

5 December 2008

**MEDIA STATEMENT**

Embargoed until 10:00am, Friday 5 December 2008

Dr Peter Bushnell  
Deputy Secretary to the Treasury

**FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE FOUR MONTHS ENDED 31 OCTOBER 2008**

The Financial Statements of the Government of New Zealand for the four months ended 31 October 2008 were released by the Treasury today.

The monthly financial statements are compared against the monthly forecast tracks based on the 2008 Pre-Election Economic and Fiscal Update released on 6 October.

**Results for the four months ended 31 October 2008**

- Tax revenue, core Crown expenses and the operating balance before gains and losses (OBEGAL) were broadly in line with forecast.
- The operating balance deficit of \$3.5b was \$5.0b lower than the forecast surplus. The two main contributors to this lower-than-expected result were:
  - The NZ Superannuation Fund (NZS Fund), ACC and EQC all suffered losses on their investment portfolios that were larger than expected (\$3.5b, \$0.6b and \$0.2b respectively) as a result of continuing turmoil in global financial markets.
  - GSF and ACC also recorded losses as a result of recent revaluations of their long term liabilities of \$1.0b and \$0.4b respectively.
- The core Crown residual cash deficit was \$0.9b lower than forecast at \$3.7b. This was mainly due to delays in transferring \$0.7b to the NZ Fast Forward Fund and higher-than-expected petroleum mining royalties received due to high oil prices earlier in the year.

- Gross sovereign-issued debt (GSID) was \$3.1b higher than forecast at \$33.6b (18.8% of GDP). This was due to stronger-than-expected demand for government-issued assets, depreciation of the NZ dollar impacting on foreign currency liabilities, and an increase in the volume of derivatives in loss compared to forecast. These factors all have a broadly corresponding impact on the Crown's financial asset portfolio and so have minimal impact on net core Crown debt.
- Net core Crown debt was \$1.9b lower than forecast at \$2.2b mainly due to the lower than-expected residual cash deficit (noted above), \$0.3b higher-than-forecast circulating currency, and \$0.6b due to an increase in derivative holdings.

	Year to date				Full Year
	October 2008 Actual <sup>2</sup>	October 2008 Forecast <sup>2</sup>	Variance \$m	Variance %	PREFU June 2009 Forecast <sup>3</sup>
<b>\$ million</b>					
<b>Core Crown</b>					
Core Crown revenue (excl. NZS Fund) <sup>1</sup>	20,680	20,487	193	0.9	61,102
Core Crown expenses	20,071	20,366	295	1.4	62,359
NZS Fund operating balance	(2,315)	312	(2,627)	(842.0)	986
Core Crown residual cash	(3,692)	(4,564)	872	19.1	(5,909)
GSID (excl. settlement cash)	33,632	30,554	(3,078)	(10.1)	32,087
<i>as a percentage of GDP</i>	<b>18.8%</b>	17.1%			17.4%
Net Core Crown debt	2,178	4,116	1,938	47.1	5,207
<i>as a percentage of GDP</i>	<b>1.2%</b>	2.3%			2.8%
Net Core Crown debt (incl. NZS Fund)	(10,268)	(10,017)	251	2.5	(10,430)
<i>as a percentage of GDP</i>	<b>(5.7)%</b>	(5.6)%			(5.7)%
<b>Total Crown</b>					
OBEGAL	898	781	117	15.0	(64)
Net gains/(losses) and other items	(4,405)	689	(5,094)		1,973
Operating Balance	(3,507)	1,470	(4,977)	(338.6)	1,909

1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)

2 Using GDP for the year ended 30 June 2008 of \$179,048 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

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# Financial Statements of the Government of New Zealand

For the Four Months Ended  
31 October 2008



Prepared by The Treasury  
5 December 2008

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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## COMMENTARY

## S U M M A R Y

### Results for the four months ended 31 October 2008

- The Financial Statements of the Government provide a record of the Government's financial performance over the four months ended 31 October 2008 and its financial position as at 31 October 2008. They provide a comparison with the fiscal forecasts in the *2008 Pre-election Economic and Fiscal Update*.
- Overall, tax revenue, core Crown expenses and the operating balance before gains and losses (OBEGAL) were broadly in line with forecast.
- The operating balance deficit of \$3.5b was \$5.0b lower than the forecast surplus. The two main contributors to this lower-than-expected result were:
  - The NZ Superannuation Fund (NZS Fund), ACC and EQC all suffered losses on their investment portfolios that were larger than expected (\$3.5b, \$0.6b and \$0.2b respectively) as a result of continuing turmoil in global financial markets.
  - GSF and ACC also recorded losses of \$1.0b and \$0.4b respectively as a result of recent revaluations of their long term liabilities.
- The core Crown residual cash deficit was \$0.9b lower than forecast at \$3.7b. This was mainly due to delays in transferring \$0.7b to the NZ Fast Forward Fund and higher-than-expected petroleum mining royalties received due to high oil prices earlier in the year.
- Gross sovereign-issued debt (GSID) was \$3.1b higher than forecast at \$33.6b (18.8% of GDP). This was due to stronger-than-expected demand for government-issued assets, depreciation of the NZ dollar impacting on foreign currency liabilities, and an increase in the volume of derivatives in loss compared to forecast. These factors all have a broadly corresponding impact on the Crown's financial asset portfolio and so have minimal impact on net core Crown debt.
- Net core Crown debt was \$1.9b lower than forecast at \$2.2b mainly due to the lower-than-expected residual cash deficit (noted above), \$0.3b higher-than-forecast circulating currency, and \$0.6b due to an increase in derivative holdings.



**Table 1** – Key indicators for the four months to 31 October 2008

	Year to date				Full Year
	October 2008 Actual <sup>2</sup>	October 2008 Forecast <sup>2</sup>	Variance \$m	Variance %	PREFU June 2009 Forecast <sup>3</sup>
<b>\$ million</b>					
<b>Core Crown</b>					
Core Crown revenue (excl. NZS Fund) <sup>1</sup>	<b>20,680</b>	20,487	193	0.9	61,102
Core Crown expenses	<b>20,071</b>	20,366	295	1.4	62,359
NZS Fund operating balance	<b>(2,315)</b>	312	(2,627)	(842.0)	986
Core Crown residual cash	<b>(3,692)</b>	(4,564)	872	19.1	(5,909)
GSID (excl. settlement cash)	<b>33,632</b>	30,554	(3,078)	(10.1)	32,087
<i>as a percentage of GDP</i>	<b>18.8%</b>	17.1%			17.4%
Net Core Crown debt	<b>2,178</b>	4,116	1,938	47.1	5,207
<i>as a percentage of GDP</i>	<b>1.2%</b>	2.3%			2.8%
Net Core Crown debt (incl. NZS Fund)	<b>(10,268)</b>	(10,017)	251	2.5	(10,430)
<i>as a percentage of GDP</i>	<b>(5.7)%</b>	(5.6)%			(5.7)%
<b>Total Crown</b>					
OBEGAL	<b>898</b>	781	117	15.0	(64)
Net gains/(losses) and other items	<b>(4,405)</b>	689	(5,094)		1,973
Operating Balance	<b>(3,507)</b>	1,470	(4,977)	(338.6)	1,909

- 1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)
- 2 Using GDP for the year ended 30 June 2008 of \$179,048 million (Source: Statistics New Zealand).
- 3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

*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.*

**Table 2** – Key indicator variances for the four months to 31 October 2008

Key Indicator	Variance	Key Drivers
<b>Core Crown</b>		
Core Crown revenue (excl. NZS Fund revenue)	\$0.2 billion (higher than forecast)	<ul style="list-style-type: none"> <li>• Core Crown tax revenue was \$0.4b (2.1%) higher than forecast as follows: <ul style="list-style-type: none"> <li>○ Source deductions (e.g. PAYE) were \$0.4b (5.6%) higher than forecast. Most of this variance is attributable to an incorrect timing assumption in the forecast track which is expected to unwind by year end.</li> <li>○ GST revenue was \$0.2b (4.4%) lower than forecast. We do not believe this indicates economic weakness, as consumption is tracking in line with forecast and GST receipts were above forecast for the four months ended 31 October.</li> <li>○ Other individuals tax was \$0.2b (16.6%) higher than forecast. This is related to greater-than-expected provisional tax assessments. Provisional tax is based on assessments from individual provisional tax payers and, as a result, is subject to error. The high level of provisional tax is likely to reflect an over estimation of individuals' 2009 tax year liability, rather than underlying economic conditions.</li> <li>○ Corporate tax revenue was on forecast, but there were two significant variances within that result: <ul style="list-style-type: none"> <li>- The reversal of a \$0.2b provision that should have been reversed in the 2006/07 year but was only brought to account in September 2008. The reversal increased company tax revenue, but did not affect tax receipts; and</li> <li>- Lower-than-expected provisional income tax assessments, particularly from financial and multi-national companies.</li> </ul> </li> <li>○ The underlying corporate tax variance is expected to persist through to the end of the 2008/09 fiscal year, as the effects of worldwide financial events flow through to New Zealand firms' profitability.</li> </ul> </li> <li>• Other revenue was \$0.3b higher than forecast, primarily in relation to petroleum mining royalties. The high price of oil last year led to a number of operations moving to a higher royalty threshold earlier than expected.</li> <li>• The higher-than-forecast income above was partly offset by interest revenue which was \$0.4b lower than forecast, primarily due to lower-than-forecast interest rates.</li> </ul>

Key Indicator	Variance	Key Drivers
Core Crown expenses	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• Core Crown expenses were \$0.3b lower than forecast. This was mainly due to: <ul style="list-style-type: none"> <li>○ Transport operating expenditure was \$0.3b lower than forecast primarily as a result of capital expenditure being included in the operating expenditure forecast in error.</li> <li>○ Interest expenses were \$0.2b lower than forecast. This was mainly due to a reduction in interest expense due to lower-than-forecast interest rates offset by an increase in interest expense due to an increase in Reserve Bank settlement cash holdings.</li> <li>○ The lower-than-forecast expenditure above was partly offset by an impairment of the investment in KiwiRail of \$0.2b, which was not forecast.</li> </ul> </li> </ul>
NZS Fund operating balance	-\$2.6 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• The Fund's return for the month of October was -13.5%. This was the lowest return recorded by the Fund (for a single month) since its inception and reflects the weak performance of global equity markets as a result of the continuing downturn of the financial markets during the first four months of the fiscal year. The Fund's annualised return since inception (September 2003) is 4.86%, compared to 6.92% for the risk-free rate of return.</li> </ul>
Core Crown residual cash deficit	\$0.9 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• The residual cash deficit was lower than forecast. This was primarily due to: <ul style="list-style-type: none"> <li>○ A delay in the transfer of \$0.7b funding to the NZ Fast Forward Fund.</li> <li>○ Petroleum mining royalty receipts were higher than expected due to the cash impact of petroleum mining royalty revenue (as noted above).</li> </ul> </li> <li>• Core Crown tax receipts were largely on forecast.</li> </ul>
GSID (excl. settlement cash)	-\$3.1 billion (higher than forecast)	<ul style="list-style-type: none"> <li>• GSID (excluding settlement cash) was higher than forecast. This was due to: <ul style="list-style-type: none"> <li>○ Just under a third was due to stronger-than-expected demand for government-issued assets due to heightened concerns around credit risk.</li> <li>○ A third relates to an increase in the foreign currency debt portfolio due to the depreciation of the NZ dollar against major currencies since the PREFU forecast was prepared.</li> <li>○ The remainder of the variance is due to an increase in the volume of derivatives in loss compared to what was forecast.</li> </ul> </li> <li>• All of these factors have a broadly corresponding impact on the Crown's financial asset portfolio, so there is minimal impact on the net core Crown debt indicator.</li> </ul>
Net core Crown debt (excl. NZS Fund)	\$1.9 billion (lower than forecast)	<ul style="list-style-type: none"> <li>○ Net core Crown debt was lower than forecast. This was mainly due to the lower-than-expected residual cash deficit (noted above), \$0.3b higher than forecast circulating currency, and \$0.6b due to an increase in derivative holdings.</li> </ul>
Net core Crown debt (incl. NZS Fund)	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• The lower than forecast net core Crown debt of \$1.9b (refer above) was offset by the lower than forecast value of assets in the NZS Fund (\$1.7b lower than forecast).</li> </ul>

Key Indicator	Variance	Key Drivers
<b>Total Crown</b>		
OBEGAL  (Operating balance before gains and losses)	\$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> <li>• Total Crown revenue was \$0.9b higher than forecast. The main components were: <ul style="list-style-type: none"> <li>○ Core Crown revenue was \$0.2b higher than forecast (as noted above).</li> <li>○ Sales of goods and services were \$0.3b higher than forecast. This variance predominantly related to entities in the energy sector and was mainly caused by higher-than-expected spot electricity prices. This variance was partly offset by a corresponding variance in expenditure (as noted below).</li> <li>○ SOE interest and dividends revenue was \$0.3b higher than forecast largely due to a classification issue in NZ Post's forecast as interest from Kiwibank was forecast on a net basis. This was offset by a corresponding variance in interest expense (as noted below).</li> </ul> </li> <li>• Total Crown expenditure was \$0.8b higher than forecast. The main components were: <ul style="list-style-type: none"> <li>○ \$0.2b higher-than-forecast expenditure by entities in the electricity sector (as noted above); and \$0.2b higher-than-forecast expenditure by District Health Boards.</li> <li>○ \$0.2b higher than forecast SOE interest expense (as noted above).</li> <li>○ The remainder of the variance was due to small increases across insurance, personnel and other operating expenses.</li> </ul> </li> </ul>
Operating balance	-\$5.0 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• OBEGAL was \$0.1b higher than forecast (as noted above).</li> <li>• Net gains were \$5.1b lower than forecast. The main contributors were: <ul style="list-style-type: none"> <li>○ The NZS Fund, ACC and EQC all suffered losses on their financial instrument portfolios that were larger than expected. The amounts of the greater-than-forecast losses were \$3.5b, \$0.6b and \$0.2b respectively. The losses were the result of continuing turmoil in global financial markets.</li> <li>○ GSF recorded a \$1.0b loss arising from a valuation of its assets and liabilities as at 31 October. This loss arose partly from a decrease in the discount rate (\$0.4b) and partly from poor investment performance (\$0.6b).</li> <li>○ ACC also recorded a \$0.4b loss in the valuation of its outstanding claims liability. The loss arose from a decrease in the discount rate used to calculate the liability and was not included in the forecast (consistent with forecasting policy).</li> </ul> </li> <li>• The losses above were partly offset by net gains by RBNZ and DMO, mainly due to changes in FX and interest rates, which are held constant for forecasting purposes.</li> </ul>

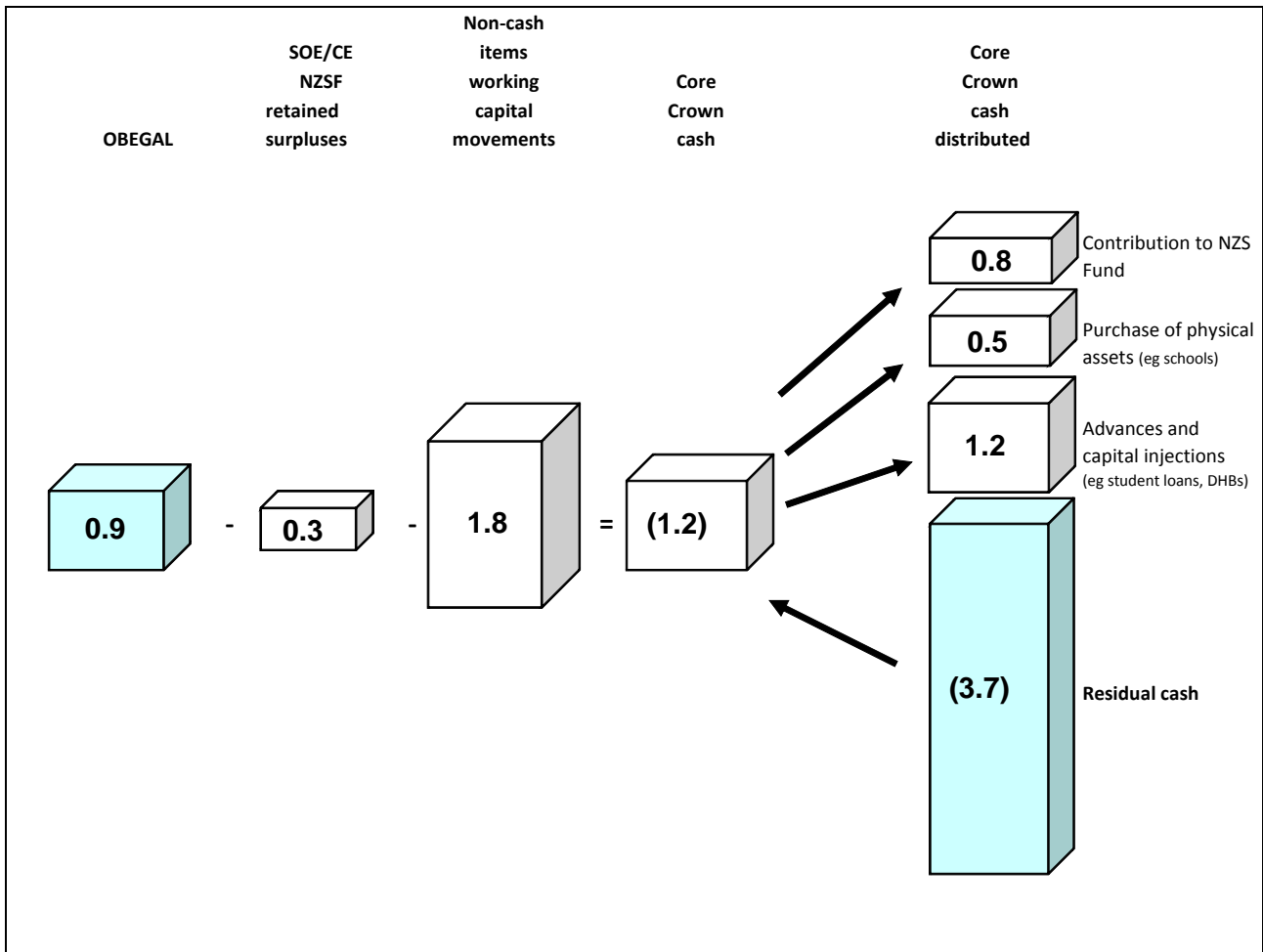
**Table 3 – Reconciliation of Total Crown OBEGAL to core Crown residual cash**

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		October	October	Variance	Variance	PREFU
		2008	2008			June 2009
		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP <sup>1</sup>	31.8%	31.0%			30.1%
Taxes...	Taxation	18,966	18,526	440	2.4	55,538
... combined with other revenue ...	Core Crown other revenue, gains and losses	(1,195)	2,524	(3,719)	(147.3)	7,060
... fund core crown expenses ...	Core Crown expenses	(20,071)	(20,366)	295	(1.4)	(62,359)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(1,207)	786	(1,993)	(253.6)	1,670
... results in a net operating balance (surplus or deficit)...	<b>Operating balance</b>	<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,909</b>
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	4,405	(689)	5,094	(739.3)	(1,973)
... and so we have developed an operating indicator excluding these items.	<b>OBEGAL</b>	<b>898</b>	<b>781</b>	<b>117</b>	<b>15.0</b>	<b>(64)</b>
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(117)	25	(142)	(568.0)	33
" " " "	Net retained surpluses of SOEs and Crown entities	(142)	(638)	496	(77.7)	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(1,805)	(1,637)	(168)	10.3	1,905
The operating cash flow that results, needs to provide sufficient funds for - building up assets in NZ Superannuation	<b>Core Crown Cash flow from Operations</b>	<b>(1,166)</b>	<b>(1,469)</b>	<b>303</b>	<b>(20.6)</b>	<b>786</b>
- meeting the capital expenditure budget, and	Contribution to NZS Fund	(778)	(778)	-	-	(2,242)
- making advances (e.g. to students and DHBs)	Purchase of physical assets	(496)	(506)	10	(2.0)	(1,700)
with a residual impact on debt that allows it to remain at prudent levels	Advances and Capital injections	(1,252)	(1,811)	559	(30.9)	(2,753)
	<b>Residual Cash</b>	<b>(3,692)</b>	<b>(4,564)</b>	<b>872</b>	<b>(19.1)</b>	<b>(5,909)</b>
	<b>... and as a percentage of GDP</b>	<b>-2.1%</b>	<b>-2.5%</b>			<b>-3.2%</b>

<sup>1</sup> GDP for the four months ended 31 October (actual and forecast) is the actual data for the year ended 30 June 2008 (Source: Statistics New Zealand) extrapolated for four months.

**Figure 1** – 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

	October 2008	October 2007	Change <sup>1</sup>	Change
	Actual \$m	Actual \$m	\$m	%
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	19,061	17,934	1,127	6.3
Other revenue	1,766	1,602	164	10.2
<b>Total Core Crown Revenue</b>	<b>20,827</b>	<b>19,536</b>	<b>1,291</b>	<b>6.6</b>
<b>Core Crown expenses</b>				
Social security and welfare	6,318	5,972	346	5.8
GSF pension expenses	218	210	8	3.8
Health	4,034	3,732	302	8.1
Education	3,537	3,196	341	10.7
Core government services	1,058	830	228	27.5
Law and order	985	943	42	4.5
Defence	567	478	89	18.6
Transport and communications	832	819	13	1.6
Economic and industrial services	1,055	864	191	22.1
Primary services	157	143	14	9.8
Heritage, culture and recreation	367	290	77	26.6
Housing and community development	111	98	13	13.3
Other	45	9	36	400.0
Finance costs	787	796	(9)	(1.1)
<b>Total Core Crown Expenses</b>	<b>20,071</b>	<b>18,380</b>	<b>1,691</b>	<b>9.2</b>
Net surplus of SOE/CE's	142	567	(425)	(75.0)
<b>OBEGAL</b>	<b>898</b>	<b>1,723</b>	<b>(825)</b>	<b>(47.9)</b>
Total gains/(losses)	(4,520)	916	(5,436)	-
Other operating items	115	51	64	125.5
<b>Operating Balance</b>	<b>(3,507)</b>	<b>2,690</b>	<b>(6,197)</b>	<b>(230.4)</b>
<b>Core Crown residual cash</b>	<b>(3,692)</b>	<b>30</b>	<b>(3,722)</b>	<b>-</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt (excluding settlement cash)</b>	<b>33,632</b>	<b>32,313</b>	<b>1,319</b>	<b>4.1</b>
<b>Net Core Crown debt</b>	<b>2,178</b>	<b>3,777</b>	<b>(1,599)</b>	<b>(42.3)</b>

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

## Revenue and Expenses

Total taxation revenue for the four months ended 31 October 2008 has increased by \$1.1 billion (6.3%) on the same period last year. The increase was primarily in GST, PAYE and other individuals tax, and corporate tax. The increase in GST revenue was primarily due to timing effects in the accrual of GST revenue in June/July 2007, which artificially lowered GST revenue in the October 2007 period, thereby increasing the growth rate for the October 2008 period. The increase in PAYE was driven by high wage growth and the increase in other individuals tax was due to growth in provisional tax assessments, which at this stage of the tax year, are more likely to be based on 'last year + 5%' rather than reflecting underlying profit growth. The increase in corporate tax was mainly driven by growth in terminal tax assessments, which relate to 2007/08 tax year activity, and as a result do not reflect current profitability.

Total **core Crown expenses** were \$1.7 billion (9.2%) higher than the comparable period from the previous financial year. The 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"><li>• Indexation of welfare benefits</li></ul>
Health	+ \$0.3 billion	<ul style="list-style-type: none"><li>• Funding provided in the 2008 Budget to maintain and improve existing service levels</li></ul>
Education	+ \$0.3 billion	<ul style="list-style-type: none"><li>• Higher demand-driven expenses from roll growth</li><li>• Funding provided in the 2008 Budget</li></ul>
Core government services	+ \$0.2 billion	<ul style="list-style-type: none"><li>• Primarily due to policy initiatives from the 2008 Budget</li></ul>
Economic and industrial services	+ \$0.2 billion	<ul style="list-style-type: none"><li>• Primarily due to the introduction of the KiwiSaver initiative</li></ul>
Other	+ \$0.4 billion	<ul style="list-style-type: none"><li>• Mainly due to policy initiatives from the 2008 Budget</li></ul>
<b>Total</b>	<b>+ \$1.7 billion</b>	

**Total Gains and losses** were in a net loss position of \$4.5 billion for the period ended 31 October 2008, compared to a net gain position of \$0.9 billion for the same period the previous year. The \$5.4 billion difference is due to:

- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the current downturn in financial markets;
- an increase in the ACC unfunded liability since October 2007 due to increases in expected claim costs driven by economic assumptions (e.g. discount and inflation rates); and
- an increase in the GSF liability as at 31 October 2008 due to a decrease in the discount rate and lower than expected investment performance.

The **Core Crown residual cash** deficit increased by \$3.7 billion compared to the same period last year. This is primarily due to:

- the purchase of KiwiRail Holdings Limited
- the increase in core Crown expenses (as noted above); and
- a decrease in tax receipts

**Net Core Crown debt** has reduced by \$1.6 billion as a result of an increase in financial assets, primarily due to the strong outturn reported as at 30 June 2008.





# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

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## 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 85 and 86 of the *Pre-election Economic and Fiscal Update 2008* released on 6 October 2008.

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/finmgmt-reporting/nzifrs/policies-guidance>

## 4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Pre-election Economic and Fiscal Update (PREFU)*, on 6 October 2008.

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

<http://www.treasury.govt.nz/budget/forecasts/prefu2008>

## STATEMENT OF ACCOUNTING POLICIES (*CONTINUED*)

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### **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.

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 2008

Year 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				
Actual \$m	Actual \$m	Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m	
<b>Revenue</b>								
56,372	17,726							
3,879	1,274							
<b>60,251</b>	<b>19,000</b>		<b>20,288</b>	<b>19,833</b>	<b>455</b>	<b>2.3</b>	<b>59,531</b>	
15,399	4,473		5,504	5,171	333	6.4	16,084	
3,214	1,064	2	1,217	1,322	(105)	(7.9)	3,828	
2,615	776		1,124	853	271	31.8	2,247	
<b>21,228</b>	<b>6,313</b>		<b>7,845</b>	<b>7,346</b>	<b>499</b>	<b>6.8</b>	<b>22,159</b>	
<b>81,479</b>	<b>25,313</b>		<b>28,133</b>	<b>27,179</b>	<b>954</b>	<b>3.5</b>	<b>81,690</b>	
<b>Expenses</b>								
18,374	6,023							
16,478	5,307							
3,670	1,169							
30,656	8,925							
3,101	1,008							
3,563	1,158							
-	-							
-	-							
<b>75,842</b>	<b>23,590</b>		<b>27,235</b>	<b>26,398</b>	<b>(837)</b>	<b>(3.2)</b>	<b>81,754</b>	
<b>5,637</b>	<b>1,723</b>		<b>898</b>	<b>781</b>	<b>117</b>	<b>15.0</b>	<b>(64)</b>	
(617)	908		(3,142)	515	(3,657)	-	1,462	
(2,925)	8		(1,378)	71	(1,449)	-	178	
<b>(3,542)</b>	<b>916</b>		<b>(4,520)</b>	<b>586</b>	<b>(5,106)</b>	<b>-</b>	<b>1,640</b>	
334	51		115	103	12	11.7	334	
<b>2,429</b>	<b>2,690</b>		<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,910</b>	
22	-		-	-	-	-	(1)	
<b>2,451</b>	<b>2,690</b>		<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,909</b>	
(67)	-		-	-	-	-	-	
<b>2,384</b>	<b>2,690</b>	10	<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,909</b>	

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

## ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the four months ended 31 October 2008

Year 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				Annual Forecast \$m
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%			
<b>Total Crown expenses</b>								
21,509	7,140			7,452	7,279	(173)	(2.4)	23,382
690	210			218	217	(1)	(0.5)	654
10,809	3,785			3,928	3,928	-	-	11,884
10,397	3,430			4,032	3,964	(68)	(1.7)	11,643
3,274	801			1,032	1,167	135	11.6	3,576
3,082	1,027			1,038	1,086	48	4.4	3,370
1,525	465			548	515	(33)	(6.4)	1,716
7,424	2,263			2,960	2,722	(238)	(8.7)	9,487
9,038	2,011			3,062	2,679	(383)	(14.3)	8,641
1,459	430			458	473	15	3.2	1,450
2,337	685			832	788	(44)	(5.6)	2,808
938	326			368	356	(12)	(3.4)	1,053
259	9			42	36	(6)	(16.7)	57
3,101	1,008			1,265	1,188	(77)	(6.5)	3,311
-	-			-	-	-	-	172
-	-			-	-	-	-	(1,450)
<b>75,842</b>	<b>23,590</b>			<b>27,235</b>	<b>26,398</b>	<b>(837)</b>	<b>(3.2)</b>	<b>81,754</b>

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 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				Annual Forecast \$m
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%			
<b>Core Crown</b>								
<b>Core Crown expenses</b>								
17,877	5,972			6,318	6,187	(131)	(2.1)	19,156
690	210			218	217	(1)	(0.5)	654
11,297	3,732			4,034	4,131	97	2.3	12,377
9,551	3,196			3,537	3,488	(49)	(1.4)	10,739
3,371	830			1,058	1,192	134	11.2	3,649
2,894	943			985	1,030	45	4.4	3,139
1,562	478			567	530	(37)	(7.0)	1,756
2,244	819			832	942	110	11.7	3,566
2,889	864			1,055	1,051	(4)	(0.4)	3,549
541	143			157	150	(7)	(4.7)	545
1,107	290			367	351	(16)	(4.6)	1,446
260	98			111	110	(1)	(0.9)	347
254	9			45	28	(17)	(60.7)	57
2,460	796			787	959	172	17.9	2,657
-	-			-	-	-	-	172
-	-			-	-	-	-	(1,450)
<b>56,997</b>	<b>18,380</b>			<b>20,071</b>	<b>20,366</b>	<b>295</b>	<b>1.4</b>	<b>62,359</b>

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

# STATEMENT OF CASH FLOWS

for the four months ended 31 October 2008

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual			Variance		Forecast	
\$m	\$m	Actual	Forecast	\$m	%	\$m	
		<b>Cash Flows From Operations</b>					
		<b>Cash was provided from</b>					
55,168	17,763	Taxation receipts	17,413	16,848	565	3.4	54,159
3,460	1,437	Other sovereign receipts	1,482	1,439	43	3.0	3,737
14,635	4,449	Sales of goods and services	6,326	5,579	747	13.4	16,599
3,111	1,004	Interest and dividends	1,255	1,195	60	5.0	3,292
2,211	931	Other operating receipts	844	870	(26)	(3.0)	2,727
<b>78,585</b>	<b>25,584</b>	<b>Total cash provided from operations</b>	<b>27,320</b>	<b>25,931</b>	<b>1,389</b>	<b>5.4</b>	<b>80,514</b>
		<b>Cash was disbursed to</b>					
		Social assistance and official development assistance					
18,026	5,992		6,873	6,764	(109)	(1.6)	19,675
45,972	15,644	Personnel and operating payments	18,873	17,657	(1,216)	(6.9)	54,076
2,820	1,035	Interest payments	1,195	825	(370)	(44.8)	2,970
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
<b>66,818</b>	<b>22,671</b>	<b>Total cash disbursed to operations</b>	<b>26,941</b>	<b>25,246</b>	<b>(1,695)</b>	<b>(6.7)</b>	<b>75,443</b>
<b>11,767</b>	<b>2,913</b>	<b>Net cash flows from operations</b>	<b>379</b>	<b>685</b>	<b>(306)</b>	<b>(44.7)</b>	<b>5,071</b>
		<b>Cash Flows From Investing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
(4,922)	(1,545)	Net purchase of physical assets	(1,460)	(2,186)	726	33.2	(6,909)
(6,080)	(2,637)	Net purchase of shares and other securities	3,115	3,922	(807)	(20.6)	499
(320)	(62)	Net purchase of intangible assets	(134)	(63)	(71)	(112.7)	(444)
(2,646)	(69)	Net issue/(repayment) of advances	852	(469)	1,321	281.7	359
(363)	(221)	Net acquisition of investments in associates	(220)	(163)	(57)	(35.0)	(1,024)
-	-	Capital contingency provision	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
<b>(14,331)</b>	<b>(4,534)</b>	<b>Net cash flows from investing activities</b>	<b>2,153</b>	<b>1,041</b>	<b>1,112</b>	<b>106.8</b>	<b>(7,218)</b>
<b>(2,564)</b>	<b>(1,621)</b>	<b>Net cash flows from operating and investing activities</b>	<b>2,532</b>	<b>1,726</b>	<b>806</b>	<b>46.7</b>	<b>(2,147)</b>
		<b>Cash Flows From Financing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
86	133	Issues of circulating currency	326	(9)	335	-	172
1,674	1,394	Net issue/(repayment) of Government stock <sup>1</sup>	(1,331)	(1,404)	73	5.2	1,748
1,099	667	Net issue/(repayment) of foreign currency borrowing	176	(244)	420	172.1	(336)
(697)	(911)	Net issue/(repayment) of other New Zealand dollar borrowing	770	417	353	84.7	637
<b>2,162</b>	<b>1,283</b>	<b>Net cash flows from financing activities</b>	<b>(59)</b>	<b>(1,240)</b>	<b>1,181</b>	<b>95.2</b>	<b>2,221</b>
<b>(402)</b>	<b>(338)</b>	<b>Net movement in cash</b>	<b>2,473</b>	<b>486</b>	<b>1,987</b>	<b>408.8</b>	<b>74</b>
4,162	4,208	Opening Cash Balance	3,804	3,804	-	-	3,804
		Foreign-exchange gains/(losses) on opening cash					
44	67		23	4	19	475.0	(10)
<b>3,804</b>	<b>3,937</b>	<b>Closing Cash Balance</b>	<b>6,300</b>	<b>4,294</b>	<b>2,006</b>	<b>46.7</b>	<b>3,868</b>

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 four months ended 31 October 2008

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual			Variance		Forecast	
\$m	\$m	Actual	Forecast	\$m	%	\$m	
		\$m	\$m				
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
<b>11,767</b>	<b>2,913</b>	<b>Net Cash Flows from Operations</b>	<b>379</b>	<b>685</b>	<b>(306)</b>	<b>(44.7)</b>	<b>5,071</b>
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
		<b>Gains/(losses)</b>					
(617)	908	Gains/(losses) on other financial instruments	(3,142)	515	(3,657)	-	1,462
(2,925)	8	Gains/(losses) on other non-financial instruments	(1,378)	71	(1,449)	-	178
<b>(3,542)</b>	<b>916</b>	<b>Total gains/(losses)</b>	<b>(4,520)</b>	<b>586</b>	<b>(5,106)</b>	<b>-</b>	<b>1,640</b>
		<b>Other Non-cash Items in Operating Balance</b>					
(3,670)	(1,169)	Depreciation and amortisation	(1,502)	(1,294)	(208)	(16.1)	(3,973)
(559)	(143)	Write-down on initial recognition of loans	(156)	(170)	14	8.2	(611)
213	3	Impairment on financial assets (excluding receivables)	-	-	-	-	3
2	34	Decrease/(increase) in defined benefit retirement plan liabilities	26	145	(119)	(82.1)	(75)
(1,358)	325	Decrease/(increase) in insurance liabilities	401	591	(190)	(32.1)	(1,498)
334	51	Other	116	103	13	12.6	334
<b>(5,038)</b>	<b>(899)</b>	<b>Total other non-cash Items</b>	<b>(1,115)</b>	<b>(625)</b>	<b>(490)</b>	<b>(78.4)</b>	<b>(5,820)</b>
		<b>Movements in Working Capital</b>					
2,100	(682)	Increase/(decrease) in receivables	(689)	850	(1,539)	(181.1)	321
(179)	85	Increase/(decrease) in accrued interest	(107)	(236)	129	54.7	196
138	43	Increase/(decrease) in inventories	62	20	42	210.0	46
77	228	Increase/(decrease) in prepayments	56	89	(33)	(37.1)	9
(326)	(3)	Decrease/(increase) in deferred revenue	(43)	(308)	265	86.0	87
(2,613)	89	Decrease/(increase) in payables	2,470	409	2,061	-	359
<b>(803)</b>	<b>(240)</b>	<b>Total movements in working capital</b>	<b>1,749</b>	<b>824</b>	<b>925</b>	<b>112.3</b>	<b>1,018</b>
<b>2,384</b>	<b>2,690</b>	<b>Operating Balance</b>	<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,909</b>

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 2008

Year 4 Months to 30 Jun to 31 Oct			Current Year Actual vs Forecast				
2008	2007		Actual	Forecast	Variance	Annual	
Actual	Actual		\$m	\$m	\$m	%	
\$m	\$m						
6,214	16	Revaluation of physical assets	103	(12)	115	-	292
9	126	Effective portion of changes in value of cash flow hedges	425	(6)	431	-	19
22	27	Net change in fair value of cash flow hedges transferred to operating balance	1	-	1	-	-
(60)	(29)	Net change in fair value of cash flow hedges transferred to the hedged item	(57)	-	(57)	-	34
17	9	Foreign currency translation differences for foreign operations	21	-	21	-	(1)
11	3	Valuation gain/(losses) on investments available for sale taken to reserves	30	(1)	31	-	1
-	-	Other movements	-	-	-	-	1
<b>6,213</b>	<b>152</b>	<b>Total income/(expense) recognised directly in Net Worth</b>	<b>523</b>	<b>(19)</b>	<b>542</b>	<b>-</b>	<b>346</b>
2,451	2,690	<b>Operating Balance (including minority</b>	(3,507)	1,470	(4,977)	(338.6)	1,909
<b>8,664</b>	<b>2,842</b>	<b>Total recognised income and expense</b>	<b>(2,984)</b>	<b>1,451</b>	<b>(4,435)</b>	<b>(305.7)</b>	<b>2,255</b>
		<b>Attributable to:</b>					
83	-	- minority interest in Air New Zealand	-	-	-	-	-
8,581	2,842	- the Crown	(2,984)	1,451	(4,435)	(305.7)	2,255
<b>8,664</b>	<b>2,842</b>	<b>Total recognised income and expense</b>	<b>(2,984)</b>	<b>1,451</b>	<b>(4,435)</b>	<b>(305.7)</b>	<b>2,255</b>

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



# STATEMENT OF FINANCIAL POSITION

as at 31 October 2008

As at 30 June 2008 Actual \$m	As at 31 Oct 2007 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Assets</b>						
3,804	3,937	Cash and cash equivalents	11	6,300	4,294	2,006	46.7	3,868
14,158	10,894	Receivables	11	13,470	15,008	(1,538)	(10.2)	14,479
41,189	36,338	Marketable securities, deposits and derivatives in gain	11	42,656	38,270	4,386	11.5	37,672
12,964	14,193	Share investments	11	11,472	13,533	(2,061)	(15.2)	14,293
12,948	12,348	Advances	11	13,899	13,264	635	4.8	17,134
964	865	Inventory		1,026	984	42	4.3	1,010
1,663	1,517	Other assets		1,547	1,605	(58)	(3.6)	1,441
103,329	96,025	Property, plant & equipment	12	104,275	104,592	(317)	(0.3)	107,895
8,065	7,107	Equity accounted investments <sup>1</sup>		8,353	8,254	99	1.2	8,820
1,751	1,617	Intangible assets and goodwill		1,793	2,114	(321)	(15.2)	2,308
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	Top-down capital adjustment		-	-	-	-	(485)
<b>200,835</b>	<b>184,841</b>	<b>Total assets</b>		<b>204,791</b>	<b>201,918</b>	<b>2,873</b>	<b>1.4</b>	<b>208,619</b>
		<b>Liabilities</b>						
3,530	3,577	Issued currency		3,856	3,524	(332)	(9.4)	3,702
10,895	8,215	Payables	14	8,263	11,263	3,000	26.6	11,936
1,292	982	Deferred revenue		1,334	1,599	265	16.6	1,205
46,110	43,854	Borrowings		54,237	46,121	(8,116)	(17.6)	48,618
20,484	17,094	Insurance liabilities	15	20,500	19,893	(607)	(3.1)	21,982
8,257	7,126	Retirement plan liabilities		9,220	8,112	(1,108)	(13.7)	8,332
4,753	4,449	Provisions	16	4,852	4,440	(412)	(9.3)	5,075
<b>95,321</b>	<b>85,297</b>	<b>Total liabilities</b>		<b>102,262</b>	<b>94,952</b>	<b>(7,310)</b>	<b>(7.7)</b>	<b>100,850</b>
<b>105,514</b>	<b>99,544</b>	<b>Total assets less total liabilities</b>		<b>102,529</b>	<b>106,966</b>	<b>(4,437)</b>	<b>(4.1)</b>	<b>107,769</b>
		<b>Net Worth</b>						
46,700	46,857	Taxpayer funds	17	42,808	48,183	(5,375)	(11.2)	48,675
58,566	52,388	Revaluation reserve	17	59,054	58,542	512	0.9	58,793
(134)	3	Other reserves	17	285	(141)	426	302.1	(81)
<b>105,132</b>	<b>99,248</b>	<b>Total net worth attributable to the</b>		<b>102,147</b>	<b>106,584</b>	<b>(4,437)</b>	<b>(4.2)</b>	<b>107,387</b>
382	296	Net worth attributable to minority in Air New Zealand		382	382	-	-	382
<b>105,514</b>	<b>99,544</b>	<b>Total net worth</b>		<b>102,529</b>	<b>106,966</b>	<b>(4,437)</b>	<b>(4.1)</b>	<b>107,769</b>

<sup>1</sup>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 2008

As at 30 June 2008 Actual \$m	As at 31 Oct 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
18,516	16,920	Government stock <sup>1</sup>	17,037	16,261	(776)	(4.8)	19,244
1,484	2,340	Treasury bills	1,736	1,381	(355)	(25.7)	1,116
423	373	Government retail stock	588	422	(166)	(39.3)	416
7,750	7,025	Settlement deposits with Reserve Bank	9,315	7,910	(1,405)	(17.8)	7,750
1,591	1,100	Derivatives in loss <sup>2</sup>	4,726	1,509	(3,217)	(213.2)	746
955	977	Finance lease liabilities	1,058	969	(89)	(9.2)	1,124
15,391	15,119	Other borrowings	19,777	17,669	(2,108)	(11.9)	18,222
<b>46,110</b>	<b>43,854</b>	<b>Total borrowings<sup>3</sup></b>	<b>54,237</b>	<b>46,121</b>	<b>(8,116)</b>	<b>(17.6)</b>	<b>48,618</b>
33,192	32,415	Sovereign-guaranteed debt	38,823	32,769	(6,054)	(18.5)	33,378
12,918	11,439	Non sovereign-guaranteed debt	15,414	13,352	(2,062)	(15.4)	15,240
<b>46,110</b>	<b>43,854</b>	<b>Total borrowings<sup>3</sup></b>	<b>54,237</b>	<b>46,121</b>	<b>(8,116)</b>	<b>(17.6)</b>	<b>48,618</b>
		<b>Gross and net debt analysis:</b>					
37,336	37,197	Core Crown borrowings	43,013	36,319	(6,694)	(18.4)	37,793
409	667	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,571)	590	2,161	366.3	649
<b>37,745</b>	<b>37,864</b>	<b>Gross sovereign-issued debt<sup>4</sup></b>	<b>41,442</b>	<b>36,909</b>	<b>(4,533)</b>	<b>(12.3)</b>	<b>38,442</b>
50,698	47,374	Less core Crown financial assets <sup>5</sup>	51,710	46,926	4,784	10.2	48,872
<b>(12,953)</b>	<b>(9,510)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>6</sup></b>	<b>(10,268)</b>	<b>(10,017)</b>	<b>251</b>	<b>2.5</b>	<b>(10,430)</b>
12,934	13,287	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets	12,446	14,133	(1,687)	(11.9)	15,637
<b>(19)</b>	<b>3,777</b>	<b>Net core Crown debt (excl NZS Fund)<sup>7</sup></b>	<b>2,178</b>	<b>4,116</b>	<b>1,938</b>	<b>47.1</b>	<b>5,207</b>
		<b>Gross sovereign-issued debt excluding settlement cash:</b>					
37,745	37,864	Gross sovereign-issued debt <sup>4</sup>	41,442	36,909	(4,533)	(12.3)	38,442
(7,955)	(7,151)	Less Reserve Bank settlement cash (including Kiwibank)	(9,410)	(7,955)	1,455	18.3	(7,955)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>8</sup>	1,600	1,600	-	-	1,600
<b>31,390</b>	<b>32,313</b>	<b>Gross sovereign-issued debt excluding settlement cash</b>	<b>33,632</b>	<b>30,554</b>	<b>(3,078)</b>	<b>(10.1)</b>	<b>32,087</b>

## Notes on Borrowings

- Government stock includes \$395 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 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 Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore the impact of settlement cash on GSID is adjusted by this amount.

## STATEMENT OF COMMITMENTS

as at 31 October 2008

	As at 31 Oct 2008 \$m	As at 30 June 2008 \$m	As at 31 Oct 2007 \$m
<b>Capital Commitments</b>			
Specialist military equipment	705	873	576
Land and buildings	1,225	1,121	824
Other property, plant and equipment	3,305	4,303	2,693
Other capital commitments	285	304	242
Tertiary Education Institutions	209	209	90
<b>Total capital commitments</b>	<b>5,729</b>	<b>6,810</b>	<b>4,425</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,425	2,460	2,218
Other non-cancellable leases	2,541	2,390	2,263
Non-cancellable contracts for the supply of goods and services	2,083	2,157	1,598
Other operating commitments	7,447	7,995	7,215
Tertiary Education Institutions	315	315	303
<b>Total operating commitments</b>	<b>14,811</b>	<b>15,317</b>	<b>13,597</b>
<b>Total commitments</b>	<b>20,540</b>	<b>22,127</b>	<b>18,022</b>
<b>Total Commitments by Segment</b>			
Core Crown	16,304	19,627	15,597
Crown entities	13,575	15,830	9,415
State-owned Enterprises	4,788	4,724	3,615
Inter-segment eliminations	(14,127)	(18,054)	(10,605)
<b>Total commitments</b>	<b>20,540</b>	<b>22,127</b>	<b>18,022</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 October 2008

	As at 31 Oct 2008 \$m	As at 30 June 2008 \$m	As at 31 Oct 2007 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	363	286	151
Uncalled capital	2,860	2,205	2,138
Legal proceedings and disputes	447	383	1,090
Other contingent liabilities	2,202	1,995	1,895
<b>Total quantifiable contingent liabilities</b>	<b>5,872</b>	<b>4,869</b>	<b>5,274</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	5,698	4,685	5,151
Crown entities	107	86	11
State-owned Enterprises	67	98	112
Inter-segment eliminations	-	-	-
<b>Total quantifiable contingent liabilities</b>	<b>5,872</b>	<b>4,869</b>	<b>5,274</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	389	389	90
Crown entities	-	-	-
<b>Total quantifiable contingent assets</b>	<b>389</b>	<b>389</b>	<b>90</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
23,345	7,416	PAYE	7,960	7,540	420	5.6	23,073
5,071	1,482	Other persons	1,705	1,466	239	16.3	4,972
(1,470)	(513)	Refunds	(611)	(552)	(59)	(10.7)	(1,494)
522	188	Fringe benefit tax	158	160	(2)	(1.3)	514
<b>27,468</b>	<b>8,573</b>	<b>Total individuals</b>	<b>9,212</b>	<b>8,614</b>	<b>598</b>	<b>6.9</b>	<b>27,065</b>
<b>Corporate Tax</b>							
8,787	2,236	Gross companies tax	2,528	2,559	(31)	(1.2)	7,651
(242)	46	Refunds	(88)	(64)	(24)	(37.5)	(310)
1,506	566	Non-resident withholding tax	699	588	111	18.9	1,549
71	64	Foreign-source dividend w/holding payments	(5)	21	(26)	(123.8)	42
<b>10,122</b>	<b>2,912</b>	<b>Total corporate tax</b>	<b>3,134</b>	<b>3,104</b>	<b>30</b>	<b>1.0</b>	<b>8,932</b>
<b>Other Income Tax</b>							
2,699	831	Resident w/holding tax on interest income	924	917	7	0.8	2,822
69	32	Resident w/holding tax on dividend income	4	6	(2)	(33.3)	60
3	1	Estate and gift duties	-	1	(1)	(100.0)	3
<b>2,771</b>	<b>864</b>	<b>Total other income tax</b>	<b>928</b>	<b>924</b>	<b>4</b>	<b>0.4</b>	<b>2,885</b>
<b>40,361</b>	<b>12,349</b>	<b>Total income tax</b>	<b>13,274</b>	<b>12,642</b>	<b>632</b>	<b>5.0</b>	<b>38,882</b>
<b>Goods and Services Tax</b>							
20,631	6,683	Gross goods and services tax	7,467	7,431	36	0.5	21,460
(9,516)	(2,861)	Refunds	(3,400)	(3,177)	(223)	(7.0)	(9,773)
<b>11,115</b>	<b>3,822</b>	<b>Total goods and services tax</b>	<b>4,067</b>	<b>4,254</b>	<b>(187)</b>	<b>(4.4)</b>	<b>11,687</b>
<b>Other Taxation</b>							
819	246	Petroleum fuels excise	269	270	(1)	(0.4)	880
159	60	Tobacco excise	67	68	(1)	(1.5)	151
1,857	601	Customs duty	602	592	10	1.7	1,889
851	276	Road user charges	297	313	(16)	(5.1)	877
573	181	Alcohol excise	197	201	(4)	(2.0)	602
260	69	Gaming duties	70	63	7	11.1	252
226	77	Motor vehicle fees	73	76	(3)	(3.9)	185
46	16	Energy resources levies	14	16	(2)	(12.5)	43
105	29	Approved issuer levy and cheque duty	36	31	5	16.1	90
<b>4,896</b>	<b>1,555</b>	<b>Total other indirect taxation</b>	<b>1,625</b>	<b>1,630</b>	<b>(5)</b>	<b>(0.3)</b>	<b>4,969</b>
<b>16,011</b>	<b>5,377</b>	<b>Total indirect taxation</b>	<b>5,692</b>	<b>5,884</b>	<b>(192)</b>	<b>(3.3)</b>	<b>16,656</b>
<b>56,372</b>	<b>17,726</b>	<b>Total taxation revenue</b>	<b>18,966</b>	<b>18,526</b>	<b>440</b>	<b>2.4</b>	<b>55,538</b>
<b>Other Sovereign Revenue (accrual)</b>							
2,718	880	ACC levies	890	908	(18)	(2.0)	2,742
279	107	Fire Service levies	111	115	(4)	(3.5)	303
86	29	EQC levies	29	29	-	-	87
796	258	Other miscellaneous items	292	255	37	14.5	861
<b>3,879</b>	<b>1,274</b>	<b>Total other sovereign revenue</b>	<b>1,322</b>	<b>1,307</b>	<b>15</b>	<b>1.1</b>	<b>3,993</b>
<b>60,251</b>	<b>19,000</b>	<b>Total sovereign revenue</b>	<b>20,288</b>	<b>19,833</b>	<b>455</b>	<b>2.3</b>	<b>59,531</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
22,830	7,316	PAYE	7,956	7,994	(38)	(0.5)	23,041
5,469	1,538	Other persons	1,458	1,289	169	13.1	5,447
(2,171)	(904)	Refunds	(1,036)	(991)	(45)	(4.5)	(2,369)
489	230	Fringe benefit tax	235	237	(2)	(0.8)	507
<b>26,617</b>	<b>8,180</b>	<b>Total individuals</b>	<b>8,613</b>	<b>8,529</b>	<b>84</b>	<b>1.0</b>	<b>26,626</b>
<b>Corporate Tax</b>							
9,075	2,846	Gross companies tax	2,323	1,956	367	18.8	7,954
(1,026)	(291)	Refunds	(528)	(428)	(100)	(23.4)	(1,150)
1,638	665	Non-resident withholding tax	636	573	63	11.0	1,344
72	58	Foreign-source dividend w/holding payments	(6)	22	(28)	(127.3)	42
<b>9,759</b>	<b>3,278</b>	<b>Total corporate tax</b>	<b>2,425</b>	<b>2,123</b>	<b>302</b>	<b>14.2</b>	<b>8,190</b>
<b>Other Income Tax</b>							
2,616	833	Resident w/holding tax on interest income	945	935	10	1.1	2,823
40	29	Resident w/holding tax on dividend income	20	32	(12)	(37.5)	90
2	1	Estate and gift duties	1	1	-	-	3
<b>2,658</b>	<b>863</b>	<b>Total other income tax</b>	<b>966</b>	<b>968</b>	<b>(2)</b>	<b>(0.2)</b>	<b>2,916</b>
<b>39,034</b>	<b>12,321</b>	<b>Total income tax</b>	<b>12,004</b>	<b>11,620</b>	<b>384</b>	<b>3.3</b>	<b>37,732</b>
<b>Goods and Services Tax</b>							
20,085	6,673	Gross goods and services tax	7,125	6,893	232	3.4	20,727
(8,859)	(2,824)	Refunds	(3,297)	(3,248)	(49)	(1.5)	(9,260)
<b>11,226</b>	<b>3,849</b>	<b>Total goods and services tax</b>	<b>3,828</b>	<b>3,645</b>	<b>183</b>	<b>5.0</b>	<b>11,467</b>
<b>Other Taxation</b>							
809	261	Petroleum fuels excise	261	285	(24)	(8.4)	880
160	50	Tobacco excise	51	53	(2)	(3.8)	151
1,946	618	Customs duty	573	542	31	5.7	1,889
851	276	Road user charges	296	313	(17)	(5.4)	877
554	173	Alcohol excise	172	183	(11)	(6.0)	602
238	82	Gaming duties	79	80	(1)	(1.3)	248
223	90	Motor vehicle fees	97	76	21	27.6	185
42	18	Energy resources levies	11	16	(5)	(31.3)	48
85	25	Approved issuer levy and cheque duty	41	35	6	17.1	80
<b>4,908</b>	<b>1,593</b>	<b>Total other indirect taxation</b>	<b>1,581</b>	<b>1,583</b>	<b>(2)</b>	<b>(0.1)</b>	<b>4,960</b>
<b>16,134</b>	<b>5,442</b>	<b>Total indirect taxation</b>	<b>5,409</b>	<b>5,228</b>	<b>181</b>	<b>3.5</b>	<b>16,427</b>
<b>55,168</b>	<b>17,763</b>	<b>Total tax receipts collected</b>	<b>17,413</b>	<b>16,848</b>	<b>565</b>	<b>3.4</b>	<b>54,159</b>
<b>Other Sovereign Receipts (cash)</b>							
2,561	1,113	ACC levies	1,147	1,103	44	4.0	2,752
281	107	Fire Service levies	111	115	(4)	(3.5)	303
86	32	EQC levies	31	29	2	6.9	87
532	185	Other miscellaneous items	193	192	1	0.5	595
<b>3,460</b>	<b>1,437</b>	<b>Total other sovereign receipts</b>	<b>1,482</b>	<b>1,439</b>	<b>43</b>	<b>3.0</b>	<b>3,737</b>
<b>58,628</b>	<b>19,200</b>	<b>Total sovereign receipts</b>	<b>18,895</b>	<b>18,287</b>	<b>608</b>	<b>3.3</b>	<b>57,896</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>NOTE 2: Interest Revenue and Dividends</b>							
<b>By type</b>							
2,803	963	Interest revenue	1,099	1,211	(112)	(9.2)	3,378
411	101	Dividends	118	111	7	6.3	450
<b>3,214</b>	<b>1,064</b>	<b>Total interest revenue and dividends</b>	<b>1,217</b>	<b>1,322</b>	<b>(105)</b>	<b>(7.9)</b>	<b>3,828</b>
<b>By source</b>							
2,344	856	Core Crown	726	1,088	(362)	(33.3)	2,647
1,233	371	Crown entities	405	362	43	11.9	1,162
704	240	State-owned Enterprises	440	230	210	91.3	673
(1,067)	(403)	Inter-segment eliminations	(354)	(358)	4	1.1	(654)
<b>3,214</b>	<b>1,064</b>	<b>Total interest revenue and dividends</b>	<b>1,217</b>	<b>1,322</b>	<b>(105)</b>	<b>(7.9)</b>	<b>3,828</b>
<b>NOTE 3: Social Assistance and Official Development Assistance</b>							
7,348	2,428	New Zealand superannuation	2,561	2,563	2	0.1	7,785
1,478	492	Domestic purposes benefit	511	506	(5)	(1.0)	1,501
458	160	Unemployment benefit	159	137	(22)	(16.1)	487
1,216	396	Invalids benefit	430	437	7	1.6	1,273
1,897	660	Family tax credit	692	662	(30)	(4.5)	2,153
891	296	Accommodation supplement	315	306	(9)	(2.9)	951
582	201	Sickness benefit	200	194	(6)	(3.1)	570
386	165	Student allowances	173	168	(5)	(3.0)	411
278	93	Disability allowances	129	128	(1)	(0.8)	389
1,102	227	KiwiSaver	520	516	(4)	(0.8)	1,440
2,376	793	Other social assistance benefits	791	780	(11)	(1.4)	2,707
<b>18,012</b>	<b>5,911</b>	<b>Total social assistance</b>	<b>6,481</b>	<b>6,397</b>	<b>(84)</b>	<b>(1.3)</b>	<b>19,667</b>
362	112	Official development assistance	151	129	(22)	(17.1)	484
<b>18,374</b>	<b>6,023</b>	<b>Total social assistance and official development assistance</b>	<b>6,632</b>	<b>6,526</b>	<b>(106)</b>	<b>(1.6)</b>	<b>20,151</b>
<b>NOTE 4: Personnel Expenses</b>							
5,584	1,853	Core Crown	2,029	1,987	(42)	(2.1)	5,865
8,741	2,745	Crown entities	3,033	3,010	(23)	(0.8)	9,505
2,164	710	State-owned Enterprises	797	790	(7)	(0.9)	2,438
(11)	(1)	Inter-segment eliminations	(3)	(3)	-	-	(8)
<b>16,478</b>	<b>5,307</b>	<b>Total personnel expenses</b>	<b>5,856</b>	<b>5,784</b>	<b>(72)</b>	<b>(1.2)</b>	<b>17,800</b>
<b>NOTE 5: Operating Expenses</b>							
<b>By type</b>							
3,670	1,169	Depreciation and amortisation <sup>1</sup>	1,502	1,294	(208)	(16.1)	3,973
30,656	8,925	Other operating expenses	10,848	10,562	(286)	(2.7)	33,721
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
<b>34,326</b>	<b>10,094</b>	<b>Total operating expenses</b>	<b>12,350</b>	<b>11,856</b>	<b>(494)</b>	<b>(4.2)</b>	<b>36,416</b>
<b>By source</b>							
30,432	9,669	Core Crown	10,566	10,838	272	2.5	33,518
15,754	4,699	Crown entities	5,715	5,492	(223)	(4.1)	16,028
10,945	3,016	State-owned Enterprises	3,808	3,653	(155)	(4.2)	11,426
(22,805)	(7,290)	Inter-segment eliminations	(7,739)	(8,127)	(388)	(4.8)	(24,556)
<b>34,326</b>	<b>10,094</b>	<b>Total operating expenses</b>	<b>12,350</b>	<b>11,856</b>	<b>(494)</b>	<b>(4.2)</b>	<b>36,416</b>

<sup>1</sup> Refer Note 19

## NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct 2008 2007		Current Year Actual vs Forecast				Annual Forecast \$m	
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%		
		<b>NOTE 6: Interest Expenses</b>					
		<i>By type</i>					
3,015	1,000	Interest on financial liabilities	1,245	1,183	(62)	(5.2)	3,219
86	8	Interest unwind on provisions	20	5	(15)	(300.0)	92
<b>3,101</b>	<b>1,008</b>	<b>Total interest expenses</b>	<b>1,265</b>	<b>1,188</b>	<b>(77)</b>	<b>(6.5)</b>	<b>3,311</b>
		<i>By source</i>					
2,460	796	Core Crown	787	959	172	17.9	2,650
248	96	Crown entities	83	87	4	4.6	254
870	284	State-owned Enterprises	552	338	(214)	(63.3)	1,022
(477)	(168)	Inter-segment eliminations	(157)	(196)	(39)	(19.9)	(615)
<b>3,101</b>	<b>1,008</b>	<b>Total interest expenses</b>	<b>1,265</b>	<b>1,188</b>	<b>(77)</b>	<b>(6.5)</b>	<b>3,311</b>
		<b>NOTE 7: Insurance Expenses</b>					
		<i>By entity</i>					
3,423	1,126	ACC	1,079	1,025	(54)	(5.3)	4,020
130	29	EQC	44	13	(31)	(238.5)	39
10	3	Other insurance expenses	9	6	(3)	(50.0)	17
<b>3,563</b>	<b>1,158</b>	<b>Total insurance expenses</b>	<b>1,132</b>	<b>1,044</b>	<b>(88)</b>	<b>(8.4)</b>	<b>4,076</b>
		<b>NOTE 8: Gains and Losses on Financial Instruments</b>					
		<i>By source</i>					
353	529	Core Crown	(2,054)	526	(2,580)	(490.5)	1,287
(743)	391	Crown entities	(772)	123	(895)	-	412
(37)	16	State-owned Enterprises	(241)	(45)	(196)	(435.6)	17
(190)	(28)	Inter-segment eliminations	(75)	(89)	14	15.7	(254)
<b>(617)</b>	<b>908</b>	<b>Net gains/(losses) on financial instruments</b>	<b>(3,142)</b>	<b>515</b>	<b>(3,657)</b>	<b>-</b>	<b>1,462</b>
		<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>					
		<i>By type</i>					
(1,098)	-	Actuarial gains/(losses) on GSF liability	(989)	-	(989)	-	-
(1,709)	-	Actuarial gains/(losses) on ACC outstanding	(417)	-	(417)	-	-
(118)	8	claims	28	71	(43)	(60.6)	178
		Other					
<b>(2,925)</b>	<b>8</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(1,378)</b>	<b>71</b>	<b>(1,449)</b>	<b>-</b>	<b>178</b>
		<i>By source</i>					
(1,369)	(5)	Core Crown	(1,031)	3	(1,034)	-	33
(1,725)	6	Crown entities	(420)	2	(422)	-	(13)
170	8	State-owned Enterprises	73	65	8	12.3	158
(1)	(1)	Inter-segment eliminations	-	1	(1)	(100.0)	-
<b>(2,925)</b>	<b>8</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(1,378)</b>	<b>71</b>	<b>(1,449)</b>	<b>-</b>	<b>178</b>
		<b>NOTE 10: Operating Balance</b>					
		<i>By source</i>					
3,891	1,684	Core Crown	(2,300)	684	(2,984)	(436.3)	239
(1,526)	1,000	Crown entities	(868)	807	(1,675)	(207.6)	970
723	296	State-owned Enterprises	172	297	(125)	(42.1)	938
(704)	(290)	Inter-segment eliminations	(511)	(318)	(193)	(60.7)	(238)
<b>2,384</b>	<b>2,690</b>	<b>Total operating balance</b>	<b>(3,507)</b>	<b>1,470</b>	<b>(4,977)</b>	<b>(338.6)</b>	<b>1,909</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets</b>							
3,804	3,937	Cash and cash equivalents	6,300	4,294	2,006	46.7	3,868
7,398	6,055	Tax receivables	7,890	8,800	(910)	(10.3)	7,637
6,760	4,839	Trade and other receivables	5,580	6,208	(628)	(10.1)	6,842
6,741	6,112	Student loans	6,859	6,902	(43)	(0.6)	7,173
5,581	4,605	Kiwibank mortgages	6,279	5,429	850	15.7	8,500
2,787	1,945	Long-term deposits	2,750	2,850	(100)	(3.5)	1,670
188	188	Reserve position at the IMF	219	186	33	17.7	174
626	1,631	Other loans	761	933	(172)	(18.4)	1,461
12,964	14,193	Share investments	11,472	13,533	(2,061)	(15.2)	14,293
1,563	2,452	Derivatives in gain	2,657	1,539	1,118	72.6	858
36,651	31,753	Other marketable securities	37,030	33,695	3,335	9.9	34,970
<b>85,063</b>	<b>77,710</b>	<b>Total financial assets</b>	<b>87,797</b>	<b>84,369</b>	<b>3,428</b>	<b>4.1</b>	<b>87,446</b>
<b>Financial assets by portfolio</b>							
23,228	26,248	Reserve Bank and DMO managed funds	23,555	18,631	4,924	26.4	15,127
13,791	13,369	NZ Superannuation Fund	13,561	14,450	(889)	(6.2)	16,563
19,080	12,261	Other core Crown	20,199	20,907	(708)	(3.4)	23,194
(563)	(941)	Intra-segment eliminations	(96)	(316)	220	69.6	(660)
55,536	50,937	<b>Total core Crown</b>	57,219	53,672	3,547	6.6	54,224
11,977	11,187	ACC portfolio	10,659	11,336	(677)	(6.0)	12,599
1,872	2,041	EQC portfolio	1,768	1,930	(162)	(8.4)	2,019
4,304	4,242	Other Crown entities	4,577	5,420	(843)	(15.6)	4,645
18,153	17,470	<b>Total Crown entities</b>	17,004	18,686	(1,682)	(9.0)	19,263
11,374	9,303	<b>Total State Owned Enterprises</b>	13,574	12,011	1,563	13.0	13,959
<b>85,063</b>	<b>77,710</b>	<b>Total financial assets by portfolio</b>	<b>87,797</b>	<b>84,369</b>	<b>3,428</b>	<b>4.1</b>	<b>87,446</b>
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>By Class of asset</b>							
<b>Net Carrying Value</b>							
17,609	16,723	Land (valuation)	17,594	17,518	76	0.4	18,122
22,257	20,809	Buildings (valuation)	22,525	22,383	142	0.6	22,977
1,887	2,038	Electricity distribution network (cost)	1,991	2,050	(59)	(2.9)	2,255
11,202	10,493	Electricity generation assets (valuation)	11,340	11,407	(67)	(0.6)	11,890
2,071	2,082	Aircraft (exclng military) (valuation)	2,000	2,159	(159)	(7.4)	2,051
20,947	19,577	State highways (valuation)	21,084	21,138	(54)	(0.3)	21,628
11,621	10,569	Rail network (valuation)	12,158	12,160	(2)	-	11,979
3,345	3,082	Specialist military equipment (valuation)	3,343	3,384	(41)	(1.2)	3,421
4,412	3,527	Other plant and equipment (cost)	4,284	4,547	(263)	(5.8)	5,578
7,978	7,125	Specified cultural and heritage assets (valuation)	7,956	7,846	110	1.4	7,994
<b>103,329</b>	<b>96,025</b>	<b>Total net carrying value</b>	<b>104,275</b>	<b>104,592</b>	<b>(317)</b>	<b>(0.3)</b>	<b>107,895</b>



## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 13: NZ Superannuation Fund</b>							
385	124	Revenue	141	120	21	17.5	431
237	158	Less current tax expense	(6)	99	105	106.1	326
34	(42)	Less other expenses <sup>1</sup>	(673)	52	725	-	156
(995)	318	Add gains/(losses)	(3,135)	343	(3,478)	-	1,037
<b>(881)</b>	<b>326</b>	<b>Operating balance</b>	<b>(2,315)</b>	<b>312</b>	<b>(2,627)</b>	<b>-</b>	<b>986</b>
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	728	Gross contribution from the Crown	778	778	-	-	2,242
(881)	326	Operating balance	(2,315)	312	(2,627)	-	986
16	2	Other movements in reserves	20	20	-	-	-
<b>14,212</b>	<b>14,029</b>	<b>Closing net worth</b>	<b>12,695</b>	<b>15,322</b>	<b>(2,627)</b>	<b>(17.1)</b>	<b>17,440</b>
<i>comprising:</i>							
13,791	13,369	Financial assets	13,561	14,450	(889)	(6.2)	16,563
421	660	Net other assets	(866)	872	(1,738)	(199.3)	877
<b>14,212</b>	<b>14,029</b>	<b>Closing net worth</b>	<b>12,695</b>	<b>15,322</b>	<b>(2,627)</b>	<b>(17.1)</b>	<b>17,440</b>
<b>Core Crown revenue (excl NZS Fund)</b>							
61,819	19,536	Core Crown revenue	20,827	20,508	319	1.6	61,207
385	124	Less NZS Fund revenue	141	120	21	17.5	431
237	158	Add back NZS Fund intra-segment revenue	(6)	99	(105)	(106.1)	326
<b>61,671</b>	<b>19,570</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>20,680</b>	<b>20,487</b>	<b>193</b>	<b>0.9</b>	<b>61,102</b>
<b>OBEGAL excluding NZS Fund</b>							
5,637	1,723	Total Crown OBEGAL	898	781	117	15.0	(64)
385	124	Less NZS Fund revenue	141	120	21	17.5	431
97	52	Less NZS Fund expenses	30	46	(16)	(34.8)	138
237	158	Add back NZS Fund tax	(6)	99	(105)	(106.1)	326
<b>5,586</b>	<b>1,809</b>	<b>OBEGAL excluding NZS Fund</b>	<b>781</b>	<b>806</b>	<b>(25)</b>	<b>(3.1)</b>	<b>(31)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 14: Payables</b>							
6,444	4,823	Accounts payable	4,770	6,812	2,042	30.0	7,485
4,451	3,392	Taxes repayable	3,493	4,451	958	21.5	4,451
<b>10,895</b>	<b>8,215</b>	<b>Total payables</b>	<b>8,263</b>	<b>11,263</b>	<b>3,000</b>	<b>26.6</b>	<b>11,936</b>
<b>NOTE 15: Insurance liabilities</b>							
20,374	17,023	ACC liability	20,376	19,799	(577)	(2.9)	21,876
97	64	EQC liability	112	79	(33)	(41.8)	97
13	7	Other insurance liabilities	12	15	3	20.0	9
<b>20,484</b>	<b>17,094</b>	<b>Total insurance liabilities</b>	<b>20,500</b>	<b>19,893</b>	<b>(607)</b>	<b>(3.1)</b>	<b>21,982</b>
<b>NOTE 16: Provisions</b>							
562	708	Provision for Kyoto	593	562	(31)	(5.5)	562
907	771	Provision for National Provident Fund	907	907	-	-	978
2,220	1,819	Provision for employee entitlements	2,278	2,176	(102)	(4.7)	2,206
1,064	1,151	Other provisions	1,074	795	(279)	(35.1)	1,329
<b>4,753</b>	<b>4,449</b>	<b>Total provisions</b>	<b>4,852</b>	<b>4,440</b>	<b>(412)</b>	<b>(9.3)</b>	<b>5,075</b>
<b>NOTE 17: Changes in Net Worth</b>							
44,222	44,169	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	2,690	Operating balance excluding minority interest	(3,507)	1,470	(4,977)	(338.6)	1,909
94	(2)	Transfers from/(to) other reserves	(385)	13	(398)	-	66
<b>46,700</b>	<b>46,857</b>	<b>Closing taxpayers funds</b>	<b>42,808</b>	<b>48,183</b>	<b>(5,375)</b>	<b>(11.2)</b>	<b>48,675</b>
52,442	52,371	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	16	Net revaluations	103	(12)	115	-	292
(90)	1	Transfers from/(to) other reserves	385	(12)	397	-	(65)
<b>58,566</b>	<b>52,388</b>	<b>Closing revaluation reserve</b>	<b>59,054</b>	<b>58,542</b>	<b>512</b>	<b>0.9</b>	<b>58,793</b>
(133)	(132)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	135	Net movements	419	(7)	426	-	53
<b>(134)</b>	<b>3</b>	<b>Closing other reserves</b>	<b>285</b>	<b>(141)</b>	<b>426</b>	<b>302.1</b>	<b>(81)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 \$m	4 Months to 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash</b>					
		<b>Core Crown Cash Flows from Operations</b>					
55,975	18,209	Total tax receipts	17,307	17,069	238	1.4	54,851
486	178	Total other sovereign receipts	178	184	(6)	(3.3)	536
2,128	765	Interest, profits and dividends	700	890	(190)	(21.3)	2,009
1,411	520	Sale of goods & services and other receipts	725	492	233	47.4	1,641
(19,562)	(6,529)	Subsidies and transfer payments	(7,634)	(7,429)	(205)	(2.8)	(22,045)
(30,792)	(10,722)	Personnel and operating costs	(11,636)	(11,731)	95	0.8	(35,043)
(2,354)	(860)	Finance costs	(806)	(944)	138	14.6	(2,441)
-	-	Forecast for future new operating spending	-	-	-	-	(172)
-	-	Top-down expense adjustment	-	-	-	-	1,450
<b>7,292</b>	<b>1,561</b>	<b>Net cash flows from core Crown operations</b>	<b>(1,166)</b>	<b>(1,469)</b>	<b>303</b>	<b>20.6</b>	<b>786</b>
(1,433)	(377)	Net purchase of physical assets	(496)	(506)	10	2.0	(2,001)
(1,254)	(326)	Net increase in advances	(420)	(277)	(143)	(51.6)	(903)
(444)	(101)	Net purchase of investments	(832)	(1,534)	702	45.8	(1,850)
(2,104)	(727)	Contribution to NZ Superannuation Fund	(778)	(778)	-	-	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
<b>2,057</b>	<b>30</b>	<b>Residual cash</b>	<b>(3,692)</b>	<b>(4,564)</b>	<b>872</b>	<b>19.1</b>	<b>(5,909)</b>
		<b>Financed by:</b>					
(3,595)	(992)	Other net sale/(purchase) of marketable securities and deposits	3,955	6,185	(2,230)	(36.1)	4,493
<b>(1,538)</b>	<b>(962)</b>	<b>Total operating and investing activities</b>	<b>263</b>	<b>1,621</b>	<b>(1,358)</b>	<b>(83.8)</b>	<b>(1,416)</b>
		<b>Used in:</b>					
(1,585)	(1,310)	Net (repayment)/issue of other New Zealand dollar borrowing	1,345	327	1,018	311.3	440
901	667	Net (repayment)/issue of foreign currency borrowing	85	(364)	449	123.4	(602)
86	133	Issues of circulating currency	326	(9)	335	-	172
249	439	Increase/(decrease) in cash	(826)	(2)	(824)	-	(29)
<b>(349)</b>	<b>(71)</b>		<b>930</b>	<b>(48)</b>	<b>978</b>	<b>-</b>	<b>(19)</b>
<b>(1,887)</b>	<b>(1,033)</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>1,193</b>	<b>1,573</b>	<b>(380)</b>	<b>(24.2)</b>	<b>(1,435)</b>
		<b>Gross Cash Proceeds from Domestic Bonds</b>					
1,757	971	Domestic bonds (market)	1,508	1,159	349	30.1	4,048
130	62	Domestic bonds (non-market)	450	519	(69)	(13.3)	738
<b>1,887</b>	<b>1,033</b>	<b>Total gross cash proceeds from domestic</b>	<b>1,958</b>	<b>1,678</b>	<b>280</b>	<b>16.7</b>	<b>4,786</b>
-	-	Repayment of domestic bonds (market)	(2,700)	(2,800)	100	3.6	(2,900)
-	-	Repayment of domestic bonds (non-market)	(451)	(451)	-	-	(451)
-	-	<b>Total repayment of domestic bonds</b>	<b>(3,151)</b>	<b>(3,251)</b>	<b>100</b>	<b>3.1</b>	<b>(3,351)</b>
<b>1,887</b>	<b>1,033</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>(1,193)</b>	<b>(1,573)</b>	<b>380</b>	<b>24.2</b>	<b>1,435</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### **Note 19: Acquisition of Toll (NZ) Limited**

On 1 July 2008, negotiations were completed and an agreement was signed for the purchase of 100% of the shares in Toll (New Zealand) Limited. Prior to the acquisition, assets and operations not integral to the rail operation were separated out of Toll (New Zealand) Limited. On acquisition by the Government, the company was renamed KiwiRail Holdings Limited.

Ownership of the rail business is intended to place the Government in a better position to integrate rail planning and funding with its wider transport policy, and to ensure capital investment for improving the rolling stock.

The cost of acquisition of the company was \$690 million, settled in cash on 1 July. A provisional assessment as at 30 September 2008 of the fair value of the assets acquired and liabilities assumed through this purchase was \$442 million. No goodwill has been recognised and the difference between the provisional assessment of the fair value of the assets acquired and liabilities assumed and the cost of acquisition has been charged to the statement of financial performance.

The fair value of the assets acquired and liabilities assumed may be adjusted in future reporting periods to reflect final valuations. Final valuations must be completed within one year of the purchase date.

In the four month period to 31 October 2008, revenue earned by KiwiRail Holdings Limited of \$222 million and an operating deficit of \$4 million has been included in the financial statements of the Government.

### **Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility**

The Government has recently announced the introduction of two guarantee schemes in relation to financial institution deposits; the retail deposit scheme and the wholesale funding guarantee facility.

As the likelihood that the guarantees will be called is considered remote, they do not meet the definition of a contingent liability and is therefore excluded from the statement of contingent liabilities and assets on page 21.

#### *Retail Deposit Scheme*

On 12 October 2008 the Minister of Finance announced an opt-in retail deposit guarantee scheme. The objective of the two year opt-in retail deposit scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the retail deposit guarantee scheme, fees are payable to the government by participating institutions if they hold significant deposits (i.e., greater than \$5 billion) or if they experience significant growth in deposits (i.e., greater than 10% per annum). Approved deposit takers to date are listed on the Treasury web-site.

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other 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 arms-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.

## NOTES TO THE FINANCIAL STATEMENTS

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### **Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility (continued)**

As at 31 October 2008 six financial institutions had joined the scheme and deposits totalling \$15.6 billion had been guaranteed. Subsequent to balance date the exposure has increased to \$125 billion covering 40 institutions. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon.

#### *Wholesale Funding Guarantee Facility*

On 1 November 2008 the Minister of Finance announced an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility is to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives 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 seeking to utilise the wholesale funding guarantee facility will be expected to 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 manages its risk exposure by:

- limiting the availability of the scheme 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 percent 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.

At this stage no wholesale deposits have been guaranteed.