

8 March 2011

MEDIA STATEMENT

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Struan Little
Deputy Secretary
The Treasury

FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE SEVEN MONTHS ENDED 31 JANUARY 2011

The *Financial Statements of the Government of New Zealand* for the seven months ended 31 January 2011 were released by the Treasury today.

The monthly financial statements are compared against monthly forecast tracks based on the *2010 Half Year Economic and Fiscal Update* published in December 2010.

For the seven months ended 31 January the majority of key indicators were tracking close to forecast. The only notable variances were for gross debt and the operating balance deficit. In line with recent months, the cause of these respective variances was largely due to two factors: debt issuance being ahead of schedule and investment returns being higher than expected.

Core Crown tax revenue was slightly weaker than forecast (0.8% lower than expected at \$29.9 billion) as underlying weakness in the economy resulted in shortfalls in GST (\$285 million), corporate tax (\$157 million) and other individuals' tax (\$120 million).

Partially offsetting the shortfall in tax revenue, source deductions (PAYE) were again 2.6% higher than forecast (\$323 million). This was potentially due to wage and employment growth although volatility in recent data provides uncertainty over the cause.

Although core Crown revenue was weaker than expected, lower **core Crown expenses** (0.9% lower at \$38.5 billion) and slightly higher profits from State Owned Enterprises and Crown Entities, saw the **operating balance before gains and losses deficit** remain largely in line with forecast at \$6.2 billion.

Both the **residual cash deficit** (at \$10.1 billion) and **net debt** (at just under \$37.0 billion or 19.4% of GDP) were also close to forecast, as the previous month's residual cash variance reversed as expected.

Gross debt stood at \$63.0 billion (33.1% of GDP), which was \$14.3 billion higher than the same time last year. As a result of the higher debt position, finance costs for the seven months ended 31 January 2011 were \$1.7 billion compared with \$1.3 billion in the same period last year.

The January results reflect the Crown's position up until 31 January 2011, prior to the devastating Canterbury Earthquake of 22 February. Costs to the Crown associated with the tragic earthquake will be recorded in future accounts as costs are quantified.

\$ million	Year to date				Full Year
	January	January	Variance to HYEFU	Variance to HYEFU	June
	2011	2011			2011
	Actual ¹	Forecast ¹	\$m	%	Forecast ²
Core Crown					
Core Crown tax revenue	29,924	30,157	(233)	(0.8)	52,527
Core Crown revenue	32,490	33,149	(659)	(2.0)	58,446
Core Crown expenses	38,463	38,830	367	0.9	70,560
Core Crown residual cash	(10,145)	(10,065)	(80)	(0.8)	(15,602)
Gross debt ³	63,048	61,585	(1,463)	(2.4)	67,400
<i>as a percentage of GDP</i>	33.1%	32.3%			33.3%
Net debt ⁴	36,968	37,176	208	0.6	42,078
<i>as a percentage of GDP</i>	19.4%	19.5%			20.8%
Total Crown					
Operating balance before gains and losses	(6,207)	(6,090)	(117)	(1.9)	(11,098)
Operating balance	(998)	(4,752)	3,754	79.0	(9,116)
Net worth	93,916	90,156	3,760	4.2	85,809

1 Using GDP for the year ended 30 September 2010 of \$190,740 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2011 of \$202,398 million (Source: Treasury)

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

4 Net core Crown debt excluding student loans and other advances

ENDS

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Financial Statements of the Government of New Zealand

For the Seven Months Ended
31 January 2011



Prepared by The Treasury
8 March 2011

This document is available on the New Zealand Treasury's internet site.
The URL for this site is <http://www.treasury.govt.nz>

New Zealand Government

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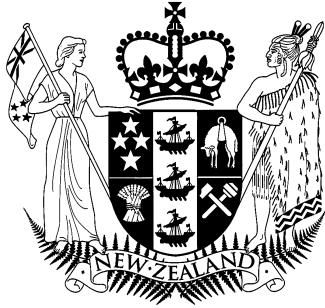
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COMMENTARY

S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the seven months ended 31 January 2011 and its financial position as at that date.

The January results are reported against forecasts based on the *2010 Half Year Economic and Fiscal Update (HYEFU)*, published on 14 December 2010.

At a Glance

Table 1 – Key indicators for the seven months ended 31 January 2011 compared to HYEFU

\$ million	Year to date				Full Year
	January 2011	January 2011	Variance	Variance	June 2011
	Actual ¹	Forecast ¹	to HYEFU \$m	to HYEFU %	HYEFU Forecast ²
Core Crown					
Core Crown tax revenue	29,924	30,157	(233)	(0.8)	52,527
Core Crown revenue	32,490	33,149	(659)	(2.0)	58,446
Core Crown expenses	38,463	38,830	367	0.9	70,560
Core Crown residual cash	(10,145)	(10,065)	(80)	(0.8)	(15,602)
Gross debt ³	63,048	61,585	(1,463)	(2.4)	67,400
<i>as a percentage of GDP</i>	33.1%	32.3%			33.3%
Net debt ⁴	36,968	37,176	208	0.6	42,078
<i>as a percentage of GDP</i>	19.4%	19.5%			20.8%
Total Crown					
Operating balance before gains and losses	(6,207)	(6,090)	(117)	(1.9)	(11,098)
Operating balance	(998)	(4,752)	3,754	79.0	(9,116)
Net worth	93,916	90,156	3,760	4.2	85,809

1 Using GDP for the year ended 30 September 2010 of \$190,740 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2011 of \$202,398 million (Source: Treasury)

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

4 Net core Crown debt excluding student loans and other advances

Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes State-owned enterprises and Crown entities.

Results for the seven months ended 31 January 2011:

For the seven months ended 31 January the majority of key indicators were tracking close to forecast. The only notable variances were for gross debt and the operating balance deficit. In line with recent months, the cause of these respective variances was largely due to two factors: debt issuance being ahead of schedule and investment returns being higher than expected.

Core Crown tax revenue was slightly weaker than forecast (0.8% lower than expected at \$29.9 billion) as underlying weakness in the economy resulted in shortfalls in GST (\$285 million), corporate tax (\$157 million) and other individuals' tax (\$120 million).

Partially offsetting the shortfall in tax revenue, source deductions (PAYE) were again 2.6% higher than forecast (\$323 million). This was potentially due to wage and employment growth although volatility in recent data provides uncertainty over the cause.

Although core Crown revenue was weaker than expected, lower **core Crown expenses** (0.9% lower at \$38.5 billion) and slightly higher profits from State Owned Enterprises and Crown Entities, saw the **operating balance before gains and losses deficit** remain largely in line with forecast at \$6.2 billion.

Both the **residual cash deficit** (at \$10.1 billion) and **net debt** (at just under \$37.0 billion or 19.4% of GDP) were also close to forecast, as the previous month's residual cash variance reversed as expected.

Gross debt stood at \$63.0 billion (33.1% of GDP), which was \$14.3 billion higher than the same time last year. As a result of the higher debt position, finance costs for the seven months ended 31 January 2011 were \$1.7 billion compared with \$1.3 billion in the same period last year.

The January results reflect the Crown's position up until 31 January 2011, prior to the devastating Canterbury Earthquake of 22 February. Costs to the Crown associated with the tragic earthquake will be recorded in future accounts as costs are quantified.

Further analysis of the January results follows.

ANALYSIS

Table 2 – Key indicator variances for the seven months ended 31 January 2011 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	-\$659 million (lower than forecast)	<p>Core Crown tax revenue was \$233m (0.8%) lower than forecast, the main components were:</p> <p>Source deductions being 2.6% (\$323m) higher than forecast, the same percentage variance as last month. This suggests that the income tax cuts in October may have less impact on source deductions than expected. However, current data is insufficient to draw definite conclusions. Volatility in labour market data (demonstrated by the unemployment rate falling 0.5% points in the September quarter and then rising 0.4% points in the December quarter) makes it difficult to determine whether the labour market strength is a key driver. However, recent data of hours paid and average weekly wages was stronger than expected suggesting income growth may have been stronger-than-expected. The next set of data on the labour market will be received in the first week of May, which will hopefully clarify the drivers.</p> <p>This trend will be taken into account when preparing the 2011 Budget tax forecasts.</p> <p>Higher than expected revenue from source deductions was offset by lower revenue across most other tax types due to a more subdued domestic economy than was expected. The main contributor continued to be GST, which was \$285m (3.6%) lower than forecast. Private consumption over the end of 2010 was weak as households showed caution in their spending, demonstrated by December quarter retail sales values falling 0.7%. Corporate (\$157m or 3.8%) and other individuals (\$120m or 8.0%) tax were also lower than forecast.</p> <p>In addition to tax revenue being below forecast, other core Crown revenue was \$426m lower than expected. The main contributor was Interest and dividend income, which was \$308m lower than forecast.</p> <ul style="list-style-type: none"> o \$255m of forecast interest income should have been forecast as gains. This classification error had no net impact for the operating deficit and will be corrected in the upcoming Budget. o Dividend income was \$110m lower than forecast as dividends forecast to be received did not eventuate. <p>In addition to this, there was a \$60m shortfall in revenue from the Emissions Trading Scheme due to less surrendering of NZ units. The units are now expected to be surrendered in March.</p>

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

Item/indicator	Variance ¹	Key drivers
Core Crown expenses	\$367 million (lower than forecast)	<p>Core Crown expenses were within 1% of forecast at \$38,463m. The largest variances were:</p> <ul style="list-style-type: none"> • \$64m lower than expected impairments on sovereign receivables. Bad debt write-offs had been tracking similar to prior years and not yet increased in line with expectations. The forecasts included allowances for flow on impacts of the recession and for large write-offs. However, large write-offs are infrequent and the timing is hard to predict as they are contingent on legal proceedings. As a result, part of the variance is expected to be timing. • Net child support costs \$34m below forecast mainly due to lower volumes of square-up payments compared to forecast. The variance is expected to reverse before year-end. • Official Development Assistance programme expenses were \$46m less than expected. This variance was primarily timing in nature due to delays in negotiations with other Governments and is expected to be in line with forecasts at year-end. <p>The remainder of the variance is due to individually small variances across a number of Departments.</p>
Core Crown residual cash deficit	-\$80 million (higher than forecast)	The core Crown residual cash deficit, which was \$10,145m, was slightly weaker than forecast. Tax receipts were in line with forecasts.
Gross debt	-\$1,463 million (higher than forecast)	<p>Gross debt was \$63,048m, almost \$1.5b above forecast. The main contributors were:</p> <ul style="list-style-type: none"> • Government stock issuances being \$1,166m (\$1,190m face value) above forecast due to strong investor demand. • Derivative values were \$320m higher than forecast, primarily driven by movements in foreign exchange rates since completion of the forecasts.
Net debt	\$208 million (lower than forecast)	While gross debt is higher than forecast, net debt was close to forecast (\$36,968m or 19.4% of GDP).

Item/indicator	Variance ¹	Key drivers
Total Crown		
Operating balance before gains and losses deficit	-\$117 million (higher than forecast)	Although core Crown revenue was weaker than expected, lower core Crown expenses and slightly higher profits from State Owned Enterprises and Crown Entities, saw the operating balance before gains and losses deficit remain largely in line with forecast.
Operating balance deficit	\$3,754 million (lower than forecast)	<p>The operating deficit continues to be lower than expected due to the NZS Fund and ACC reporting higher than expected gains.</p> <p>Strong global equity markets meant that the NZS Fund gains on their investments and derivatives were \$1.8b above forecast. The fund's return since inception was 7.55%, 1.8% above the respective return on Treasury Bills.</p> <p>Meanwhile, ACC experienced favourable changes in claims experience and the discount rate used to calculate the present value of the future expected payments. These two factors resulted in an actuarial gain of \$881m, \$1.8b higher than the forecast actuarial loss of \$889m.</p>
Net worth	\$3,760 million (higher than forecast)	Net worth was higher than expected, due mainly to the lower than forecast operating balance deficit mentioned earlier.

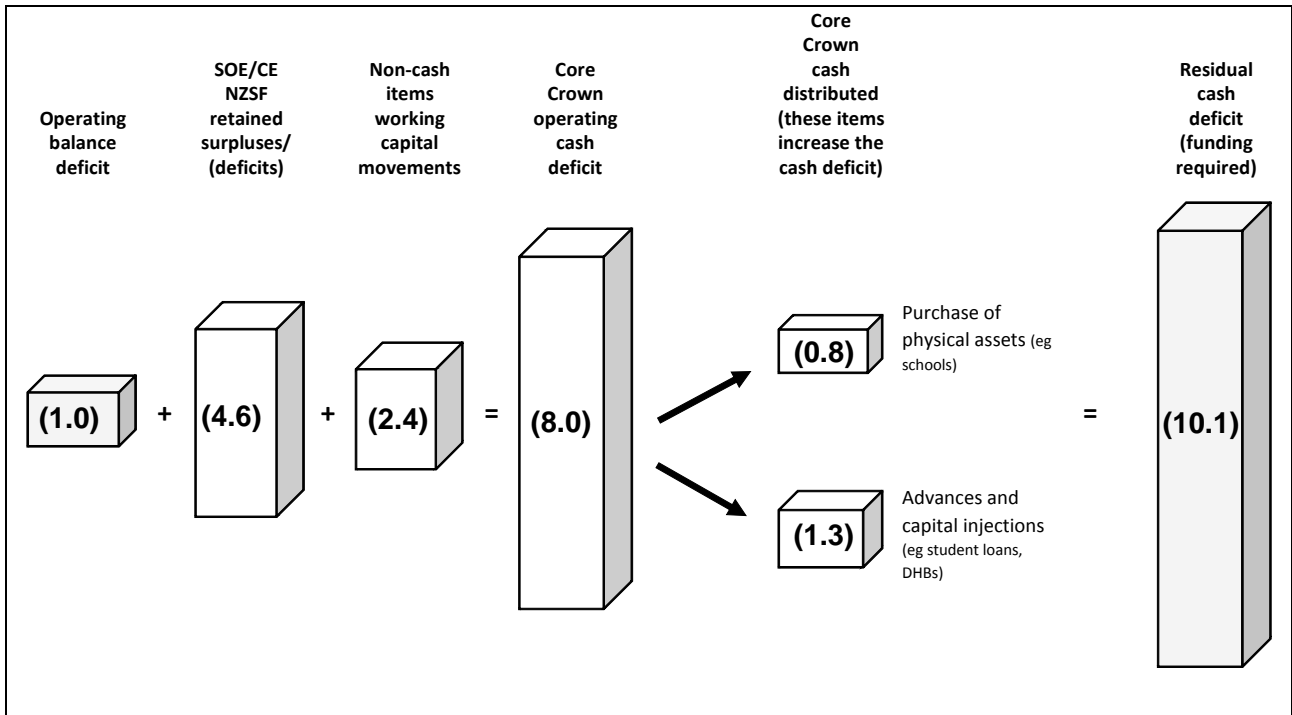
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		Ref	31 Jan 2011 Actual \$m	31 Jan 2011 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
		Taxation as a % of GDP		1	26.9%	27.1%			26.0%
Operating revenue Ensure sufficient revenue to meet the operating balance objective		Core Crown taxation revenue ...			29,924	30,157	(233)	(0.8)	52,527
		... combined with other core Crown revenue ...			2,566	2,992	(426)	(14.2)	5,919
		... fund core Crown expenses...			(38,463)	(38,830)	367	0.9	(70,560)
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective		... and with SOE and Crown entity results and core Crown gains and losses...			4,975	929	4,046	435.5	2,998
		... result in an operating surplus or deficit...			(998)	(4,752)	3,754	79.0	(9,116)
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective		...with income in SOEs, CEs and the NZS Fund retained...			(4,568)	(894)	(3,674)	(411.0)	(2,984)
		... and some items do not impact cash ...			(2,406)	(2,143)	(263)	(12.3)	2,203
		... leaving operating cash flows to ...			(7,972)	(7,789)	(183)	(2.3)	(9,897)
		... build up assets in the NZS Fund ...			-	-	-	-	-
	... meet the capital expenditure budget ...			(866)	(1,059)	193	18.2	(2,264)	
	... and make advances (e.g. to students and DHBs)			(1,307)	(1,217)	(90)	(7.4)	(3,441)	
	With the residual cash ...			(10,145)	(10,065)	(80)	(0.8)	(15,602)	
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP and brought back to a level no higher than 20% of GDP by the early 2020's		... when combined with opening net debt ...			26,738	26,738	-	-	26,738
		... and other fair value movements in financial assets and financial liabilities ...			85	373	288	77.2	(262)
		... results in a closing net debt ...			36,968	37,176	208	0.6	42,078
		... and as a % of GDP			19.4%	19.5%			20.8%

¹ GDP for the seven months ended 31 January 2011 (actual and forecast) is the actual data for the year ended 30 September 2010 (Source: Statistics New Zealand) pro-rated for seven months.

Figure 1 – Application of core Crown cash flows (\$billions)

This diagram shows how the Operating Balance translates into cash available to the core Crown and how this cash was spent.



YEAR - ON - YEAR PERSPECTIVE

Table 5 – Comparison with previous year

	January 2011 Actual \$m	January 2010 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	29,924	29,057	867	3.0
Other revenue	2,566	3,344	(778)	(23.3)
Total Core Crown Revenue	32,490	32,401	89	0.3
Core Crown expenses				
Social security and welfare	12,554	12,127	427	3.5
GSF pension expenses	179	191	(12)	(6.3)
Health	7,960	7,618	342	4.5
Education	6,447	6,412	35	0.5
Core government services	1,916	1,820	96	5.3
Law and order	1,949	1,822	127	7.0
Defence	1,034	1,019	15	1.5
Transport and communications	1,293	1,141	152	13.3
Economic and industrial services	1,485	1,641	(156)	(9.5)
Primary services	385	270	115	42.6
Heritage, culture and recreation	1,075	546	529	96.9
Housing and community development	210	199	11	5.5
Other	291	61	230	377.0
Finance costs	1,685	1,302	383	29.4
Total Core Crown Expenses	38,463	36,169	2,294	6.3
Net surplus of SOE/CE's (and inter-segment eliminations)	(234)	407	(641)	(157.5)
OBEGAL	(6,207)	(3,361)	(2,846)	(84.7)
Total gains/(losses)	5,073	2,754	2,319	84.2
Other operating items	136	(23)	159	-
Operating Balance	(998)	(630)	(368)	(58.4)
Core Crown residual cash	(10,145)	(5,188)	(4,957)	(95.5)
Debt indicators				
Gross debt²	63,048	48,791	14,257	29.2
Net debt³	36,968	22,820	14,148	62.0

1 Due to the seasonal nature of some expenditure it is not appropriate to annualise these changes.

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

3 Net core Crown debt excluding NZS Fund, student loans and other advances.

Revenue and Expenses

Core Crown taxation revenue for the seven months ended 31 January 2011 increased by \$0.9 billion (3.0%) on the same period last year. Corporate tax and GST were the largest contributors to the rise in tax revenue as business profitability and consumer spending have recovered following the recession of 2008/09 and the October 2010 GST rate rise flowed into the tax result.

Other core Crown revenue decreased \$0.8 billion (23.3%) from the same period last year largely due to dividends returned by energy companies in the early months of the 2010 financial year that were not repeated in the current financial year.

Total **core Crown expenses** have increased by \$2.3 billion (6.3%) on the same period last year. The significant movements in core Crown functional expenses were as follows:

Functional expense	Movement from previous year	Main drivers of the change
Heritage, Culture and recreation	+ \$0.5 billion	<ul style="list-style-type: none">Free allocation of NZ units under the Emissions Trading Scheme.
Social Security and Welfare	+ \$0.4 billion	<ul style="list-style-type: none">Indexation of welfare benefits and higher beneficiary recipient numbers
Finance Costs	+ \$0.4 billion	<ul style="list-style-type: none">A result of increased debt levels
Health	+ \$0.3 billion	<ul style="list-style-type: none">Funding provided in the 2010 Budget to maintain and improve existing service levels
Other	+ \$0.7 billion	
Total	+ \$2.3 billion	

Debt

Both **net** and **gross debt** have increased as a result of the issuance of debt (primarily Government Stock) and the reduction in financial assets to meet cash deficits.



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

These financial statements are the consolidated financial statements for the Government reporting entity as specified in Part III of the Public Finance Act 1989. This comprises:

- Ministers of the Crown
- Reserve Bank of New Zealand
- Government Superannuation Fund
- Crown Entities
- Departments
- State Owned Enterprises (SOEs)
- Air New Zealand Limited
- New Zealand Superannuation Fund

A schedule of the entities that are included in the Government reporting entity was set out on pages 83 and 84 of the *2010 Half Year Economic and Fiscal Update* released on 14 December 2010.

With the exception of the 30 June 2010 comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

2 General Accounting Policies

These financial statements comply with generally accepted accounting practice and with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for public benefit entities. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), commercial forests; and marketable securities, deposits and equity investments held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

These financial statements have been prepared on a going concern basis. All other policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed on the Treasury's internet site:

<http://www.treasury.govt.nz/publications/guidance/reporting/accounting>

4 Forecasts

The forecasts in these financial statements have been derived from the forecasts released in the *2010 Half Year Economic and Fiscal Update (HYEFU)*, on 14 December 2010.

The accounting policies underlying the preparation of forecasts are set out in the Statement of Accounting Policies reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/hyefu2010>

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

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

6 Variance Percentages

Percentage variances between the actual and comparative balances exceeding 500% are not shown.

STATEMENT OF FINANCIAL PERFORMANCE

for the seven months ended 31 January 2011

Year to 30 Jun 2010	7 months to 31 Jan 2010		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
50,347	28,775	Taxation revenue	1	29,574	29,829	(255)	(0.9)	52,072
4,682	2,702	Other sovereign revenue	1	2,902	3,106	(204)	(6.6)	5,700
55,029	31,477	Total Revenue Levied through the Crown's Sovereign Power		32,476	32,935	(459)	(1.4)	57,772
14,331	8,227	Sales of goods and services		8,867	8,834	33	0.4	15,591
2,315	1,596	Interest revenue and dividends	2	1,393	1,538	(145)	(9.4)	2,888
3,050	1,544	Other revenue		3,201	2,254	947	42.0	3,608
19,696	11,367	Total revenue earned through the Crown's operations		13,461	12,626	835	6.6	22,087
74,725	42,844	Total revenue (excluding gains)		45,937	45,561	376	0.8	79,859
		Expenses						
21,213	12,345	Social assistance and official development assistance	3	12,832	12,967	135	1.0	22,411
18,477	10,690	Personnel expenses	4	10,971	10,942	(29)	(0.3)	18,939
4,229	2,370	Depreciation and amortisation	5	2,468	2,475	7	0.3	4,344
31,338	17,373	Other operating expenses	5	19,002	19,445	443	2.3	37,133
2,777	1,817	Interest expenses	6	2,178	2,094	(84)	(4.0)	3,388
3,006	1,610	Insurance expenses	7	4,693	3,856	(837)	(21.7)	5,362
-	-	Forecast new operating spending	5	-	-	-	-	230
-	-	Top-down expense adjustment	5	-	(128)	(128)	(100.0)	(850)
81,040	46,205	Total expenses (excluding losses)		52,144	51,651	(493)	(1.0)	90,957
(6,315)	(3,361)	Operating balance before gains/(losses)		(6,207)	(6,090)	(117)	(1.9)	(11,098)
2,522	2,647	Net gains/(losses) on financial instruments	8	3,998	1,859	2,139	115.1	2,227
(960)	107	Net gains/(losses) on non-financial instruments	9	1,075	(677)	1,752	258.8	(557)
1,562	2,754	Total gains/(losses)		5,073	1,182	3,891	329.2	1,670
227	(23)	Net surplus/(deficit) from associates and joint ventures		137	156	(19)	(12.2)	317
(4,526)	(630)	Operating balance from continuing activities		(997)	(4,752)	3,755	79.0	(9,111)
-	-	Gain/(loss) from discontinued operations		(1)	-	(1)	-	(5)
(4,526)	(630)	Operating balance (including minority interest)		(998)	(4,752)	3,754	79.0	(9,116)
17	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(4,509)	(630)	Operating balance	10	(998)	(4,752)	3,754	79.0	(9,116)

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF COMPREHENSIVE INCOME

for the seven months ended 31 January 2011

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
(4,526)	(630)	Operating Balance (including minority interest)	(998)	(4,752)	3,754	79.0	(9,116)
		Other comprehensive income					
196	6	Revaluation of physical assets	(51)	(36)	(15)	(41.7)	(41)
(112)	(194)	Effective portion of changes in value of cash flow hedges	4	(34)	38	111.8	5
(62)	-	Net change in fair value of cash flow hedges transferred to operating balance	(16)	(17)	1	5.9	-
(3)	21	Net change in fair value of cash flow hedges transferred to the hedged item	12	(3)	15	-	(14)
(11)	(15)	Foreign currency translation differences for foreign operations	(19)	(6)	(13)	(216.7)	(25)
3	-	Valuation gains/(losses) on investments available for sale taken to reserves	(3)	4	(7)	(175.0)	9
(1)	(3)	Other movements	(1)	12	(13)	(108.3)	3
10	(185)	Total other comprehensive income	(74)	(80)	6	7.5	(63)
(4,516)	(815)	Total comprehensive income	(1,072)	(4,832)	3,760	77.8	(9,179)
		Attributable to:					
(34)	-	- minority interest in Air New Zealand	-	-	-	-	-
(4,482)	(815)	- the Crown	(1,072)	(4,832)	3,760	77.8	(9,179)
(4,516)	(815)	Total comprehensive income	(1,072)	(4,832)	3,760	77.8	(9,179)

The accompanying notes and accounting policies are an integral part of these statements.

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the seven months ended 31 January 2011

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Total Crown expenses							
24,206	13,737	Social security and welfare	14,410	14,607	197	1.3	25,708
333	195	GSF pension expenses	183	184	1	0.5	312
12,673	7,409	Health	7,597	7,587	(10)	(0.1)	13,308
12,440	6,971	Education	7,128	7,255	127	1.8	12,793
2,830	1,758	Core government services	1,902	1,972	70	3.5	3,919
3,354	1,936	Law and order	2,059	2,071	12	0.6	3,689
1,771	992	Defence	1,018	1,059	41	3.9	1,922
7,991	4,553	Transport and communications	4,743	4,789	46	1.0	8,464
7,541	4,061	Economic and industrial services	7,241	6,452	(789)	(12.2)	10,424
1,373	860	Primary services	913	949	36	3.8	1,690
2,584	1,239	Heritage, culture and recreation	1,880	1,844	(36)	(2.0)	3,525
1,087	616	Housing and community development	601	639	38	5.9	1,823
80	61	Other	291	277	(14)	(5.1)	612
2,777	1,817	Finance costs	2,178	2,094	(84)	(4.0)	3,388
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(128)	(128)	(100.0)	(850)
81,040	46,205	Total Crown expenses excluding losses	52,144	51,651	(493)	(1.0)	90,957

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by the Crown, Departments and the Reserve Bank, but not Crown entities and SOEs.

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Core Crown expenses							
21,185	12,127	Social security and welfare	12,554	12,617	63	0.5	22,052
328	191	GSF pension expenses	179	179	-	-	304
13,128	7,618	Health	7,960	8,000	40	0.5	13,956
11,724	6,412	Education	6,447	6,513	66	1.0	12,048
2,974	1,820	Core government services	1,916	2,026	110	5.4	4,069
3,191	1,822	Law and order	1,949	1,976	27	1.4	3,481
1,814	1,019	Defence	1,034	1,088	54	5.0	1,972
2,345	1,141	Transport and communications	1,293	1,333	40	3.0	2,563
2,839	1,641	Economic and industrial services	1,485	1,525	40	2.6	2,989
507	270	Primary services	385	421	36	8.6	792
1,281	546	Heritage, culture and recreation	1,075	1,061	(14)	(1.3)	2,187
306	199	Housing and community development	210	228	18	7.9	1,073
80	61	Other	291	277	(14)	(5.1)	612
2,311	1,302	Finance costs	1,685	1,714	29	1.7	3,082
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(128)	(128)	(100.0)	(850)
64,013	36,169	Core Crown expenses excluding losses	38,463	38,830	367	0.9	70,560

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF CASH FLOWS

for the seven months ended 31 January 2011

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
50,104	28,992	Taxation receipts	28,979	29,075	(96)	(0.3)	51,665
4,268	2,613	Other sovereign receipts	2,991	3,033	(42)	(1.4)	4,797
14,411	8,908	Sales of goods and services	8,893	9,123	(230)	(2.5)	15,232
2,378	1,690	Interest and dividends	1,552	1,639	(87)	(5.3)	2,650
2,974	1,343	Other operating receipts	1,680	1,745	(65)	(3.7)	3,452
74,135	43,546	Total cash provided from operations	44,095	44,615	(520)	(1.2)	77,796
		Cash was disbursed to					
		Social assistance and official development assistance	13,405	13,521	116	0.9	22,436
21,335	12,541	Personnel and operating payments	33,575	33,923	348	1.0	57,679
50,767	30,251	Interest payments	1,539	1,777	238	13.4	3,190
2,420	1,531	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(128)	(128)	(100.0)	(850)
-	-						
74,522	44,323	Total cash disbursed to operations	48,519	49,093	574	1.2	82,685
(387)	(777)	Net cash flows from operations	(4,424)	(4,478)	54	1.2	(4,889)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,865)	(3,421)	Net purchase of physical assets	(3,822)	(3,947)	125	3.2	(7,718)
2,092	673	Net purchase of shares and other securities	(1,319)	1,278	(2,597)	(203.2)	281
(377)	(184)	Net purchase of intangible assets	(236)	(249)	13	5.2	(537)
(310)	519	Net (issue)/repayment of advances	(126)	(310)	184	59.4	(1,503)
(198)	24	Net acquisition of investments in associates	33	27	6	22.2	(122)
-	-	Capital contingency provision	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	70	(70)	(100.0)	350
(4,658)	(2,389)	Net cash flows from investing activities	(5,470)	(3,131)	(2,339)	(74.7)	(9,541)
(5,045)	(3,166)	Net cash flows from operating and investing activities	(9,894)	(7,609)	(2,285)	(30.0)	(14,430)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
15	174	Issues of circulating currency	303	74	229	309.5	117
7,157	3,119	Net issue/(repayment) of Government stock ¹	9,434	8,966	468	5.2	13,753
		Net issue/(repayment) of foreign currency borrowing	2,079	(2,838)	4,917	173.3	(4,789)
3,296	2,781	Net issue/(repayment) of other New Zealand dollar borrowing	(1,262)	3,946	(5,208)	(132.0)	7,384
(3,764)	(2,629)						
6,704	3,445	Net cash flows from financing activities	10,554	10,148	406	4.0	16,465
1,659	279	Net movement in cash	660	2,539	(1,879)	(74.0)	2,035
6,268	6,268	Opening Cash Balance	7,774	7,774	-	-	7,774
		Foreign-exchange gains/(losses) on opening cash	(289)	(121)	(168)	(138.8)	(122)
(153)	(214)						
7,774	6,333	Closing Cash Balance	8,145	10,192	(2,047)	(20.1)	9,687

1 Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, ACC and EQC. The Reconciliation of Core Crown Operating Cash Flows to Residual Core Crown Cash (note 18) outlines proceeds and repayments of domestic bonds.

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF CASH FLOWS (CONTINUED)

for the seven months ended 31 January 2011

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance					
(387)	(777)	Net Cash Flows from Operations	(4,424)	(4,478)	54	1.2	(4,889)
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
		Gains/(losses)					
2,522	2,647	Gains/(losses) on other financial instruments	3,998	1,859	2,139	115.1	2,227
(960)	107	Gains/(losses) on other non-financial instruments	1,075	(677)	1,752	258.8	(557)
1,562	2,754	Total gains/(losses)	5,073	1,182	3,891	329.2	1,670
		Other Non-cash Items in Operating Balance					
(4,229)	(2,370)	Depreciation and amortisation	(2,468)	(2,475)	7	0.3	(4,344)
(855)	(299)	Write-down on initial recognition of loans impairment on financial assets (excluding receivables)	(336)	(322)	(14)	(4.3)	(809)
33	1	Decrease/(increase) in defined benefit retirement plan liabilities	37	17	20	117.6	16
284	173	Decrease/(increase) in insurance liabilities	203	203	-	-	356
(974)	1,202	Other	(1,189)	(112)	(1,077)	-	(1,642)
244	(23)		139	160	(21)	(13.1)	317
(5,497)	(1,316)	Total other non-cash items	(3,614)	(2,529)	(1,085)	(42.9)	(6,106)
		Movements in Working Capital					
(338)	(2,605)	Increase/(decrease) in receivables	893	94	799	-	1,086
(420)	(379)	Increase/(decrease) in accrued interest	(796)	(419)	(377)	(90.0)	41
78	59	Increase/(decrease) in inventories	113	59	54	91.5	86
18	194	Increase/(decrease) in prepayments	266	142	124	87.3	(12)
(202)	(151)	Decrease/(increase) in deferred revenue	(35)	-	(35)	-	192
677	1,591	Decrease/(increase) in payables	1,526	1,197	329	27.5	(1,184)
(187)	(1,291)	Total movements in working capital	1,967	1,073	894	83.3	209
(4,509)	(630)	Operating Balance	(998)	(4,752)	3,754	79.0	(9,116)

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF CHANGES IN NET WORTH

for the seven months ended 31 January 2011

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
99,515	99,515	Opening net worth	94,988	94,988	-	-	94,988
(4,526)	(630)	Operating balance (including minority interest)	(998)	(4,752)	3,754	79.0	(9,116)
196	6	Net revaluations	(51)	(36)	(15)	(41.7)	(41)
(96)	(195)	Transfers to/(from) reserves (Gains)/losses transferred to the statement of financial performance	1	(30)	31	103.3	8
(60)	-		(16)	(16)	-	-	-
(30)	4	Other movements	(8)	2	(10)	-	(30)
(4,516)	(815)	Total comprehensive income	(1,072)	(4,832)	3,760	77.8	(9,179)
(11)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
94,988	98,700	Closing net worth	93,916	90,156	3,760	4.2	85,809

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF FINANCIAL POSITION

as at 31 January 2011

As at 30 Jun 2010 Actual \$m	As at 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m	
			Note	Actual \$m	Forecast \$m	Variance \$m		%
Assets								
7,774	6,333	Cash and cash equivalents	11	8,145	10,192	(2,047)	(20.1)	9,687
13,884	11,884	Receivables	11	16,435	13,690	2,745	20.1	14,970
43,687	44,427	Marketable securities, deposits and derivatives in gain	11	43,526	41,012	2,514	6.1	42,375
12,179	13,124	Share investments	11	13,985	12,806	1,179	9.2	13,704
18,447	17,150	Advances	11	19,216	19,465	(249)	(1.3)	19,642
1,160	1,141	Inventory		1,272	1,218	54	4.4	1,245
1,661	1,748	Other assets		1,948	1,829	119	6.5	1,705
113,330	111,182	Property, plant & equipment	12	114,743	115,102	(359)	(0.3)	117,328
9,049	8,796	Equity accounted investments ¹		9,300	9,249	51	0.6	9,345
2,184	2,120	Intangible assets and goodwill ²		2,203	2,200	3	0.1	2,369
-	-	Forecast for new capital spending		-	-	-	-	292
-	-	Top-down capital adjustment		-	(70)	70	100.0	(350)
223,355	217,905	Total assets		230,773	226,693	4,080	1.8	232,312
Liabilities								
4,020	4,179	Issued currency		4,323	4,095	(228)	(5.6)	4,137
9,931	7,464	Payables	14	8,158	8,084	(74)	(0.9)	9,562
1,628	1,577	Deferred revenue		1,663	1,628	(35)	(2.1)	1,436
69,733	66,568	Borrowings		80,260	79,662	(598)	(0.8)	85,876
27,131	25,110	Insurance liabilities	15	27,439	28,132	693	2.5	29,604
9,940	9,014	Retirement plan liabilities		9,593	9,593	-	-	9,436
5,984	5,293	Provisions	16	5,421	5,343	(78)	(1.5)	6,452
128,367	119,205	Total liabilities		136,857	136,537	(320)	(0.2)	146,503
94,988	98,700	Total assets less total liabilities		93,916	90,156	3,760	4.2	85,809
Net Worth								
31,087	35,961	Taxpayer funds	17	30,218	26,387	3,831	14.5	22,010
63,593	62,406	Revaluation reserve	17	63,412	63,516	(104)	(0.2)	63,516
(94)	(114)	Other reserves	17	(116)	(149)	33	22.1	(119)
94,586	98,253	Total net worth attributable to the Crown		93,514	89,754	3,760	4.2	85,407
402	447	Net worth attributable to minority interest in Air New Zealand		402	402	-	-	402
94,988	98,700	Total net worth		93,916	90,156	3,760	4.2	85,809

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets include the Kyoto net asset of \$216 million.

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF BORROWINGS

as at 31 January 2011

As at 30 Jun 2010 Actual \$m	As at 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
27,926	24,478	Government stock ¹	37,714	36,029	(1,685)	(4.7)	40,153
7,625	8,004	Treasury bills	7,562	7,499	(63)	(0.8)	7,428
309	349	Government retail stock	275	295	20	6.8	295
6,679	7,618	Settlement deposits with Reserve Bank	6,814	7,108	294	4.1	7,108
2,376	2,274	Derivatives in loss	1,931	1,779	(152)	(8.5)	1,555
920	923	Finance lease liabilities	843	825	(18)	(2.2)	1,052
23,898	22,922	Other borrowings	25,121	26,127	1,006	3.9	28,285
69,733	66,568	Total borrowings	80,260	79,662	(598)	(0.8)	85,876
50,017	47,629	Sovereign-guaranteed debt	59,572	58,382	(1,190)	(2.0)	64,188
19,716	18,939	Non sovereign-guaranteed debt	20,688	21,280	592	2.8	21,688
69,733	66,568	Total borrowings	80,260	79,662	(598)	(0.8)	85,876
Net Debt:							
58,583	54,449	Core Crown borrowings ²	68,155	67,071	(1,084)	(1.6)	73,001
308	420	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	191	173	(18)	(10.4)	58
58,891	54,869	Gross sovereign-issued debt³	68,346	67,244	(1,102)	(1.6)	73,059
57,209	57,109	Less core Crown financial assets ⁴	58,389	56,597	1,792	3.2	58,816
1,682	(2,240)	Net core Crown debt (incl NZS Fund)⁵	9,957	10,647	690	6.5	14,243
14,189	14,300	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	15,688	15,213	475	3.1	15,785
15,871	12,060	Net core Crown debt (excl NZS Fund)⁵	25,645	25,860	215	0.8	30,028
10,867	10,760	Core crown advances	11,323	11,316	(7)	(0.1)	12,050
26,738	22,820	Net core Crown debt (excl NZS Fund and advances)⁷	36,968	37,176	208	0.6	42,078
Gross Debt:							
58,891	54,869	Gross sovereign-issued debt ³	68,346	67,244	(1,102)	(1.6)	73,059
(6,900)	(7,678)	Less Reserve Bank settlement cash and Reserve Bank bills	(6,898)	(7,259)	(361)	(5.0)	(7,259)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
53,591	48,791	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	63,048	61,585	(1,463)	(2.4)	67,400

Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts of financial position).
- 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.
- Core Crown financial assets exclude receivables.
- 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 credit-worthiness of a country.
- 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.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

The accompanying notes and accounting policies are an integral part of these statements.

STATEMENT OF COMMITMENTS

as at 31 January 2011

	As at 31 Jan 2011 \$m	As at 30 Jun 2010 \$m	As at 31 Jan 2010 \$m
Capital Commitments			
Specialist military equipment	388	422	556
Land and buildings	821	849	750
Other property, plant and equipment	6,912	6,370	4,665
Other capital commitments	228	224	427
Tertiary Education Institutions	302	302	245
Total capital commitments	8,651	8,167	6,643
Operating Commitments			
Non-cancellable accommodation leases	2,922	2,862	2,655
Other non-cancellable leases	3,223	3,230	2,126
Non-cancellable contracts for the supply of goods and services	2,322	2,258	2,206
Other operating commitments	8,903	9,376	10,251
Tertiary Education Institutions	304	304	335
Total operating commitments	17,674	18,030	17,573
Total commitments	26,325	26,197	24,216
Total Commitments by Segment			
Core Crown	13,200	20,983	13,445
Crown entities	12,819	13,811	15,193
State-owned Enterprises	7,817	7,242	5,447
Inter-segment eliminations	(7,511)	(15,839)	(9,869)
Total commitments	26,325	26,197	24,216

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 January 2011

	As at 31 Jan 2011 \$m	As at 30 Jun 2010 \$m	As at 31 Jan 2010 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	102	106	110
Uncalled capital	4,245	2,310	2,331
Legal proceedings and disputes	399	414	344
Other contingent liabilities	3,431	3,535	3,907
Total quantifiable contingent liabilities	8,177	6,365	6,692
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	7,848	6,050	6,501
Crown entities	260	171	79
State-owned Enterprises	69	144	112
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	8,177	6,365	6,692
Quantifiable Contingent Assets			
Core Crown	650	570	304
Crown entities	3	2	3
Total quantifiable contingent assets	653	572	307

The above table does not include:

- i) the guarantee schemes in relation to financial institution deposits. Refer note 19 for information.
- ii) unquantified costs relating to Canterbury's Earthquake and aftershocks. Refer note 20 for more information.

The accompanying notes and accounting policies are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
21,774	12,945	Source deductions	12,621	12,299	322	2.6	20,376
3,987	2,273	Other persons	2,008	2,125	(117)	(5.5)	3,883
(1,831)	(983)	Refunds	(906)	(904)	(2)	(0.2)	(1,629)
461	274	Fringe benefit tax	273	274	(1)	(0.4)	441
24,391	14,509	Total individuals	13,996	13,794	202	1.5	23,071
Corporate Tax							
6,698	2,966	Gross companies tax	3,473	3,692	(219)	(5.9)	7,897
(379)	(197)	Refunds	(95)	(126)	31	24.6	(371)
884	639	Non-resident withholding tax	318	302	16	5.3	495
(3)	(3)	Foreign-source dividend w/holding payments	(1)	-	(1)	-	2
7,200	3,405	Total corporate tax	3,695	3,868	(173)	(4.5)	8,023
Other Income Tax							
1,804	983	Resident w/holding tax on interest income	918	900	18	2.0	1,589
130	74	Resident w/holding tax on dividend income	106	119	(13)	(10.9)	221
2	1	Estate and gift duties	1	1	-	-	1
1,936	1,058	Total other income tax	1,025	1,020	5	0.5	1,811
33,527	18,972	Total income tax	18,716	18,682	34	0.2	32,905
Goods and Services Tax							
19,797	11,513	Gross goods and services tax	13,041	13,367	(326)	(2.4)	23,726
(7,880)	(4,648)	Refunds	(5,362)	(5,403)	41	0.8	(9,703)
11,917	6,865	Total goods and services tax	7,679	7,964	(285)	(3.6)	14,023
Other Taxation							
910	514	Road user charges	576	562	14	2.5	963
805	512	Petroleum fuels excise - domestic production	556	564	(8)	(1.4)	895
600	371	Alcohol excise - domestic production	414	398	16	4.0	625
217	135	Tobacco excise - domestic production	145	155	(10)	(6.5)	194
622	336	Petroleum fuels excise - imports ¹	350	345	5	1.4	597
225	141	Alcohol excise - imports ¹	145	151	(6)	(4.0)	234
851	523	Tobacco excise - imports ¹	602	581	21	3.6	908
175	109	Other customs duty	112	130	(18)	(13.8)	220
219	134	Gaming duties	120	128	(8)	(6.3)	218
171	98	Motor vehicle fees	99	103	(4)	(3.9)	176
69	42	Approved issuer levy and cheque duty	38	44	(6)	(13.6)	76
39	23	Energy resources levies	22	22	-	-	38
4,903	2,938	Total other indirect taxation	3,179	3,183	(4)	(0.1)	5,144
16,820	9,803	Total indirect taxation	10,858	11,147	(289)	(2.6)	19,167
50,347	28,775	Total taxation revenue	29,574	29,829	(255)	(0.9)	52,072
Other Sovereign Revenue (accrual)							
3,261	1,857	ACC levies	2,079	2,167	(88)	(4.1)	3,855
301	188	Fire Service levies	194	194	-	-	306
86	50	EQC levies	50	51	(1)	(2.0)	87
1,034	607	Other miscellaneous items	579	694	(115)	(16.6)	1,452
4,682	2,702	Total other sovereign revenue	2,902	3,106	(204)	(6.6)	5,700
55,029	31,477	Total sovereign revenue	32,476	32,935	(459)	(1.4)	57,772

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
21,744	12,752	Source deductions	12,479	12,288	191	1.6	20,483
4,630	2,404	Other persons	2,233	2,284	(51)	(2.2)	4,319
(2,793)	(1,811)	Refunds	(1,615)	(1,569)	(46)	(2.9)	(2,298)
469	337	Fringe benefit tax	331	327	4	1.2	440
24,050	13,682	Total individuals	13,428	13,330	98	0.7	22,944
Corporate Tax							
8,650	5,034	Gross companies tax	4,300	4,487	(187)	(4.2)	8,908
(1,644)	(853)	Refunds	(430)	(542)	112	20.7	(1,141)
889	653	Non-resident withholding tax	323	302	21	7.0	494
6	6	Foreign-source dividend w/holding payments	(2)	-	(2)	-	2
7,901	4,840	Total corporate tax	4,191	4,247	(56)	(1.3)	8,263
Other Income Tax							
1,833	1,035	Resident w/holding tax on interest income	963	917	46	5.0	1,588
114	77	Resident w/holding tax on dividend income	111	121	(10)	(8.3)	221
2	1	Estate and gift duties	1	1	-	-	1
1,949	1,113	Total other income tax	1,075	1,039	36	3.5	1,810
33,900	19,635	Total income tax	18,694	18,616	78	0.4	33,017
Goods and Services Tax							
18,797	10,802	Gross goods and services tax	11,899	12,129	(230)	(1.9)	22,562
(7,456)	(4,340)	Refunds	(4,745)	(4,825)	80	1.7	(9,059)
11,341	6,462	Total goods and services tax	7,154	7,304	(150)	(2.1)	13,503
Other Taxation							
908	514	Road user charges	575	542	33	6.1	963
805	479	Petroleum fuels excise - domestic production	513	536	(23)	(4.3)	895
622	383	Alcohol excise - domestic production	389	372	17	4.6	625
214	149	Tobacco excise - domestic production	153	174	(21)	(12.1)	194
1,805	1,061	Customs duty	1,238	1,233	5	0.4	1,959
218	134	Gaming duties	125	129	(4)	(3.1)	219
195	111	Motor vehicle fees	77	103	(26)	(25.2)	176
59	44	Approved issuer levy and cheque duty	39	44	(5)	(11.4)	76
37	20	Energy resources levies	22	22	-	-	38
4,863	2,895	Total other indirect taxation	3,131	3,155	(24)	(0.8)	5,145
16,204	9,357	Total indirect taxation	10,285	10,459	(174)	(1.7)	18,648
50,104	28,992	Total tax receipts collected	28,979	29,075	(96)	(0.3)	51,665
Other Sovereign Receipts (cash)							
3,291	2,026	ACC levies	2,344	2,374	(30)	(1.3)	3,760
301	188	Fire Service levies	194	194	-	-	306
86	52	EQC levies	55	51	4	7.8	87
590	347	Other miscellaneous items	398	414	(16)	(3.9)	644
4,268	2,613	Total other sovereign receipts	2,991	3,033	(42)	(1.4)	4,797
54,372	31,605	Total sovereign receipts	31,970	32,108	(138)	(0.4)	56,462

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 2: Interest Revenue and Dividends					
		<i>By type</i>					
1,926	1,413	Interest revenue	1,193	1,270	(77)	(6.1)	2,432
389	183	Dividends	200	268	(68)	(25.4)	456
2,315	1,596	Total interest revenue and dividends	1,393	1,538	(145)	(9.4)	2,888
		<i>By source</i>					
2,135	1,404	Core Crown	826	1,134	(308)	(27.2)	2,128
1,146	561	Crown entities	530	660	(130)	(19.7)	1,075
626	596	State-owned Enterprises	415	353	62	17.6	859
(1,592)	(965)	Inter-segment eliminations	(378)	(609)	231	37.9	(1,174)
2,315	1,596	Total interest revenue and dividends	1,393	1,538	(145)	(9.4)	2,888
		NOTE 3: Social Assistance and Official Development Assistance					
8,290	4,815	New Zealand superannuation	5,106	5,106	-	-	8,817
1,693	986	Domestic purposes benefit	1,030	1,035	5	0.5	1,771
930	553	Unemployment benefit	576	584	8	1.4	980
1,303	764	Invalids benefit	767	768	1	0.1	1,314
2,168	1,270	Family tax credit	1,259	1,291	32	2.5	2,219
1,154	673	Accommodation supplement	707	711	4	0.6	1,214
710	414	Sickness benefit	433	430	(3)	(0.7)	726
570	297	Student allowances	335	339	4	1.2	624
411	242	Disability allowances	242	243	1	0.4	413
1,024	600	KiwiSaver	570	577	7	1.2	1,066
2,525	1,446	Other social assistance benefits	1,551	1,582	31	2.0	2,774
20,778	12,060	Total social assistance	12,576	12,666	90	0.7	21,918
435	285	Official development assistance	256	301	45	15.0	493
21,213	12,345	Total social assistance and official development assistance	12,832	12,967	135	1.0	22,411
		NOTE 4: Personnel Expenses					
5,991	3,521	Core Crown	3,437	3,462	25	0.7	5,979
10,043	5,763	Crown entities	5,997	5,993	(4)	(0.1)	10,318
2,455	1,411	State-owned Enterprises	1,543	1,492	(51)	(3.4)	2,651
(12)	(5)	Inter-segment eliminations	(6)	(5)	1	20.0	(9)
18,477	10,690	Total personnel expenses	10,971	10,942	(29)	(0.3)	18,939
		NOTE 5: Operating Expenses					
		<i>By type</i>					
4,229	2,370	Depreciation and amortisation	2,468	2,475	7	0.3	4,344
31,338	17,373	Other operating expenses	19,002	19,445	443	2.3	37,133
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(128)	(128)	(100.0)	(850)
35,567	19,743	Total operating expenses	21,470	21,792	322	1.5	40,857
		<i>By source</i>					
34,226	18,841	Core Crown	20,475	20,653	178	0.9	39,031
18,392	10,189	Crown entities	10,518	10,570	52	0.5	17,991
9,494	5,327	State-owned Enterprises	5,613	5,838	225	3.9	10,356
(26,545)	(14,614)	Inter-segment eliminations	(15,136)	(15,269)	(133)	(0.9)	(26,521)
35,567	19,743	Total operating expenses	21,470	21,792	322	1.5	40,857

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	7 months to 31 Jan 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 6: Interest Expenses							
<i>By type</i>							
2,724	1,774	Interest on financial liabilities	2,144	2,051	(93)	(4.5)	3,303
53	43	Interest unwind on provisions	34	43	9	20.9	85
2,777	1,817	Total interest expenses	2,178	2,094	(84)	(4.0)	3,388
<i>By source</i>							
2,311	1,302	Core Crown	1,685	1,714	29	1.7	3,082
245	97	Crown entities	142	146	4	2.7	263
845	706	State-owned Enterprises	694	762	68	8.9	1,074
(624)	(288)	Inter-segment eliminations	(343)	(528)	(185)	(35.0)	(1,031)
2,777	1,817	Total interest expenses	2,178	2,094	(84)	(4.0)	3,388
NOTE 7: Insurance Expenses							
<i>By entity</i>							
2,922	1,557	ACC	1,704	1,809	105	5.8	3,298
64	39	EQC	2,966	2,026	(940)	(46.4)	2,046
20	14	Other insurance expenses	23	21	(2)	(9.5)	18
3,006	1,610	Total insurance expenses	4,693	3,856	(837)	(21.7)	5,362
NOTE 8: Gains and Losses on Financial Instruments							
<i>By source</i>							
2,094	1,803	Core Crown	3,055	1,183	1,872	158.2	1,902
787	980	Crown entities	1,049	633	416	65.7	615
(105)	(35)	State-owned Enterprises	27	191	(164)	(85.9)	(65)
(254)	(101)	Inter-segment eliminations	(133)	(148)	15	10.1	(225)
2,522	2,647	Net gains/(losses) on financial instruments	3,998	1,859	2,139	115.1	2,227
NOTE 9: Gains and Losses on Non-Financial Instruments							
<i>By type</i>							
(1,231)	(194)	Actuarial gains/(losses) on GSF liability	144	144	-	-	144
410	255	Actuarial gains/(losses) on ACC liability	881	(889)	1,770	199.1	(831)
(139)	46	Other	50	68	(18)	(26.5)	130
(960)	107	Net gains/(losses) on non-financial instruments	1,075	(677)	1,752	258.8	(557)
<i>By source</i>							
(1,351)	(212)	Core Crown	119	124	(5)	(4.0)	122
398	237	Crown entities	862	(896)	1,758	196.2	(846)
(7)	82	State-owned Enterprises	93	95	(2)	(2.1)	168
-	-	Inter-segment eliminations	1	-	1	-	(1)
(960)	107	Net gains/(losses) on non-financial instruments	1,075	(677)	1,752	258.8	(557)
NOTE 10: Operating Balance							
<i>By source</i>							
(7,000)	(2,235)	Core Crown	(2,775)	(4,341)	1,566	36.1	(10,022)
2,373	2,097	Crown entities	1,651	(497)	2,148	432.2	234
635	552	State-owned Enterprises	637	598	39	6.5	1,059
(517)	(1,044)	Inter-segment eliminations	(511)	(512)	1	0.2	(387)
(4,509)	(630)	Total operating balance	(998)	(4,752)	3,754	79.0	(9,116)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Jan 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
7,774	6,333	Cash and cash equivalents	8,145	10,192	(2,047)	(20.1)	9,687
6,864	6,407	Tax receivables	7,201	7,437	(236)	(3.2)	6,214
7,020	5,477	Trade and other receivables	9,234	6,253	2,981	47.7	8,756
6,790	6,676	Student loans	6,890	6,882	8	0.1	7,239
10,419	9,820	Kiwibank mortgages	11,011	11,343	(332)	(2.9)	11,106
2,784	2,103	Long-term deposits	2,691	3,005	(314)	(10.4)	2,712
2,199	2,279	IMF financial assets	2,205	2,431	(226)	(9.3)	2,430
1,238	654	Other advances	1,315	1,240	75	6.0	1,297
12,179	13,124	Share investments	13,985	12,806	1,179	9.2	13,704
2,972	2,827	Derivatives in gain	4,066	3,129	937	29.9	2,839
35,732	37,218	Other marketable securities	34,564	32,447	2,117	6.5	34,394
95,971	92,918	Total financial assets	101,307	97,165	4,142	4.3	100,378
Financial assets by entity							
23,097	22,876	NZDMO	23,615	23,095	520	2.3	24,216
19,125	19,309	Reserve Bank of New Zealand	18,211	17,873	338	1.9	17,965
15,552	15,419	NZ Superannuation Fund	18,005	16,021	1,984	12.4	16,610
16,643	16,700	Other core Crown	18,764	18,898	(134)	(0.7)	17,027
(8,437)	(8,721)	Intra-segment eliminations	(8,607)	(8,925)	318	3.6	(8,190)
65,980	65,583	Total core Crown segment	69,988	66,962	3,026	4.5	67,628
16,985	14,380	ACC portfolio	17,727	17,838	(111)	(0.6)	20,513
6,003	5,920	EQC portfolio	7,060	5,914	1,146	19.4	5,299
6,631	6,522	Other Crown entities	6,679	6,542	137	2	6,406
(1,483)	(1,378)	Intra-segment eliminations	(1,612)	(1,601)	(11)	(0.7)	(1,200)
28,136	25,444	Total Crown entities segment	29,854	28,693	1,161	4.0	31,018
16,064	15,628	Total State-owned enterprises segment	16,742	17,647	(905)	(5.1)	17,721
(14,209)	(13,737)	Inter-segment eliminations	(15,277)	(16,137)	860	5.3	(15,989)
95,971	92,918	Total financial assets	101,307	97,165	4,142	4.3	100,378

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Jan 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 12: Property, Plant and Equipment							
Net Carrying Value							
<i>By class of asset:</i>							
16,688	16,480	Land (valuation)	16,601	16,658	(57)	(0.3)	16,895
24,019	23,737	Buildings (valuation)	24,386	24,462	(76)	(0.3)	24,921
2,251	2,298	Electricity distribution network (cost)	2,366	2,494	(128)	(5.1)	2,722
13,642	11,684	Electricity generation assets (valuation)	13,789	13,802	(13)	(0.1)	13,830
1,731	1,985	Aircraft (excl military) (valuation)	2,072	1,880	192	10.2	1,842
24,838	24,450	State highways (valuation)	25,354	25,331	23	0.1	26,033
12,437	12,699	Rail network (valuation)	12,631	12,636	(5)	-	13,076
3,413	3,868	Specialist military equipment (valuation)	3,342	3,428	(86)	(2.5)	3,494
8,505	8,600	Specified cultural and heritage assets (valuation)	8,465	8,467	(2)	-	8,480
5,806	5,381	Other plant and equipment (cost)	5,737	5,944	(207)	(3.5)	6,035
113,330	111,182	Total net carrying value	114,743	115,102	(359)	(0.3)	117,328
<i>By source:</i>							
29,986		Core Crown	30,021	30,257	(236)	(0.8)	30,691
48,109		Crown entities	48,769	48,756	13	-	49,908
35,235		State-owned enterprises	35,953	36,089	(136)	(0.4)	36,729
-		Inter-segment eliminations	-	-	-	-	-
113,330		Total net carrying value	114,743	115,102	(359)	(0.3)	117,328
Movement note							
Cost or valuation							
119,547		Opening balance	123,941	123,941	-	-	123,941
6,555		Additions (refer below)	4,117	4,358	(241)	(5.5)	8,162
(977)		Disposals	(367)	(148)	(219)	(148.0)	(292)
(1,143)		Net revaluations	-	-	-	-	(41)
(41)		Other	(196)	(104)	(92)	(88.5)	232
123,941		Total cost or valuation	127,495	128,047	(552)	(0.4)	132,002
Accumulated depreciation and impairment							
9,412		Opening balance	10,611	10,611	-	-	10,611
(587)		Eliminated on disposal	(163)	(53)	(110)	(207.5)	(75)
(1,349)		Eliminated on revaluation	-	-	-	-	-
3,582		Depreciation expense	2,126	2,143	(17)	(0.8)	3,756
(447)		Other	178	244	(66)	(27.0)	382
10,611		Total accumulated depreciation and impairment	12,752	12,945	(193)	(1.5)	14,674
113,330		Total property, plant and equipment	114,743	115,102	(359)	(0.3)	117,328
Additions - by functional classification							
2,383		Transport and communications	1,682	1,585	97	6.1	2,764
1,425		Economic and industrial services	671	789	(118)	(15.0)	1,466
725		Education	504	547	(43)	(7.9)	983
430		Health	380	345	35	10.1	804
526		Defence	299	518	(219)	(42.3)	775
1,066		Other	581	574	7	1.2	1,371
6,555		Total additions	4,117	4,358	(241)	(5.5)	8,163

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	7 months to 31 Jan 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
433	207	Revenue	266	257	9	3.5	462
(27)	-	Less current tax expense	623	235	(388)	(165.1)	373
502	394	Less other expenses ¹	129	79	(50)	(63.3)	145
1,750	1,886	Add gains/(losses)	2,775	934	1,841	197.1	1,452
1,708	1,699	Operating balance	2,289	877	1,412	161.0	1,396
13,688	13,688	Opening net worth	15,656	15,656	-	-	15,656
250	250	Gross contribution from the Crown	-	-	-	-	-
1,708	1,699	Operating balance	2,289	877	1,412	161.0	1,396
10	(2)	Other movements in reserves	1	4	(3)	(75.0)	7
15,656	15,635	Closing net worth	17,946	16,537	1,409	8.5	17,059
<i>comprising:</i>							
15,552	15,419	Financial assets	18,005	16,021	1,984	12.4	16,610
(945)	(724)	Financial liabilities	(1,090)	(612)	(478)	(78.1)	(616)
1,049	940	Net other assets	1,031	1,128	(97)	(8.6)	1,065
15,656	15,635	Closing net worth	17,946	16,537	1,409	8.5	17,059
Core Crown revenue (excl NZS Fund)							
56,216	32,401	Core Crown revenue	32,490	33,149	(659)	(2.0)	58,446
433	207	Less NZS Fund revenue	266	257	9	3.5	462
(27)	-	Add back NZS Fund intra-segment revenue	623	235	388	165.1	373
55,756	32,194	Core Crown revenue (excl NZS Fund)	32,847	33,127	(280)	(0.8)	58,357
OBEGAL excluding NZS Fund							
(6,315)	(3,361)	Total Crown OBEGAL	(6,207)	(6,090)	(117)	(1.9)	(11,098)
433	207	Less NZS Fund revenue	266	257	9	3.5	462
81	43	Less NZS Fund external expenses	50	57	(7)	(12.3)	103
(27)	-	Add back NZS Fund tax	623	235	388	165.1	373
(6,694)	(3,525)	OBEGAL excluding NZS Fund	(5,800)	(6,055)	255	4.2	(11,084)

¹ NZS Fund other expenses include deferred tax expense/(credits)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Jan 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
6,703	4,692	Accounts payable	5,027	4,887	(140)	(2.9)	6,334
3,228	2,772	Taxes repayable	3,131	3,197	66	2.1	3,228
9,931	7,464	Total payables	8,158	8,084	(74)	(0.9)	9,562
NOTE 15: Insurance liabilities							
26,997	24,988	ACC liability	24,968	26,770	1,802	6.7	28,956
88	83	EQC liability	2,425	1,316	(1,109)	(84.3)	597
46	39	Other insurance liabilities	46	46	-	-	51
27,131	25,110	Total insurance liabilities	27,439	28,132	693	2.5	29,604
NOTE 16: Provisions							
74	-	Provision for ETS Credits	468	403	(65)	(16.2)	720
		Provision for the net cost of defaults under the					
		deposit guarantee scheme (refer note 19)	-	-	-	-	-
748	771						
1,007	941	Provision for National Provident Fund guarantee	995	996	1	0.1	965
2,836	2,479	Provision for employee entitlements	2,679	2,693	14	0.5	2,790
1,319	1,102	Other provisions	1,279	1,251	(28)	(2.2)	1,977
5,984	5,293	Total provisions	5,421	5,343	(78)	(1.5)	6,452
NOTE 17: Changes in Net Worth							
36,382	36,382	Opening taxpayers funds	31,087	31,087	-	-	31,087
(4,509)	(630)	Operating balance excluding minority interest	(998)	(4,752)	3,754	79.0	(9,116)
(786)	209	Transfers from/(to) other reserves	129	52	77	148.1	39
31,087	35,961	Closing taxpayers funds	30,218	26,387	3,831	14.5	22,010
62,612	62,612	Opening revaluation reserve	63,593	63,593	-	-	63,593
196	6	Net revaluations	(51)	(36)	(15)	(41.7)	(41)
785	(212)	Transfers from/(to) other reserves	(130)	(41)	(89)	(217.1)	(36)
63,593	62,406	Closing revaluation reserve	63,412	63,516	(104)	(0.2)	63,516
74	74	Opening other reserves	(94)	(94)	-	-	(94)
(168)	(188)	Net movements	(22)	(55)	33	60.0	(25)
(94)	(114)	Closing other reserves	(116)	(149)	33	22.1	(119)

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Year to 30 Jun 2010 \$m	7 months to 31 Jan 2010 \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	% %	Annual Forecast \$m
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
50,631	29,199	Total tax receipts	29,477	29,407	70	0.2	52,231
566	327	Total other sovereign receipts	388	392	(4)	(1.0)	607
1,897	1,283	Interest, profits and dividends	606	776	(170)	(21.9)	1,449
2,658	1,694	Sale of goods & services and other receipts	1,056	1,256	(200)	(15.9)	2,561
(21,605)	(12,699)	Subsidies and transfer payments	(13,437)	(13,552)	115	0.8	(22,491)
(37,157)	(21,945)	Personnel and operating costs	(24,869)	(24,932)	63	0.3	(42,127)
(1,981)	(957)	Finance costs	(1,193)	(1,264)	71	5.6	(2,747)
-	-	Forecast for future new operating spending	-	-	-	-	(230)
-	-	Top-down expense adjustment	-	128	(128)	(100.0)	850
(4,991)	(3,098)	Net cash flows from core Crown operations	(7,972)	(7,789)	(183)	(2.3)	(9,897)
(1,778)	(971)	Net purchase of physical assets	(866)	(1,129)	263	23.3	(2,322)
(926)	(204)	Net increase in advances	(423)	(400)	(23)	(5.8)	(1,718)
(1,055)	(665)	Net purchase of investments	(884)	(817)	(67)	(8.2)	(1,723)
(250)	(250)	Contribution to NZ Superannuation Fund	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	70	(70)	(100.0)	350
(9,000)	(5,188)	Residual cash	(10,145)	(10,065)	(80)	(0.8)	(15,602)
Financed by:							
2,002	1,487	Other net sale/(purchase) of marketable securities and deposits	(422)	1,209	(1,631)	(134.9)	860
(6,998)	(3,701)	Total operating and investing activities	(10,567)	(8,856)	(1,711)	(19.3)	(14,742)
Used in:							
(3,938)	(2,811)	Net (repayment)/issue of other New Zealand dollar borrowing	(1,519)	3,412	(4,931)	(144.5)	6,678
3,368	2,743	Net (repayment)/issue of foreign currency borrowing	1,928	(2,792)	4,720	169.1	(4,759)
15	174	Issues of circulating currency	303	74	229	309.5	117
(817)	(99)	Decrease/(increase) in cash	90	(988)	1,078	109.1	(1,311)
(1,372)	7		802	(294)	1,096	372.8	725
(8,370)	(3,694)	Net cash inflow/(outflow) to be offset by domestic bonds	(9,765)	(9,150)	(615)	(6.7)	(14,017)
Gross Cash Proceeds from Domestic Bonds							
12,424	7,843	Domestic bonds (market)	9,825	9,144	681	7.4	14,011
799	704	Domestic bonds (non-market)	219	6	213	-	6
13,223	8,547	Total gross cash proceeds from domestic bonds	10,044	9,150	894	9.8	14,017
(4,197)	(4,197)	Repayment of domestic bonds (market)	-	-	-	-	-
(656)	(656)	Repayment of domestic bonds (non-market)	(279)	-	(279)	-	-
(4,853)	(4,853)	Total repayment of domestic bonds	(279)	-	(279)	-	-
8,370	3,694	Net (repayments of)/cash proceeds from domestic bonds	9,765	9,150	615	6.7	14,017

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NOTE 19: Deposit Guarantee Schemes

The Government provides two guarantee schemes in relation to financial institution deposits: the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

Retail Deposit Guarantee Scheme

Scheme Description

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme was to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence.

On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme started on 12 October 2010, immediately upon expiry of the previous scheme and will remain in place until 31 December 2011. The extended scheme has tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting entry to the scheme to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits. The Crown guarantee is limited to those entities participating in the extended scheme, furthermore, the Crown guarantee excludes products issued by participating entities explicitly without the benefit of the guarantee.

Scheme Management

The Government is managing its exposure to this risk through requiring deposit takers who sign the guarantee to agree to certain controls on their business including:

- some restrictions on distributions to shareholders
- some assurance that the business dealings of the deposit taker are on arm's-length terms
- the ability for the Crown to appoint an inspector
- the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

In addition, the Crown has a monitoring regime to continually assess the risk associated with the scheme.

Amounts Guaranteed and provision for loss

The Extended Guarantee Scheme

A total of seven financial institutions were approved under the extended scheme. As at 31 January 2011, following the default of one of these entities and the merger of three of these entities into the Combined Building Society, four financial institutions remained guaranteed under the extended scheme. On 5 January 2011 the Crown approved Combined Building Society for participation in the Extended Retail Deposit Guarantee Scheme. The four entities remaining in the scheme had deposits totalling \$1.7 billion under guarantee and are listed on the Treasury website. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of financial institutions in the event the guarantee is called upon. The Crown continually updates the likelihood of further default actions triggering the guarantee and assesses the expected loss given default. The Crown assesses the risk of default by the remaining four entities participating in the extended scheme to be unlikely and therefore as at 31 January 2011 no provision is considered necessary in relation to the amount guaranteed by the Crown under the

NOTES TO THE FINANCIAL STATEMENTS

extended guarantee. While the provision represents a best estimate of the likely loss, a range of outcomes is possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default.

Entities guaranteed under the scheme now in receivership

As at 31 January 2011, nine entities guaranteed under the deposit guarantee scheme had been placed into receivership, eight of these entities were guaranteed under the original deposit guarantee scheme and one under the extended guarantee scheme. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. While the reported assets represent a best estimate of likely recoveries from the receiverships the eventual loss to the Crown is dependent upon the value that can be realised from these entities' assets. The Crown has completed payments to investors in the eight entities under the original retail deposit guarantee scheme, but has included liabilities of \$180 million, being the gross cost of payments yet to be made to investors in Equitable Mortgages Ltd. Except as provided on the Treasury website, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government received a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued. Deposit-taking financial institutions utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further managed its risk exposure by:

- limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125% of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 31 January 2011, the value of wholesale securities guaranteed was \$9.6 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

The Wholesale funding guarantee facility closed effective from 31 May 2010. At the time of closing the scheme, the Crown had issued 25 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: Canterbury Earthquake

On 4 September 2010 the Canterbury region experienced a magnitude 7.1 earthquake. These financial statements include an initial net provision of \$1.5 billion for the likely costs to be incurred by the Earthquake Commission (EQC) in settling claims for damage to residential property from the earthquake. The total current estimate of damage covered by EQC and administration costs is likely to exceed this, but EQC has reinsurance cover for costs above \$1.5 billion. As most of these payments should occur within a year, no discount has been made for the time value of these payments.

In addition to the costs outlined above, the Government is committed to reimburse a proportion of eligible restoration costs relating to essential local government infrastructure. These include water, stormwater and sewerage facilities and river management systems where there is major community disruption or continuing risk to life. It is also likely to make a contribution towards the repair of local roads via the National Land Transport Fund's emergency repairs allocation. Work is ongoing to establish a reliable estimate of these costs.

The Government has also announced or incurred other expenses in relation to such items as land remediation, wage subsidies, restoration of heritage buildings, community and trauma support, and other support assistance.

There has also been some damage to central government assets such as hospitals, schools, state housing and state highways. These costs are largely covered by insurance.

The above costs do not include the impact on tax or other revenues as a result of the earthquake, nor do they include costs that the Government has not yet committed to, whether or not they are under active consideration, but which may yet arise in association with the earthquake.

The above costs also do not include the cost of claims that may arise from aftershocks that have occurred more than 30 days after the 4 September event. Claims for damage arising from these delayed aftershocks are not covered as part of the original event for reinsurance purposes. Therefore, EQC's insurance costs are likely to exceed the net \$1.5 billion amount already provided for.

As at 31 December 2010 the insurance cost for damage arising from the delayed aftershocks was estimated to be less than \$50 million.

Subsequent Event

On the 22nd of February 2011 the Canterbury region experienced a second, serious earthquake and the Crown is expected to incur further direct costs as a result. The types of costs involved are expected to be similar in nature to those that have arisen from the original earthquake of the 4th of September 2010.

While the amount of these additional costs cannot yet be quantified, they are expected to be significant, although some of the costs will be covered by existing insurance arrangements.

While the financial effect to the Crown of this event cannot be reliably measured at this stage it is expected to weaken the Crown's fiscal position.

In addition to the direct costs arising from the second major earthquake, there are expected to be both negative and positive impacts to the economy (and consequently tax revenue).