

7 May 2010

MEDIA STATEMENT

Embargoed until 10:00am, Friday 7 May 2010

Colin Lynch
Deputy Secretary to the Treasury

FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE NINE MONTHS ENDED 31 MARCH 2010

The Financial Statements of the Government of New Zealand for the nine months ended 31 March 2010 were released by the Treasury today.

The monthly financial statements are compared against monthly forecast tracks based on the *2009 Half Year Economic and Fiscal Update (Half-Year Update)* published in December 2009.

Excluding the impact of gains (which are not immediately available to the Crown) and one-off revenue items recorded during the year, the March result was broadly in line with the *Half-Year Update*. Although tax revenue was lower than forecast this shortfall was more than offset by core Crown expenditure which was also lower than expected.

Results for the nine months ended 31 March 2010:

- **Core Crown tax revenue** was \$530 million (1.4%) lower than forecast. Excluding certain one-off (non-recurring) items, the underlying tax revenue result was approximately \$930 million (2.4%) lower than forecast.

The underlying Corporate tax revenue result was \$349 million, or 8.2% lower than forecast, with approximately \$400 million of one-off revenue from structured finance settlements and the reassessment of non-resident withholding tax liabilities excluded. Lower-than-expected business profitability drove both the Corporate tax and Other Individuals tax revenue results (with the latter being \$309 million (12.8%) lower than forecast). Source deductions were also \$537 million (3.2%) below forecast.

Partly offsetting these shortfalls, GST revenue was \$314 million (3.7%) higher than forecast.

- **Core Crown expenses** were \$809 million (1.7%) lower than forecast due in a large part to Treaty of Waitangi settlements (\$385 million) being later than forecast and these are now expected to take place in the next financial year.

Most of the remainder of the lower-than-forecast expenditure was due to small variances across a number of departments. We expect these variances will result in a lower-than-forecast level of spending at the end of the year and this expectation has been factored into the *2010 Budget* forecast.

- The variances in core Crown tax revenue and expenses generated a **deficit in the operating balance before gains and losses** that was \$522 million smaller than expected. This result was mainly due to the one-off tax revenue items mentioned above and expenditure levels that were lower than forecast.
- Including the impact of gains and losses, **the operating balance deficit** was \$2,006 million smaller than forecast at \$1,327 million. This was mainly due to gains on the Crown's investment portfolios (held by the NZS Fund, ACC and EQC) that were \$1,501 million larger than expected, and an actuarial gain of \$173 million that was made on the valuation of ACC's insurance liability when a small loss had been forecast.
- **Net debt** was close to forecast at \$25.6 billion (13.8% of GDP) and **core Crown residual cash** was on forecast.
- These results were a continuance of the trends from last month. We expect these trends to impact the result at the end of the year and they have been factored into the *2010 Budget* forecast due to be released on 20 May.

	Year to date				Full Year
	March 2010	March 2010 HYEFU Forecast ¹	Variance to HYEFU \$m	Variance to HYEFU %	June 2010 HYEFU Forecast ²
\$ million	Actual ¹	Forecast ¹			
Core Crown					
Core Crown tax revenue	36,523	37,053	(530)	(1.4)	51,248
Core Crown revenue	40,825	41,243	(418)	(1.0)	56,751
Core Crown expenses	46,985	47,794	809	1.7	65,520
Core Crown residual cash	(7,862)	(7,909)	47	0.6	(10,091)
Gross debt ³	50,437	52,841	2,404	4.5	53,651
as a percentage of GDP	27.2%	28.5%			29.1%
Net debt ⁴	25,625	25,435	(190)	(0.7)	27,371
as a percentage of GDP	13.8%	13.7%			14.8%
Total Crown					
Operating balance before gains and losses	(5,272)	(5,794)	522	9.0	(7,465)
Operating balance	(1,327)	(3,333)	2,006	60.2	(4,794)
Net worth	97,955	96,154	1,801	1.9	94,809

1 Using GDP for the year ended 31 December 2009 of \$185,549 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2010 of \$184,466 million (Source: Treasury)

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

4 Net core Crown debt excluding student loans and other advances

ENDS

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Financial Statements of the Government of New Zealand

For the Nine Months Ended
31 March 2010



Prepared by The Treasury
7 May 2010

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New Zealand Government

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COMMENTARY

S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the nine months ended 31 March 2010 and its financial position as at that date.

The March results are reported against forecasts based on the *2009 Half Year Economic and Fiscal Update (HYEFU)*, published on 15 December 2009.

Excluding the impact of gains (which are not immediately available to the Crown) and one-off revenue items recorded during the year, the March result was broadly in line with the Half-Year Update. Although tax revenue was lower than forecast this shortfall was more than offset by core Crown expenditure which was also lower than expected.

At a Glance

Table 1 – Key indicators for the nine months ended 31 March 2010 compared to HYEFU

\$ million	Year to date				Full Year
	March	March	Variance to HYEFU	Variance to HYEFU	June
	2010	2010			2010
	Actual ¹	Forecast ¹	\$m	%	HYEFU Forecast ²
Core Crown					
Core Crown tax revenue	36,523	37,053	(530)	(1.4)	51,248
Core Crown revenue	40,825	41,243	(418)	(1.0)	56,751
Core Crown expenses	46,985	47,794	809	1.7	65,520
Core Crown residual cash	(7,862)	(7,909)	47	0.6	(10,091)
Gross debt ³	50,437	52,841	2,404	4.5	53,651
<i>as a percentage of GDP</i>	27.2%	28.5%			29.1%
Net debt ⁴	25,625	25,435	(190)	(0.7)	27,371
<i>as a percentage of GDP</i>	13.8%	13.7%			14.8%
Total Crown					
Operating balance before gains and losses	(5,272)	(5,794)	522	9.0	(7,465)
Operating balance	(1,327)	(3,333)	2,006	60.2	(4,794)
Net worth	97,955	96,154	1,801	1.9	94,809

1 Using GDP for the year ended 31 December 2009 of \$185,549 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2010 of \$184,466 million (Source: Treasury)

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

4 Net core Crown debt excluding student loans and other advances

Results for the nine months ended 31 March 2010:

- **Core Crown tax revenue** was \$530 million (1.4%) lower than forecast, but that result included one-off revenue items from structured finance transaction settlements and from the reassessment of some past non-resident withholding tax liabilities (of approximately \$400 million). Without these one-off items, the underlying tax revenue result was approximately \$930 million (2.4%) lower than forecast. The main features were:
 - Corporate tax revenue was on forecast but excluding the one-off revenue items mentioned above, underlying corporate tax revenue was approximately \$349 million (8.2%) below forecast.
 - Weaker than expected business profitability in 2010 (which caused a shortfall in provisional tax payments) also impacted on other individuals tax which was \$309 million (12.8%) below forecast. This revenue is expected to remain below forecast until the end of the fiscal year.
 - Source deductions were \$537 million (3.2%) below forecast. While labour market activity was in line with expectations, the effective tax rate was lower than anticipated for source deductions. Based on this, we would expect the variance to remain through to the end of the fiscal year.

- Partly offsetting these shortfalls, GST revenue was \$314 million (3.7%) above forecast. Private consumption was stronger than expected and this was behind approximately one third of this variance. Recent retail sales and consumer confidence data support this view, and based on this we expect GST revenue to remain above forecast through to the end of the 2010 fiscal year.
- **Core Crown expenses** were \$809 million (1.7%) lower than forecast.
 - The main contributor was the timing of Treaty settlements (\$385 million) being later than forecast and these are now expected to take place next year (2010/11).
 - Forecasting errors in the phasing of sovereign receivables' impairment (\$116 million) and education expenses (\$51 million) also contributed to the variance, but these are timing issues and they are expected to correct themselves before the end of the year.
 - Most of the remainder of the expense variance was due to individually small variances across a number of departments. It now looks like these variances will result in a level of underspending at the end of the year and this has been factored into the *2010 Budget Economic and Fiscal Update* forecasts due for release on 20 May.
- The deficit in the **operating balance before gains and losses** was \$522 million smaller than expected due to the lower-than-forecast expenses more than offsetting lower-than-forecast tax revenue.
- Bringing in the the impact of gains and losses (which are not immediately available to the Crown), the **operating balance deficit** was \$2,006 million smaller than forecast at \$1,327 million. This result was largely due to gains (\$1,501 million) on the Crown's investment portfolios that were higher than expected and an actuarial gain (\$173 million) was made on the valuation of the ACC insurance liability when a small loss had been forecast.
- **Gross debt** was \$2,404 million lower than expected. Treasury Bills issued were \$1,742 million below forecast, with issuance reduced to match market demand, and funding requirements were met through higher-than-forecast Government Stock issuance (\$930 million). A reduction in the RBNZ's unsettled trades and NZDMO's collateral liabilities (of \$1,439 million) also contributed to the variance in gross debt.
- In contrast, **net debt** was close to forecast at \$25.6 billion (13.8% of GDP) as the factors driving the gross debt variance had a neutral impact on the net debt position.

Further analysis of the March results is detailed in the body of this report.

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.

ANALYSIS

Table 2 – Key indicator variances for the nine months ended 31 March 2010 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	-\$418 million (lower than forecast)	<ul style="list-style-type: none"> Core Crown tax revenue was \$530m (1.4%) lower than forecast mainly due to: <ul style="list-style-type: none"> Source deductions were \$537m (3.2%) lower than forecast. With the labour market broadly in line with <i>HYEFU</i> forecasts to date, the variance was largely due to the effective tax rate being lower than anticipated. This meant that a lower level of tax was generated from labour market activity than expected. Based on this, we expect source deduction revenue to remain below the <i>HYEFU</i> forecast for the remainder of the fiscal year; and Other individuals tax was \$309m (12.8%) lower than forecast. The majority of the variance was due to lower-than-expected provisional tax, suggesting that business profitability in the 2010 tax year is weaker than expected in <i>HYEFU</i>. This view that business profitability was weaker than expected was generally supported by tax practitioners visited during recent business talks as part of the 2010 <i>BEFU</i> forecast round. We expect that the other individuals tax revenue shortfall will persist through to the end of the year. Beyond that, we expect other individuals tax revenue will increase strongly, in line with recovering profitability and lower refund levels (because less provisional tax was paid initially). These lower revenues were partly offset by: <ul style="list-style-type: none"> GST revenue was \$314m (3.7%) higher than forecast. Approximately one third of the variance relates to private consumption which was higher than expected. March quarter indicators of private consumption (such as consumer confidence, electronic card transactions and retail sales) support our view that private consumption is likely to be above forecast in both the December and March quarters. The remainder of the GST revenue variance was the result of the effective GST rate on private consumption being higher than the forecast rate. Consequently, we expect that GST revenue will remain above the <i>HYEFU</i> forecast through to the end of the year; and Corporate tax revenue was \$51m (1.2%) higher than forecast due mainly to the settlement of structured finance transactions and the reassessment of some past non-resident withholding tax liabilities. Excluding these transactions, the underlying corporate tax result was approximately \$349 million less than forecast. This shortfall was largely due to provisional and terminal tax which were lower than expected, indicating that business profitability was weaker than we had expected in <i>HYEFU</i>.

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

Item/indicator	Variance	Key drivers
Core Crown revenue (continued)		<ul style="list-style-type: none"> • RBNZ interest revenue was \$236m lower than forecast due to the volumes of marketable securities and repos held being lower than expected. <p>The lower-than-forecast tax and interest revenue variances (above) were partly offset by the following items:</p> <ul style="list-style-type: none"> • Dividend revenue was \$200m higher than expected mainly due to unforecast dividends received from Housing New Zealand Corporation (\$132m) and some SOEs; and • Petroleum royalties were \$60m higher than expected due to an unforecast increase in the US dollar-per-barrel rate.
Core Crown expenses	\$809 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown expenses were \$809m (1.7%) lower than forecast mainly due to: <ul style="list-style-type: none"> • Treaty settlements were \$385m lower than forecast. The timing of Treaty negotiations is inherently difficult to predict and a number of Deeds of Settlement will be signed later than was originally forecast. This expenditure is now expected to be incurred in the next financial year (2010/11). • Sovereign receivable impairments were \$116m less than forecast. This was a timing difference, with the bulk of the bad debts now expected to be incurred in the last quarter of the financial year. • Funding for KiwiRail was \$64m lower than forecast mainly due to delays in finalising contracts for the Auckland Rail upgrade. This variance is expected to remain until the end of the year. • Ministry of Social Development expenses were approximately \$62m below forecast in other operating expenses, made up of a number of individually small items. • Education expenses were approximately \$51m below forecast due mainly to an error in the phasing of the forecast. This variance is expected to correct itself before the end of the year; and • The remainder of the variance was due to individually small items (all less than \$30m) across a number of departments.
Core Crown residual cash deficit	\$47 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax receipts were \$149m (0.4%) lower than forecast: <ul style="list-style-type: none"> • Source deduction receipts were \$394m (2.4%) lower than forecast (refer the comments in the core Crown revenue section above); and • Other individuals tax receipts were \$336m (24.7%) lower than forecast (refer the comments in the core Crown revenue section above).

Item/indicator	Variance	Key drivers
Core Crown residual cash deficit (continued)		<p data-bbox="724 248 1233 277">These lower tax receipts were partly offset by:</p> <ul data-bbox="724 311 1433 1543" style="list-style-type: none"> <li data-bbox="724 311 1433 405">• GST receipts were \$398m (5.1%) higher than forecast (refer the comments in the core Crown revenue section above); and <li data-bbox="724 443 1433 748">• Corporate tax receipts were \$230m (3.7%) higher than forecast, due to large, one-off payments made in December. Putting these payments aside, underlying corporate tax receipts were significantly below forecast, due mainly to provisional and terminal tax payments being lower than expected. There is also a significant risk to corporate tax receipts that approximately \$118m of the one-off payments already received may be refunded before the end of the year. <li data-bbox="724 781 1433 943">• Receipts from interest were \$191m higher than forecast mainly due to cash receipts on reverse repo transactions being received earlier than expected. This is a temporary timing difference as the receipts were forecast to be received later in the year. <li data-bbox="724 976 1433 1039">• Dividend receipts were \$212m higher than forecast (refer the comments in the Core Crown revenue section above). <li data-bbox="724 1072 1433 1308">• Net purchases of physical assets were \$116m lower than forecast. This was largely due to savings on various Corrections' projects (\$44m) and temporary delays in NZDF's minor capital programme (\$40m). While the savings are expected to be returned to the Crown at the end of the year, that part of the variance relating to NZDF's project delays is expected to correct itself before the end of the year; and <li data-bbox="724 1341 1433 1543">• While most of the variances noted above contributed to a reduction in the residual cash deficit, they were largely offset by a \$335m top down adjustment made to the overall forecast for operating payments. This adjustment was made to better align forecast payments with the expected year end actual results.

Item/indicator	Variance	Key drivers
Gross debt	\$2,404 million (lower than forecast)	<ul style="list-style-type: none"> • Treasury Bill issuance was \$1,742m lower than forecast, with weekly issuance averaging \$0.4 billion compared to a forecast level of \$0.5 billion. The level of Treasury Bill issuance was reduced to match market demand, and funding requirements were met through higher-than-forecast Government Stock issuance (see comments below). It is still too early to determine whether the variance will persist to the end of the year as it will depend on market conditions. The variance was net debt neutral because the lower holdings of liabilities by NZDMO were offset by (corresponding) lower holdings of financial assets. • Unsettled RBNZ trade liabilities were \$784m behind forecast, primarily due to lower than forecast forward purchases; and • Third party collateral deposits held by NZDMO were \$655m lower than forecast. The variance on the collateral deposits (a liability) relates to a variance on cash equivalent foreign currency deposits (an asset), meaning it is net debt neutral. <p style="margin-left: 20px;">This was partly offset by:</p> <ul style="list-style-type: none"> • New Zealand Government Stock issuance was \$930m above forecast due to greater demand for these securities. In response to this demand, the bond issuance programme was increased by \$2 billion in April and this increase has been factored into the 2010 BEFU forecast.
Net debt	-\$190 million (higher than forecast)	<ul style="list-style-type: none"> • Net debt was largely on target. Although gross debt was lower than forecast, it was matched by a corresponding, lower-than-forecast level of financial assets.

Total Crown		
Operating balance before gains and losses deficit	\$522 million (lower than forecast)	<ul style="list-style-type: none"> Total Crown revenue was \$664m lower than forecast. <ul style="list-style-type: none"> Core Crown tax revenue was \$530m lower than forecast (as noted above). Interest revenue was \$525m lower than forecast mainly due to: <ul style="list-style-type: none"> Kiwibank (\$295m). Kiwibank growth has been affected by tighter economic conditions and higher bank lending rates. These conditions resulted in lower interest revenue and interest expenditure than expected (see comments below); and RBNZ (\$236m). Refer the comments in core Crown revenue above. Offsetting the lower-than-forecast tax and interest revenue were sales of goods and services which were \$492m higher than forecast. Higher-than-expected customer numbers and electricity prices resulted in sales revenue from Meridian (\$138m) and Mighty River Power (\$111m) being above forecast. Although, there were associated variances in operating expenditure for these companies that effectively negated the revenue impact. Despite revenue being lower than forecast the operating balance before gains and losses deficit was lower than expected because expenses were \$1,186m lower than forecast: <ul style="list-style-type: none"> Core Crown expenses were \$809m lower than forecast (as noted above). ACC insurance expenses were \$242m lower than expected due to lower claims costs. Kiwibank interest expense was \$225m lower than forecast (offset by the lower interest revenue as noted above).
Operating balance deficit	\$2,006 million (lower than forecast)	<ul style="list-style-type: none"> In addition to the operating balance before gains and losses deficit being \$522m smaller than forecast, net gains were \$1,484m higher than forecast. This favourable variance in net gains (and losses) was mainly due to: <ul style="list-style-type: none"> The NZS Fund and ACC reported gains on their investment portfolios that were \$891m and \$466m higher than forecast (respectively). These figures are on an individual entity basis and include inter-entity transactions; and ACC reported a year-to-date actuarial gain of \$173m on the value of its outstanding claims liability, compared to a forecast loss of \$18m (a favourable variance of \$191m). The actuarial gain was driven by updated claims experience and economic assumptions.
Net worth	\$1,801 million (higher than forecast)	<ul style="list-style-type: none"> The variance in net worth was mainly due to the \$2,006m lower-than-forecast operating balance deficit. The difference between the operating balance and net worth variances was attributable to movements in the asset revaluation and cash flow hedge reserves (movements in reserves do not immediately impact the operating balance).

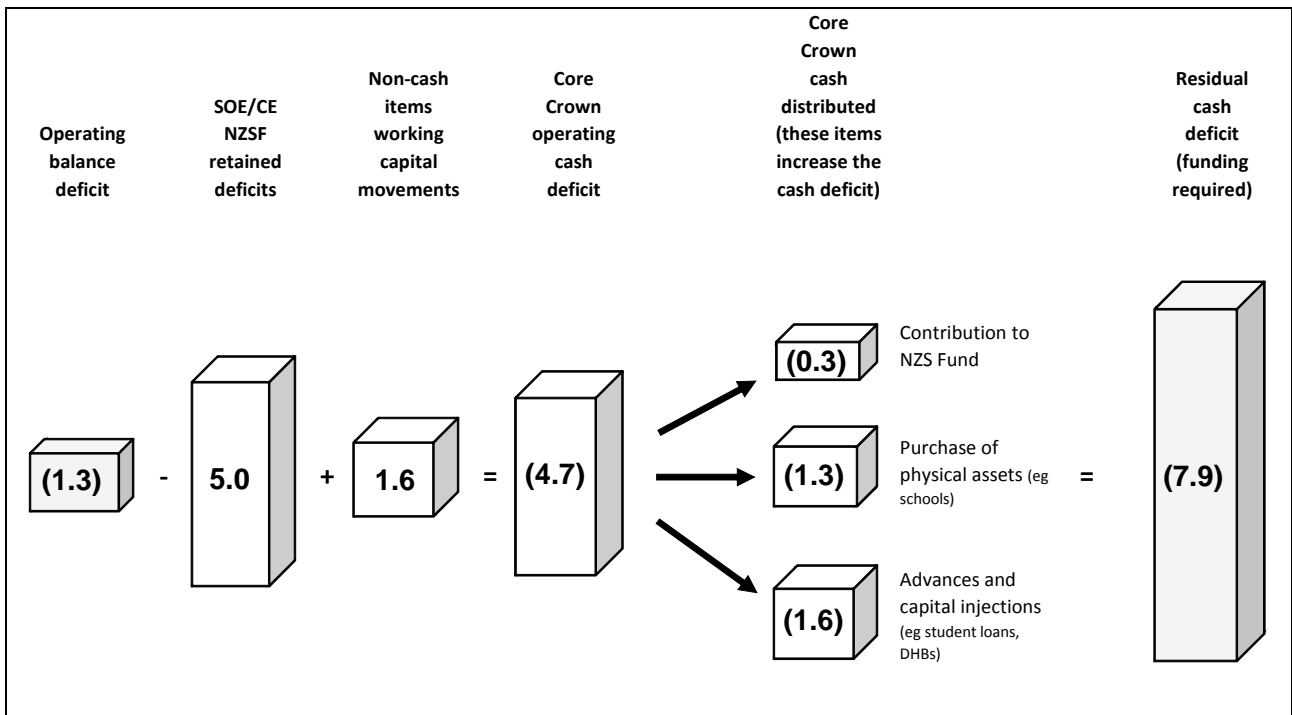
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		31 Mar 2010 Actual \$m	31 Mar 2010 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
		Taxation as a % of GDP		26.2%	26.6%			27.8%
Operating revenue Ensure sufficient revenue to meet the operating balance objective		Core Crown taxation revenue ...		36,523	37,053	(530)	(1.4)	51,248
		... combined with other core Crown revenue ...		4,302	4,190	112	2.7	5,503
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective		... fund core Crown expenses...		(46,985)	(47,794)	809	1.7	(65,520)
		... and with SOE and Crown entity results and core Crown gains and losses...		4,833	3,218	1,615	50.2	3,975
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective		... result in an operating surplus or deficit...		(1,327)	(3,333)	2,006	60.2	(4,794)
		...with income in SOEs, CEs and the NZS Fund retained...		(4,984)	(3,247)	(1,737)	(53.5)	(4,116)
		... and some items do not impact cash ...		1,610	1,921	(311)	(16.2)	3,450
		... leaving operating cash flows to ...		(4,701)	(4,659)	(42)	(0.9)	(5,460)
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP		... build up assets in the NZS Fund ...		(250)	(250)	-	-	(250)
		... meet the capital expenditure budget ...		(1,298)	(1,414)	116	8.2	(1,858)
		... and make advances (e.g. to students and DHBs)		(1,613)	(1,586)	(27)	(1.7)	(2,523)
		With the residual cash ...		(7,862)	(7,909)	47	0.6	(10,091)
		... when combined with opening net debt ...		17,119	17,119	-	-	17,119
	... and other fair value movements in financial assets and financial liabilities ...		644	407	(237)	(58.2)	161	
	... results in a closing net debt ...		25,625	25,435	(190)	(0.7)	27,371	
	... and as a % of GDP		13.8%	13.7%			14.8%	

¹ GDP for the nine months ended 31 March 2010 (actual and forecast) is the actual data for the year ended 31 December 2009 (Source: Statistics New Zealand) prorated for nine months.

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

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



YEAR - ON - YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	March 2010 Actual \$m	March 2009 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	36,523	40,600	(4,077)	(10.0)
Other revenue	4,302	3,714	588	15.8
Total Core Crown Revenue	40,825	44,314	(3,489)	(7.9)
Core Crown expenses				
Social security and welfare	15,484	14,013	1,471	10.5
GSF pension expenses	254	495	(241)	(48.7)
Health	9,805	9,095	710	7.8
Education	8,572	7,930	642	8.1
Core government services	2,448	2,535	(87)	(3.4)
Law and order	2,339	2,247	92	4.1
Defence	1,310	1,289	21	1.6
Transport and communications	1,617	1,772	(155)	(8.7)
Economic and industrial services	2,057	2,352	(295)	(12.5)
Primary services	344	380	(36)	(9.5)
Heritage, culture and recreation	739	761	(22)	(2.9)
Housing and community development	239	205	34	16.6
Other	70	107	(37)	(34.6)
Finance costs	1,707	1,868	(161)	(8.6)
Total Core Crown Expenses	46,985	45,049	1,936	4.3
Net surplus of SOE/CE's	888	502	386	76.9
OBEGAL	(5,272)	(233)	(5,039)	-
Total gains/(losses)	3,940	(7,713)	11,653	151.1
Other operating items	5	227	(222)	(97.8)
Operating Balance	(1,327)	(7,719)	6,392	82.8
Core Crown residual cash	(7,862)	(7,880)	18	0.2
Debt indicators				
Gross debt²	50,437	40,811	9,626	23.6
Net debt³	25,625	16,242	9,383	57.8

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

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

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

Revenue and Expenses

Total **taxation revenue** for the nine months ended 31 March 2010 has decreased by \$4.1 billion (10.0%) on the same period last year. Corporate tax, source deductions, other individuals tax and other direct tax were the largest contributors to the decline in tax revenue. The decline in both corporate and other individuals tax is due to 2008 and 2009 tax cuts, and declining business profits resulting in lower provisional and terminal tax assessments. The decline in source deductions is due to October 2008 and April 2009 personal tax cuts, in addition to a fall in employment and hours worked by employees. Lower other direct taxes are primarily the result of significantly lower interest rates that began declining in 2008, which have led to a sharp fall in resident withholding tax on interest income.

Total **core Crown expenses** have increased by \$1.9 billion (4.3%) on the same period last 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	+ \$1.5 billion	<ul style="list-style-type: none">• Indexation of welfare benefits and higher beneficiary recipient numbers
Health	+ \$0.7 billion	<ul style="list-style-type: none">• Funding provided in the 2009 Budget to maintain and improve existing service levels
Education	+ \$0.6 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth and from funding provided in the 2009 Budget
Economic and industrial services	- \$0.3 billion	<ul style="list-style-type: none">• Removal of research and development tax credits for business and changes to the KiwiSaver scheme, announced in the <i>Budget Policy Statement 2009</i>
Other	- \$0.6 billion	
Total	+ \$1.9 billion	

Total gains and losses were in a net gain position of \$3.9 billion for the period ended 31 March 2010, compared to a net loss of \$7.7 billion for the same period last year. The \$11.7 billion difference is mainly due to the recent recovery in financial markets resulting in positive investment returns.

Debt

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



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

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

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

A schedule of the entities that are included in the Government reporting entity was set out on pages 91 and 92 of the *Half Year Economic and Fiscal Update* released on 15 December 2009.

With the exception of the 30 June 2009 comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

2 General Accounting Policies

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

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

3 Specific Accounting Policies

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

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

4 Forecasts and Assumptions

The forecasts in these financial statements have been derived from the forecasts released in the *2009 Half Year Economic and Fiscal Update (HYEFU)*, on 15 December 2009.

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/HYEFU2009>

STATEMENT OF ACCOUNTING POLICIES (*CONTINUED*)

5 Comparative Figures

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

6 Variance Percentages

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

STATEMENT OF FINANCIAL PERFORMANCE

for the nine months ended 31 March 2010

Year to 30 Jun 2009	9 Months to 31 Mar 2009		Note	Current Year Actual vs Forecast			Annual Forecast \$m	
				Actual \$m	Forecast \$m	Variance \$m		%
		Revenue						
54,145	40,074	Taxation revenue	1	36,170	36,762	(592)	(1.6)	50,843
4,118	3,009	Other sovereign revenue	1	3,354	3,380	(26)	(0.8)	4,634
58,263	43,083	Total Revenue Levied through the Crown's Sovereign Power		39,524	40,142	(618)	(1.5)	55,477
15,356	11,293	Sales of goods and services		10,886	10,394	492	4.7	14,005
3,419	2,624	Interest revenue and dividends	2	2,059	2,600	(541)	(20.8)	3,659
2,890	2,415	Other revenue		2,142	2,139	3	0.1	2,831
21,665	16,332	Total revenue earned through the Crown's operations		15,087	15,133	(46)	(0.3)	20,495
79,928	59,415	Total revenue (excluding gains)		54,611	55,275	(664)	(1.2)	75,972
		Expenses						
19,962	14,833	Social assistance and official development assistance	3	15,739	15,851	112	0.7	21,533
18,064	13,464	Personnel expenses	4	13,564	13,653	89	0.7	18,201
4,305	3,118	Depreciation and amortisation	5	3,074	3,126	52	1.7	4,201
34,116	22,968	Other operating expenses	5	22,965	23,637	672	2.8	33,487
3,492	2,806	Interest expenses	6	2,440	2,813	373	13.3	3,906
3,882	2,459	Insurance expenses	7	2,101	2,324	223	9.6	3,246
-	-	Forecast new operating spending	5	-	-	-	-	13
-	-	Top-down expense adjustment	5	-	(335)	(335)	(100.0)	(1,150)
83,821	59,648	Total expenses (excluding losses)		59,883	61,069	1,186	1.9	83,437
(3,893)	(233)	Operating balance before gains/(losses)		(5,272)	(5,794)	522	9.0	(7,465)
(2,634)	(4,116)	Net gains/(losses) on financial instruments	8	4,094	2,539	1,555	61.2	2,685
(4,167)	(3,597)	Net gains/(losses) on non-financial instruments	9	(154)	(136)	(18)	(13.2)	(112)
(6,801)	(7,713)	Total gains/(losses)		3,940	2,403	1,537	64.0	2,573
212	223	Net surplus/(deficit) from associates and joint ventures	5	58	(53)	(91.4)		99
(10,482)	(7,723)	Operating balance from continuing activities		(1,327)	(3,333)	2,006	60.2	(4,793)
2	4	Gain/(loss) from discontinued operations		-	-	-	-	(1)
(10,480)	(7,719)	Operating balance (including minority interest)		(1,327)	(3,333)	2,006	60.2	(4,794)
(25)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(10,505)	(7,719)	Operating balance	10	(1,327)	(3,333)	2,006	60.2	(4,794)

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the nine months ended 31 March 2010

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Total Crown expenses					
23,273	16,458	Social security and welfare	17,585	17,927	342	1.9	24,268
655	495	GSF pension expenses	259	286	27	9.4	368
12,042	8,898	Health	9,457	9,431	(26)	(0.3)	12,889
12,465	8,554	Education	9,115	9,078	(37)	(0.4)	12,358
5,137	2,515	Core government services	2,367	2,650	283	10.7	3,957
3,250	2,381	Law and order	2,472	2,562	90	3.5	3,473
1,712	1,255	Defence	1,276	1,308	32	2.4	1,796
9,023	6,726	Transport and communications	5,935	6,019	84	1.4	8,421
7,695	5,843	Economic and industrial services	5,416	5,378	(38)	(0.7)	7,690
1,487	1,050	Primary services	1,094	1,127	33	2.9	1,628
2,397	1,797	Heritage, culture and recreation	1,632	1,612	(20)	(1.2)	2,358
1,075	767	Housing and community development	765	793	28	3.5	1,031
118	103	Other	70	420	350	83.3	431
3,492	2,806	Finance costs	2,440	2,813	373	13.3	3,906
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(335)	(335)	(100.0)	(1,150)
83,821	59,648	Total Crown expenses excluding losses	59,883	61,069	1,186	1.9	83,437

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

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Core Crown expenses					
19,382	14,013	Social security and welfare	15,484	15,514	30	0.2	21,155
655	495	GSF pension expenses	254	278	24	8.6	357
12,368	9,095	Health	9,805	9,849	44	0.4	13,434
11,455	7,930	Education	8,572	8,596	24	0.3	11,649
5,293	2,535	Core government services	2,448	2,720	272	10.0	4,071
3,089	2,247	Law and order	2,339	2,414	75	3.1	3,269
1,757	1,289	Defence	1,310	1,345	35	2.6	1,844
2,663	1,772	Transport and communications	1,617	1,690	73	4.3	2,807
2,960	2,352	Economic and industrial services	2,057	2,198	141	6.4	3,167
534	380	Primary services	344	370	26	7.0	589
1,002	761	Heritage, culture and recreation	739	725	(14)	(1.9)	1,142
297	205	Housing and community development	239	239	-	-	338
118	107	Other	70	424	354	83.5	431
2,429	1,868	Finance costs	1,707	1,767	60	3.4	2,404
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(335)	(335)	(100.0)	(1,150)
64,002	45,049	Total core Crown expenses excluding losses	46,985	47,794	809	1.7	65,520

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

STATEMENT OF CASH FLOWS

for the nine months ended 31 March 2010

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
51,119	37,915	Taxation receipts	36,587	36,788	(201)	(0.5)	50,967
3,716	2,872	Other sovereign receipts	3,201	3,152	49	1.6	4,379
16,592	12,731	Sales of goods and services	11,225	11,050	175	1.6	14,704
2,792	2,428	Interest and dividends	2,185	1,692	493	29.1	2,642
2,204	1,999	Other operating receipts	1,746	1,893	(147)	(7.8)	2,288
76,423	57,945	Total cash provided from operations	54,944	54,575	369	0.7	74,980
		Cash was disbursed to					
		Social assistance and official development assistance					
19,673	14,748		16,180	16,194	14	0.1	21,462
50,391	38,941	Personnel and operating payments	38,744	38,866	122	0.3	52,791
2,880	2,360	Interest payments	1,868	1,637	(231)	(14.1)	2,986
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(335)	(335)	(100.0)	(1,150)
72,944	56,049	Total cash disbursed to operations	56,792	56,362	(430)	(0.8)	76,102
3,479	1,896	Net cash flows from operations	(1,848)	(1,787)	(61)	(3.4)	(1,122)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,437)	(3,842)	Net purchase of physical assets	(4,439)	(5,226)	787	15.1	(7,357)
(2,338)	(609)	Net purchase of shares and other securities	3,203	861	2,342	272.0	761
(433)	(238)	Net purchase of intangible assets	(208)	(249)	41	16.5	(381)
(1,129)	(665)	Net (issue)/repayment of advances	(174)	(572)	398	69.6	(801)
(399)	(317)	Net acquisition of investments in associates	31	16	15	93.8	(127)
-	-	Capital contingency provision	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	200	(200)	(100.0)	550
(9,736)	(5,671)	Net cash flows from investing activities	(1,587)	(4,970)	3,383	68.1	(7,393)
(6,257)	(3,775)	Net cash flows from operating and investing activities	(3,435)	(6,757)	3,322	49.2	(8,515)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
475	515	Issues of circulating currency	276	(9)	285	-	16
2,344	255	Net issue/(repayment) of Government stock ¹	4,832	4,788	44	0.9	6,721
(1,836)	(2,579)	Net issue/(repayment) of foreign currency borrowing	3,449	(2,819)	6,268	222.3	(5,098)
7,752	7,799	Net issue/(repayment) of other New Zealand dollar borrowing	(4,229)	6,873	(11,102)	(161.5)	8,885
8,735	5,990	Net cash flows from financing activities	4,328	8,833	(4,505)	(51.0)	10,524
2,478	2,215	Net movement in cash	893	2,076	(1,183)	(57.0)	2,009
3,804	3,804	Opening Cash Balance	6,268	6,268	-	-	6,268
(14)	53	Foreign-exchange gains/(losses) on opening cash	(246)	(241)	(5)	(2.1)	(280)
6,268	6,072	Closing Cash Balance	6,915	8,103	(1,188)	(14.7)	7,997

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 nine months ended 31 March 2010

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	Annual Forecast \$m	
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
3,479	1,896	Net Cash Flows from Operations	(1,848)	(1,787)	(61)	(3.4)	(1,122)
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
(2,634)	(4,116)	Gains/(losses) on other financial instruments	4,094	2,539	1,555	61.2	2,685
(4,167)	(3,597)	Gains/(losses) on other non-financial instruments	(154)	(136)	(18)	(13.2)	(112)
(6,801)	(7,713)	Total gains/(losses)	3,940	2,403	1,537	64.0	2,573
Other Non-cash Items in Operating Balance							
(4,305)	(3,118)	Depreciation and amortisation	(3,074)	(3,126)	52	1.7	(4,201)
(630)	(491)	Write-down on initial recognition of loans Impairment on financial assets (excluding receivables)	(671)	(668)	(3)	(0.4)	(847)
(851)	17	Decrease/(increase) in defined benefit retirement plan liabilities	1	5	(4)	(80.0)	4
(41)	(27)	Decrease/(increase) in insurance liabilities	239	188	51	27.1	279
(1,592)	938	Other	1,471	1,454	17	1.2	(509)
212	223		8	60	(52)	(86.7)	99
(7,207)	(2,458)	Total other non-cash Items	(2,026)	(2,087)	61	2.9	(5,175)
Movements in Working Capital							
461	(1,335)	Increase/(decrease) in receivables	(2,767)	(2,101)	(666)	(31.7)	(1,756)
16	(250)	Increase/(decrease) in accrued interest	(660)	(269)	(391)	(145.4)	98
118	195	Increase/(decrease) in inventories	94	43	51	118.6	50
31	204	Increase/(decrease) in prepayments	283	163	120	73.6	(36)
(134)	12	Decrease/(increase) in deferred revenue	(223)	(190)	(33)	(17.4)	124
(468)	1,730	Decrease/(increase) in payables	1,856	492	1,364	277.2	450
24	556	Total movements in working capital	(1,417)	(1,862)	445	23.9	(1,070)
(10,505)	(7,719)	Operating Balance	(1,351)	(3,333)	1,982	59.5	(4,794)

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

STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 31 March 2010

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	Annual Forecast \$m	
4,235	355	Revaluation of physical assets	4	146	(142)	(97.3)	232
333	565	Effective portion of changes in value of cash flow hedges	(205)	(129)	(76)	(58.9)	(148)
-	(5)	Net change in fair value of cash flow hedges transferred to operating balance	(1)	-	(1)	-	-
(153)	27	Net change in fair value of cash flow hedges transferred to the hedged item	(14)	(22)	8	36.4	(21)
15	52	Foreign currency translation differences for foreign operations	(12)	(17)	5	29.4	25
22	43	Valuation gains/(losses) on investments available for sale taken to reserves	(4)	(8)	4	50.0	(7)
-	-	Other movements	-	-	-	-	7
4,452	1,037	Comprehensive income for the year	(232)	(30)	(202)	-	88
(10,480)	(7,719)	Operating Balance (including minority interest)	(1,327)	(3,333)	2,006	60.2	(4,794)
(6,028)	(6,682)	Total comprehensive income	(1,559)	(3,363)	1,804	53.6	(4,706)
		Attributable to:					
34	-	- minority interest in Air New Zealand	-	-	-	-	-
(6,062)	(6,682)	- the Crown	(1,559)	(3,363)	1,804	53.6	(4,706)
(6,028)	(6,682)	Total comprehensive income	(1,559)	(3,363)	1,804	53.6	(4,706)

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

STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

As at 30 Jun 2009 Actual \$m	As at 31 Mar 2009 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Assets						
6,268	6,072	Cash and cash equivalents	11	6,915	8,103	(1,188)	(14.7)	7,997
14,619	12,823	Receivables	11	11,456	12,122	(666)	(5.5)	12,862
		Marketable securities, deposits and						
45,708	46,872	derivatives in gain	11	42,795	45,932	(3,137)	(6.8)	45,149
11,160	9,885	Share investments	11	13,398	13,043	355	2.7	13,357
15,604	15,559	Advances	11	17,704	17,753	(49)	(0.3)	18,132
1,082	1,159	Inventory		1,175	1,125	50	4.4	1,132
1,630	1,872	Other assets		1,833	1,706	127	7.4	1,507
110,135	105,431	Property, plant & equipment	12	111,774	112,661	(887)	(0.8)	114,221
8,777	8,537	Equity accounted investments ¹		8,811	8,875	(64)	(0.7)	8,960
2,168	2,089	Intangible assets and goodwill ²		2,164	2,217	(53)	(2.4)	2,312
-	-	Forecast for new capital spending		-	-	-	-	38
-	-	Top-down capital adjustment		-	(200)	200	100.0	(550)
217,151	210,299	Total assets		218,025	223,337	(5,312)	(2.4)	225,117
		Liabilities						
4,005	4,045	Issued currency		4,281	3,996	(285)	(7.1)	4,021
9,139	7,892	Payables	14	7,328	9,534	2,206	23.1	10,530
1,426	1,279	Deferred revenue		1,649	1,616	(33)	(2.0)	1,302
61,953	61,614	Borrowings		67,454	72,653	5,199	7.2	73,389
26,567	21,569	Insurance liabilities	15	24,923	25,130	207	0.8	27,037
8,993	10,662	Retirement plan liabilities		9,162	9,011	(151)	(1.7)	8,921
5,553	4,402	Provisions	16	5,272	5,243	(29)	(0.6)	5,108
117,636	111,463	Total liabilities		120,069	127,183	7,114	5.6	130,308
99,515	98,836	Total assets less total liabilities		97,956	96,154	1,802	1.9	94,809
		Net Worth						
36,382	39,054	Taxpayer funds	17	35,271	33,162	2,109	6.4	31,702
62,612	58,852	Revaluation reserve	17	62,398	62,646	(248)	(0.4)	62,737
74	548	Other reserves	17	(161)	(101)	(60)	(59.4)	(77)
99,068	98,454	Total net worth attributable to the Crown		97,508	95,707	1,801	1.9	94,362
		Net worth attributable to minority						
447	382	in Air New Zealand		447	447	-	-	447
99,515	98,836	Total net worth		97,955	96,154	1,801	1.9	94,809

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets include the Kyoto net asset, previously a net liability (refer Note 16).

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

STATEMENT OF BORROWINGS

as at 31 March 2010

As at 30 Jun 2009 Actual \$m	As at 31 Mar 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
21,164	19,726	Government stock ¹	26,329	25,705	(624)	(2.4)	27,033
7,432	5,767	Treasury bills	8,200	9,942	1,742	17.5	9,535
491	558	Government retail stock	329	435	106	24.4	435
6,908	6,648	Settlement deposits with Reserve Bank	6,390	6,338	(52)	(0.8)	6,338
2,158	2,874	Derivatives in loss	1,750	1,613	(137)	(8.5)	1,259
1,002	1,112	Finance lease liabilities	921	938	17	1.8	1,046
22,798	24,929	Other borrowings	23,535	27,682	4,147	15.0	27,743
61,953	61,614	Total borrowings	67,454	72,653	5,199	7.2	73,389
44,448	44,104	Sovereign-guaranteed debt	47,626	52,279	4,653	8.9	53,007
17,505	17,510	Non sovereign-guaranteed debt	19,828	20,374	546	2.7	20,382
61,953	61,614	Total borrowings	67,454	72,653	5,199	7.2	73,389
		Net Debt:					
50,545	50,400	Core Crown borrowings ²	54,887	58,821	3,934	6.7	59,919
428	(87)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	568	454	(114)	(25.1)	166
50,973	50,313	Gross sovereign-issued debt³	55,455	59,275	3,820	6.4	60,085
55,769	55,760	Less core Crown financial assets ⁴	55,775	59,052	(3,277)	(5.5)	58,600
(4,796)	(5,447)	Net core Crown debt (incl NZS Fund)⁵	(320)	223	543	243.5	1,485
11,486	10,571	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	14,918	14,152	766	5.4	14,811
6,690	5,124	Net core Crown debt (excl NZS Fund)⁵	14,598	14,375	(223)	(1.6)	16,296
10,429	11,118	Advances	11,027	11,060	33	0.3	11,075
17,119	16,242	Net core Crown debt (excl NZS Fund and advances)⁷	25,625	25,435	(190)	(0.7)	27,371
		Gross Debt:					
50,973	50,313	Gross sovereign-issued debt ³	55,455	59,275	3,820	6.4	60,085
(9,217)	(11,102)	Less Reserve Bank settlement cash and Reserve Bank bills	(6,618)	(8,034)	(1,416)	(17.6)	(8,034)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
43,356	40,811	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	50,437	52,841	2,404	4.5	53,651

Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts of financial position).
- Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- Core Crown financial assets exclude receivables.
- Net Core Crown Debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the credit-worthiness of a country.
- Adding back the NZS Fund assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

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

STATEMENT OF COMMITMENTS

as at 31 March 2010

	As at 31 Mar 2010 \$m	As at 30 Jun 2009 \$m	As at 31 Mar 2009 \$m
Capital Commitments			
Specialist military equipment	486	699	895
Land and buildings	685	699	1,211
Other property, plant and equipment	6,735	4,859	4,097
Other capital commitments	427	429	371
Tertiary Education Institutions	245	245	209
Total capital commitments	8,578	6,931	6,783
Operating Commitments			
Non-cancellable accommodation leases	2,654	2,366	2,440
Other non-cancellable leases	2,442	2,630	2,658
Non-cancellable contracts for the supply of goods and services	2,208	2,256	2,397
Other operating commitments	8,753	9,731	6,784
Tertiary Education Institutions	335	335	315
Total operating commitments	16,392	17,318	14,594
Total commitments	24,970	24,249	21,377
Total Commitments by Segment			
Core Crown	11,610	20,300	11,980
Crown entities	13,769	15,972	12,959
State-owned Enterprises	5,865	5,706	4,895
Inter-segment eliminations	(6,274)	(17,729)	(8,457)
Total commitments	24,970	24,249	21,377

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 March 2010

	As at 31 Mar 2010 \$m	As at 30 Jun 2009 \$m	As at 31 Mar 2009 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	116	96	107
Uncalled capital	2,283	2,506	2,972
Legal proceedings and disputes	342	1,754	347
Other contingent liabilities	3,652	4,133	2,437
Total quantifiable contingent liabilities	6,393	8,489	5,863
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	6,184	8,287	5,717
Crown entities	80	90	79
State-owned Enterprises	129	112	67
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	6,393	8,489	5,863
Quantifiable Contingent Assets			
Core Crown	271	1,580	318
Crown entities	3	2	-
Total quantifiable contingent assets	274	1,582	318

The above table does not include the guarantee schemes in relation to financial institution deposits. Refer to Note 19 for information on these schemes.

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

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 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							
22,587	17,055	PAYE	16,145	16,683	(538)	(3.2)	22,353
4,408	3,602	Other persons	2,951	3,282	(331)	(10.1)	4,428
(1,636)	(1,009)	Refunds	(1,207)	(1,260)	53	4.2	(1,886)
500	384	Fringe benefit tax	356	387	(31)	(8.0)	501
25,859	20,032	Total individuals	18,245	19,092	(847)	(4.4)	25,396
Corporate Tax							
8,245	4,737	Gross companies tax	3,367	3,491	(124)	(3.6)	6,301
(430)	(192)	Refunds	(261)	(221)	(40)	(18.1)	(360)
1,451	1,056	Non-resident withholding tax	887	729	158	21.7	1,060
10	(6)	Foreign-source dividend w/holding payments	(3)	(1)	(2)	(200.0)	3
9,276	5,595	Total corporate tax	3,990	3,998	(8)	(0.2)	7,004
Other Income Tax							
2,571	2,015	Resident w/holding tax on interest income	1,360	1,313	47	3.6	1,872
65	36	Resident w/holding tax on dividend income	85	95	(10)	(10.5)	146
1	1	Estate and gift duties	1	1	-	-	1
2,637	2,052	Total other income tax	1,446	1,409	37	2.6	2,019
37,772	27,679	Total income tax	23,681	24,499	(818)	(3.3)	34,419
Goods and Services Tax							
20,551	15,641	Gross goods and services tax	14,609	14,192	417	2.9	18,835
(9,000)	(6,950)	Refunds	(5,779)	(5,676)	(103)	(1.8)	(7,428)
11,551	8,691	Total goods and services tax	8,830	8,516	314	3.7	11,407
Other Taxation							
868	668	Road user charges	683	671	12	1.8	900
781	607	Petroleum fuels excise - domestic production	603	659	(56)	(8.5)	856
616	484	Alcohol excise - domestic production	488	491	(3)	(0.6)	640
172	152	Tobacco excise - domestic production	156	143	13	9.1	185
514	369	Petroleum fuels excise - imports ¹	444	370	74	20.0	547
213	170	Alcohol excise - imports ¹	175	165	10	6.1	219
891	631	Tobacco excise - imports ¹	600	675	(75)	(11.1)	904
262	211	Other customs duty	141	179	(38)	(21.2)	235
215	161	Gaming duties	169	177	(8)	(4.5)	239
171	162	Motor vehicle fees	128	125	3	2.4	166
80	61	Approved issuer levy and cheque duty	44	64	(20)	(31.3)	88
39	28	Energy resources levies	28	28	-	-	38
4,822	3,704	Total other indirect taxation	3,659	3,747	(88)	(2.3)	5,017
16,373	12,395	Total indirect taxation	12,489	12,263	226	1.8	16,424
54,145	40,074	Total taxation revenue	36,170	36,762	(592)	(1.6)	50,843
Other Sovereign Revenue (accrual)							
2,880	2,080	ACC levies	2,303	2,367	(64)	(2.7)	3,248
299	226	Fire Service levies	228	228	-	-	302
86	65	EQC levies	65	66	(1)	(1.5)	88
853	638	Other miscellaneous items	758	719	39	5.4	996
4,118	3,009	Total other sovereign revenue	3,354	3,380	(26)	(0.8)	4,634
58,263	43,083	Total sovereign revenue	39,524	40,142	(618)	(1.5)	55,477

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 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							
22,567	17,203	PAYE	16,225	16,623	(398)	(2.4)	22,305
4,988	3,061	Other persons	2,808	2,955	(147)	(5.0)	4,939
(2,488)	(1,789)	Refunds	(2,127)	(1,948)	(179)	(9.2)	(2,537)
506	368	Fringe benefit tax	341	351	(10)	(2.8)	491
25,573	18,843	Total individuals	17,247	17,981	(734)	(4.1)	25,198
Corporate Tax							
7,742	5,693	Gross companies tax	6,366	6,207	159	2.6	8,111
(2,013)	(1,085)	Refunds	(1,041)	(1,042)	1	0.1	(1,501)
1,437	1,025	Non-resident withholding tax	771	742	29	3.9	1,059
(2)	(7)	Foreign-source dividend w/holding payments	5	9	(4)	(44.4)	13
7,164	5,626	Total corporate tax	6,101	5,916	185	3.1	7,682
Other Income Tax							
2,593	2,006	Resident w/holding tax on interest income	1,300	1,305	(5)	(0.4)	1,838
97	51	Resident w/holding tax on dividend income	69	92	(23)	(25.0)	146
2	1	Estate and gift duties	1	2	(1)	(50.0)	2
2,692	2,058	Total other income tax	1,370	1,399	(29)	(2.1)	1,986
35,429	26,527	Total income tax	24,718	25,296	(578)	(2.3)	34,866
Goods and Services Tax							
19,715	14,692	Gross goods and services tax	13,783	13,581	202	1.5	18,525
(8,894)	(6,951)	Refunds	(5,542)	(5,736)	194	3.4	(7,428)
10,821	7,741	Total goods and services tax	8,241	7,845	396	5.0	11,097
Other Taxation							
864	666	Road user charges	682	671	11	1.6	900
786	598	Petroleum fuels excise	604	632	(28)	(4.4)	836
587	447	Alcohol excise	473	479	(6)	(1.3)	640
170	155	Tobacco excise	150	142	8	5.6	185
1,957	1,352	Other customs duty	1,330	1,328	2	0.2	1,905
227	170	Gaming duties	168	177	(9)	(5.1)	240
165	157	Motor vehicle fees	153	125	28	22.4	166
36	26	Energy resources levies	28	28	-	-	44
77	76	Approved issuer levy and cheque duty	40	65	(25)	(38.5)	88
4,869	3,647	Total other indirect taxation	3,628	3,647	(19)	(0.5)	5,004
15,690	11,388	Total indirect taxation	11,869	11,492	377	3.3	16,101
51,119	37,915	Total tax receipts collected	36,587	36,788	(201)	(0.5)	50,967
Other Sovereign Receipts (cash)							
2,792	2,171	ACC levies	2,466	2,408	58	2.4	3,362
300	226	Fire Service levies	228	228	-	-	302
87	66	EQC levies	65	66	(1)	(1.5)	88
537	409	Other miscellaneous items	442	450	(8)	(1.8)	627
3,716	2,872	Total other sovereign receipts	3,201	3,152	49	1.6	4,379
54,835	40,787	Total sovereign receipts	39,788	39,940	(152)	(0.4)	55,346

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 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>					
3,000	2,352	Interest revenue	1,793	2,318	(525)	(22.6)	3,228
419	272	Dividends	266	282	(16)	(5.7)	431
3,419	2,624	Total interest revenue and dividends	2,059	2,600	(541)	(20.8)	3,659
		<i>By source</i>					
1,872	1,464	Core Crown	1,737	1,791	(54)	(3.0)	2,312
1,248	1,032	Crown entities	742	653	89	13.6	881
1,193	938	State-owned Enterprises	772	1,051	(279)	(26.5)	1,530
(894)	(810)	Inter-segment eliminations	(1,192)	(895)	(297)	(33.2)	(1,064)
3,419	2,624	Total interest revenue and dividends	2,059	2,600	(541)	(20.8)	3,659
		NOTE 3: Social Assistance and Official Development Assistance					
7,744	5,733	New Zealand superannuation	6,154	6,158	4	0.1	8,296
1,530	1,132	Domestic purposes benefit	1,261	1,259	(2)	(0.2)	1,696
586	405	Unemployment benefit	708	724	16	2.2	974
1,260	939	Invalids benefit	973	973	-	-	1,309
2,062	1,498	Family tax credit	1,626	1,593	(33)	(2.1)	2,186
989	727	Accommodation supplement	864	871	7	0.8	1,170
613	450	Sickness benefit	530	532	2	0.4	723
444	284	Student allowances	376	364	(12)	(3.3)	534
390	290	Disability allowances	308	310	2	0.6	416
1,281	1,225	KiwiSaver	728	808	80	9.9	1,138
2,605	1,759	Other social assistance benefits	1,863	1,877	14	0.7	2,617
19,504	14,442	Total social assistance	15,391	15,469	78	0.5	21,059
458	391	Official development assistance	348	382	34	8.9	474
19,962	14,833	Total social assistance and official development assistance	15,739	15,851	112	0.7	21,533
		NOTE 4: Personnel Expenses					
6,037	4,494	Core Crown	4,358	4,449	91	2.0	5,899
9,592	7,155	Crown entities	7,397	7,385	(12)	(0.2)	9,884
2,447	1,823	State-owned Enterprises	1,816	1,824	8	0.4	2,425
(12)	(8)	Inter-segment eliminations	(7)	(5)	2	40.0	(7)
18,064	13,464	Total personnel expenses	13,564	13,653	89	0.7	18,201
		NOTE 5: Operating Expenses					
		<i>By type</i>					
4,305	3,118	Depreciation and amortisation	3,074	3,126	52	1.7	4,201
34,116	22,968	Other operating expenses	22,965	23,637	672	2.8	33,487
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(335)	(335)	(100.0)	(1,150)
38,421	26,086	Total operating expenses	26,039	26,428	389	1.5	36,551
		<i>By source</i>					
35,292	23,729	Core Crown	24,977	25,526	549	2.2	35,412
17,332	11,754	Crown entities	13,057	12,867	(190)	(1.5)	18,146
10,172	7,838	State-owned Enterprises	7,111	7,015	(96)	(1.4)	9,493
(24,375)	(17,235)	Inter-segment eliminations	(19,106)	(18,980)	126	0.7	(26,500)
38,421	26,086	Total operating expenses	26,039	26,428	389	1.5	36,551

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	9 Months to 31 Mar 2009 Actual \$m	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 6: Interest Expenses				
		<i>By type</i>				
3,404	2,705	2,383	2,757	374	13.6	3,830
88	101	57	56	(1)	(1.8)	76
3,492	2,806	2,440	2,813	373	13.3	3,906
		<i>By source</i>				
2,429	1,868	1,707	1,767	60	3.4	2,404
185	162	122	125	3	2.4	136
1,392	1,147	916	1,188	272	22.9	1,741
(514)	(371)	(305)	(267)	38	14.2	(375)
3,492	2,806	2,440	2,813	373	13.3	3,906
		NOTE 7: Insurance Expenses				
		<i>By entity</i>				
3,762	2,366	2,039	2,281	242	10.6	3,190
88	74	46	29	(17)	(58.6)	39
32	19	16	14	(2)	(14.3)	17
3,882	2,459	2,101	2,324	223	9.6	3,246
		NOTE 8: Gains and Losses on Financial Instruments				
		<i>By source</i>				
(1,616)	(2,726)	2,940	1,846	1,094	59.3	2,117
(669)	(1,075)	1,312	699	613	87.7	682
(138)	(119)	(32)	85	(117)	(137.6)	7
(211)	(196)	(126)	(91)	(35)	(38.5)	(121)
(2,634)	(4,116)	4,094	2,539	1,555	61.2	2,685
		NOTE 9: Gains and Losses on Non-Financial Instruments				
		<i>By type</i>				
(695)	(2,378)	(408)	(206)	(202)	(98.1)	(206)
(4,491)	(2,023)	173	(18)	191	-	39
1,019	804	81	88	(7)	(8.0)	55
(4,167)	(3,597)	(154)	(136)	(18)	(13.2)	(112)
		<i>By source</i>				
125	(1,682)	(413)	(216)	(197)	(91.2)	(287)
(4,475)	(2,022)	143	(39)	182	466.7	17
200	107	115	118	(3)	(2.5)	158
(17)	-	1	1	-	-	-
(4,167)	(3,597)	(154)	(136)	(18)	(13.2)	(112)
		NOTE 10: Operating Balance				
		<i>By source</i>				
(5,862)	(5,106)	(3,675)	(4,918)	1,243	25.3	(6,914)
(4,727)	(2,287)	2,667	1,525	1,142	74.9	1,966
911	666	763	761	2	0.3	987
(827)	(992)	(1,082)	(701)	(381)	(54.4)	(833)
(10,505)	(7,719)	(1,327)	(3,333)	2,006	60.2	(4,794)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2009 \$m	As at 31 Mar 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
6,268	6,072	Cash and cash equivalents	6,915	8,103	(1,188)	(14.7)	7,997
7,649	7,855	Tax receivables	6,121	7,181	(1,060)	(14.8)	6,245
6,970	4,968	Trade and other receivables	5,335	4,941	394	8.0	6,617
6,553	7,236	Student loans	7,005	6,994	11	0.2	6,937
8,492	7,613	Kiwibank mortgages	10,055	10,150	(95)	(0.9)	10,632
3,136	3,357	Long-term deposits	2,345	2,537	(192)	(7.6)	2,480
454	348	IMF financial assets	2,201	2,260	(59)	(2.6)	2,261
559	710	Other advances	644	609	35	5.7	563
11,160	9,885	Share investments	13,398	13,043	355	2.7	13,357
3,745	4,152	Derivatives in gain	3,104	3,060	44	1.4	2,575
38,373	39,015	Other marketable securities	35,145	38,075	(2,930)	(7.7)	37,833
93,359	91,211	Total financial assets	92,268	96,953	(4,685)	(4.8)	97,497
Financial assets by entity							
22,831	20,079	NZDMO	22,172	23,919	(1,747)	(7.3)	22,956
22,372	25,000	Reserve Bank of New Zealand	17,858	19,810	(1,952)	(9.9)	19,862
12,877	11,216	NZ Superannuation Fund	16,065	14,740	1,325	9.0	14,836
17,399	19,416	Other core Crown	16,988	18,002	(1,014)	(5.6)	17,503
(9,866)	(10,038)	Intra-segment eliminations	(8,938)	(8,404)	(534)	(6.4)	(8,598)
65,613	65,673	Total core Crown segment	64,145	68,067	(3,922)	(5.8)	66,559
14,281	11,566	ACC portfolio	14,455	13,826	629	4.5	16,069
5,639	5,572	EQC portfolio	6,065	5,886	179	3.0	5,968
6,924	6,679	Other Crown entities	6,579	6,533	46	1	6,489
(1,521)	(655)	Intra-segment eliminations	(1,458)	(1,509)	51	3.4	(1,513)
25,323	23,162	Total Crown entities segment	25,641	24,736	905	3.7	27,013
14,702	15,306	Total State-owned enterprises segment	16,205	16,694	(489)	(2.9)	16,755
(12,279)	(12,930)	Inter-segment eliminations	(13,723)	(12,544)	(1,179)	(9.4)	(12,830)
93,359	91,211	Total financial assets	92,268	96,953	(4,685)	(4.8)	97,497
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
16,289	17,531	Land (valuation)	16,475	16,416	59	0.4	16,618
23,719	22,677	Buildings (valuation)	23,829	24,045	(216)	(0.9)	24,490
2,046	2,010	Electricity distribution network (cost)	2,462	2,217	245	11.1	2,297
11,664	11,598	Electricity generation assets (valuation)	11,699	12,024	(325)	(2.7)	12,103
1,952	1,900	Aircraft (excl military) (valuation)	2,237	1,947	290	14.9	2,171
24,067	21,494	State highways (valuation)	24,647	24,583	64	0.3	24,830
12,506	11,936	Rail network (valuation)	12,704	13,067	(363)	(2.8)	12,882
3,927	3,309	Specialist military equipment (valuation)	3,859	4,055	(196)	(4.8)	4,087
5,383	5,013	Other plant and equipment (cost)	5,256	5,723	(467)	(8.2)	6,129
8,582	7,963	Specified cultural and heritage assets (valuation)	8,606	8,584	22	0.3	8,614
110,135	105,431	Total net carrying value	111,774	112,661	(887)	(0.8)	114,221

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	9 Months to 31 Mar 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
383	297	Revenue	294	252	42	16.7	355
4	(24)	Less current tax expense	84	152	68	44.7	117
(323)	(846)	Less other expenses ¹	515	349	(166)	(47.6)	481
(3,495)	(4,763)	Add gains/(losses)	2,793	1,684	1,109	65.9	1,880
(2,793)	(3,596)	Operating balance	2,488	1,435	1,053	73.4	1,637
14,212	14,212	Opening net worth	13,688	13,688	-	-	13,688
2,243	1,725	Gross contribution from the Crown	250	250	-	-	250
(2,793)	(3,596)	Operating balance	2,488	1,435	1,053	73.4	1,637
26	51	Other movements in reserves	8	(2)	10	-	(2)
13,688	12,392	Closing net worth	16,434	15,371	1,063	6.9	15,573
<i>comprising:</i>							
12,877	11,216	Financial assets	16,065	14,740	1,325	9.0	14,836
811	1,176	Net other assets	369	631	(262)	(41.5)	737
13,688	12,392	Closing net worth	16,434	15,371	1,063	6.9	15,573
Core Crown revenue (excl NZS Fund)							
59,482	44,314	Core Crown revenue	40,825	41,243	(418)	(1.0)	56,751
383	297	Less NZS Fund revenue	294	252	42	16.7	355
4	(24)	Add back NZS Fund intra-segment revenue	84	152	(68)	(44.7)	117
59,103	43,993	Core Crown revenue (excl NZS Fund)	40,615	41,143	(528)	(1.3)	56,513
OBEGAL excluding NZS Fund							
(3,893)	(233)	Total Crown OBEGAL	(5,272)	(5,794)	522	9.0	(7,465)
383	297	Less NZS Fund revenue	294	252	42	16.7	355
77	70	Less NZS Fund external expenses	59	71	(12)	(16.9)	97
4	(24)	Add back NZS Fund tax	84	152	(68)	(44.7)	117
(4,195)	(484)	OBEGAL excluding NZS Fund	(5,423)	(5,823)	400	6.9	(7,606)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2009 \$m	As at 31 Mar 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
5,380	4,415	Accounts payable	4,499	5,775	1,276	22.1	6,771
3,759	3,477	Taxes repayable	2,829	3,759	930	24.7	3,759
9,139	7,892	Total payables	7,328	9,534	2,206	23.1	10,530
NOTE 15: Insurance liabilities							
26,446	21,409	ACC liability	24,804	25,010	206	0.8	26,919
87	89	EQC liability	79	86	7	8.1	86
34	71	Other insurance liabilities	40	34	(6)	(17.6)	32
26,567	21,569	Total insurance liabilities	24,923	25,130	207	0.8	27,037
NOTE 16: Provisions							
-	-	Provision for Kyoto ¹	-	-	-	-	-
831	-	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	881	899	18	2.0	470
954	994	Provision for National Provident Fund guarantee	928	939	11	1.2	922
2,580	2,287	Provision for employee entitlements	2,465	2,387	(78)	(3.3)	2,496
1,188	1,121	Other provisions	998	1,018	20	2.0	1,220
5,553	4,402	Total provisions	5,272	5,243	(29)	(0.6)	5,108
<p>¹ The Crown's net Kyoto position as at 31 March 2010 is a \$231 million net asset. The net asset is included in the intangible asset line within these financial statements. A full copy of the Net Position report 2010 can be found on the Ministry for the Environment's website: www.mfe.govt.nz</p>							
NOTE 17: Changes in Net Worth							
46,700	46,700	Opening taxpayers funds	36,382	36,382	-	-	36,382
(10,505)	(7,719)	Operating balance excluding minority interest	(1,327)	(3,333)	2,006	60.2	(4,794)
187	73	Transfers from/(to) other reserves	216	113	103	91.2	114
36,382	39,054	Closing taxpayers funds	35,271	33,162	2,109	6.4	31,702
58,566	58,566	Opening revaluation reserve	62,612	62,612	-	-	62,612
4,235	355	Net revaluations	4	146	(142)	(97.3)	232
(189)	(69)	Transfers from/(to) other reserves	(218)	(112)	(106)	(94.6)	(107)
62,612	58,852	Closing revaluation reserve	62,398	62,646	(248)	(0.4)	62,737
(134)	(134)	Opening other reserves	74	74	-	-	74
208	682	Net movements	(235)	(175)	(60)	(34.3)	(151)
74	548	Closing other reserves	(161)	(101)	(60)	(59.4)	(77)

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	9 Months to 31 Mar 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
51,362	38,160	Total tax receipts	37,020	37,143	(123)	(0.3)	51,503
489	378	Total other sovereign receipts	409	416	(7)	(1.7)	577
1,441	1,173	Interest, profits and dividends	1,540	1,127	413	36.6	1,637
2,288	1,624	Sale of goods & services and other receipts	1,889	1,933	(44)	(2.3)	2,308
(19,953)	(14,873)	Subsidies and transfer payments	(16,383)	(16,396)	13	0.1	(21,733)
(35,394)	(26,669)	Personnel and operating costs	(28,148)	(28,114)	(34)	(0.1)	(38,857)
(2,200)	(1,533)	Finance costs	(1,028)	(1,103)	75	6.8	(2,032)
-	-	Forecast for future new operating spending	-	-	-	-	(13)
-	-	Top-down expense adjustment	-	335	(335)	(100.0)	1,150
(1,967)	(1,740)	Net cash flows from core Crown operations	(4,701)	(4,659)	(42)	(0.9)	(5,460)
(1,625)	(1,131)	Net purchase of physical assets	(1,298)	(1,614)	316	19.6	(2,370)
(860)	(909)	Net increase in advances	(810)	(816)	6	0.7	(1,244)
(1,944)	(2,375)	Net purchase of investments	(803)	(770)	(33)	(4.3)	(1,279)
(2,243)	(1,725)	Contribution to NZ Superannuation Fund	(250)	(250)	-	-	(250)
-	-	Forecast for future new capital spending	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	200	(200)	(100.0)	550
(8,639)	(7,880)	Residual cash	(7,862)	(7,909)	47	0.6	(10,091)
Financed by:							
(512)	385	Other net sale/(purchase) of marketable securities and deposits	3,471	1,290	2,181	169.1	871
(9,151)	(7,495)	Total operating and investing activities	(4,391)	(6,619)	2,228	33.7	(9,220)
Used in:							
9,359	10,345	Net (repayment)/issue of other New Zealand dollar borrowing	(4,223)	6,206	(10,429)	(168.0)	8,151
(1,973)	(2,867)	Net (repayment)/issue of foreign currency borrowing	3,403	(2,858)	6,261	219.1	(5,137)
475	515	Issues of circulating currency	276	(9)	285	-	16
(1,761)	(1,408)	Decrease/(increase) in cash	(749)	(1,482)	733	49.5	(578)
6,100	6,585		(1,293)	1,857	(3,150)	(169.6)	2,452
(3,051)	(910)	Net cash inflow/(outflow) to be offset by domestic bonds	(5,684)	(4,762)	(922)	(19.4)	(6,768)
Gross Cash Proceeds from Domestic Bonds							
5,775	3,611	Domestic bonds (market)	9,833	8,908	925	10.4	10,818
541	514	Domestic bonds (non-market)	704	707	(3)	(0.4)	803
6,316	4,125	Total gross cash proceeds from domestic bonds	10,537	9,615	922	9.6	11,621
(2,750)	(2,700)	Repayment of domestic bonds (market)	(4,197)	(4,197)	-	-	(4,197)
(515)	(515)	Repayment of domestic bonds (non-market)	(656)	(656)	-	-	(656)
(3,265)	(3,215)	Total repayment of domestic bonds	(4,853)	(4,853)	-	-	(4,853)
3,051	910	Net (repayments of)/cash proceeds from domestic bonds	5,684	4,762	922	19.4	6,768

Note 19: Deposit Guarantee Schemes

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

Retail Deposit Guarantee Scheme

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this 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 (ie, greater than \$5 billion) or if they experience significant growth in deposits (ie, greater than 10% per annum). Approved deposit takers to date are listed on the Treasury website.

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

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

As at 31 March 2010, 73 financial institutions had joined the scheme and deposits totalling \$133 billion had been guaranteed. 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. The Crown assesses the potential loss to be associated with the entities that hold significant deposits (ie, greater than \$5 billion) as being remote. It is recognising the revenue received from these institutions over the guarantee period and has made no provision for any loss associated with these entities.

For other entities within the scheme (ie entities that hold deposits less than \$5 billion) a provision has been made to provide for losses that are considered more likely than not to occur. The Crown continually updates both the likelihood of further default actions triggering the guarantee and the expected loss given default. Based on these assessments, the Crown has provided for a net expected loss given default of \$881 million as at 31 March 2010, being the cost of future payments under the scheme after expected recoveries.

While the provision represents a best estimate of likely loss, a significant range of outcomes are possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default. Except as provided on the Treasury web site, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

NOTES TO THE FINANCIAL STATEMENTS

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government 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 utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125 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.

As at 31 March 2010, the value of wholesale securities guaranteed was \$10.2 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Wholesale funding guarantee facility effective from 30 April 2010. As at 31 March 2010, the Crown had issued 24 guarantee certificates and the benefit of those guarantees will remain in place for the underlying securities until the earlier of the scheduled maturity of those securities or 5 years from the date the securities were issued. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

Note 20: Subsequent Events

On 13 April 2010 the Minister of Finance announced that New Zealand had agreed to make available to the International Monetary Fund up to US\$1.0 billion (approximately NZ\$1.3 billion) to support the international financial system in the event of a significant crisis.

Going forward, the obligation created by this arrangement will be reported as a contingent liability in the monthly financial statements of Government. However, if the Government of New Zealand is called upon to lend money under the arrangement, the resulting loan would increase debt.