course	50 years	50 years
Pavement surface	9-14 years	9 years
Bridges	90-100 years	90-100 years
Overhead Factors		
Professional Fees	15%	15%
Preliminary & general costs	35%	34%
Formation		
\$ per square metre cost in flat terrain	\$23	\$24-\$43
\$ per square metre cost in rolling terrain	\$67	\$40-\$60
\$ per square metre cost in mountainous terrain	\$127	\$65-\$92
Pavement		
Asphalt (\$/m ²)	\$26-\$108	\$34.70
Chipseal (\$/m ²)	\$7-\$8	\$7.50
Bridges		
Routine (single span) (\$/m ²)	\$4,199	\$3,961
Routine (multi span) (\$/m ²)	\$3,431	\$3,237
Motorway ramps (\$/m ²)	\$4,967	\$4,686

The range of costs in the above table reflect regional variation and the differing costs of construction depending on terrain.

In addition, assumptions are made about the completeness of the RAMM database. These assumptions are used in determining additional items to be added so the complete network is valued. RAMM also contains assumptions to ensure appropriate allocation of all assets by region and terrain type, and on matters such as base course depth, subbase depth, shoulder formation, base course and retaining walls.

The following sensitivity analysis represents possible impacts on the state highway network valuation based on changes to estimates.

Movement	2019 (\$m)	2018 (\$m)
External professional fees from 12% to 13.15% (2018: from 12% to 22%) ²	188	2,688
Preliminary & general costs from 34.3% to 37.7%	931	788
Formation unit costs increase or decrease by 10%	1,288/(1,288)	1,064/(1,064)
Unit costs of bridges, culverts, pavements, railings and barriers increase or decrease by 10%	1,613/(1,613)	1,522/(1,522)
Brownfield costs increase or decrease by 10% (new sensitivity in 2018/19)	124/(124)	N/A ³

WSP Opus has performed simulation analysis on the valuation to quantify the range of valuation outcomes that could occur as a result of changes in the different valuation inputs.

WSP Opus has concluded that the overall valuation is between -7.5% to +10% of the current value (-\$2.8 billion to +\$3.7 billion).

² The 2018/19 sensitivity range was updated to reflect a more expected change in the assumption

³ This is a new sensitivity in 2018/19. 2018/19 was the first year an overhead rate has been applied for brownfield costs.

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Meridian Energy	8,747	7,845
Mercury NZ	5,347	5,216
Genesis Energy	3,308	2,980
Inter segment eliminations	(163)	(163)
Total electricity generation assets	17,239	15,878

Accounting policy	Estimated useful lives
Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.	25 to 100 years

Valuation and sensitivity information

Description	Valuer/Reviewer	Approach	Timing
Meridian Energy: Hydro stations and wind farms	PwC, Independent valuer	Based on an income valuation approach based primarily on the capitalisation of earnings with additional consideration of the discounted cash flows to establish a valuation range on which the Board's ultimate valuation decision is based.	Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values as at 30 June 2019.
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 2019.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation	Based on the present value of estimated future cash flows of the assets.	Valuations are performed with sufficient regularity to ensure the carrying amount does not materially differ from the estimated fair value at balance date. The latest valuation being as at 30 June 2019.

There are a number of key assumptions used to value electricity generation assets. These judgements and assumptions predominantly relate to future revenue streams (eg, wholesale electricity prices, generation volumes) and operating expenses, as well as the discount rate used to calculate the present value of those revenues and expenses.

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

There are a range of reasonable judgements and assumptions that could be used in estimating the fair value of these assets. These key assumptions are subject to significant uncertainties driven by unobservable market data, such as growth expectations within various sectors of the economy, planned capital projects and varying risk factors. These assumptions interact dynamically with each other. For example, wholesale electricity prices can affect the amount of generation volumes and operating costs.

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

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
NZ Generation volumes	13,520 GWh p.a to 15,500 GWh p.a	+/- 250 GWh	\$240 million / (\$240) million
Operating expenditure	\$291 million p.a. (in real terms)	+/- \$10 million p.a.	\$153 million / (\$153) million
EBITDAF earnings multiple	12.6 x EBITDAF	+/- 0.5x	\$395 million / (\$395) million

Genesis Energy

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
Wholesale electricity price path	\$91/MWh to \$127/MWh referenced to the Otahuhu 220KV location node from July 2019 to July 2039 (in nominal terms)	+/- 10%	\$579 million / (\$579) million
Generation volume	2,820 GWh to 6,732 GWh per annum, the low end of the range relates to periods where there is no thermal generation	+/- 10%	\$415 million / (\$415) million
Discount rate	Pre-tax equivalent discount rate of 9.9%	+/- 1%.	(\$334) million / \$387 million

Mercury NZ

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
Future wholesale electricity price path	\$75/MWh to \$106/MWh (in real terms)	+/- 10%	\$833 million / (\$837) million
Discount rate	Post-tax discount rate between 7.2% to 7.6%	+/- 0.5%	\$(531) million / \$641 million
Operational expenditure	\$158 million p.a.	+/- 10%	(\$235) million / \$235 million

For further information on the valuation of electricity generations assets, refer to the individual annual reports of each entity.

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
National Library	1,059	1,056
Te Papa	942	947
National Archives	628	625
Conservation	460	449
Other	61	61
Total specified cultural and heritage assets	3,150	3,138

Accounting policy	Estimated useful lives
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.	5 to 100 years except for Te Papa collections that have indefinite life and are generally of not depreciable nature.

Valuation information

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Ashley and Associates	The collection was divided into categories by format to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2017.
Te Papa collections	Art: Art & Object Library, History, Matarauunga Māori, Pacific and International and Photography: Dunbar Sloane Philatelic: Mowbray Collectables Natural History Dunbar Sloane & internal experts	Art, Library, History, Matarauunga 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 and based on market value by independent valuers where available.	Valuations completed cyclically with all collections valued at least once every three years with the latest valuations completed as at 30 June 2019.
National Archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature. Documents of exceptional value (including Treaty of Waitangi) are valued independently based on overseas market research.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2017.

Note 16: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
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 structures, camping grounds and amenity areas and carparks, signs, fences and infrastructure assets were valued at fair value effective as at 30 June 2019.

Rail network

Carrying value of the rail network

30 June 2018			30 June 2019		
Recoverable amount \$m	ODRC \$m	Carrying value \$m	Recoverable amount \$m	ODRC \$m	Carrying value \$m
186	5,331	186	154	5,428	5,428
20	871	871	16	836	836
206	6,202	1,057	170	6,264	6,264
		41 Buildings			54
		90 Capital work in progress			89
		1,188			6,407
		Rail network			

Accounting policy	Estimated useful lives
The Rail Network is recorded on an ODRC basis representing the cost of replacing the network asset in its current condition. This is a change from the approach in previous years (see explanation below). The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation). The estimated current cost is expected to change over time.	Track and ballast – 40 to 50 years Tunnels and bridges – 75 to 200 years Overhead traction and Signalling – 15 to 80 years

Description	Valuer/Reviewer	Approach	Timing
Buildings, tracks, sleepers, bridges, yards, loops and sidings, turnouts, tunnels, signalling, electrification assets	Buildings – Jones Lang LaSalle Limited Other Rail Network Assets – Ernst & Young	Non-specialised building assets not on the rail corridor were valued based on market evidence using comparable sales. Specialised building assets and buildings on rail corridor land were valued using ODRC. The Rail Network is valued using the ODRC of the existing asset database. Recoverable amount information is also obtained	A full valuation is completed annually where the majority of assets are indexed. The latest valuation was completed as at 30 June 2019.

Note 16: Property, Plant and Equipment (continued)

Rail Network Component	2019 \$m	2018 \$m
Tunnels	2,066	2,058
Bridges	1,425	1,411
Rail (includes allowance for formation)	682	678
Sleepers	746	798
Electrification	605	503
Other	740	754
Total	6,264	6,202

The rail network comprises around 3,700 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.

Since the restructuring of KiwiRail as a profit-oriented entity in 2012, the rail network infrastructure used for freight services (including dual use assets required for freight operations) has been measured at fair value, reflecting the recoverable 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 were 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.

Last year's financial statements reported that the Government had initiated a Review of Rail, recognising the challenges in making investment decisions, marrying the duality of commercial "for profit" activities that align with an SOE's commercial mandate with other "public benefit" activities that deliver social benefits rather than commercial returns, and integrating relatively short-term funding commitments with prudent investment decisions for long-life assets such as rail infrastructure. The findings of the Review of Rail were reported to Ministers in May 2019, who noted that all rail, including freight, contributes to national and regional economic growth and reduces emissions and congestion, reduces road deaths and injuries, facilitates wider social benefits, and provides resilience and connection between communities. The report also noted the necessity of continued commercial disciplines and focus of KiwiRail to support efficiency in asset management, and to drive commercial returns from the provision of freight, property and tourism operations. Cabinet agreed in principle to a resilient and reliable rail system to deliver on the outcomes for transport and wider benefits the Government seeks, and budget decisions were taken on that basis.

As a consequence it is no longer appropriate at the whole-of-government level to reflect the rail freight network as a cash generating asset (ie, at its recoverable amount) given the wider reasons for the Crown's investment in the rail infrastructure. This changed view at a whole-of-government level does not affect the treatment of the assets in the financial statements of KiwiRail itself, as it remains a profit-oriented entity.

The impact is to increase the value to \$6.3 billion, compared to a value of \$1.0 billion that would be reported on the previous basis. In 2012, when the previous approach was adopted, an impairment expense of \$1.4 billion was recorded in OBEGAL. Of the \$5.2 billion increase in valuation this year, the accounting treatment reinstating the ODRC approach resulted in a \$2.3 billion increase to the revaluation reserves and a \$2.6 million reversal of impairment expense in the Statement of Financial Performance which includes the loss of \$1.4 billion recorded in 2012. The Statement of Financial Performance impact is disclosed in note 9.

Note 16: Property, Plant and Equipment (continued)**Other significant classes of PPE*****Specialist military equipment***

Accounting policy	Estimated useful lives
Specialist military equipment is recorded on an ODRC basis less depreciation accumulated since the assets were last revalued.	5 to 55 years

Description	Valuer/Reviewer	Approach	Timing
Specialist military equipment	Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by the Australian Defence Force.	Valued using an ODRC method.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2018.

Aircraft (excluding specialised military)

Accounting policy	Estimated useful lives
Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.	10 to 20 years

Aircraft (excluding military)

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 2019.

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

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Transmission Gully	854	603
Education Assets	599	503
Auckland South Corrections Facility	344	310
Auckland Prison	361	359
Waikeria Corrections Facility	212	-
Puhoi to Warkworth State Highway	593	377
Total public private partnerships	2,963	2,152
Carrying value of assets by source		
Provided by private sector partner	2,624	1,895
Existing government assets	339	257
Total public private partnerships	2,963	2,152

Movements in carrying value for Public Private Partnerships

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Gross carrying amount		
Opening balance 1 July	2,174	1,643
Assets provided by private sector partner(s)	705	545
Existing Government assets	71	15
Net revaluations	17	(30)
Other	11	1
Total Gross Carrying Amount	2,978	2,174
Accumulated Depreciation and Impairment		
Opening balance 1 July	22	7
Eliminated on revaluation	(44)	(9)
Depreciation expense	37	24
Total accumulated depreciation	15	22
Carrying value as at 30 June	2,963	2,152

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

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

Note 17: Equity Accounted Investments

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
12,309	12,622	Tertiary Education Institutions	13,024	12,505
1,608	1,901	Kaingaroa Timberlands Partnership	1,830	1,885
686	386	City Rail Link Limited	347	307
781	820	Other	908	719
15,384	15,729	Total equity accounted investments	16,109	15,416

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

The Treasury's view is that because the Government cannot determine the operating and financing policies of tertiary education institutions, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates. City Rail Link and Kaingaroa Timberlands Partnership are joint operations or ventures that the Government jointly controls with its joint venture partners.

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.

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

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
Operating Results				
2,675	2,486	Revenue from Crown	2,480	2,461
2,692	2,822	Other revenue	2,903	2,714
(5,236)	(5,242)	Expenses	(5,229)	(5,226)
131	66	Net surplus	154	(51)
Assets				
1,301	1,756	Financial assets	2,056	2,039
12,212	12,339	Property, plant and equipment	12,323	11,675
1,299	1,107	Other assets	1,202	1,436
14,812	15,202	Total assets	15,581	15,150
Liabilities				
728	361	Borrowings	418	399
1,775	2,219	Other liabilities	2,139	2,246
2,503	2,580	Total liabilities	2,557	2,645
12,309	12,622	Net worth	13,024	12,505

Kaingaroa Timberlands Partnership

The New Zealand Superannuation Fund has a 42% ownership interest (2018: 42%) in Kaingaroa Timberlands Partnership (KTP). For the year ended 30 June 2019, KTP recognised revenue of \$604 million (2018: \$555 million), profit of \$341 million (2018: \$1,033 million), assets of \$4,723 million (2018: \$4,701 million), liabilities of \$36 million (2018: \$33 million) and equity of \$4,688 million (2018: \$4,668 million).

Note 17: Equity Accounted Investments (continued)**City Rail Link Limited**

City Rail Link Limited (CRL) is a jointly controlled Crown entity company, co-funded by the Crown and Auckland Council, for the purpose of designing and constructing of the Auckland City Rail Link (an underground rail line between the city centre and the existing western line). Following a cost reforecast, and a scope change to futureproof for forecast patronage growth, the expected costs of the project are \$4.4 billion, which will be confirmed once all the contracts are finalised. The Government's share of costs is \$2.2 billion.

For the year ended 30 June 2019, CRL recognised revenue of \$4 million (2018: \$3 million), a deficit of \$25 million (2018: \$8 million), assets of \$721 million (2018: \$625 million), liabilities of \$27 million (2018: \$11 million) and equity of \$694 million (2018: \$614 million).

The Crown also recognises a 50% share of capital commitments held by CRL of \$152 million (2018: \$128 million).

New Zealand Local Government Funding Agency (NZLGFA) (included in Other)

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

For the year ended 30 June 2019, NZLGFA recognised revenue of \$361 million (2018: \$343 million) and a surplus of \$11 million (2018: \$12 million). NZLGFA's assets were \$10,382 million (2018: \$8,835 million) and liabilities were \$10,308 million (2018: \$8,771 million). The Crown's share of the net assets is \$15 million (2018: \$13 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

Note 18: Payables

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		By type		
9,147	8,485	Accounts payable ¹	11,430	9,676
4,337	5,241	Taxes repayable	6,293	5,201
13,484	13,726	Total payables	17,723	14,877
		By maturity		
12,850	13,140	Expected to be settled within one year	16,848	13,721
634	586	Expected to be outstanding for more than one year	875	1,156
13,484	13,726	Total payables	17,723	14,877

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.

¹ The June 2018 actuals for accounts payable have been restated to include an amount previously categorised as a provision to align with the classification in June 2019.

Note 19: Borrowings

2019 Forecast			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		By type		
59,505	58,701	Government bonds	56,874	62,393
17,262	17,033	Kiwi Group Holdings customer deposits	18,231	16,160
7,063	6,713	Settlement deposits with Reserve Bank	6,891	7,603
2,694	2,784	Derivatives in loss	3,954	5,067
1,937	3,312	Treasury bills	3,455	4,114
2,351	2,537	Finance lease liabilities	1,328	1,318
183	177	Government retail stock	169	182
21,895	20,800	Other borrowings	19,575	18,815
112,890	112,057	Total borrowings	110,477	115,652
		By maturity		
35,125	36,017	Expected to be settled within one year	40,553	47,472
77,765	76,040	Expected to be outstanding for more than one year	69,924	68,180
112,890	112,057	Total borrowings	110,477	115,652
		By guarantee		
77,510	76,759	Sovereign-guaranteed debt	74,946	83,230
35,380	35,298	Non-sovereign debt	35,531	32,422
112,890	112,057	Total borrowings	110,477	115,652

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.

Government Bonds

Government bonds are measured at amortised cost.

The fair value of Government bonds measured at amortised cost is \$66,454 million (2018: \$67,289 million). This valuation is based on observable market prices.

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

Note 19: Borrowings (continued)**Kiwi Group Holdings customer deposits**

Kiwi Group Holdings 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 Kiwi Group Holdings customer deposits measured at amortised cost is \$18,255 million (2018: \$16,172 million). For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

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

Settlement deposits with Reserve Bank

Settlement deposits with the Reserve Bank represent the amount 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.

Derivatives in loss

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

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.

Other borrowings

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Other borrowings measured at amortised cost	15,154	13,655
Other borrowings measured at fair value	4,421	5,160
Total other borrowings	19,575	18,815

Other borrowings held for trading or designated at fair value through the operating balance (to avoid an accounting mismatch) are measured at fair value. The movements in fair value are reported in the statement of financial performance, except for other borrowings designated as fair value where the changes in own credit risk are included in other comprehensive revenue and expenses.

All other borrowings are reported at amortised cost.

Other borrowings includes \$3,066 million (2018: \$3,090 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

Note 19: Borrowings (continued)

The fair value of other borrowings measured at amortised cost is \$15,285 million (2018: \$13,624 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets was determined by reference to quoted market prices. Where such prices are not available, use is made of estimated discounted cash flow models with reference to market interest rates.

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Other borrowings measured at fair value		
Carrying value	4,421	5,160
Amount payable on maturity	4,138	5,016
Fair value impact from changes in credit risk for the year	(12)	(19)
Cumulative fair value impact from changes in credit risk	83	95

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

Of the other borrowings measured at fair value, \$4,060 million (2018: \$4,261 million) was designated as such to prevent an accounting mismatch because this debt and associated derivatives are managed as one integrated portfolio.

Note 20: Retirement Plan Liabilities

2019 Forecast at			Actual	
Budget 2018 \$m	Budget 2019 \$m		30 June 2019 \$m	30 June 2018 \$m
9,985	11,411	Government Superannuation Fund (GSF)	13,161	10,988
2	3	Other funds	18	3
9,987	11,414	Total retirement plan liabilities	13,179	10,991

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 has been closed to new members since 1 July 1992.

The GSF obligation has been calculated by GSF's actuary as at 30 June 2019. 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.

Note 20: Retirement Plan Liabilities (continued)

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Net GSF Obligation		
Present value of defined benefit obligation	17,692	15,558
Fair value of plan assets	(4,531)	(4,570)
Present value of unfunded defined benefit obligation	13,161	10,988
Present value of defined benefit obligation		
Opening defined benefit obligation	15,558	15,272
Expected current service cost	60	65
Expected unwind of discount rate	270	293
Actuarial losses/(gains)	2,697	810
Benefits paid	(893)	(882)
Closing defined benefit obligation	17,692	15,558
Fair value of plan assets		
Opening fair value of plan assets	4,570	4,268
Expected return on plan assets	220	209
Actuarial gains/(losses)	(62)	257
Funding of benefits paid by Government	702	719
Contributions from other entities	16	17
Contributions from members	23	26
Benefits paid	(893)	(882)
Other	(45)	(44)
Closing fair value of plan assets	4,531	4,570

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

2019 Forecast at			Actual	
Budget 2018 \$m	Budget 2019 \$m		30 June 2019 \$m	30 June 2018 \$m
		Personnel Expenses		
		Expected current service cost	60	65
		Expected unwind of discount rate on GSF obligation	270	293
		Expected return on plan assets	(220)	(209)
		Contributions from members and funding employers	(39)	(43)
		Other expenses	45	44
		Past service cost	-	-
122	159	Total included in personnel expenses	116	150
		Net (Gains)/Losses on Non-Financial Instruments		
-	1,017	Actuarial (gain)/loss recognised in the year	2,759	553
122	1,176	Total GSF expense	2,875	703

The Government expects to make a contribution of \$711 million (2018: \$727 million in the year ending 30 June 2019) to GSF in the year ending 30 June 2020. 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.

Note 20: Retirement Plan Liabilities (continued)

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

	Actual	
	30 June 2019 %	30 June 2018 %
Summary of assumptions		
<i>For following year</i>		
Discount rate	1.3%	1.8%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation	1.7%	1.7%
<i>Beyond next year</i>		
Discount rates between 2 and 21 years	1.0% to 2.7%	1.9% to 4.0%
Discount rates between 22 and 29 years	2.8% to 3.1%	4.0% to 4.4%
Discount rates between 30 and 36 years	3.2% to 3.5%	4.4% to 4.7%
Discount rates between 37 and 52 years	3.5% to 4.3%	4.8%
Discount rate from 53 years onwards	4.3%	4.8%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation from years 2 to 18	1.7%	1.7%

Assumed inflation increases of 1.7% each year to year 18, then gradually increases, reaching 2.0% in year 52.

The defined benefit obligation increased in the year to 30 June 2019 by \$2,134 million, mainly due to a decrease in the short and medium term discount rates over the last year.

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 4.30% based on macroeconomic extrapolation. Discount rates are then smoothed over a minimum of 10 years from the end of the market yield curve to that long-term rate.

Note 20: Retirement Plan (continued)

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Equity instruments	3,053	3,023
Other debt instruments	419	599
Cash and short term investments	279	313
Property	1	3
Other	779	632
Fair value of plan assets	4,531	4,570

The expected rate of return on the plan assets of 5.0% (2018: 5.0%) has been calculated by taking the expected long-term returns from each asset class, reduced by tax (using the current rates of tax).

The actual return on plan assets for the year ended 30 June 2019 was 3.6%, or \$161 million (2018: 11.1% or \$466 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 2019 \$m	30 June 2018 \$m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(1,971)	(1,601)
	- 1%	2,407	1,935
Share price (fair value of equity instruments)	+ 10%	(305)	(302)
	- 10%	305	302
Expected rate of inflation	+ 1%	2,202	1,785
	- 1%	(1,857)	(1,516)

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

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

	30 June 2019 \$m	30 June 2018 \$m	Actual 30 June 2017 \$m	30 June 2016 \$m	30 June 2015 \$m
Present value of defined benefit obligation	17,692	15,558	15,272	16,406	14,932
Fair value of plan assets	(4,531)	(4,570)	(4,268)	(3,965)	(4,087)
Present value of unfunded defined benefit obligation	13,161	10,988	11,004	12,441	10,845
Experience adjustment - increase/(decrease) in plan assets	(62)	257	289	(182)	325
Less experience adjustment - increase/(decrease) in plan liabilities	37	(16)	(90)	184	157
Total experience adjustments - (losses)/gains	(99)	273	379	(366)	168
Changes in actuarial assumptions	(2,660)	(826)	585	(1,662)	(490)
Actuarial (losses)/gains recognised in the year	(2,759)	(553)	964	(2,028)	(322)

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of \$17,692 million (2018: \$15,558 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 2019. These estimated cash flows include the effects of assumed future inflation.

	30 June 2019 \$m	30 June 2018 \$m
No later than 1 year	920	923
Later than 1 year and no later than 2 years	917	918
Later than 2 years and no later than 5 years	2,750	2,759
Later than 5 years and no later than 10 years	4,469	4,496
Later than 10 years and no later than 15 years	4,100	4,145
Later than 15 years and no later than 20 years	3,478	3,554
Later than 20 years and no later than 25 years	2,712	2,804
Later than 25 years and no later than 30 years	1,941	2,039
Later than 30 years and no later than 35 years	1,261	1,351
Later than 35 years and no later than 40 years	731	803
Later than 40 years and no later than 45 years	369	419
Later than 45 years and no later than 50 years	154	184
Later than 50 years	61	80
Undiscounted defined benefit obligation	23,863	24,475

Note 21: Provisions

2019 Forecast at		Actual	
Budget	Budget	30 June	30 June
2018	2019	2019	2018
\$m	\$m	\$m	\$m
By type			
3,510	3,679	4,582	3,677
2,357	2,671	2,884	2,541
751	782	879	835
-	-	268	265
-	-	150	-
1,855	2,096	1,601	1,364
8,473	9,228	10,364	8,682
Total provisions			
By longevity			
3,904	3,780	4,419	3,539
4,569	5,448	5,945	5,143
8,473	9,228	10,364	8,682
Total provisions			

For the year ended 30 June 2019

	Employee entitlements	ETS	NPF guarantee	Aircraft lease return costs
	\$m	\$m	\$m	\$m
Opening Provision	3,677	2,541	835	265
Additional Provision	2,585	543	-	94
Provision Utilised	(1,490)	(425)	(67)	(83)
Reversal of previous provision	(190)	-	(80)	(9)
(Gains) / Losses on NZ Units	-	225	-	-
Other Movements	-	-	191	1
Closing Provision	4,582	2,884	879	268

For the year ended 30 June 2018

	Employee entitlements	ETS	NPF guarantee	Aircraft lease return costs
	\$m	\$m	\$m	\$m
Opening Provision	3,582	2,028	856	266
Additional Provision	1,927	720	-	86
Provision Utilised	(1,533)	(669)	(69)	(86)
Reversal of previous provision	(150)	-	(57)	(11)
(Gains) / Losses on NZ Units	-	462	-	-
Other Movements	(149)	-	105	10
Closing Provision	3,677	2,541	835	265

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.

- 1 The June 2018 actuals for other provisions has been restated to remove an accounts payable amount previously categorised as a provision to align with the classification in June 2019.

Note 21: Provisions (continued)**Employee entitlements**

The provision for employee entitlements represents annual leave, accrued long service leave, retiring leave and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates applied rise from 1.26% (2018: 1.78%) next year to 4.30% (2018: 4.75%) in later years.

This balance also includes a provision for compliance with the Holidays Act 2003. A number of entities have commenced or completed a review of calculations in recent years in order to ensure compliance with the legislation. Where possible, a provision has been made in these financial statements for obligations arising from those reviews or settlements that have been made in the current or previous years. These estimates and assumptions may differ to the actual results as further work is completed and could result in further adjustments to the carrying amount of the provision in the next financial year. While District Health Boards have recognised a Holidays Act 2003 provision, an indicative range for the final liability could be between \$550 million and \$650 million. To the extent that an obligation cannot reasonably be quantified at 30 June 2019, an unquantified contingent liability has been disclosed in note 25.

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 2019 is \$NZ23.15 (2018: \$NZ21.10). The ETS provision represents the tradeable NZ units outstanding, that will be accepted by the Government as emitters honour the emissions obligations under the ETS. The carbon price used by the Ministry for the Environment is determined by the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their website: <https://commtrade.co.nz>.

National Provident Fund guarantee

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of \$879 million (2018: \$835 million), represented by a gross estimated pension obligation of \$916 million (2018: \$871 million) with net investment assets valued at \$37 million (2018: \$36 million).

Aircraft lease return costs

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

Firearms buy-back scheme

The Government announced a buy-back scheme for firearms, magazines and parts that were prohibited by the Arms (Prohibited Firearms, Magazines, and Parts) Amendment Act 2019. A provision of \$150 million has been recognised during the current fiscal year as an estimate of the Government's obligation under this scheme (a possible range of between \$80 million and \$250 million). One of the uncertainties in determining the overall cost of the buy-back scheme is a limitation in data relating to firearms eligible under the scheme. Therefore, New Zealand Police have estimated the provision using key judgements and assumptions around the number of prohibited firearms that are likely to be surrendered and the conditions of these firearms. In forming a view on these critical assumptions, New Zealand Police have engaged with subject matter experts from the industry. Due to the buy-back scheme still being in its early stages and the data limitations to inform our estimate, there is a degree of uncertainty around what the ultimate cost for the Government will be under the scheme.

Other provisions

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

Note 22: Minority Interests

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
		Net Worth Attributable to Minority Interests		
5,918	5,993	Opening minority interest	5,993	5,940
461	470	Operating balance attributable to minority interests	461	512
(503)	(477)	Transactions with minority interests	(378)	(533)
(3)	73	Movement in reserves attributable to minority interests	502	74
(13)	108	Other movements	(11)	-
5,860	6,167	Closing minority interest	6,567	5,993
		Consisting of interests in:		
		Meridian Energy	2,520	2,213
		Mercury NZ	1,573	1,461
		Air New Zealand	1,251	1,294
		Genesis Energy	995	912
		Other	228	113
		Minority share of Operating Balance		
		Air New Zealand	98	286
		Mercury NZ	161	104
		Meridian Energy	157	92
		Genesis Energy	27	27
		Other	18	3
		Operating balance attributable to minority interests	461	512

Transactions with minority interests include items such as dividend payments and dividend reinvestments. Other minority interests consists of minority interests in New Zealand Superannuation Fund investments and the Kiwi Group Holdings capital notes issued.

Note 23: Capital Objectives and Fiscal Policy

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

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

Further information on the Government's fiscal strategy can be found in *The Wellbeing Budget* 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 2019

Debt

Maintain total debt at prudent levels.

The Government will reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office and maintain it at prudent levels thereafter. Prudent levels of net core Crown debt are within a range of 15 to 25 per cent of GDP (subject to any significant shocks to the economy).

Operating balance

The Government will deliver a sustainable operating surplus (before gains and losses) across an economic cycle.

Operating expenses

The Government will maintain its expenditure to within the recent historical range of spending as a ratio of GDP.

The Government will take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits, in particular prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

Operating revenues

The Government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.

Net worth

The Government will strengthen net worth consistent with the debt and operating balance objectives.

Note 23: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2018	Fiscal Strategy Report 2019	Fiscal Position 2019⁸
<p>Debt</p> <p>The Government's intention is to reduce the level of net core Crown debt to 20% of GDP within five years of taking office (subject to any significant shocks to the economy).</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 27.3% of GDP in 2021/22.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.6% of GDP in 2019/20, 20.2% of GDP in 2020/21 and 19.1% in 2021/22.</p> <p>This assumes new capital allowances of \$3.8 billion in Budget 2018, \$3.7 billion in Budget 2019, \$3.4 billion in Budget 2020, and \$3.0 billion in Budget 2021.</p>	<p>Debt</p> <p>The Government's intention is to reduce the level of net core Crown debt to 20% of GDP within five years of taking office (subject to any significant shocks to the economy).</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 26.9% of GDP in 2022/23.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.4% of GDP in 2019/20, 20.7% of GDP in 2020/21, 19.9% of GDP in 2021/22, and 18.7% of GDP in 2022/23.</p> <p>This assumes a multi-year capital allowance of \$14.8 billion for Budget 2019 and the next three Budgets.</p>	<p>Debt</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2019 was 30.3% of GDP (2018: 33.0%).</p> <p>Net core Crown debt (excluding NZS Fund and advances) at 30 June 2019 was 19.2% of GDP (2018: 19.9%).</p>
<p>Operating balance</p> <p>The Government's intention is to deliver operating surpluses (before gains and losses) to ensure net debt falls to 20% of GDP within five years of taking office.</p> <p>The operating balance (before gains and losses) is forecast to be 1.1% of GDP in 2017/18, rising to 1.7% of GDP in 2019/20 and 2.1% of GDP in 2021/22. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.3% of GDP in 2021/22.</p>	<p>Operating balance</p> <p>The Government's intention is to deliver operating surpluses (before gains and losses) to ensure net debt falls to 20% of GDP within five years of taking office.</p> <p>The operating balance (before gains and losses) is forecast to be 1.2% of GDP in 2018/19, rising to 1.3% of GDP in 2021/22 and 1.7% of GDP in 2022/23. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.0% of GDP in 2022/23.</p>	<p>Operating balance</p> <p>The operating balance (before gains and losses) for the year ended 30 June 2019 was a surplus of 2.5% of GDP (2018: surplus of 1.9%).</p> <p>The operating balance for the year ended 30 June 2019 was a deficit of 0.8% of GDP (2018: surplus of 2.9%).</p>

⁸ GDP for the year ended 30 June 2019 was \$300,032 million (2018: \$289,504 million revised).

Note 23: Capital Objectives and Fiscal Policy (continued)

Fiscal Strategy Report 2018	Fiscal Strategy Report 2019	Fiscal Position 2019
<p>Expenses</p> <p>The Government's intention is to ensure expenses are consistent with the operating balance objective.</p> <p>Core Crown expenses are forecast to be 28.1% of GDP in 2017/18 and 28.0% of GDP in 2021/22.</p> <p>Total Crown expenses are forecast to be 36.2% of GDP in 2021/22.</p> <p>This assumes new operating allowances of \$2.8 billion per year in Budget 2018 and \$2.4 billion per year in Budget 2019, 2020 and 2021.</p>	<p>Expenses</p> <p>The Government's intention is to ensure expenses are consistent with the operating balance objective.</p> <p>Core Crown expenses are forecast to fall from 29.1% of GDP in 2018/19 to 28.8% of GDP in 2022/23.</p> <p>Total Crown expenses are forecast to be 36.5% of GDP in 2022/23.</p> <p>This assumes new operating allowances of \$3.8 billion per year in Budget 2019, \$3.0 billion per year in Budget 2020 and \$2.4 billion per year in Budgets 2021 and 2022.</p>	<p>Expenses</p> <p>Core Crown expenses for the year ended 30 June 2019 were 29.0% of GDP (2018: 27.8%).</p> <p>Total Crown expenses for the year ended 30 June 2019 were 37.1% of GDP (2018: 35.9%).</p>
<p>Revenues</p> <p>The Government's intention is to ensure sufficient revenue to meet the operating balance objective.</p> <p>Total Crown revenues are forecast to be 38.4% of GDP in 2021/22.</p> <p>Core Crown revenues are forecast to be 30.4% of GDP in 2021/22.</p> <p>Core Crown tax revenues are forecast to be 28.3% of GDP in 2021/22.</p>	<p>Revenues</p> <p>The Government's intention is to ensure sufficient revenue to meet the operating balance objective.</p> <p>Total Crown revenues are forecast to be 38.3% of GDP in 2022/23.</p> <p>Core Crown revenues are forecast to be 31.1% of GDP in 2022/23.</p> <p>Core Crown tax revenues are forecast to be 28.8% of GDP in 2022/23.</p>	<p>Revenues</p> <p>Total Crown revenues for the year ended 30 June 2019 were 39.8% of GDP (2018: 38.0%).</p> <p>Core Crown revenues for the year ended 30 June 2019 were 31.2% of GDP (2018: 30.0%).</p> <p>Core Crown tax revenues for the year ended 30 June 2019 were 28.8% of GDP (2018: 27.7%).</p>
<p>Net worth</p> <p>The Government's intention is to increase net worth consistent with the operating balance objective.</p> <p>Total net worth attributable to the Crown is forecast to be 44.2% of GDP in 2021/22.</p> <p>Total Crown net worth is forecast to be 45.8% of GDP in 2021/22.</p>	<p>Net worth</p> <p>The Government's intention is to increase net worth consistent with the operating balance objective.</p> <p>Total net worth attributable to the Crown is forecast to be 43.9% of GDP in 2022/23.</p> <p>Total Crown net worth is forecast to be 45.4% of GDP in 2022/23.</p>	<p>Net worth</p> <p>Total net worth attributable to the Crown as at 30 June 2019 was 46.6% of GDP (2018: 44.8%).</p> <p>Total Crown net worth as at 30 June 2019 was 48.8% of GDP (2018: 46.9%).</p>

Note 24: Commitments

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Capital Commitments		
State highways	4,436	4,410
Aircraft (excluding military)	1,066	1,526
Specialist military equipment	1,786	377
Land and buildings	4,618	3,016
Other property, plant and equipment	919	502
Other capital commitments	863	398
Tertiary Education Institutions	595	752
Total capital commitments	14,283	10,981
Operating Lease Commitments		
Non-cancellable accommodation leases	4,779	3,708
Other non-cancellable leases	3,206	2,879
Tertiary Education Institutions	936	649
Total operating lease commitments	8,921	7,236
Total commitments	23,204	18,217
By source		
Core Crown	9,738	5,885
Crown entities	9,173	7,980
State-owned Enterprises	4,472	4,526
Inter-segment eliminations	(179)	(174)
Total commitments	23,204	18,217
By Term		
Capital Commitments		
One year or less	5,970	5,041
From one year to two years	2,803	2,083
From two to five years	3,001	1,337
Over five years	2,509	2,520
Total capital commitments	14,283	10,981
Operating Lease Commitments		
One year or less	1,498	1,217
From one year to two years	1,370	1,003
From two to five years	1,990	1,915
Over five years	4,063	3,101
Total operating lease commitments	8,921	7,236
Total commitments	23,204	18,217

1 State highway project commitments have been calculated using a forecast of approved cash flows for each project, where that project is in the construction phase.

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

Commitments are classified as:

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

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

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

Note 25: Contingent Liabilities and Contingent Assets

Contingent liabilities are:

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

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

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

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

Contingent liabilities and contingent assets involving amounts of over \$20 million are separately disclosed. Any quantifiable contingencies less than \$20 million are included in the “other quantifiable” total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2019 where they are expected to be material but not remote. Where there is an obligation under New Zealand GAAP, amounts have been recognised in the financial statements.

Contingent Liabilities

		Actual	
	Note	30 June 2019 \$m	30 June 2018 \$m
Quantifiable Contingent Liabilities			
Uncalled capital	a	8,245	8,330
Guarantees and indemnities	b	190	236
Legal proceedings and disputes	c	734	332
Other quantifiable contingent liabilities	d	488	502
Total quantifiable contingent liabilities		9,657	9,400
<i>By source</i>			
Core Crown		9,175	9,297
Crown entities		392	17
State-owned Enterprises		191	203
Inter-segment eliminations		(101)	(117)
Total quantifiable contingent liabilities		9,657	9,400

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

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

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

	Note	Actual	
		30 June	30 June
		2019	2018
		\$m	\$m
Asian Development Bank	i	3,216	3,231
International Monetary Fund - promissory notes	ii	2,145	2,255
International Bank for Reconstruction and Development	iii	1,654	1,643
International Monetary Fund - arrangements to borrow	iv	660	634
Asian Infrastructure Investment Bank	v	551	548
Other uncalled capital		19	19
Total uncalled capital		8,245	8,330

i) Asian Development Bank (ADB)

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

ii) IMF Promissory Notes

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

iii) International Bank for Reconstruction and Development (IBRD)

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

iv) IMF arrangements to borrow

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

v) Asian Infrastructure Investment Bank (AIIB)

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

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

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

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

	Note	Actual	
		30 June 2019	30 June 2018
		\$m	\$m
New Zealand Export Credit Office guarantees	i	109	137
Air New Zealand letters of credit and performance bonds	ii	31	32
Share of OECD employee benefits	iii	29	12
Other guarantees and indemnities		21	55
Total guarantees and indemnities		190	236

i) New Zealand Export Credit Office guarantees

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

ii) Air New Zealand letters of credit and performance bonds

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

iii) Share of OECD employee benefits

The New Zealand Government is a member of the OECD and as a member has a proportional responsibility for the employee benefits obligations such as pension and healthcare recorded by the OECD. The OCED has increased its measurement of its obligation to €3.873 billion on the OECD Balance Sheet. \$29 million represents New Zealand's share of the unfunded portion of this balance. There is significant uncertainty as to when or if this responsibility will be triggered.

Note 25: 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 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	30 June
		2019	2018
		\$m	\$m
New Zealand Transport Agency - Contractual disputes	i	385	8
Legal tax proceedings	ii	134	146
Kiwifruit vine disease Psa-V	iii	93	94
Ministry of Health - Contractual disputes	iv	31	-
Ministry of Education - Contractual disputes	v	23	24
Customs legal dispute	vi	1	37
Other legal proceedings and disputes		67	23
Total legal proceedings and disputes		734	332

i) New Zealand Transport Agency – Contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs relating to roading and other contract disputes. In February 2019, the Transport Agency received a claim for \$352 million from the Wellington Gateway Partnership in relation to the Transmission Gully public-private partnership. The claim relates to the delays in the commencement of work. The amount above represents this claim and other contractual disputes.

ii) Legal tax proceedings

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

iii) Kiwifruit vine disease Psa-V

A post-harvest operator, has filed a claim against the Ministry of Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. This plaintiff filed a notice of particulars of loss in September 2016, which quantifies its loss as \$93 million. The Ministry defended the claim. On 27 June 2018 the High Court found that the Ministry did not owe a duty of care to Seeka. An appeal was heard in the Court of Appeal in the weeks 11 and 18 March 2019 and the Courts decision was reserved.

iv) Ministry of Health – Contractual disputes

The Fletcher Construction Company (Fletcher) filed a dispute against the Ministry for Grey Base hospital. Fletcher requested that mediation be conducted as the first phase of contract dispute resolution. Mediation was held 17 September 2019 between the Ministry and Fletcher, with both parties unable to come to resolution on disputed costs. The next likely stage for dispute resolution is arbitration. Fletcher is yet to file to commence this process.

v) Ministry of Education – Contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the Ministry of Education's statutory role.

vi) Customs legal dispute

Customs assesses duty payable by taxpayers. Taxpayers may apply for refunds, drawbacks or remission of duty or may challenge the amount of duty assessed. Parties may challenge assessments or refusal of refund applications in the Customs Appeal Authority. Applications for refunds or duty claims challenged in the customs appeal authority are recorded as contingent liabilities. The liability is shown as the maximum liability the Crown faces.

Note 25: Contingent Liabilities and Contingent Assets (continued)

d) Other quantifiable contingent liabilities

	Note	Actual	
		30 June	30 June
		2019	2018
		\$m	\$m
Unclaimed monies	i	174	161
Air New Zealand partnership	ii	155	158
Ministry for Primary Industries - Bonamia ostreae	iii	138	86
Land Information New Zealand - Quake outcasts	iv	-	35
Other contingent liabilities		21	62
Total other contingent liabilities		488	502

i) Unclaimed monies

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

ii) Air New Zealand partnership

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

iii) Ministry for Primary Industries - Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993 compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for Bonamia Ostreae, Mycoplasma Bovis and post entry quarantine. These claims can be quantified but do not meet the tests for recognising a provision.

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

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

Indemnities

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

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

Party indemnified	Instrument of indemnification	Actions indemnified
Air New Zealand Limited	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 Energy'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	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the beds of lakes and rivers subject to operating easements.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referee	Section 50 of the District Courts Act 2016 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 Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.

Note 25: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, 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.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to work through and settle the claims of AMI residential policyholders which arose from the Canterbury earthquake series. However, it has not proven possible to settle some claims through the normal internal process or with external assistance such as mediation. In light of certain litigation that has arisen, the Minister of Finance provided SRES with a Deed of Indemnity for that litigation on 25 September 2018.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	<p>The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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.

Note 25: Contingent Liabilities and Contingent Assets (continued)***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 and therefore are not material for the Crown.

Cover is not available in the Treatment Injury Account for injuries arising as an 'ordinary consequence' of treatment. The term 'ordinary consequence' in legislation previously had no established legal or clinical meaning. In a case decided on 2 November 2018, the High Court found that 'ordinary consequence' means a consequence that has more than a 50% chance of occurring (ie, more likely than not). Therefore, any injury from treatment that has a 50% or less chance of occurring is not 'ordinary' and is covered. While ACC did not rely on any precise percentage in determining whether a consequence was 'ordinary', in broad terms if all relevant factors put the likelihood of injury at 10% or more, claims would commonly be declined on the grounds of 'ordinary consequence'. ACC has appealed the High Court's decision which is expected to be heard by the Court of Appeal in November 2019. ACC considers the High Court's decision is inconsistent with Parliament's intention when the treatment injury provisions were enacted.

ii) Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993 compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for incursions including fruit fly, pea weevil, bonamia ostreae, myrtle rust, Mycoplasma bovis and the Post Entry Quarantine (PEQ) response. Due to the complexity and uncertainty of the amount of these claims the amounts are unquantified. To the extent that an obligation can be quantified, provision has been made in these accounts of \$138 million as at 30 June 2019.

iii) Kiwifruit vine disease Psu-V

Approximately 210 growers have filed a claim against the Ministry for Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psu-V. The plaintiffs have not quantified their losses, but have publicly claimed it is in the vicinity of \$450 million, citing total industry losses of \$885 million. The Ministry defended the claim. On 27 June 2018 the High Court found that the MPI owed a duty of care to Strathboss and claimants; an appeal was heard in the Court of Appeal in the weeks of 11 and 18 March 2019 and the Court's decision was reserved.

The Ministry is still unable to quantify Strathboss' claim because the extent of any loss will be dealt with at a second trial in the High Court. That trial will not occur, and the claim will not be quantified, unless all appeals are exhausted and the Crown remains liable.

iv) 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 that has been transferred by the Crown to a 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.

Note 25: Contingent Liabilities and Contingent Assets (continued)**v) Canterbury insurance disputes**

Southern Response Earthquake Services Limited (SRESL) from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business.

A representative action proceeding was filed against SRESL on 29 May 2018. The financial statements make no allowance for the outcome of these proceedings, as the range of possible outcomes cannot be reliably quantified at this time. These claims are being defended because there are a wide range of potential outcomes, any estimate of a possible obligation resulting from this proceeding would be unreliable.

vi) Wakatu

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in *Proprietors of Wakatu v Attorney-General (CIV-2010-485-181)*, in which it is claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff seeks the return of land he says the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary and other equitable obligations. In February 2017, the Supreme Court held that the Crown owed a fiduciary duty in relation to the land transactions concerned, but remitted matters of breach, defences and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take up to a further 10 years to resolve.

Other unquantified contingent liabilities**i) Environmental liabilities**

Under common law and various statutes, the Crown may have a 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. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

ii) Remediation of Per- and Poly-Fluoroalkyl Substances Contamination

Local and central government entities are investigating per- and poly-fluoroalkyl substances (PFAS) contamination from the historic use of specialised firefighting foam at sites on, and in the vicinity of, airports, New Zealand Defence Force bases, fuel storage facilities and other sites. Various government agencies have been undertaking a programme to review, investigate and develop a comprehensive approach to manage the impact of PFAS at sites around New Zealand. Once a response is agreed, it is possible the Crown may incur costs for the response to PFAS contamination, however these costs cannot be estimated without the agreed response being finalised, so an unquantified contingent liability has been disclosed.

iii) Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds \$1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

iv) Holidays Act compliance

A number of entities have commenced or completed a review of calculations in recent year in order to ensure compliance with the Holidays Act 2003. Where possible, a provision has been made in these financial statements for obligations arising from those reviews that have been made in the current or previous years. To the extent that an obligation cannot reasonably be quantified at 30 June 2019, there is an unquantified contingency. Further work continues to be undertaken by entities to calculate the potential liability. For some entities, there are complexities and this issue is taking longer to resolve (eg, District Health Boards and Schools).

Note 25: Contingent Liabilities and Contingent Assets (continued)

v) 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.

Contingent Assets

	Note	Actual	
		30 June 2019	30 June 2018
		\$m	\$m
Contingent assets			
Tax disputes	i	35	49
New Zealand Defence Force Insurance Recoveries	ii	21	46
Other contingent assets		16	38
Total contingent assets		72	133
By source			
Core Crown		70	133
Crown entities		-	-
State-owned Enterprises		2	-
Total quantifiable contingent assets		72	133

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) New Zealand Defence Force Earthquake Insurance Recoveries (NZDF)

As at 30 June 2019, there are unquantifiable contingent assets in relation to claims with NZDF insurers for business interruption following the 2016 Kaikōura/Hurunui Earthquakes.

Unquantifiable Contingent Assets

NZDF Earthquake Insurance Recoveries

As at 30 June 2019, there are unquantified contingent assets relating to the claim with the Defence House landlord for damage to hard fixtures and fit-out for historic contributions to the landlord for build costs.

Note 26: Financial Instruments

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

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

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

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

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

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

- Non-derivative financial instrument policies (pages 125 to 127)
- Classification of financial assets and financial liabilities (pages 128 to 129)
- Fair value measurement (page 130)
- Derivative disclosures (pages 131 to 132)
- Risk management (pages 132 to 136), and
- Sensitivity analysis (pages 136 to 137).

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

Financial assets are initially recognised at fair value and subsequently measured in accordance with the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest
- fair value through other comprehensive revenue and expense ("FVCRE") where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive revenue and expense, or
- fair value through operating balance ("FVTOB") if they are held for trading or if the cash flows of the asset do not solely represent payments of principal and interest. Financial assets may also be designated into this category if this accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis.

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

Major financial asset type	Measurement
Cash and cash equivalents	All measured at amortised cost
Trade and other receivables	All measured at amortised cost
Long-term deposits	Generally measured at amortised cost
Marketable securities	Generally measured at fair value through the operating balance
IMF financial assets	All measured at amortised cost
Share investments	Generally measured at fair value through the operating balance
Kiwi Group Holdings loans and advances	All measured at amortised cost
Student loans	All measured at fair value through operating balance
Other advances	Generally measured at amortised cost

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method (refer interest revenue policy). If issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets measured at fair value through other comprehensive revenue and expense (FVCRE) 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 financial assets at FVCRE (eg, some equity instruments) the fair value movements recognised in the statement of comprehensive revenue and expense include any related foreign exchange component. Dividends related to these assets are recorded in the statement of financial performance. At de-recognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive revenue and expense, is recognised in tax payers funds for non-monetary financial assets and in the statement of financial performance for monetary financial assets.

Note 26: Financial Instruments (continued)

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

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

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

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

Financial assets measured at fair value through the operating balance (FVTOB) are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Financial assets classified at FVTOB are not assessed for impairment as their fair value reflects the credit quality of the instruments and changes in fair value are recognised in the statement of financial performance.

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

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

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

Financial liabilities are initially recognised at fair value and generally subsequently measured at amortised cost except of those measured at fair value through the operating balance.

Financial liabilities measured at fair value through the operating balance (FVTOB) comprise liabilities held-for-trading and financial liabilities irrevocably designated as FVTOB on initial recognition.

- A financial liability is classified as held-for-trading if it is incurred principally for the purpose of trading in the short term, or forms a part of a portfolio of financial instruments that are managed together and for which there is evidence of recent short-term profit-taking, or it is a derivative.
- Financial liabilities may be designated as FVTOB if this accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with a related asset or is part of a group of financial assets that is managed and evaluated on a fair value basis.

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

Financial liabilities held-for-trading and financial liabilities designated at FVTOB are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. For financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive revenue and expense. Transaction costs are expensed as they are incurred.

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

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

Note 26: Financial Instruments (continued)**Classification of Financial Assets and Financial Liabilities**

Financial instruments are measured at either fair value or amortised cost. Changes in the fair value of an instrument may be reported in the statement of financial performance or directly in other comprehensive revenue and expense depending on its measurement.

Financial Assets

		Actual	
	Note	30 June 2019 \$m	30 June 2018 \$m
By class			
Cash and cash equivalents		20,892	19,340
Reinsurance, trade and other receivables	12	6,065	6,385
Long-term deposits	13	4,731	5,379
Derivatives in gain	13	4,596	3,153
Marketable securities	13	32,799	40,532
IMF financial assets	13	2,327	2,053
Share investments	14	40,615	36,256
Kiwi Group Holdings loans and advances	15	20,411	18,281
Student loans	15	10,731	9,301
Other advances	15	1,915	1,840
Total financial assets		145,082	142,520
By valuation methodology			
Amortised cost		55,528	62,232
Fair value			
Available for sale ¹		-	1,240
Held for trading ¹		-	3,194
Fair value through the operating balance		88,800	75,854
Fair value through the other comprehensive revenue and expenses ¹		754	-
Total financial assets at fair value		89,554	80,288
Total financial assets		145,082	142,520

1 Available for sale and Held for trading categories were removed with PBE IFRS 9 implementation. Financial assets Held for Trading were reclassified to FVTOTB. Fair value through the other comprehensive revenue and expenses category was introduced by PBE IFRS 9. Please refer to note 27 for more details.

As at 30 June 2019, the carrying value of financial assets that had been pledged as collateral was \$1,601 million (2018: \$2,418 million). These transactions are conducted under terms that are usual and normal to standard securities borrowing. The amount will fluctuate depending on the market values of derivatives held that are in a loss position at 30 June 2019 and that require collateral to be posted as per the terms. The increase in collateral pledged is largely as a result of securities pledged as collateral by the Reserve Bank and the New Zealand Superannuation Fund. For more information, refer to the individual entity's annual report.

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

		Actual	
	Note	30 June 2019 \$m	30 June 2018 \$m
By class			
Issued currency		6,813	6,375
Accounts payable	18	11,430	9,676
Borrowings:	19		
Government bonds		56,874	62,393
Kiwi Group Holdings customer deposits		18,231	16,160
Settlement deposits with Reserve Bank		6,891	7,603
Derivatives in loss		3,954	5,067
Treasury bills		3,455	4,114
Finance lease liabilities		1,328	1,318
Government retail stock		169	182
Other borrowings		19,575	18,815
Total borrowings		110,477	115,652
Total financial liabilities		128,720	131,703
By valuation methodology			
Amortised cost		120,345	121,476
Fair value			
Held for trading		3,954	5,067
Fair value through the operating balance		4,421	5,160
Total financial liabilities at fair value		8,375	10,227
Total financial liabilities		128,720	131,703

Fair Value Measurement

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

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

Note 26: Financial Instruments (continued)**Fair Value Financial Instruments by Measurement Hierarchy**

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Financial assets		
Quoted market price	48,922	45,782
Observable market inputs	25,271	30,202
Significant non-observable inputs	15,361	4,304
Total financial assets at fair value	89,554	80,288
Financial liabilities		
Quoted market price	410	986
Observable market inputs	7,782	9,178
Significant non-observable inputs	183	63
Total financial liabilities at fair value	8,375	10,227
Net financial instruments at fair value	81,179	70,061

Significant non observable inputs

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

	Actual	
	30 June 2019 \$m	30 June 2018 \$m
Financial assets	15,361	4,304
Financial liabilities	183	63
Net financial instruments	15,178	4,241
Opening balance	4,241	3,238
Impact of adoption of PBE IFRS 9 (Student Loans)	9,929	-
Opening balance after transition	14,170	3,238
Total gains/(losses) recognised in the statement of financial performance	363	138
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	(112)	47
Purchases	733	1,120
Sales	(541)	(165)
Issues	51	1
Settlements	(211)	(249)
Student Loan movement during the year (refer note 15 Advances)	802	
Transfers into and out of non-observable inputs	(77)	111
Closing balance	15,178	4,241

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

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

	Carrying Value As at 30 June 2019			Carrying Value As at 30 June 2018		
	Derivatives in gain	Derivatives in loss	Net carrying value	Derivatives in gain	Derivatives in loss	Net carrying value
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange contracts	931	515	416	496	2,004	(1,508)
Cross currency swaps	637	592	45	560	862	(302)
Interest rate swaps	2,147	2,124	23	1,238	1,464	(226)
Futures	22	22	-	26	1	25
Other derivatives	859	701	158	833	736	97
Total derivatives	4,596	3,954	642	3,153	5,067	(1,914)

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

	Notional Value As at 30 June 2019			Notional Value As at 30 June 2018		
	Derivatives in gain	Derivatives in loss	Total Notional value	Derivatives in gain	Derivatives in loss	Total Notional value
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange contracts	51,050	32,558	83,608	22,783	67,175	89,958
Cross currency swaps	9,084	7,803	16,887	7,682	11,014	18,696
Interest rate swaps	41,599	48,826	90,425	43,147	43,256	86,403
Futures	4,423	7,189	11,612	3,258	4,985	8,243
Other derivatives	9,915	9,802	19,717	17,806	11,434	29,240
Total derivatives	116,071	106,178	222,249	94,676	137,864	232,540

Derivatives liquidity analysis

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

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

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

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

Note 26: Financial Instruments (continued)

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

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

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

Derivatives liquidity analysis

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

	Total cash flows \$m	<1 year \$m	1-2 years \$m	2-5 years \$m	5-10 years \$m	> 10 years \$m
As at 30 June 2019						
Derivatives settled gross						
- inflow	98,594	87,185	1,409	5,364	4,414	222
- outflow	(98,409)	(86,740)	(1,429)	(5,291)	(4,690)	(259)
Total settled gross	185	445	(20)	73	(276)	(37)
Derivatives in loss settled net	2,726	773	521	1,020	323	89
As at 30 June 2018						
Derivatives settled gross						
- inflow	106,584	94,224	1,885	4,530	5,307	638
- outflow	(108,364)	(95,844)	(1,899)	(4,515)	(5,362)	(744)
Total settled gross	(1,780)	(1,620)	(14)	15	(55)	(106)
Derivatives in loss settled net	2,982	965	514	970	454	79

Interest rate risk

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

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

The Government undertakes transactions denominated in foreign currencies, and therefore is exposed to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising derivatives such as forward exchange contracts and cross currency interest rate swaps. The carrying amounts of the Government's foreign currency denominated financial assets and financial liabilities translated to NZD before and after the impact of derivatives are as follows:

	30 June 2019 \$m	30 June 2018 \$m
Financial Assets (excluding derivatives)		
New Zealand Dollar	56,854	54,571
United States Dollar	38,818	40,960
Yen	11,343	9,863
Euro	9,700	9,103
Other	23,771	24,870
Total financial assets (excluding derivatives)	140,486	139,367
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	113,419	115,841
United States Dollar	6,111	6,407
Yen	1,118	978
Euro	902	819
Other	3,216	2,591
Total financial liabilities (excluding derivatives)	124,766	126,636
Derivatives in gain/(loss)		
New Zealand Dollar	54,589	57,299
United States Dollar	(25,984)	(30,166)
Yen	(10,735)	(9,332)
Euro	(8,181)	(9,590)
Other	(9,047)	(10,125)
Total derivatives	642	(1,914)
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(1,976)	(3,971)
United States Dollar	6,723	4,387
Yen	(510)	(447)
Euro	617	(1,306)
Other	11,508	12,154
Net Financial Assets/(Liabilities)	16,362	10,817

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

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

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

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

Of the financial assets held by the Government at 30 June 2019, the fair value of collateral held that could be sold or repurchased was \$20,555 million (2018: \$20,415 million). The majority of this relates to Kiwi Group Holdings, 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.

Kiwi Group Holdings loans and advances 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 2019	Total \$m	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m
Cash and cash equivalents	20,892	2,976	7,687	10,143	40	46
Trade and other receivables	6,065	28	373	759	726	4,179
Long-term deposits	4,731	-	3,541	1,060	100	30
Derivatives in gain	4,596	-	2,477	1,837	63	219
Marketable securities	32,799	10,829	12,153	3,055	3,244	3,518
IMF financial assets	2,327	-	-	-	2,327	-
Share investments	40,615	766	4,602	9,252	9,827	16,168
Kiwi Group Holdings loans and advances	20,411	-	-	-	-	20,411
Student loans	10,731	-	-	-	-	10,731
Other advances	1,915	1	48	122	202	1,542
Total credit exposure by credit rating	145,082	14,600	30,881	26,228	16,529	56,844
As at 30 June 2018	Total \$m	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m
Cash and cash equivalents	19,340	4,936	6,312	7,966	79	47
Trade and other receivables	6,385	-	55	186	-	6,144
Long-term deposits	5,379	-	4,490	963	167	(241)
Derivatives in gain	3,153	-	1,242	1,758	48	105
Marketable securities	40,532	13,861	15,091	3,522	2,591	5,467
IMF financial assets	2,053	-	-	-	2,053	-
Share investments	36,256	716	3,689	8,580	8,123	15,148
Kiwi Group Holdings loans and advances	18,281	-	-	-	-	18,281
Student loans	9,301	-	-	-	-	9,301
Other advances	1,840	-	129	93	321	1,297
Total credit exposure by credit rating	142,520	19,513	31,008	23,068	13,382	55,549

Note 26: Financial Instruments (continued)

	30 June 2019 \$m	30 June 2018 \$m
Financial Assets		
Concentration of credit exposure by geographical area		
New Zealand	56,024	55,397
USA	32,437	26,759
Europe	17,582	21,511
Japan	11,374	9,818
Australia	12,113	12,616
Other	15,552	16,419
Total financial assets	145,082	142,520
Concentration of credit exposure by industry		
Individuals	31,497	27,727
Sovereign issuers	26,023	26,996
New Zealand banking	10,527	11,100
Foreign banking	16,718	14,847
Supranational	4,155	7,507
Other	56,162	54,343
Total financial assets	145,082	142,520

At 30 June 2019, 15.4% (2018: 15.1%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Liquidity risk

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

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

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

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

	30 June 2019 \$m	30 June 2018 \$m
Financial Liabilities (excluding derivatives)		
Less than 1 year	59,117	61,828
1-2 years	17,126	13,093
2-5 years	19,982	30,727
5-10 years	30,680	22,048
More than 10 years	18,823	19,428
Total contractual cash flows	145,728	147,124
Total carrying value	124,766	126,636

Note 26: Financial Instruments (continued)

The Government holds loan commitments of \$4,225 million (2018: \$3,213 million) which primarily all have contractual cash flows of less than five years.

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling \$908 million (2018: \$236 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 25. For all these guarantees, the earliest period which the Crown would be required to pay if the guarantees are called upon is less than one year.

The Government has access to financing facilities, of which the total unused amount at 30 June 2019 was \$1,424 million (2018: \$885 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

In addition, the Crown purchases (or underwrites) KiwiBuild properties to help builders and property developers to build more affordable homes, in places where they are needed most. The underwrite creates a legal obligation to the Crown, in the event that the developer cannot sell the property after an agreed number of days after completion, the developer at their discretion can request the Crown to purchase the properties.

Sensitivity analysis

The sensitivity of the fair value of the Government's financial assets and liabilities to changes in interest rates, New Zealand exchange rate and share prices are shown below. Any change would impact the operating balance and net worth of the Government. The 2018 sensitivity analysis for NZ interest rates has been restated due to a refinement of calculation by ACC.

	Impact on operating balance		Impact on net worth	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Increase in NZ interest rates 1% (100 basis points)	(476)	(472)	(530)	(483)
Decrease in NZ interest rate 1% (100 basis points)	701	532	765	538
NZ dollar exchange rate strengthens by 10%	(1,353)	(846)	(1,365)	(873)
NZ dollar exchange rate weakens by 10%	1,538	983	1,553	1,014
Share prices strengthen by 10%	4,023	3,580	4,023	3,580
Share prices weaken by 10%	(4,023)	(3,580)	(4,023)	(3,580)

Interest rate sensitivity

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

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

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

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

Note 26: Financial Instruments (continued)

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

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

Foreign currency sensitivity

The sensitivity analysis 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 the Treasury, NZS Fund and ACC.

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 (2018: 99%).

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

Note 27: Impact of Adoption of PBE IFRS 9: Financial Instruments

The Crown early adopted PBE IFRS 9 *Financial Instruments* with effect from 1 July 2018. This accounting standard replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. This has ensured that the reporting of financial instruments changed simultaneously for the Government and all its sub-entities, whether public benefit entities or for profit entities under the New Zealand financial reporting framework, minimising differences between the two reporting frameworks. This note explains the nature and effect of the changes in accounting policies applied to these Financial Statements of Government due to the application of PBE IFRS 9.

The Crown adopted the transition arrangements option under PBE IFRS 9 in not restating financial instrument comparatives for classification, measurement and impairment.

In accordance with transition options under PBE IFRS 9 the Government has opted to continue to apply the hedge accounting requirements of PBE IPSAS 29. Therefore there have been no changes to the classification and measurement when accounting for hedges.

The following changes to accounting policies due to early adoption of PBE IFRS 9 have been applied to the Financial Statements of Government.

Classification and measurement of Financial Instruments under PBE IFRS 9

PBE IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are now measured at amortised cost only where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest.

Held to maturity and Available for sale financial assets categories were removed at the same time PBE IFRS 9 introduced the new measurement category "fair value through other comprehensive revenue and expense" (FVCRE). This measurement applies to financial assets where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive revenue and expense.

Financial Assets at fair value through other operating balance under PBE IPSAS 29 had two sub categories: financial assets held for trading and those designated to the category at inception (generally to avoid an accounting mismatch). To line up the classification of financial assets with the PBE IFRS 9 the Crown decided to merge these two sub categories under a common measurement category being "Fair value through the operating balance" (FVTOB).

Note 27: Impact of adoption of PBE IFRS 9: *Financial Instruments* (continued)

The following table summarises the classification and measurement changes by balance sheet asset category on 1 July 2018:

	Measurement classification		Carrying amount		Variance
	Under PBE IPSAS 29	Under PBE IFRS 9	30 June 2018	1 July 2018	
			under PBE IPSAS 29 \$m	under PBE IFRS 9 \$m	
Financial assets					
Cash and cash equivalents	Loans and Receivables at amortised cost	Amortised cost	19,340	19,340	-
Reinsurance, trade and other receivables	Loans and Receivables at amortised cost	Amortised cost	6,385	6,383	(2)
Long-term deposits	Generally loans and Receivables at amortised cost	Generally amortised cost	5,379	5,379	-
Derivatives in gain	Fair value through the operating balance	Fair value through the operating balance	3,153	3,153	-
Marketable securities	Generally fair value through the operating balance	Generally fair value through the operating balance	40,532	40,565	33
IMF financial assets	Loans and Receivables at amortised cost	Amortised cost	2,053	2,053	-
Share investments	Generally fair value through the operating balance	Generally fair value through the operating balance	36,256	36,256	-
Kiwi Group Holdings loans and advances	Loans and Receivables at amortised cost	Amortised cost	18,281	18,281	-
Student loans	Loans and Receivables at amortised cost	Fair value through the operating balance	9,301	9,929	628
Other advances	Generally loans and Receivables at amortised cost	Generally amortised cost	1,840	1,840	-
Total financial assets			142,520	143,179	659
Financial liabilities					
Issued currency	Recognised at face value	Recognised at face value	6,375	6,375	-
Accounts payable	Loans and Receivables at amortised cost	Amortised cost	9,676	9,676	-
Borrowings:					
Government bonds	Loans and Receivables at amortised cost	Amortised cost	62,393	62,393	-
Kiwi Group Holdings customer deposits	Loans and Receivables at amortised cost	Amortised cost	16,160	16,160	-
Settlement deposits with Reserve Bank	Loans and Receivables at amortised cost	Amortised cost	7,603	7,603	-
Derivatives in loss	Fair value through the operating balance	Fair value through the operating balance	5,067	5,067	-
Treasury bills	Generally loans and Receivables at amortised cost	Amortised cost	4,114	4,114	-
Finance lease liabilities	Loans and Receivables at amortised cost	Amortised cost	1,318	1,318	-
Government retail stock	Loans and Receivables at amortised cost	Amortised cost	182	182	-
Other borrowings	Generally loans and Receivables at amortised cost	Generally amortised cost	18,815	18,815	-
Total borrowings			115,652	115,652	-
Total financial liabilities			131,703	131,703	-

The main changes from adoption of PBE IFRS 9 are outlined below:

Advances

Student loans are deemed to be concessionary loans under PBE IFRS 9 as they are granted at below market terms (ie, interest free and repayments are income-contingent). As loan repayments are contingent on the income of borrowers, student loans do not meet the PBE IFRS 9 criteria for measurement at amortised cost and therefore, are now subsequently measured at FVTOB. Under PBE IPSAS 29 Student loans were deemed to be loans and receivables valued at amortised cost using the effective interest rate method, and adjusted for impairments.

Loans and taxpayers' funds have increased by \$628 million at 1 July 2018 for the reclassification from amortised cost to fair value (and if Budget 2018 numbers were restated this change would have increased student loans by \$537 million). The increase relates to a change in the discount rate used to present value expected repayments. Under fair value, the entire loan book is revalued using current market discount rates at each balance date. Previously, under amortised cost, market discount rates were applied for each year of lending and locked in for the duration of the loan.

Marketable Securities

Debt security instruments, previously measured at amortised cost, but now measured at fair value, increased in value by \$33 million.

Loans and Receivables

Application of the expected credit loss model resulted in the earlier recognition of impairment losses and led to a decrease in trade and other receivables of \$2 million on 1 July 2018.

Reserves

PBE IFRS 9 adoption has led to the creation of a "fair value through other comprehensive revenue and expenses reserve". As a result, there were \$66 million of movements from Taxpayers Funds to Other Reserves, mainly related to changes in the credit risk of financial instruments measured at FVCRE, which used to go through the operating balance.

Note 28: Related Parties

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

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

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

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

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

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

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

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

There were no related party transactions to be separately disclosed.

Note 29: Events Subsequent to Balance Date

Crown's global settlement with the Christchurch City Council

On 23 September 2019, Cabinet approved the Global Settlement Agreement (GSA) with the Christchurch City Council (the Council). This agreement facilitates the sale and purchase and final ownership of certain assets (eg, the Bus Interchange) that are held by the Crown as at 30 June 2019.

As a result of the negotiations, the Crown will recognise a provision and expenses of just over \$100 million for the expected loss on transfer of the assets covered by the GSA. The loss is not recognised in these financial statements because the commitment to transfer these assets only arises on the approval of the GSA, which occurred after balance date.

There will be on-going discussions with the Council on other aspects of the Greater Christchurch Regeneration programme that are not part of the GSA, which could potentially result in costs to the Government in the future.

Earthquake affected properties in Canterbury that were 'over-cap' and have subsequently been sold

On 15 August 2019 the New Zealand Government announced a Ministerial Directive that will allow owners of on-sold over-cap (cost of repairs exceeded \$100,000 +GST) properties in Canterbury to apply for an ex-gratia Government payment to have their homes repaired and that this process will be facilitated by the Earthquake Commission. These customers have effectively purchased a property that requires additional remediation work, however, the Earthquake Commission has settled its liability and the homeowners are not able to access private insurance, ie, they have an uninsured gap between policy or Act entitlement, and the cost to repair their property. It is estimated that there are approximately 1,000 property owners in this position.

Other than those noted above, there have been no material events subsequent to balance date.

Statement of Unappropriated Expenditure

for the year ended 30 June 2019

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:

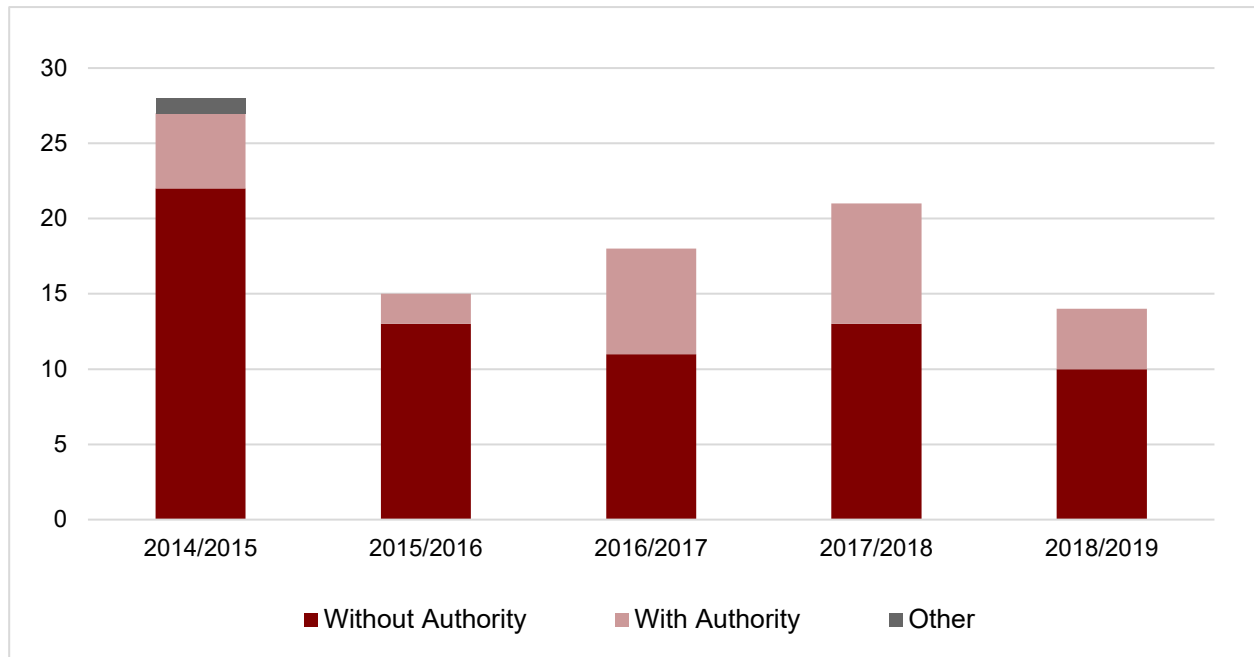
- it must be disclosed in the annual financial statements of the Government, and of the relevant administering department, and
- it must be retrospectively validated by Parliament through the passing of an Appropriation (Confirmation and Validation) Act.

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 confirmed or validated via an Appropriation Bill in the following year.

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

Statement of Unappropriated Expenditure (continued)

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



This graph shows any unappropriated expenditure in the year that it related to and not the year it was reported.

In 2019, there were a total of 840 appropriations (2018: 825). In the 2019 financial year there were 14 instances of expenditure (2018: 21) that either exceeded the amount appropriated or did not have an appropriation.

30 June 2019 Number	30 June 2018 Number			30 June 2019 \$m	30 June 2018 \$m
		<i>By category</i>			
4	3	Approved by the Minister of Finance	A	11	16
		Cabinet authority to use imprest supply but			
-	4	in excess of appropriation	B	-	11
		Cabinet authority to use imprest supply but			
-	1	without appropriation	C	-	23
		Without Cabinet authority and in excess of			
4	7	appropriation	D	161	12
2	3	Without Cabinet authority and outside scope	E	6	49
		Without Cabinet authority and			
4	3	without appropriation	F	27	17
14	21	Total unappropriated expenditure		205	128

This table shows any unappropriated expenditure in the year that it related to and not the year it was reported.

Statement of Unappropriated Expenditure (continued)

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

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

Department of Conservation

<i>Vote Conservation</i>	<i>Departmental Output Expenses</i>		
	Management of Recreational Opportunities	165,782	2,911

The Department of Conservation incurred expenses in excess of their appropriation predominately due to the West Coast storm event that occurred in March 2019. The storm severely damaged a number of visitor assets and led to unplanned operational expenditure in the last quarter of the financial year.

Ministry of Foreign Affairs and Trade

<i>Vote Foreign Affairs and Trade</i>	<i>Departmental Output Expenses</i>		
	Policy Advice and Representation - Other Countries	275,735	1,479
	<i>Departmental Output Expenses</i>		
	Consular Services	27,097	315

The Ministry of Foreign Affairs and Trade has recognised an increased liability for non-compliance with the Holiday Act 2003 resulting in increased costs allocated to the *Consular Services* and *Policy Advice and Representation - Other Countries* appropriations.

Ministry of Health

<i>Vote Health</i>	<i>Non-Departmental Output Expenses</i>		
	National Disability Support Services	1,351,707	6,690

The Ministry of Health incurred expenses that were higher than appropriated, in the *National Disability Support Services* appropriation, mainly due to higher costs and growing demand.

Statement of Unappropriated Expenditure (continued)

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

(D) Expenses and capital expenditure incurred in excess of appropriation and without prior Cabinet authority to use imprest supply

Ministry of Business, Innovation and Employment

<i>Vote Building and Housing</i>	<i>Non-Departmental Other Expenses</i>		
	Housing Infrastructure Fund – Fair Value Write Down (MYA)	0	151,862

Between 1 July and 30 September 2018, Ministry of Business, Innovation and Employment (MBIE) signed Housing Infrastructure Fund loan agreements to provide interest-free loan facilities of up to \$539.400 million. The expense, in relation to the concession (interest free nature of the loans), was not recognised against the *Housing Infrastructure Fund – Fair Value Write-Down* appropriation until after the entire appropriation was transferred to the Ministry of Housing and Urban Development. Therefore, since no authority was retained by MBIE, the fair value write-down expense was incurred in excess of appropriation.

Ministry for the Environment

<i>Vote Environment</i>	<i>Non-Departmental Other Expenses</i>		
	Waste Disposal Levy Disbursements to Territorial Local Authorities	18,000	489

The Crown is required to pay 50% of the revenue collected from the Waste Disposal Levy to Territorial Local authorities. As the revenue collected this year was higher than expected, this has resulted in expenses for this year exceeding the amount appropriated.

Statement of Unappropriated Expenditure (continued)

Department Vote	Expense type Appropriation Name	Authority at the 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			
New Zealand Defence Force			
<i>Vote Defence Force</i>	<i>Departmental Output Expenses</i>		
	Army Capabilities Prepared for Joint Operations and Other Tasks		
	2018/19	862,038	5,521
	2014/15	700,000	8,572
	Air Force Capabilities Prepared for Joint Operations and Other Tasks		
	2017/18	810,216	1,425
	2016/17	743,953	3,496
	2015/16	736,934	4,919
	2014/15	737,300	5,143
	Navy Capabilities Prepared for Joint Operations and Other Tasks		
	2016/17	443,943	369
	2015/16	459,709	2,570
	2014/15	454,000	1,361
	<i>Multi-Category Appropriation</i>		
	Protection of New Zealand and New Zealanders		
	2018/19	477,945	3,070
	2017/18	439,795	4,156
	2016/17	437,254	1,791
	2015/16	430,412	29

Due to a change in the technical accounting for the treatment of cost recoveries (primarily related to service housing and barracks) the New Zealand Defence Force (NZDF) has incurred costs that were higher than appropriations. In all previous financial years the NZDF had offset cost recoveries against the related expense. These cost recoveries are now treated as revenue, increasing the related expense to more than the total authority, resulting in unappropriated expenditure.

The NZDF has offset the cost recoveries against the related expense since the formation of the NZDF under the Defence Act 1990. Given the timespan, it is not possible to quantify the amount of unappropriated expenses prior to the 2014/15 financial year.

Statement of Unappropriated Expenditure (continued)

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

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

Ministry of Social Development

<i>Vote Social Development</i>	<i>Benefits or Related Expenses</i>	
	Winter Energy Payment	3,373

A small portion of payments from the Winter Energy Payment (WEP) appropriation were outside of its scope. These situations were; WEP being paid to clients who pay the maximum contribution to the cost of their residential care, and who receive a top up subsidy from a District Health Board; and where a client was overseas during the eligibility period, WEP was paid even when clients were overseas for longer than four weeks. The Social Securities Act 1964 has been amended by way of the Social Security (Winter Energy Payment) Amendment Act, to allow for payments in these situations, from 1 May 2019.

Ministry of Education

<i>Vote Education</i>	<i>Non-Departmental Output Expenses</i>	
	School Risk Management Scheme	
	2018/19	2,401
	2017/18	2,969
	2016/17	3,401
	2015/16	2,247
	2014/15	2,895

The Ministry of Education operates insurance activities under the School Risk Management Scheme as per the Education Act 1989 section 78D. The expenses incurred as an insurer were outside of scope of the *Primary Education* and *Secondary Education* appropriations. These unappropriated expenses have been incurred since the scheme was started in 1991. Given the timespan, it is not possible to quantify the entire amount of unappropriated expenses prior to 2014/15. A new Non-Departmental Output Expense appropriation was established in April 2019.

Statement of Unappropriated Expenditure (continued)

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

(F) Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply**Department of the Prime Minister and Cabinet**

Vote Prime Minister and Cabinet

Non-Departmental Other Expenses

Settlement of Legal Dispute

500

The Department of the Prime Minister and Cabinet made a payment to settle a legal dispute inherited from the former Canterbury Earthquake Recovery Authority. As no suitable Non-Departmental Other Expenses appropriation existed for this purpose the expenditure was unappropriated.

Ministry of Business, Innovation and Employment

Vote Business Science and Innovation

Multi-Category Appropriation

Regional Economic Development:
Provincial Growth Fund

Departmental Output Expenses

Operational Support of Regional and
Sector Investments

2,527

On 12 August 2018 the Minister of Finance approved operational funding for the Provincial Development Unit. Though this funding was approved, the approval to establish the necessary new appropriation category was overlooked. This was discovered in September 2018 and the new appropriation category was approved on 7 October 2018. However, expenses incurred in this category between 12 August and 7 October 2018 were unappropriated.

Ministry of Business, Innovation and Employment

Vote Building and Housing

Non-Departmental Other Expenses

Remediation of Facades and Parapets
of Unreinforced Masonry Buildings in at
risk areas

926

Ministry of Business, Innovation and Employment sought an expense transfer to move some of the appropriation from 2017/18 to 2018/19. The approval for this transfer was after the expense was incurred, resulting in unappropriated expenditure

Statement of Unappropriated Expenditure (continued)

Department	Expense type	Amount without or exceeding appropriation
Vote	Appropriation Name	\$000
(F) Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply		
Ministry of Health		
<i>Vote Health</i>	<i>Non-Departmental Other Expenses</i>	
	Write off of Crown Investments	22,588
<p>The Ministry of Health had a number of health related capital investments reported as assets in prior years. In the current year an assessment of these investments found they needed to be written off. The total amount of these investments was \$22,588,000. There was no appropriation authorising these write offs to occur resulting in unappropriated expenditure.</p>		

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2019

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 2019

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 2019

Department Trust Account	As at 30 June 2018 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2019 \$000
Department of Conservation						
Bonds/Deposits Trust	7,025	331	(274)	198	-	7,280
Conservation Project Trust	2,445	816	(1,868)	40	-	1,433
National Parks Trust	182	127	(102)	3	-	210
Walkways Trust	12	-	-	-	-	12
Wildlife and Reserves Trusts ¹	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	1,994	19,877	(19,748)	-	-	2,123
Crown Law Office						
Legal Claims Trust	62	1,199	(1,256)	1	(1)	5
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	291	26	(1)	-	-	316
Criminal Assets Management and Enforcement Regulators Association Trust	19	-	(19)	-	-	-
Employment Relations Service Trust	676	659	(592)	12	(20)	735
Employment Relations Act Security of costs Trust ¹	-	-	-	-	-	-
New Zealand Immigration Service Trust	696	87	(324)	10	-	469
Official Assignee's Office Trust	24,719	26,482	(15,061)	701	(14,365)	22,476
Patent Co-operation Treaty Fees Trust	248	836	(939)	7	(47)	105
Petroleum Deposits Trust	80	-	-	-	-	80
Proceeds of Crime Trust	136,262	50,629	(15,114)	2,201	(7,367)	166,611
Residential Tenancies Bond Trust	545,950	255,782	(214,042)	21,573	(21,573)	587,690
Weathertight Services Financial Assistance Trust	-	12,536	(12,536)	-	-	-
Ministry for Culture and Heritage						
Dictionary of New Zealand Biography Trust	10	-	-	-	(10)	-
New Zealand Historical Atlas Trust	162	-	-	1	(57)	106
New Zealand History Research Trust	1,359	-	(75)	44	-	1,328
New Zealand Oral History Awards Trust	707	-	(98)	21	-	630
War History Trust	48	-	-	1	(28)	21
National War Memorial Trust	8	-	-	-	(8)	-
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	52,185	13,000	(10,215)	-	-	54,970
Health Promotion Agency Trust	1,009	13,178	(13,330)	-	-	857
Heavy Engineering Research Association Trust	187	1,947	(1,962)	-	-	172
New Zealand Customs Service IBM MSA Trust ¹	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	113	10,301	(9,937)	-	-	477
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	6	13,444	(13,391)	-	-	59

Statement of Trust Money (continued)

for the year ended 30 June 2019

Department	As at 30 June 2018 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2019 \$000
Trust Account						
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	2,648	4,092	(729)	68	(870)	5,209
Conferences Trust	-	-	-	-	-	-
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust	1,211	136	(193)	51	(84)	1,121
Capital Works Construction Funds Trust ¹	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust	3	-	-	-	-	3
Cook Island Trust	1	2,000	(1,676)	2	-	327
Government Administration Building, Niue Trust	34	-	-	-	-	34
New Zealand/France Friendship Trust	53	58	(47)	1	(13)	52
Egna Electrification Project, Papua New Guinea Trust ²	-	6,341	-	6	-	6,347
Niue Development Assistance Trust	6,173	1,382	(2,286)	79	-	5,348
Ministry of Health						
Medicines Review Objectors Deposit Trust ¹	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	38,122	263,737	(278,564)	-	-	23,295
KiwiSaver Returned Transactions Trust	143	147,003	(147,011)	-	-	135
KiwiSaver Employer Trust ¹	-	-	-	-	-	-
Reciprocal Child Support Agreement Trust	536	14,670	(14,691)	-	-	515
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	2,383	2,876	(4,188)	811	(1,850)	32
Interloan Billing System Trust	42	-	-	453	(453)	42
Macklin Bequest Fund Trust	299	-	-	9	(308)	-
Retention Trust Account	340	314	(289)	-	-	365
Market Place Trust Account ²	-	-	-	-	-	-
New Zealand 1990 Scholarship Trust ¹	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	9,993	40,120	(29,160)	-	-	20,953
Election Candidates Deposit Trust ¹	-	-	-	-	-	-
Employment Court Trust	174	439	(323)	-	-	290
Fines Trust	46,149	195,040	(196,898)	-	-	44,291
Foreign Currency Euro Fund Trust	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	-	-	-	-	-
Legal Complaints Review Officer Trust ¹	-	-	-	-	-	-
Māori Land Court Trust	42	19	-	-	-	61
Supreme Court Trust	86	117	(87)	-	-	116
Victims' Claims Trust	147	513	(391)	-	-	269

Statement of Trust Money (continued)

for the year ended 30 June 2019

Department	As at 30 June 2018 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2019 \$000
Trust Account						
Land Information New Zealand						
Crown Forestry Licences Trust	512	6,046	(5,451)	-	-	1,107
Deposits Trust ¹	-	-	-	-	-	-
Endowment Rentals Trust	5,697	376	(6,018)	-	-	55
Hunter Gift for the Settlement of Discharged Soldiers Trust	57	1	-	-	-	58
New Zealand Police						
Bequests, Donations and Appeals Trust	13	5	(10)	-	-	8
Found Money Trust	194	228	(227)	-	-	195
Money in Custody Trust	18,719	7,655	(11,190)	-	-	15,184
Reparation Trust	1	59	(59)	-	-	1
Money forfeited to Crown	90	2,130	(2,019)	-	-	201
Ministry for Primary Industries						
MAF Overfishing Account Trust	3,576	9,834	(10,946)	143	-	2,607
MAF Fish Forfeit Property Trust	1,422	778	(1,559)	188	-	829
Meat Board Levies Trust	174	63,223	(63,396)	-	(1)	-
National Animal Identification Tracing Trust	255	2,493	(2,613)	-	-	135
Seized Timber Trust ¹	-	-	-	-	-	-
Department of the Prime Minister and Cabinet						
Christchurch Cathedral Restoration Trust	1	-	-	-	-	1
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	519	11,965	(11,648)	16	-	852
Australian Recovery Debt Trust	1	6	(7)	-	-	-
Maintenance Trust	31	513	(515)	3	-	32
Netherlands Recovery Debt Trust	-	113	(98)	-	-	15
Overseas Debt Recovery Trust ¹	-	-	-	-	-	-
Oranga Tamariki – Ministry for Children						
CYF Custody Trust Account	6	-	-	1	-	7
WR Wallace Trust	493	32	(15)	15	-	525
The Treasury						
Genesis Share Offer Trust	1	-	-	-	-	1
Mighty River Share Offer Trust	1	-	-	-	-	1
Trustee Act 1956 Trust	12,779	3,058	(322)	-	-	15,515
Total	929,576	1,208,629	(1,123,510)	26,659	(47,055)	994,299

1 Inoperative trust account

2 New trust account



Additional Financial Information

Fiscal Indicator Analysis

for the year ended 30 June 2019

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 42 to 140) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report*.

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

Core Crown Residual Cash

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

Debt

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

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

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

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2019

2019 Forecast at		Actual	
Budget 2018 \$m	Budget 2019 \$m	30 June 2019 \$m	30 June 2018 \$m
Core Crown Cash Flows from Operations			
83,525	83,238	83,716	80,079
952	982	1,359	900
692	691	712	650
3,324	3,236	3,200	3,127
(29,308)	(29,097)	(28,910)	(26,253)
(51,171)	(52,146)	(50,591)	(47,740)
(3,442)	(3,487)	(3,450)	(3,483)
(760)	(265)	-	-
1,145	800	-	-
4,957	3,952	6,036	7,280
Net core Crown operating cash flows			
(3,229)	(3,362)	(3,002)	(2,515)
(54)	(94)	(86)	(92)
(3,882)	(3,073)	(2,658)	(2,827)
(1,000)	(1,000)	(1,000)	(500)
(1,267)	(458)	-	-
600	1,250	-	-
(8,832)	(6,737)	(6,746)	(5,934)
(3,875)	(2,785)	(710)	1,346
Residual cash is (invested) / funded as follows:			
Debt programme cash flows			
Market:			
7,862	8,430	8,372	7,043
(11,240)	(11,974)	(11,908)	(6,828)
(2,000)	(705)	(730)	100
(5,378)	(4,249)	(4,266)	315
Non market:			
-	-	-	-
-	-	-	-
-	-	-	-
(5,378)	(4,249)	(4,266)	315
Other borrowing cash flows			
(451)	643	(2,239)	2,190
425	(2,235)	1,547	(865)
(26)	(1,592)	(692)	1,325
Investing cash flows			
9,082	10,178	5,163	(3,041)
196	233	437	396
1	(1,785)	68	(341)
9,279	8,626	5,668	(2,986)
3,875	2,785	710	(1,346)

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

Fiscal Indicator Analysis – Debt

as at 30 June 2019

2019 Forecast at			Actual	
Budget	Budget		30 June	30 June
2018	2019		2019	2018
\$m	\$m		\$m	\$m
Gross and net core Crown debt analysis:				
112,890	112,057	Total borrowings	110,477	115,652
37.1%	37.4%	As a percentage of GDP	36.8%	39.9%
Net core Crown debt:				
91,655	91,725	Core Crown borrowings ¹	92,062	98,295
(2,284)	(2,679)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,132)	(2,858)
89,371	89,046	Gross sovereign-issued debt ²	90,930	95,437
79,453	83,889	Less core Crown financial assets ³	88,938	88,226
9,918	5,157	Net core Crown debt (including NZS Fund) ⁴	1,992	7,211
42,302	41,943	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets ⁵	41,899	38,035
52,220	47,100	Net core Crown debt (excluding NZS Fund) ⁴	43,891	45,246
11,984	13,199	Advances	13,845	12,249
64,204	60,299	Net core Crown debt (excluding NZS Fund and advances) ⁶	57,736	57,495
21.1%	20.1%	As a percentage of GDP	19.2%	19.9%
Gross debt:				
89,371	89,046	Gross sovereign-issued debt ²	90,930	95,437
(9,118)	(7,359)	Less Reserve Bank settlement cash and bank bills	(8,081)	(8,984)
1,600	1,600	Add back changes to Government borrowing due to settlement cash ⁷	1,600	1,600
81,853	83,287	Gross sovereign-issued debt excluding settlement cash and bank bills	84,449	88,053
26.9%	27.8%	As a percentage of GDP	28.1%	30.4%

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

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

³ Core Crown financial assets exclude receivables.

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

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

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

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

Information on State-owned Enterprises and Crown Entities

Accounting Policies

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

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

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 17).

Mixed Ownership Companies

In addition to the core Crown's direct investment in the mixed ownership companies (Air New Zealand, Genesis Energy, Meridian Energy and Mercury NZ) a number of Crown Financial Institutions (CFIs) have invested in the companies as part of their normal investment activities. These investments have the effect of reducing the overall minority interest.

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	48.09%	45.96%
Genesis Energy	48.61%	46.67%
Meridian Energy	48.98%	46.30%
Mercury NZ	47.44%	44.67%

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 2019:

Crown entities	Balance date	Information reported to
New Zealand Symphony Orchestra	31 December	30 June 2019
School boards of trustees	31 December	31 December 2018
TEIs	31 December	30 June 2019

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 2019				30 June 2018			
	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri- butions	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri- butions
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State-owned Enterprises								
Airways Corporation of New Zealand Limited	229	205	24	12	214	192	27	11
AsureQuality Limited	254	233	27	7	212	201	8	4
Landcorp Farming Limited	242	231	(12)	5	248	236	38	-
New Zealand Post Limited	923	1,029	(71)	-	889	933	13	5
KiwiRail Holdings Limited	826	(1,741)	2,569	-	667	802	(119)	-
Transpower New Zealand Limited	1,035	832	262	165	1,089	842	245	165
Kordia Group Limited	201	200	-	3	218	211	6	1
Kiwi Group Holdings Limited	1,217	1,105	110	22	1,206	1,091	121	11
New Zealand Railways Corporation	-	-	(1)	-	-	-	1	-
Other State-owned enterprises	104	99	2	2	174	157	5	4
Total State-owned Enterprises	5,031	2,193	2,910	216	4,917	4,665	345	201
Air New Zealand Limited	5,821	5,690	214	247	5,526	5,086	628	247
Genesis Energy Limited	2,730	2,629	59	172	2,323	2,237	59	167
Meridian Energy Limited	3,492	3,145	339	500	2,764	2,543	201	486
Mercury NZ Limited	1,967	1,812	379	208	1,780	1,598	233	273
Less minority interests	-	-	(355)	(504)	-	-	(448)	(541)
Total mixed ownership companies	14,010	13,276	636	623	12,393	11,464	673	632
Intra-segmental eliminations	(405)	(383)	(183)	-	(438)	(405)	(157)	-
Total SOE segment	18,636	15,086	3,363	839	16,872	15,724	861	833
Crown entities								
Accident Compensation Corporation	5,828	6,902	(8,657)	-	5,371	5,778	29	-
Crown Infrastructure Partners	47	138	(54)	-	33	107	(69)	-
Crown Research Institutes	806	788	16	-	755	730	20	-
Callaghan Innovation	353	352	1	-	306	307	-	-
District Health Boards	15,636	16,704	(1,068)	-	14,745	14,995	(265)	-
Earthquake Commission	974	559	414	-	403	587	(179)	-
New Zealand Fire Service Commission	610	573	37	-	593	490	119	-
Housing New Zealand Corporation	1,475	1,341	48	-	1,353	1,253	80	-
Museum of New Zealand Te Papa	68	79	(11)	-	62	70	(9)	-
New Zealand Lotteries Commission	1,116	855	261	-	1,185	901	283	-
New Zealand Transport Agency	2,958	2,858	(160)	-	2,650	2,620	(68)	-
Otakaro Limited	84	89	(7)	-	142	168	(32)	-
Public Trust	69	64	5	-	65	64	2	-
Schools	8,251	8,170	76	-	7,953	7,871	77	-
Southern Response Earthquake Services	(1)	(23)	22	-	1	(8)	1	-
Tamaki Regeneration Limited	77	105	(28)	13	75	154	(79)	-
Tertiary Education Commission	3,136	3,131	4	-	3,094	3,065	28	21
TEIs	-	-	154	-	-	-	(51)	-
Television New Zealand	312	307	3	4	320	315	6	9
Other Crown entities	2,332	2,059	283	-	2,385	2,368	53	-
Total Crown entities	44,131	45,051	(8,661)	17	41,491	41,835	(54)	30
Intra-segmental eliminations	(856)	(321)	(533)	-	(1,031)	(610)	(420)	-
Total Crown entities segment	43,275	44,730	(9,194)	17	40,460	41,225	(474)	30

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

	30 June 2019						30 June 2018
	Purchase of PPE \$m	Total PPE \$m	Total assets \$m	Borrow-ings \$m	Total liabilities \$m	Equity \$m	Equity \$m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	26	202	254	52	110	144	133
AsureQuality Limited	6	35	134	16	52	82	58
Landcorp Farming Limited	57	1,268	1,782	321	355	1,427	1,501
New Zealand Post Limited	11	76	1,636	229	424	1,212	1,289
KiwiRail Holdings Limited	474	6,989	7,491	251	523	6,968	1,598
Transpower New Zealand Limited	304	4,498	5,653	3,527	4,292	1,361	1,272
Kordia Group Limited	10	59	152	20	64	88	92
Kiwi Group Holdings Limited	18	53	22,790	21,045	21,165	1,625	1,558
New Zealand Railways Corporation	-	3,516	3,517	-	-	3,517	3,522
Other State-owned enterprises	3	17	73	16	34	39	36
Total State-owned Enterprises	909	16,713	43,482	25,477	27,019	16,463	11,059
Air New Zealand Limited	670	5,653	8,417	2,629	5,667	2,750	2,838
Genesis Energy Limited	72	3,698	4,598	1,418	2,465	2,133	1,939
Meridian Energy Limited	45	8,825	9,599	1,747	4,158	5,441	4,809
Mercury NZ Limited	92	5,479	6,435	1,487	2,894	3,541	3,286
Total mixed ownership companies	879	23,655	29,049	7,281	15,184	13,865	12,872
Intra-segmental eliminations	(1)	(158)	(1,725)	(195)	(325)	(1,400)	(1,372)
Total SOE segment	1,787	40,210	70,806	32,563	41,878	28,928	22,559
Crown entities							
Accident Compensation Corporation	15	23	49,481	57	59,494	(10,013)	(1,355)
Crown Infrastructure Partners	-	-	809	6	77	732	491
Crown Research Institutes	95	566	903	17	239	664	650
Callaghan Innovation	16	56	232	-	135	97	74
District Health Boards	411	7,206	8,799	97	3,332	5,467	5,727
Earthquake Commission	4	12	831	-	1,366	(535)	(949)
New Zealand Fire Service Commission	94	1,006	1,280	74	219	1,061	988
Housing New Zealand Corporation	1,515	28,415	28,985	3,663	6,062	22,923	22,314
Museum of New Zealand Te Papa	18	1,377	1,402	-	10	1,392	1,401
New Zealand Lotteries Commission	6	18	122	2	89	33	34
New Zealand Transport Agency	1,841	50,993	51,742	2,285	2,796	48,946	42,736
Otakaro Limited	116	345	515	139	233	282	152
Public Trust	1	4	388	319	321	67	61
Schools	138	1,612	3,496	199	967	2,529	2,422
Southern Response Earthquake Services	-	-	195	-	217	(22)	(61)
Tamaki Regeneration Limited	42	1,885	1,952	-	11	1,858	1,934
Tertiary Education Commission	-	5	581	24	440	141	137
TEIs	-	-	13,095	-	-	13,095	12,505
Television New Zealand	6	156	303	3	53	250	244
Other Crown entities	(17)	201	1,480	38	226	1,337	1,138
Total Crown entities	4,301	93,880	166,591	6,923	76,287	90,304	90,643
Intra-segmental eliminations	(6)	(149)	(150)	8	151	(301)	(176)
Total Crown entities segment	4,295	93,731	166,441	6,931	76,438	90,003	90,467

Glossary of Terms

Commercial sector

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

Comparatives (Budget 2018 and Budget 2019)

Comparatives referred to as Budget 2018 were forecasts published in the *2018 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2019 were forecasts published in the *2019 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 55 to 57).

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).

Expected Credit Loss (ECL)

Is the difference between all contractual cash flows that are due to the Crown and cash flows that the Crown expects to receive, discounted to its present value by using the effective interest rate.

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.

Fiscal drag

The additional personal income tax generated as an individual's average tax rate increases as their income increases.

Forecast new capital spending

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

Forecast new operating spending

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

Gains and losses

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

Gross domestic product (GDP)

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

Gross debt (or Gross sovereign-issued debt)

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

Insurance liabilities

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

Inter-segment eliminations

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

Marketable securities

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

Net core Crown cash flow from operations

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

Net core Crown debt

Net core Crown 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 Crown's share of total assets and liabilities and excludes minority interest's share of those assets and liabilities.

Operating balance

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

Operating balance before gains and losses (OBEGAL)

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

Optimised Depreciated Replacement Cost

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

Public Sector PBE Accounting Standards (PBE standards)

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

Residual cash

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

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

Settlement cash

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

Social sector

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

Tax revenue

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

Top-down adjustment

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

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises. Also known as the Government Reporting Entities (which are listed on pages 55 to 57).