

5 December 2007

MEDIA STATEMENT

Embargoed until 10:00am, Wednesday 5 December 2007

Dr Peter Bushnell
Deputy Secretary to the Treasury

**FINANCIAL STATEMENTS OF THE GOVERNMENT FOR THE FOUR MONTHS
ENDED 31 OCTOBER 2007**

The Financial Statements of the Government of New Zealand for the four months ended 31 October 2007 were released by the Treasury today.

The 31 October 2007 monthly financial statements are compared against monthly forecast tracks based on the 2007 Budget Economic and Fiscal Update.

October highlights

- The operating balance excluding gains and losses (OBEGAL) was \$167 million lower than forecast for the period to 31 October 2007 at \$1,723 million (compared to the forecast of \$1,890 million). The main driver was total Crown tax revenue which was \$378 million (or 2.1%) lower than forecast. This variance is considered to be due to timing.
- The operating balance was \$397 million higher than forecast at \$2,690 million (compared to forecast of \$2,293 million). Although OBEGAL was lower than forecast, gains and losses were \$531 million higher than forecast. This was due to changes in exchange rates and higher than forecast investment returns.
- Core Crown residual cash was \$82 million higher than forecast at \$67 million (compared to a forecast deficit of \$15 million).
- Gross sovereign-issued debt (GSID) was 22.9% of GDP compared to a forecast of 22.8%. GSID excluding settlement cash was 19.5% of GDP compared to a forecast of 19.2%.
- The NZ Superannuation Fund (NZS Fund) after-tax return was \$326 million compared to a forecast of \$294 million. Total NZS Fund assets at 31 October 2007 were \$14.2 billion compared to a forecast of \$14.0 billion.

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	Year to date				Full Year
	October 2007 Actual	October 2007 Forecast	Variance \$m	Variance %	BEFU June 2008 Forecast
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund after-tax revenue)	19,567	19,820	(253)	(1.3)	59,304
Core Crown expenses	18,380	18,711	331	1.8	56,096
NZS Fund after-tax return	326	294	32	10.9	855
Core Crown residual cash	67	(15)	82	(546.7)	(976)
GSID	38,104	38,041	(63)	(0.2)	40,400
<i>as a percentage of GDP</i>	22.9%	22.8%			23.3%
GSID (excl. settlement cash)	32,553	32,008	(545)	(1.7)	34,477
<i>as a percentage of GDP</i>	19.5%	19.2%			19.9%
Net Core Crown debt	3,423	3,826	403	10.5	4,655
Net Core Crown debt (incl. NZS Fund)	(8,942)	(8,423)	519	(6.2)	(10,784)
Total Crown					
OBEGAL	1,723	1,890	(167)	(8.8)	4,958
Operating Balance	2,690	2,293	397	17.3	6,431

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Financial Statements of the Government of New Zealand

For the Four Months
Ended 31 October 2007



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5 December 2007
Printed by Printlink

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New Zealand Government

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All forecasts and comparatives, including the comparatives for June 2006/07, have been produced under NZ IFRS. The June 2006/07 comparatives are provisional and have not yet been subject to audit. The results are compared against forecast tracks based on the 2007/08 annual forecast released in the 2007 *Budget Economic and Fiscal Update*.

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COMMENTARY

SUMMARY AND HIGHLIGHTS

October highlights

- The operating balance excluding gains and losses (OBEGAL) was \$167 million lower than forecast for the period to 31 October 2007 at \$1,723 million (compared to the forecast of \$1,890 million). The main driver was total Crown tax revenue which was \$378 million (or 2.1%) lower than forecast. This variance is considered to be due to timing.
- The operating balance was \$397 million higher than forecast at \$2,690 million (compared to forecast of \$2,293 million). Although OBEGAL was lower than forecast, gains and losses were \$531 million higher than forecast. This was due to changes in exchange rates and higher than forecast investment returns.
- Core Crown residual cash was \$82 million higher than forecast at \$67 million (compared to a forecast deficit of \$15 million).
- Gross sovereign-issued debt (GSID) was 22.9% of GDP compared to a forecast of 22.8%. GSID excluding settlement cash was 19.5% of GDP compared to a forecast of 19.2%.
- The NZ Superannuation Fund (NZS Fund) after-tax return was \$326 million compared to a forecast of \$294 million. Total NZS Fund assets at 31 October 2007 were \$14.2 billion compared to a forecast of \$14.0 billion.

Table 1 – Key indicators for the four months to 31 October 2007

	Year to date				Full Year
	October 2007 Actual	October 2007 Forecast	Variance \$m	Variance %	BEFU June 2008 Forecast
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund after-tax revenue)	19,567	19,820	(253)	(1.3)	59,304
Core Crown expenses	18,380	18,711	331	1.8	56,096
NZS Fund after-tax return	326	294	32	10.9	855
Core Crown residual cash	67	(15)	82	(546.7)	(976)
GSID	38,104	38,041	(63)	(0.2)	40,400
as a percentage of GDP	22.9%	22.8%			23.3%
GSID (excl. settlement cash)	32,553	32,008	(545)	(1.7)	34,477
as a percentage of GDP	19.5%	19.2%			19.9%
Net Core Crown debt	3,423	3,826	403	10.5	4,655
Net Core Crown debt (incl. NZS Fund)	(8,942)	(8,423)	519	(6.2)	(10,784)
Total Crown					
OBEGAL	1,723	1,890	(167)	(8.8)	4,958
Operating Balance	2,690	2,293	397	17.3	6,431

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

Table 2 – Key indicator variances for the four months to 31 October 2007

Item/indicator	Variance	Key drivers
Core Crown		
Core Crown revenue (excl. NZS Fund after-tax revenue)	- \$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> Primarily driven by lower than forecast corporate tax revenue (\$0.4 billion lower than forecast). Greater use of tax pooling has resulted in less revenue being recognised compared to forecast. This is expected to reverse as final assessments are filed.
Core Crown expenses	+ \$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> Core Crown expenses were lower than forecast across a number of departments. At this early stage it is anticipated that these variances will reverse by year end.
Core Crown residual cash	+ \$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> Tax receipts were as forecast. Delays in some departmental spending were offset by lower than forecast KiwiSaver payments (+ \$0.1 billion). Delays in a number of capital projects (+ \$0.1 billion). Higher than forecast advances and capital injections (- \$0.1 billion).
GSID	As forecast	
Net core Crown debt	+\$0.4 billion (lower than forecast)	<ul style="list-style-type: none"> Driven primarily by lower than forecast core Crown operating cash flows in addition to lower than forecast capital expenditure.
Total Crown		
OBEGAL	- \$0.2 billion (lower than forecast)	<ul style="list-style-type: none"> Higher than forecast expenditure across the SOE and CE sectors (- \$0.1 billion)
Operating balance	+ \$0.4 billion (higher than forecast)	<ul style="list-style-type: none"> OBEGAL lower than forecast (- \$0.2 billion) Exchange rate movements and higher than forecast investment returns (+ \$0.5 billion)

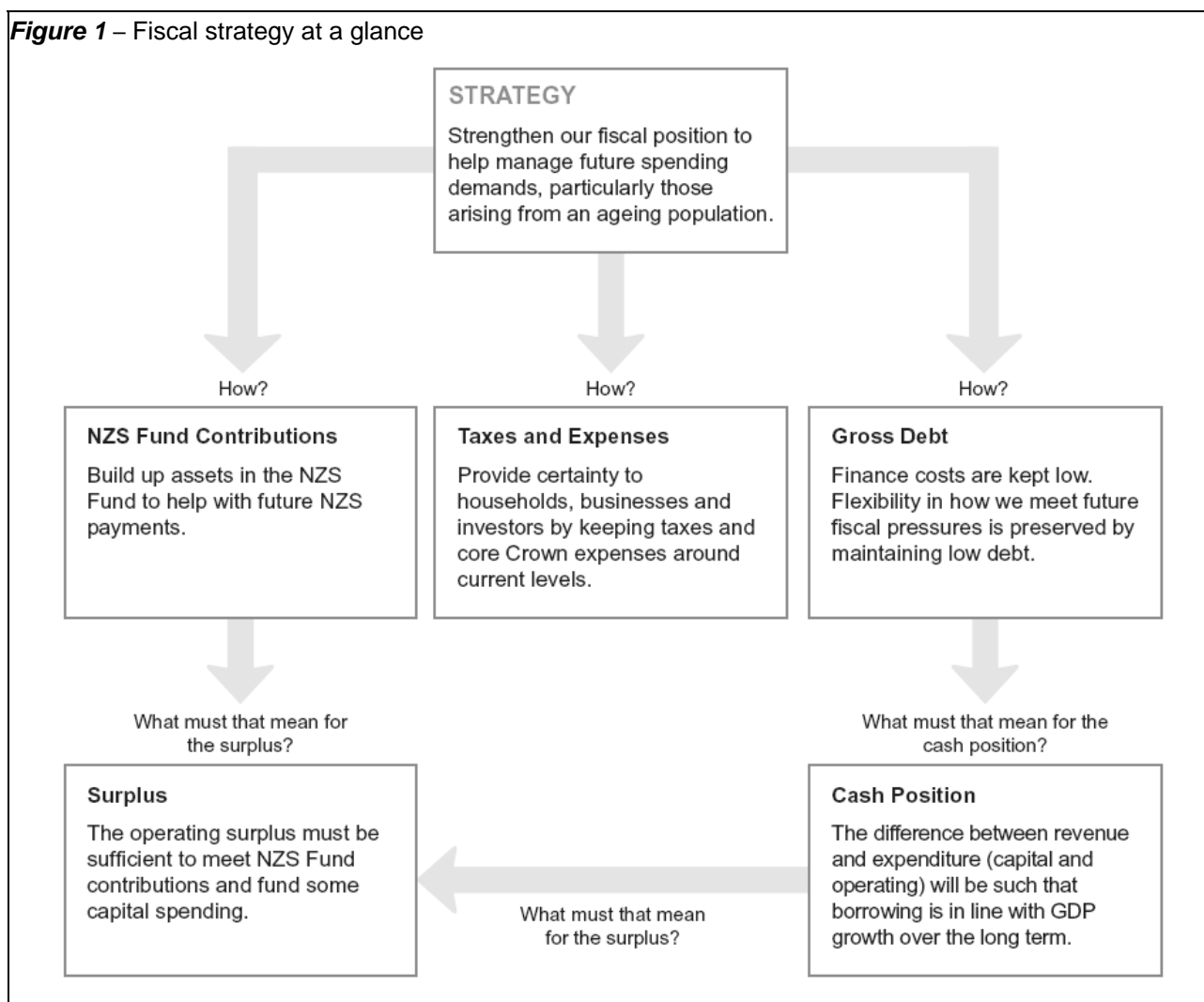
FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2007 Fiscal Strategy Report*) is to strengthen its fiscal position so that it is well placed to respond to future challenges such as those associated with population ageing. The strategy is summarised in Figure 1.

The Government is implementing this strategy primarily by building up financial assets in the New Zealand Superannuation (NZS) Fund and maintaining gross debt at around 20% of GDP. In order to keep debt at around 20% of GDP, the Government has said it intends to run its cash flow position so that borrowing tracks in line with GDP over time. In practice, this means running operating surpluses sufficient to cover the contributions to the NZS Fund and some capital spending needs.

The Financial Statements of the Government provide a record of the Government's financial performance over the 2007/08 financial year and its financial position as at 31 October 2007. They provide a comparison with the fiscal forecasts in the *2007 Budget Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in its *Short Term Fiscal Intentions and Long Term Fiscal Objectives*.

Figure 1 – Fiscal strategy at a glance



Fiscal Strategy Perspective on the financial results to October

The following table shows how the fiscal strategy is represented in the financial results.

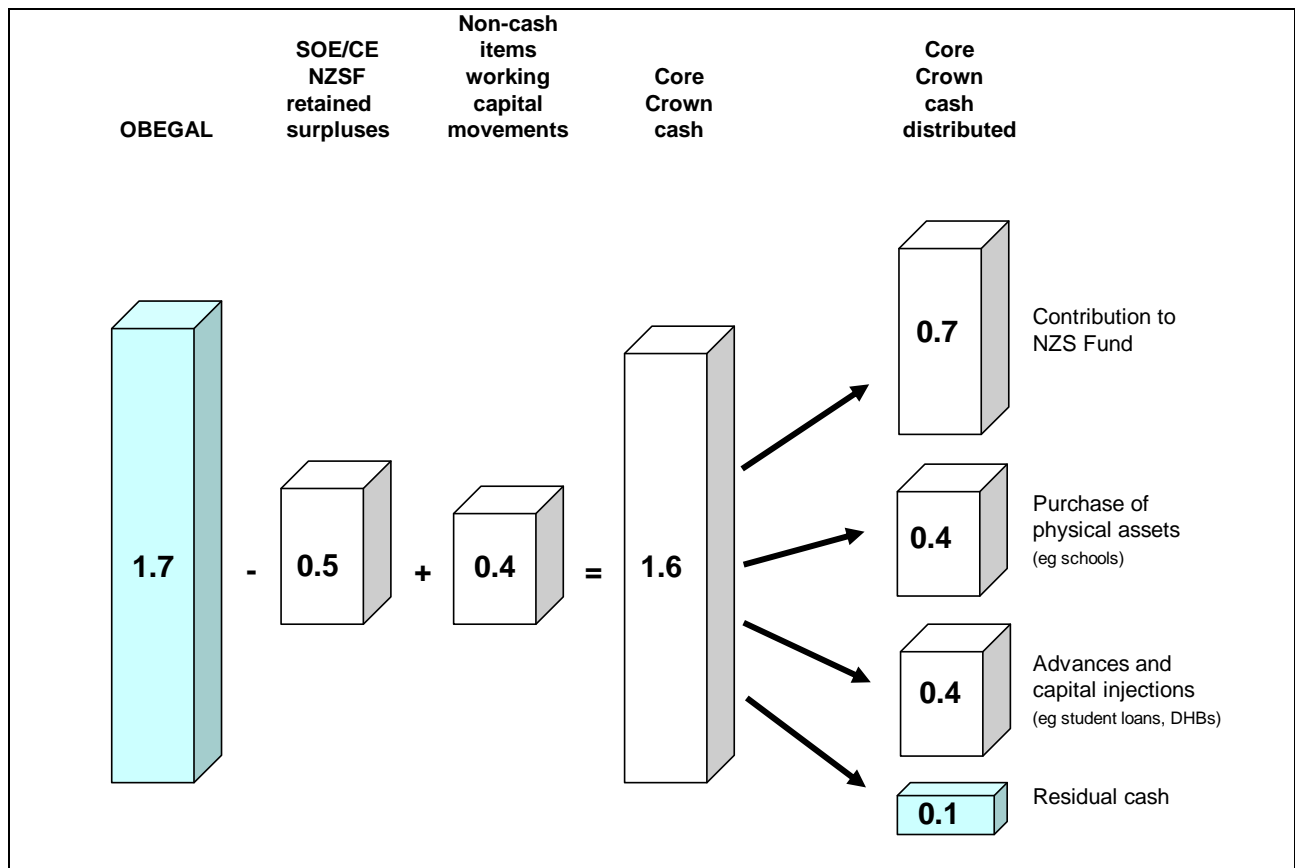
Table 3 – Reconciliation of fiscal strategy

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		October	October	Variance	Variance	BEFU
		2007	2007			June 2008
Fiscal Strategy		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP ¹	41.8%	42.7%			31.3%
Taxes, kept stable and maintained at current levels ...	Taxation	17,726	18,104	(378)	(2.1)	54,173
... combined with other revenue ...	Core Crown other revenue, gains and losses	2,338	2,176.0	162	7.4	6,387
... fund core crown expenses ...	Core Crown expenses	18,380	18,711	(331)	(1.8)	56,096
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	1,006	724	282	39.0	1,967
... results in a net operating balance (surplus or deficit)...	Operating balance	2,690	2,293	397	17.3	6,431
...part of which is due to gains or losses set aside for fiscal purposes...	Other gains and losses	967	403	564	140.0	1,473
... and so we have developed an operating indicator excluding these items.	OBEGAL	1,723	1,890	(167)	(8.8)	4,958
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. revaluations)	(34)	100	(134)	(134.0)	98
" " " "	Net retained surpluses of SOEs and Crown entities	563	674	(111)	(16.5)	1,649
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(367)	(265)	(102)	38.5	(1,827)
The operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	1,561	1,381	180	13.0	5,038
- building up assets in NZ Superannuation	Contribution to NZS Fund	727	643	84	13.1	2,103
- meeting the capital expenditure budget, and	Purchase of physical assets	377	514	(137)	(26.7)	1,803
- making advances (e.g. to students and DHBs)	Advances and Capital injections	390	239	151	63.2	2,108
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	67	(15)	82	(546.7)	(976)
	... and as a percentage of GDP	0.2%	0.0%			-0.6%

1 GDP for the four months ended 31 October (actual and forecast) is the actual data for the quarter ended 30 June 2007 (\$42,427m). GDP for the 2008 full year forecast has been extracted from the 2007 Budget Economic and Fiscal Update (\$173,187m).

Figure 2 – Application of core Crown cash flows (\$billions)

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



YEAR-ON-YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	31 October 2007 Actual \$m	31 October 2006 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	17,934	17,115	819	4.8
Other revenue	1,602	1,662	(60)	(3.6)
Total Core Crown Revenue	19,536	18,777	759	4.0
Core Crown expenses				
Social security and welfare	5,972	5,646	326	5.8
GSF pension expenses (excl valuation)	210	224	(14)	(6.3)
Health	3,732	3,360	372	11.1
Education	3,196	3,039	157	5.2
Core government services	830	771	59	7.7
Law and order	943	952	(9)	(0.9)
Defence	478	329	149	45.3
Transport and communications	819	682	137	20.1
Economic and industrial services	864	489	375	76.7
Primary services	143	146	(3)	(2.1)
Heritage, culture and recreation	290	249	41	16.5
Housing and community development	98	60	38	63.3
Other	9	51	(42)	(82.4)
Finance costs	796	772	24	3.1
Total Core Crown Expenses	18,380	16,770	1,610	9.6
Net surplus of SOE/CE's	567	232	335	144.4
OBEGAL	1,723	2,239	(516)	(23.0)
Total gains/(losses)	916	324	592	182.7
Other operating items	51	10	41	410.0
Operating Balance	2,690	2,573	117	4.5
Core Crown residual cash	67	(282)	349	123.8
Debt indicators				
Gross sovereign-issued debt	38,104	40,780	(2,676)	(6.6)
Net Core Crown debt	3,423	7,950	(4,527)	(56.9)

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

Revenue and Expenses

Total **tax revenue** for the four months ending 31 October 2007 has increased by 4.8% from the same period last year. The increase was primarily in PAYE, GST and corporate tax. Driving this increase is recent high wage and employment growth and increases in consumption volumes and prices of goods and services.

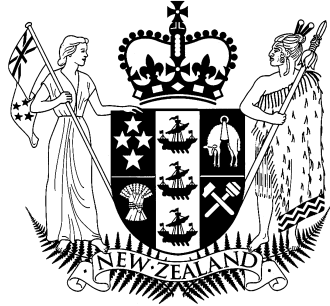
Total **core Crown expenses** were \$1.6 billion higher than the comparable period from the previous financial year (growth of 9.6%). Significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ 0.3 billion	<ul style="list-style-type: none"> • Indexation of welfare benefits • Funding provided in the 2007 Budget primarily as an initiative to guarantee NZ Superannuation at 66% of the average wage • Offset by lower unemployment benefits due to an improvement in labour market conditions
Health	+ 0.4 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget to maintain and improve existing service levels
Education	+ 0.2 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget for new initiatives • Higher demand driven expenses from roll growth
Transport and communications	+ 0.1 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget • Timing of funding payments earlier than last year
Economic and industrial services	+ 0.4 billion	<ul style="list-style-type: none"> • Introduction of the KiwiSaver Kick Start initiative
Other	+ 0.2 billion	<ul style="list-style-type: none"> • Mainly due to policy initiatives from the 2007 Budget
Total	+ 1.6 billion	

Other gains and losses were \$0.6 billion higher than the comparable period from the previous financial year. This was due to exchange rate movements and higher investment returns.

Gross sovereign-issued debt (GSID) has reduced by \$2.7 billion primarily driven by lower levels of government stock and securities sold under agreements to repurchase.

Net Core Crown debt has reduced by \$4.5 billion as a result of the lower GSID and an increase in financial assets, reflecting the residual cash built up since October 2006 and the valuation movements in financial instruments.



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 entities included in the Government reporting entity was set out on pages 102 and 103 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2007.

Since that date there have been no changes.

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 at Treasury's website:

www.treasury.govt.nz/publications/guidance/instructions/2007/03.htm#3.5

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the Budget Update, on 17 May 2007.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on Treasury's website:

www.treasury.govt.nz/budget/forecasts/befu2007

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and comparative year-to-date period are presented in these Financial Statements. NZ IFRS has been applied in the compilation of these comparative figures. The 30 June 2007 comparatives are provisional and have not yet been subject to audit. Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the four months ended 31 October 2007

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 Actual \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Revenue						
53,023	16,900	Taxation revenue	1	17,726	18,104	(378)	(2.1)	54,173
3,701	1,158	Other sovereign revenue	1	1,274	1,162	112	9.6	3,693
56,724	18,058	Total Revenue Levied through the Crown's Sovereign Power		19,000	19,266	(266)	(1.4)	57,866
12,357	4,265	Sales of goods and services		4,473	4,428	45	1.0	13,253
2,984	886	Interest revenue and dividends	2	1,064	1,059	5	0.5	3,366
2,362	781	Other revenue		776	825	(49)	(5.9)	2,387
17,703	5,932	Total revenue earned through the Crown's operations		6,313	6,312	1	-	19,006
74,427	23,990	Total revenue (excluding gains)		25,313	25,578	(265)	(1.0)	76,872
		Expenses						
16,346	5,554	Social assistance and official development assistance	3	6,023	6,016	(7)	(0.1)	17,892
15,281	4,955	Personnel expenses	4	5,307	5,292	(15)	(0.3)	15,657
3,338	964	Depreciation and amortisation	5	1,169	1,181	12	1.0	3,296
27,517	8,357	Other operating expenses	5	8,925	9,338	413	4.4	28,997
2,893	974	Interest expenses	6	1,008	883	(125)	(14.2)	2,748
3,713	947	Insurance expenses	7	1,158	978	(180)	(18.4)	3,010
-	-	Forecast for future new spending	5	-	-	-	-	314
69,088	21,751	Total expenses (excluding losses)		23,590	23,688	98	0.4	71,914
5,339	2,239	Operating balance before gains/(losses)		1,723	1,890	(167)	(8.8)	4,958
1,569	425	Net gains/(losses) on financial instruments	8	908	380	528	138.9	1,377
985	(101)	Net gains/(losses) on non-financial instruments		8	5	3	60.0	-
2,554	324	Total gains/(losses)		916	385	531	137.9	1,377
186	9	Net surplus/(deficit) from associates and joint ventures		51	18	33	183.3	96
8,079	2,572	Operating balance from continuing activities		2,690	2,293	397	17.3	6,431
(92)	1	Gain/(loss) from discontinued operations		-	-	-	-	-
7,987	2,573	Operating balance (including minority interest)		2,690	2,293	397	17.3	6,431
12	-	Attributable to minority interest in Air NZ		-	-	-	-	-
7,999	2,573	Operating Balance	9	2,690	2,293	397	17.3	6,431

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

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED) – FUNCTIONAL EXPENSE ANALYSIS

for the four months ended 31 October 2007

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Total Crown expenses					
		By functional classification					
20,566	6,119	Social security and welfare	7,140	7,178	38	0.5	21,271
648	224	GSF pension expenses	210	210	-	-	629
10,511	3,445	Health	3,785	3,862	77	2.0	11,699
9,887	3,792	Education	3,430	3,439	9	0.3	10,321
4,711	756	Core government services	801	925	124	13.4	2,132
2,840	1,015	Law and order	1,027	1,046	19	1.8	3,076
1,449	314	Defence	465	532	67	12.6	1,597
6,872	2,103	Transport and communications	2,263	2,029	(234)	(11.5)	7,671
4,601	1,665	Economic and industrial services	2,011	2,109	98	4.6	5,879
1,247	431	Primary services	430	436	6	1.4	1,319
1,941	628	Heritage, culture and recreation	685	691	6	0.9	2,218
902	264	Housing and community development	326	315	(11)	(3.5)	961
20	21	Other	9	33	24	72.7	79
2,893	974	Finance costs	1,008	883	(125)	(14.2)	2,748
-	-	Forecast for future new spending	-	-	-	-	314
69,088	21,751	Total Crown expenses excluding losses	23,590	23,688	98	0.4	71,914

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.

		Core Crown expenses					
		By functional classification					
16,833	5,646	Social security and welfare	5,972	6,009	37	0.6	17,698
648	224	GSF pension expenses	210	210	-	-	629
10,357	3,360	Health	3,732	3,866	134	3.5	11,613
9,261	3,039	Education	3,196	3,234	38	1.2	9,719
4,933	771	Core government services	830	940	110	11.7	2,479
2,707	952	Law and order	943	972	29	3.0	2,836
1,487	329	Defence	478	547	69	12.6	1,641
2,275	682	Transport and communications	819	921	102	11.1	2,792
1,548	489	Economic and industrial services	864	716	(148)	(20.7)	2,276
457	146	Primary services	143	155	12	7.7	494
798	249	Heritage, culture and recreation	290	275	(15)	(5.5)	977
275	60	Housing and community development	98	101	3	3.0	304
68	51	Other	9	8	(1)	(12.5)	80
2,330	772	Finance costs	796	757	(39)	(5.2)	2,244
-	-	Forecast for future new spending	-	-	-	-	314
53,977	16,770	Total core Crown expenses excluding losses	18,380	18,711	331	1.8	56,096

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

STATEMENT OF CASH FLOWS

for the four months ended 31 October 2007

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
52,150	16,441	Taxation receipts	17,763	17,857	(94)	(0.5)	54,266
3,418	1,471	Other sovereign receipts	1,437	1,277	160	12.5	3,472
12,777	4,412	Sales of goods and services	4,449	4,934	(485)	(9.8)	13,394
2,094	548	Interest	894	789	105	13.3	2,256
439	112	Dividends	110	163	(53)	(32.5)	504
2,294	811	Other operating receipts	931	850	81	9.5	2,302
73,172	23,795	Total cash provided from operations	25,584	25,870	(286)	(1.1)	76,194
		Cash was disbursed to					
18,436	6,192	Social assistance and official development assistance	5,992	5,786	(206)	(3.6)	19,529
39,838	13,959	Personnel and operating payments	15,644	16,009	365	2.3	44,025
2,442	730	Interest payments	1,035	935	(100)	(10.7)	2,530
-	-	Forecast for future new spending	-	-	-	-	314
60,716	20,881	Total cash disbursed to operations	22,671	22,730	59	0.3	66,398
12,456	2,914	Net cash flows from operations	2,913	3,140	(227)	(7.2)	9,796
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,213)	(1,837)	Net purchase of physical assets	(1,545)	(1,813)	268	14.8	(6,661)
(8,157)	(6,087)	Net purchase of shares and other securities	(2,637)	(3,377)	740	21.9	(4,491)
(206)	(31)	Net purchase of intangible assets	(62)	(78)	16	20.5	(144)
(1,014)	(772)	Net issue/(repayment) of advances	(69)	(61)	(8)	(13.1)	(1,628)
(288)	(14)	Net acquisition of investments in associates	(221)	(146)	(75)	(51.4)	(95)
-	-	Capital contingency provision	-	-	-	-	(184)
(14,878)	(8,741)	Net cash flows from investing activities	(4,534)	(5,475)	941	17.2	(13,203)
(2,422)	(5,827)	Net cash flows from operating and investing activities	(1,621)	(2,335)	714	30.6	(3,407)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
81	127	Issues of circulating currency	133	59	74	125.4	178
(3,758)	903	Net repayment/(issues) of Government stock ¹	1,394	889	505	56.8	2,223
1,780	575	Net repayment of foreign currency borrowing	667	(223)	890	399.1	(1,130)
4,893	4,357	Net repayment/(issues) of other New Zealand dollar borrowing	(911)	444	(1,355)	(305.2)	2,225
2,996	5,962	Net cash flows from financing activities	1,283	1,169	114	9.8	3,496
574	135	Net movement in cash	(338)	(1,166)	828	71.0	89
3,676	3,676	Opening Cash Balance	4,208	4,208	-	-	3,107
(42)	(43)	Foreign-exchange gains/(losses) on opening cash	67	19	48	252.6	-
4,208	3,768	Closing Cash Balance	3,937	3,061	876	28.6	3,196

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 17) 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 four months ended 31 October 2007

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
12,456	2,914	Net Cash Flows from Operations	2,913	3,140	(227)	(7.2)	9,796
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
1,252	345	Gains/(losses) NZS Fund	323	214	109	50.9	866
317	80	Gains/(losses) on other financial instruments	585	166	419	252.4	511
985	(101)	Gains/(losses) on other non-financial instruments	8	5	3	60.0	-
2,554	324	Total gains/(losses)	916	385	531	137.9	1,377
Movements in Working Capital							
(1,621)	403	Increase/(decrease) in receivables	(682)	(662)	(20)	(3.0)	218
79	25	Increase/(decrease) in inventories	43	27	16	59.3	41
(77)	218	Increase/(decrease) in prepayments	228	(46)	274	-	(2)
(85)	(71)	Decrease/(increase) in deferred revenue	(3)	85	(88)	(103.5)	-
(91)	(494)	Decrease/(increase) in payables	89	156	(67)	(42.9)	(569)
(1,795)	81	Total movements in working capital	(325)	(440)	115	26.1	(312)
Other Non-cash Items in Operating Balance							
(3,338)	(964)	Depreciation and amortisation	(1,169)	(1,181)	12	1.0	(3,296)
(536)	(92)	Write-down on initial recognition of loans	(143)	(163)	20	12.3	(518)
37	5	Impairment on financial assets (excl receivables)	3	2	1	50.0	(38)
1	(17)	Net interest revenue	85	159	(74)	(46.5)	389
14	10	Decrease/(increase) in defined benefit retirement plan liabilities	34	(55)	89	161.8	(51)
(1,580)	303	Decrease/(increase) in insurance liabilities	325	428	(103)	(24.1)	(1,013)
186	9	Other	51	18	33	183.3	97
(5,216)	(746)	Total other non-cash Items	(814)	(792)	(22)	(2.8)	(4,430)
7,999	2,573	Operating Balance	2,690	2,293	397	17.3	6,431

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the four months ended 31 October 2007

Prior Year to 30 June 2007 Actual \$m	4 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
5,163	44	Revaluation of physical assets	16	43	(27)	(62.8)	-
(384)	(6)	Effective portion of changes in value of fair-value hedges	126	(34)	160	470.6	39
(18)	1	Net change in fair value of cash flow hedges transferred to operating profit	27	-	27	-	74
(4)	6	Net change in fair value of cash flow hedges transferred to the hedged item	(29)	-	(29)	-	-
(62)	(16)	Foreign currency translation differences for foreign operations	9	(20)	29	145.0	-
10	(1)	Valuation gain/(losses) on investments available for sale taken to reserves	3	-	3	-	-
11	-	Other movements	-	(72)	72	100.0	-
4,716	28	Total income/(expense) recognised directly in Net Worth	152	(83)	235	283.1	113
7,987	2,573	Operating Balance (including minority interest)	2,690	2,293	397	17.3	6,431
12,703	2,601	Total recognised income and expense	2,842	2,210	632	28.6	6,544
		Attributable to:					
(12)	-	- minority interest in Air NZ	-	-	-	-	-
12,715	2,601	- the Crown	2,842	2,210	632	28.6	6,544
12,703	2,601	Total recognised income and expense	2,842	2,210	632	28.6	6,544

This statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth, the effect of certain accounting changes and corrections of errors.

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

STATEMENT OF FINANCIAL POSITION

as at 31 October 2007

As at 30 June 2007 \$m	As at 31 Oct 2006 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Assets								
4,208	3,768	Cash and cash equivalents	10	3,937	3,061	876	28.6	3,196
12,029	14,053	Receivables	10	10,894	11,366	(472)	(4.2)	12,547
29,831	30,182	Marketable securities and derivatives in gain	10	34,205	32,080	2,125	6.6	32,885
13,827	12,229	Share investments	10	14,193	14,055	138	1.0	17,273
14,031	12,476	Advances	10	14,481	15,950	(1,469)	(9.2)	15,087
823	768	Inventory		865	849	16	1.9	982
1,309	1,563	Prepayments and other assets		1,517	1,339	178	13.3	1,205
95,613	89,869	Property, plant & equipment	11	96,025	96,859	(834)	(0.9)	95,950
6,921	6,304	Equity accounted investments ¹		7,107	7,049	58	0.8	6,647
1,653	1,572	Intangible assets and goodwill		1,617	1,775	(158)	(8.9)	1,555
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	2006/07 top-down capital adjustment		-	-	-	-	(200)
180,245	172,784	Total assets		184,841	184,383	458	0.2	187,311
Liabilities								
3,444	3,490	Issued currency		3,577	3,695	118	3.2	3,730
8,103	8,593	Payables	13	8,215	8,651	436	5.0	9,036
978	964	Deferred revenue		982	893	(89)	(10.0)	845
41,914	45,231	Borrowings		43,854	44,117	263	0.6	46,364
17,419	15,536	Insurance liabilities	14	17,094	16,991	(103)	(0.6)	19,011
7,160	8,414	Retirement plan liabilities		7,126	7,215	89	1.2	8,414
4,523	3,980	Provisions	15	4,449	3,908	(541)	(13.8)	3,850
83,541	86,208	Total liabilities		85,297	85,470	173	0.2	91,250
96,704	86,576	Total assets less total liabilities		99,544	98,913	631	0.6	96,061
Net Worth								
44,169	38,791	Taxpayer funds	16	46,857	46,448	409	0.9	48,239
52,371	47,197	Revaluation reserve	16	52,388	52,355	33	0.1	47,402
(132)	310	Other reserves	16	3	(186)	189	101.6	127
96,408	86,298	Total net worth attributable to the Crown		99,248	98,617	631	0.6	95,768
296	278	Net worth attributable to minority interest in Air NZ		296	296	-	-	293
96,704	86,576	Total net worth		99,544	98,913	631	0.6	96,061

¹ Tertiary education institutions constitute most equity accounted investments.

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

STATEMENT OF BORROWINGS

as at 31 October 2007

As at 30 June 2007 \$m	As at 31 Oct 2006 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Borrowings							
15,778	17,496	Government stock ¹	16,920	16,562	(358)	(2.2)	17,732
2,098	2,905	Treasury bills	2,340	2,577	237	9.2	2,786
364	380	Government retail stock	373	360	(13)	(3.6)	358
7,507	7,224	Settlement deposits with Reserve Bank	7,025	7,523	498	6.6	7,523
1,126	657	Derivatives in loss ²	1,100	475	(625)	(131.6)	300
954	768	Finance lease liabilities	977	947	(30)	(3.2)	958
14,087	15,801	Other borrowings	15,119	15,673	554	3.5	16,707
41,914	45,231	Total borrowings³	43,854	44,117	263	0.6	46,364
31,174	34,780	Sovereign-guaranteed debt ⁴	32,415	33,570	1,155	3.4	33,167
10,740	10,451	Non-sovereign debt	11,439	10,547	(892)	(8.5)	13,197
41,914	45,231	Total borrowings³	43,854	44,117	263	0.6	46,364
Gross and Net Debt analysis:							
41,914	45,231	Total borrowings ³	43,854	44,117	263	0.6	46,364
35,886	39,461	Core Crown borrowings	36,674	37,107	433	1.2	38,876
920	1,319	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	1,430	934	(496)	(53.1)	1,524
36,806	40,780	Gross sovereign-issued debt⁵	38,104	38,041	(63)	(0.2)	40,400
44,472	42,166	Less core Crown financial assets ⁶	47,046	46,464	582	1.3	51,184
(7,666)	(1,386)	Net core Crown debt (incl NZS Fund)⁷	(8,942)	(8,423)	519	6.2	(10,784)
11,553	9,336	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	12,365	12,249	116	0.9	15,439
3,887	7,950	Net core Crown debt (excl NZS Fund)⁸	3,423	3,826	403	10.5	4,655

Notes on Borrowings

- Government stock includes \$50 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.
- Total Borrowings (Gross Debt) can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e. core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government Sovereign issued debt 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. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation 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.

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

STATEMENT OF ACTUAL COMMITMENTS

as at 31 October 2007

	As at 31 Oct 2007 \$m	As at 30 June 2007 \$m	As at 31 Oct 2006 \$m
Capital Commitments			
Specialist military equipment	590	823	1,154
Land and buildings	721	605	804
Other property, plant and equipment	2,707	2,617	2,551
Other capital commitments	190	184	828
Tertiary Education Institutions	90	90	124
Total capital commitments	4,298	4,319	5,461
Operating Commitments			
Non-cancellable accommodation leases	2,250	2,296	1,942
Other non-cancellable leases	2,320	2,355	2,499
Non-cancellable contracts for the supply of goods and services	1,650	1,626	1,786
Other operating commitments	7,586	7,278	7,127
Tertiary Education Institutions	303	303	303
Total operating commitments	14,109	13,858	13,657
Total commitments	18,407	18,177	19,118
Total Commitments by Segment			
Core Crown	16,701	19,944	17,019
Crown entities	10,115	9,835	9,560
State-owned Enterprises	3,526	3,508	3,585
Inter-segment eliminations	(11,935)	(15,110)	(11,046)
Total commitments	18,407	18,177	19,118

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

STATEMENT OF ACTUAL CONTINGENT LIABILITIES AND ASSETS

as at 31 October 2007

	As at 31 Oct 2007 \$m	As at 30 June 2007 \$m	As at 31 Oct 2006 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	171	171	423
Uncalled capital	2,114	2,076	2,365
Legal proceedings and disputes	484	1,170	1,012
Other contingent liabilities	2,014	1,829	2,111
Total quantifiable contingent liabilities	4,783	5,246	5,911
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	4,575	5,071	5,755
Crown entities	44	45	38
State-owned Enterprises	184	150	118
Inter-segment eliminations	(20)	(20)	-
Total quantifiable contingent liabilities	4,783	5,246	5,911
Quantifiable Contingent Assets			
Core Crown	89	86	106
Crown entities	5	-	-
Total quantifiable contingent assets	94	86	106

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

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 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							
20,987	6,642	PAYE	7,416	7,485	(69)	(0.9)	22,334
4,440	1,396	Other persons	1,482	1,365	117	8.6	4,553
(1,080)	(458)	Refunds	(513)	(466)	(47)	(10.1)	(1,102)
468	172	Fringe benefit tax	188	152	36	23.7	474
24,815	7,752	Total individuals	8,573	8,536	37	0.4	26,259
Corporate Tax							
8,808	2,725	Gross companies tax	2,236	2,977	(741)	(24.9)	8,222
(296)	(40)	Refunds	46	(57)	103	180.7	(255)
1,189	527	Non-resident withholding tax	566	338	228	67.5	1,005
149	65	Foreign-source dividend w/holding payments	64	45	19	42.2	102
9,850	3,277	Total corporate tax	2,912	3,303	(391)	(11.8)	9,074
Other Income Tax							
2,227	689	Resident w/holding tax on interest income	831	774	57	7.4	2,340
89	42	Resident w/holding tax on dividend income	32	43	(11)	(25.6)	92
2	1	Estate and gift duties	1	-	1	-	2
2,318	732	Total other income tax	864	817	47	5.8	2,434
36,983	11,761	Total income tax	12,349	12,656	(307)	(2.4)	37,767
Goods and Services Tax							
19,533	6,257	Gross goods and services tax	6,683	6,621	62	0.9	19,726
(8,325)	(2,749)	Refunds	(2,861)	(2,827)	(34)	(1.2)	(8,231)
11,208	3,508	Total goods and services tax	3,822	3,794	28	0.7	11,495
Other Taxation							
819	284	Petroleum fuels excise	246	301	(55)	(18.3)	903
238	113	Tobacco excise	60	53	7	13.2	148
1,836	605	Customs duty	601	639	(38)	(5.9)	1,865
786	247	Road user charges	276	292	(16)	(5.5)	877
553	173	Alcohol excise	181	187	(6)	(3.2)	586
230	81	Gaming duties	69	71	(2)	(2.8)	215
222	75	Motor vehicle fees	77	73	4	5.5	219
54	23	Energy resources levies	16	15	1	6.7	34
94	30	Approved issuer levy and cheque duty	29	23	6	26.1	64
4,832	1,631	Total other indirect taxation	1,555	1,654	(99)	(6.0)	4,911
16,040	5,139	Total indirect taxation	5,377	5,448	(71)	(1.3)	16,406
53,023	16,900	Total taxation revenue	17,726	18,104	(378)	(2.1)	54,173
Other Sovereign Revenue (accrual)							
2,667	776	ACC levies	880	807	73	9.0	2,654
265	98	Fire Service levies	107	91	16	17.6	261
84	28	EQC levies	29	28	1	3.6	86
685	256	Other miscellaneous items	258	236	22	9.3	692
3,701	1,158	Total other sovereign revenue	1,274	1,162	112	9.6	3,693
56,724	18,058	Total sovereign revenue	19,000	19,266	(266)	(1.4)	57,866

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 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							
21,012	6,706	PAYE	7,316	7,464	(148)	(2.0)	22,334
5,121	1,372	Other persons	1,538	1,369	169	12.3	5,430
(1,850)	(741)	Refunds	(904)	(772)	(132)	(17.1)	(2,017)
482	227	Fringe benefit tax	230	222	8	3.6	470
24,765	7,564	Total individuals	8,180	8,283	(103)	(1.2)	26,217
Corporate Tax							
9,120	2,749	Gross companies tax	2,846	2,977	(131)	(4.4)	9,184
(1,153)	(467)	Refunds	(291)	(294)	3	1.0	(1,041)
1,135	573	Non-resident withholding tax	665	464	201	43.3	981
141	62	Foreign-source dividend w/holding payments	58	38	20	52.6	102
9,243	2,917	Total corporate tax	3,278	3,185	93	2.9	9,226
Other Income Tax							
2,192	687	Resident w/holding tax on interest income	833	774	59	7.6	2,340
90	52	Resident w/holding tax on dividend income	29	53	(24)	(45.3)	92
3	1	Estate and gift duties	1	1	-	-	2
2,285	740	Total other income tax	863	828	35	4.2	2,434
36,293	11,221	Total income tax	12,321	12,296	25	0.2	37,877
Goods and Services Tax							
18,691	6,136	Gross goods and services tax	6,673	6,465	208	3.2	19,354
(7,625)	(2,496)	Refunds	(2,824)	(2,606)	(218)	(8.4)	(7,877)
11,066	3,640	Total goods and services tax	3,849	3,859	(10)	(0.3)	11,477
Other Taxation							
835	287	Petroleum fuels excise	261	319	(58)	(18.2)	903
265	154	Tobacco excise	50	59	(9)	(15.3)	148
1,778	542	Customs duty	618	636	(18)	(2.8)	1,865
791	252	Road user charges	276	292	(16)	(5.5)	877
549	165	Alcohol excise	173	178	(5)	(2.8)	586
236	79	Gaming duties	82	71	11	15.5	215
208	43	Motor vehicle fees	90	73	17	23.3	219
55	25	Energy resources levies	18	51	(33)	(64.7)	35
74	33	Approved issuer levy and cheque duty	25	23	2	8.7	64
4,791	1,580	Total other indirect taxation	1,593	1,702	(109)	(6.4)	4,912
15,857	5,220	Total indirect taxation	5,442	5,561	(119)	(2.1)	16,389
52,150	16,441	Total tax receipts collected	17,763	17,857	(94)	(0.5)	54,266
Other Sovereign Receipts (cash)							
2,607	1,127	ACC levies	1,113	973	140	14.4	2,561
268	98	Fire Service levies	107	91	16	17.6	263
84	30	EQC levies	32	31	1	3.2	86
459	216	Other miscellaneous items	185	182	3	1.6	562
3,418	1,471	Total other sovereign receipts	1,437	1,277	160	12.5	3,472
55,568	17,912	Total sovereign receipts	19,200	19,134	66	0.3	57,738

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 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>							
2,540	773	Interest revenue	963	899	64	7.1	2,865
444	113	Dividends	101	160	(59)	(36.9)	501
2,984	886	Total interest revenue and dividends	1,064	1,059	(5)	(0.5)	3,366
<i>By source</i>							
396	113	NZS Fund	116	153	(37)	(24.2)	425
2,184	871	Other core Crown	740	764	(24)	(3.1)	2,162
746	276	Crown entities	371	436	(65)	(14.9)	880
484	152	State-owned Enterprises	240	179	61	34.1	481
(826)	(526)	Inter-segment eliminations	(403)	(473)	70	14.8	(582)
2,984	886	Total interest revenue and dividends	1,064	1,059	(5)	(0.5)	3,366
NOTE 3: Social Assistance and Official Development Assistance							
6,810	2,248	New Zealand superannuation	2,428	2,419	(9)	(0.4)	7,292
1,468	516	Domestic purposes benefit	492	490	(2)	(0.4)	1,456
613	237	Unemployment benefit	160	172	12	7.0	497
1,132	387	Invalids benefit	396	398	2	0.5	1,201
1,699	634	Family support	660	662	2	0.3	1,964
877	294	Accommodation supplement	296	303	7	2.3	909
573	201	Sickness benefit	201	200	(1)	(0.5)	608
382	162	Student allowances	165	171	6	3.5	402
270	90	Disability allowances	93	93	-	-	279
2,192	664	Other social assistance benefits	1,020	936	(84)	(9.0)	2,883
16,016	5,433	Total social assistance	5,911	5,844	(67)	(1.1)	17,491
330	121	Official development assistance	112	172	60	34.9	401
16,346	5,554	Total social assistance and official development assistance	6,023	6,016	(7)	(0.1)	17,892
NOTE 4: Personnel Expenses							
5,113	1,723	Core Crown	1,853	1,869	16	0.9	5,434
8,160	2,598	Crown entities	2,745	2,755	10	0.4	8,213
2,012	634	State-owned Enterprises	710	669	(41)	(6.1)	2,011
(4)	-	Inter-segment eliminations	(1)	(1)	-	-	(1)
15,281	4,955	Total personnel expenses	5,307	5,292	(15)	(0.3)	15,657

ACC payments are now classified as insurance expenses under NZ IFRS (refer note 7).

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	4 Months to 31 Oct 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		NOTE 5: Operating Expenses					
30,079	8,684	Core Crown	9,669	10,034	365	3.6	30,416
13,480	4,428	Crown entities	4,699	4,868	169	3.5	15,291
8,283	2,868	State-owned Enterprises	3,016	3,013	(3)	(0.1)	9,180
(20,987)	(6,659)	Inter-segment eliminations	(7,290)	(7,396)	(106)	(1.4)	(22,280)
30,855	9,321	Total operating expenses	10,094	10,519	425	4.0	32,607
		NOTE 6: Interest Expenses					
		<i>By type</i>					
2,876	939	Interest on financial liabilities	1,000	843	(157)	(18.6)	2,335
17	35	Interest unwind on provisions	8	40	32	80.0	413
2,893	974	Total interest expenses	1,008	883	(125)	(14.2)	2,748
		<i>By source</i>					
2,330	772	Core Crown	796	757	(39)	(5.2)	2,245
274	87	Crown entities	96	98	2	2.0	306
685	241	State-owned Enterprises	284	235	(49)	(20.9)	704
(396)	(126)	Inter-segment eliminations	(168)	(207)	(39)	(18.8)	(507)
2,893	974	Total interest expenses	1,008	883	(125)	(14.2)	2,748
		NOTE 7: Insurance Expenses					
		<i>By type</i>					
1,967	647	ACC payments	730	662	(68)	(10.3)	2,016
1,746	300	Other insurance expenses	428	316	(112)	(35.4)	994
3,713	947	Total insurance expenses	1,158	978	(180)	(18.4)	3,010
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
1,252	345	NZS Fund	323	214	109	50.9	866
(72)	(28)	Core Crown (excl NZS Fund)	206	132	74	56.1	289
369	114	Crown entities	391	152	239	157.2	485
62	9	State-owned Enterprises	16	(22)	38	172.7	18
(42)	(15)	Inter-segment eliminations ¹	(28)	(96)	68	70.8	(281)
1,569	425	Net gains/(losses) on financial instruments	908	380	528	138.9	1,377
		NOTE 9: Source of Operating Balance					
6,498	2,215	Core Crown	1,684	1,569	115	7.3	4,464
1,006	491	Crown entities	1,000	696	304	43.7	1,242
821	291	State-owned Enterprises	296	376	(80)	(21.3)	1,068
(326)	(424)	Inter-segment eliminations	(290)	(348)	58	16.7	(343)
7,999	2,573	Total operating balance	2,690	2,293	397	17.3	6,431

1 Inter-segment eliminations includes eliminations between NZS Fund and core Crown (excl NZS Fund).

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 Oct 2006 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 10: Financial Assets							
4,208	3,768	Cash and cash equivalents	3,937	3,061	876	28.6	3,196
6,371	9,296	Tax receivables	6,055	6,655	(600)	(9.0)	7,078
5,658	4,757	Trade and other receivables	4,839	4,711	128	2.7	5,469
6,011	5,722	Student loans	6,112	6,582	(470)	(7.1)	6,252
3,637	2,943	Kiwibank mortgages	4,605	4,110	495	12.0	5,127
2,052	1,631	Long-term deposits	1,945	2,519	(574)	(22.8)	2,037
183	314	Reserve position at the IMF	188	219	(31)	(14.2)	212
2,148	1,866	Other loans	1,631	2,520	(889)	(35.3)	1,459
13,827	12,229	Share investments	14,193	14,055	138	1.0	17,273
2,349	1,647	Derivatives in gain	2,452	690	1,762	255.4	464
27,482	28,535	Other marketable securities	31,753	31,390	363	1.2	32,421
73,926	72,708	Total financial assets	77,710	76,512	1,198	1.6	80,988
Financial assets by portfolio							
22,577	22,360	Reserve Bank and DMO managed funds	26,248	23,524	2,724	11.6	26,013
12,576	10,919	NZ Superannuation Fund	13,369	13,139	230	1.8	15,439
14,622	18,085	Other core Crown	12,261	15,156	(2,895)	(19.1)	14,311
(952)	(933)	Intra-segment eliminations	(941)	(703)	(238)	(33.9)	(1,536)
48,823	50,431	Total core Crown	50,937	51,116	(179)	(0.4)	54,227
10,588	9,213	ACC portfolio	11,187	10,275	912	8.9	11,695
1,920	1,931	EQC portfolio	2,041	2,061	(20)	(1.0)	2,174
4,064	3,509	Other Crown entities	4,242	3,803	439	11.5	3,670
16,572	14,653	Total Crown entities	17,470	16,139	1,331	8.2	17,539
8,531	7,624	Total State-owned Enterprises	9,303	9,257	46	0.5	9,222
73,926	72,708	Total financial assets by portfolio	77,710	76,512	1,198	1.6	80,988
NOTE 11: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
21,138	18,640	Land (valuation)	21,390	20,947	443	2.1	18,963
20,861	20,446	Buildings (valuation)	20,809	21,154	(345)	(1.6)	21,349
1,972	1,950	Electricity distribution network (cost)	2,038	2,048	(10)	(0.5)	2,219
10,401	8,637	Electricity generation assets (valuation)	10,493	10,681	(188)	(1.8)	10,057
2,092	2,241	Aircraft (excl SME) (valuation)	2,082	2,567	(485)	(18.9)	2,064
19,417	18,173	State highways (valuation)	19,577	19,678	(101)	(0.5)	19,415
10,570	10,568	Rail network (valuation)	10,569	10,625	(56)	(0.5)	10,804
3,079	3,267	Specialist military equipment (valuation)	3,082	3,177	(95)	(3.0)	3,628
3,218	3,246	Other plant and equipment (cost)	3,362	3,343	19	0.6	3,758
2,392	1,509	Specified cultural and heritage assets (valuation)	2,458	2,429	29	1.2	1,569
473	1,192	Other assets (valuation)	165	210	(45)	(21.4)	2,124
95,613	89,869	Total net carrying value	96,025	96,859	(834)	(0.9)	95,950

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 Oct 2006 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 12: NZ Superannuation Fund							
9,855	9,855	Opening net worth	12,973	12,973	-	-	12,910
2,049	709	Gross contribution from the Crown	728	643	85	13.2	2,103
1,094	299	Income after tax	326	294	32	10.9	855
(25)	(12)	Other movements in reserves	2	(151)	153	101.3	-
12,973	10,851	Closing net worth	14,029	13,759	270	2.0	15,868
<i>comprising:</i>							
12,576	10,919	Financial assets	13,369	13,139	230	1.8	15,439
397	(68)	Net other assets	660	620	40	6.5	429
12,973	10,851	Closing net worth	14,029	13,759	270	2.0	15,868
NOTE 13: Payables							
4,924	4,678	Accounts payable	4,823	5,142	319	6.2	5,556
3,179	3,915	Taxes repayable	3,392	3,509	117	3.3	3,480
8,103	8,593	Total payables	8,215	8,651	436	5.0	9,036
NOTE 14: Insurance liabilities							
17,328	14,379	ACC liability	17,023	16,920	(103)	(0.6)	18,949
68	66	EQC liability	64	56	(8)	(14.3)	42
23	1,091	Other insurance liabilities	7	15	8	53.3	20
17,419	15,536	Total insurance liabilities	17,094	16,991	(103)	(0.6)	19,011
NOTE 15: Provisions							
704	598	Provision for Kyoto	708	703	(5)	(0.7)	557
771	805	Provision for National Provident Fund guarantee	771	805	34	4.2	805
1,819	1,714	Provision for employee entitlements	1,819	1,665	(154)	(9.2)	1,621
1,229	863	Other provisions	1,151	735	(416)	(56.6)	867
4,523	3,980	Total provisions	4,449	3,908	(541)	(13.8)	3,850
NOTE 16: Changes in Net Worth							
36,214	36,214	Opening taxpayers funds	44,169	44,169	-	-	42,219
7,999	2,573	Operating balance excluding minority interest	2,690	2,293	397	17.3	6,431
(44)	4	Transfers from/(to) other reserves	(2)	(14)	12	85.7	(411)
44,169	38,791	Closing taxpayers funds	46,857	46,448	409	0.9	48,239
47,153	47,153	Opening revaluation reserve	52,371	52,371	-	-	47,459
5,163	44	Net Revaluations	16	43	(27)	(62.8)	2
55	-	Transfers from/(to) other reserves	1	(59)	60	101.7	(59)
52,371	47,197	Closing revaluation reserve	52,388	52,355	33	0.1	47,402
326	326	Opening other reserves	(132)	(132)	-	-	93
(458)	(16)	Net movements	135	(54)	189	350.0	34
(132)	310	Closing other reserves	3	(186)	189	101.6	127

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 \$m	4 Months to 31 Oct 2006 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance		
					\$m	%	
NOTE 17: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
53,271	16,658	Total tax receipts	18,209	18,167	42	0.2	55,121
391	211	Total other sovereign receipts	178	176	2	1.1	477
1,896	719	Interest, profits and dividends	765	717	48	6.7	1,857
1,461	409	Sale of goods & services and other receipts	520	384	136	35.4	1,472
(17,317)	(5,970)	Subsidies and transfer payments	(6,529)	(6,177)	(352)	(5.7)	(18,789)
(28,912)	(9,764)	Personnel and operating costs	(10,722)	(11,093)	371	3.3	(32,610)
(2,220)	(661)	Finance costs	(860)	(793)	(67)	(8.4)	(2,176)
-	-	Forecast for future new operating spending	-	-	-	-	(314)
8,570	1,602	Net cash flows from core Crown operations	1,561	1,381	180	13.0	5,038
(1,760)	(621)	Net purchase of physical assets	(377)	(514)	137	26.7	(1,803)
(1,743)	(474)	Net increase in advances	(326)	(158)	(168)	(106.3)	(1,088)
(281)	(80)	Net purchase of investments	(64)	(81)	17	21.0	(636)
(2,048)	(709)	Contribution to NZ Superannuation Fund	(727)	(643)	(84)	(13.1)	(2,103)
-	-	Purchase of Reserve Bank reserves	-	-	-	-	(200)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
2,738	(282)	Residual cash	67	(15)	82	-	(976)
Financed by:							
(6,011)	(5,218)	Other net sale/(purchase) of marketable securities and deposits	(1,127)	(1,920)	793	41.3	(1,649)
(3,273)	(5,500)	Total operating and investing activities	(1,060)	(1,935)	875	45.2	(2,625)
Used in:							
4,963	3,991	Net repayment/(issue) of other New Zealand dollar borrowing	(916)	253	(1,169)	(462.1)	709
1,775	545	Net repayment/(issue) of foreign currency borrowing	429	(214)	643	300.5	(993)
81	127	Issues of circulating currency	133	59	74	125.4	178
(458)	(130)	Decrease/(increase) in cash	381	777	(396)	(51.0)	3
6,361	4,533		27	875	(848)	(96.9)	(103)
3,088	(967)	Net cash inflow/(outflow) to be offset by domestic bonds	(1,033)	(1,060)	27	2.5	(2,728)
Gross Cash Proceeds from Domestic Bonds							
2,294	903	Domestic bonds (market)	971	988	(17)	(1.7)	2,520
632	64	Domestic bonds (non-market)	62	72	(10)	(13.9)	208
2,926	967	Total gross cash proceeds from domestic bonds	1,033	1,060	(27)	(2.5)	2,728
(5,593)	-	Repayment of domestic bonds (market)	-	-	-	-	-
(421)	-	Repayment of domestic bonds (non-market)	-	-	-	-	-
(3,088)	967	Net (repayments of)/cash proceeds from domestic bonds	1,033	1,060	(27)	(2.5)	2,728

IMPACT OF THE ADOPTION OF NZ IFRS

The aim of this section is to explain how the transition from previous GAAP to NZ IFRS has affected the reported financial position and financial performance of the Government of New Zealand.

The Government is reporting in compliance with NZ IFRS for periods beginning on and after 1 July 2007. Previous reporting has been on the basis of approved accounting standards applicable in New Zealand at the time. The following pages describe the impact of the adoption of NZ IFRS by providing reconciliations between the previous GAAP and the comparative information shown in these financial statements for:

- Net worth as at 1 July 2006, as at 31 October 2006 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the four months ended 31 October 2006

In addition to changes in measurement and recognition rules, NZ IFRS has resulted in a number of changes to the format of the financial statements. The major reclassifications are:

- depreciation and amortisation previously classified under operating expenses now separately disclosed
- share investments previously classified under marketable securities now separately disclosed
- some properties held by Land Information New Zealand (LINZ) have been reclassified from assets for sale to property, plant and equipment and as a result have been fair valued
- settlement deposits with the Reserve Bank previously classified under borrowings – sovereign guaranteed now separately disclosed
- separation of borrowings between sovereign guaranteed and non-sovereign guaranteed no longer in the statement of financial position (transferred to notes to the financial statements)
- payables and provisions previously classified as one category now split
- reclassifications between interest and dividend income, interest expense and gains/losses on financial instruments
- reclassifications between sales of goods and services and other revenue, and
- reclassifications between official development assistance and operating expenses.

IMPACT OF THE ADOPTION OF NZ IFRS

	<i>Note</i>	As at 1 July 2006 \$m	As at 30 June 2007 \$m	As at 31 Oct 2006 \$m
Net worth per existing GAAP published accounts		71,403	95,836	74,615
Rail network valuation	a	10,330	-	10,294
Amended net worth per existing GAAP		81,733	95,836	84,909
Changes as a result of transition to NZ IFRS				
Revaluation of GSF	b	3,133	3,137	2,970
Inclusion of a risk premium on ACC liability	c	(1,603)	(1,976)	(1,624)
Inclusion of derivatives	d	304	(355)	168
Fair value adjustments to receivables	e	(369)	(598)	(388)
Revaluation of NPF liability	f	195	182	195
Goodwill amortisation	g	-	98	19
Other movements		196	380	327
Net worth per NZ IFRS published accounts		83,589	96,704	86,576
	<i>Note</i>		Prior Year to 30 June 2007 \$m	4 Months to 31 Oct 2006 \$m
Operating balance per existing GAAP published accounts			8,663	3,080
Rail network valuation	a		-	(36)
Amended operating balance per existing GAAP			8,663	3,044
Changes as a result of transition to NZ IFRS				
Revaluation of GSF	b		4	(163)
Inclusion of a risk premium on ACC liability	c		(373)	(21)
Inclusion of derivatives	d		(250)	(136)
Fair value adjustments to receivables	e		(229)	(19)
Revaluation of NPF liability	f		(13)	-
Goodwill amortisation	g		98	19
Other movements			99	(151)
Operating balance per NZ IFRS published accounts			7,999	2,573

IMPACT OF THE ADOPTION OF NZ IFRS

Notes to the NZ IFRS Transition

- a) On 1 July 2006 the accounting policy regarding the valuation basis of the rail network changed under existing GAAP to depreciated replacement cost. Previously this asset was reported at historical cost.
- b) The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under NZ IFRS. The main changes to the financial statement are:
- a reduction in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis, rather than the amount to be invested today to fully fund future contributions under existing GAAP. This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax, and
 - a netting of GSF plan assets against the pension liability (nil impact on net worth).
- c) The reporting of the ACC liability has changed owing to the new requirements under NZ IFRS. The main changes to the financial statements are:
- the ACC liability has increased due to adding an additional risk premium and liability adequacy test on the unearned levy liability to meet estimated future claims. The actuarially calculated liability under existing GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an additional risk premium and liability adequacy test under NZ IFRS does not change the relative risk of ACC's activities; rather it simply changes how this risk is reported
 - changes to the presentation of the unearned levy liability (nil impact on net worth).
- d) Under NZ IFRS all derivative contracts must be recognised in the statement of financial position at fair value.
- e) Receivables from taxes and fines have been written down to reflect time value of money and collection costs.
- f) Like the reduction in the GSF liability above, the reduction in the National Provident Fund (NPF) liability is due to the tax effect of valuing the liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than the current approach which determines what payment would be required today to settle all future obligations.
- g) Under NZ IFRS goodwill is not amortised over a specified period. Instead, an annual impairment test is conducted.