(Treasury, 2021b: 4, 12, 48, 83, 88–89)

Financial Statements of the Government of New Zealand

for the year ended 30 June 2021

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2703-1993 (ISSN Print)
2703-2000 (ISSN Online)

Internet

The URL for this document on the Treasury's website at October 2021 is
https://treasury.govt.nz/publications/year-end/financial-statements-2021

Contents

Ministerial Statement

The 2020/21 accounts show New Zealand's economy is continuing to perform strongly and better than expected during the economic shock caused by the COVID-19 pandemic. This year's results show a lower deficit, higher tax take and lower net debt than forecast by the Treasury in *Budget 2021.* This means New Zealand is well placed to handle the on-going impact of this shock on the economy and is in a strong position to rebuild from COVID-19.

New Zealand went into this pandemic in a strong fiscal position. Although there remains volatility in the global outlook, New Zealand is in a good position to deal with any uncertainties.

The Government's financial results show the operating balance before gains and losses (OBEGAL) was a deficit of $4.6 billion (1.3% of GDP) in 2020/21. While the deficit was expected due to the impact of COVID-19, it was $10.6 billion better than what the Treasury forecast in *Budget 2021,* largely owing to the economy continuing to exceed Treasury forecasts.

Core Crown tax revenue of $98 billion was $6.4 billion higher than forecast in *Budget 2021*. With the country being in lower Alert Levels for most of the year, economic conditions were better than forecast and both labour market conditions and consumption have driven the increase in tax revenue.

Core Crown expenditure of $107.8 billion was $3 billion lower than forecast but on a similar level to last year's expenditure. Last year the COVID Response and Recovery Fund (CRRF) was established with $50 billion signalled for funding the Government's response. As at 30 June 2021, the majority of the CRRF had been allocated with $4.7 billion remaining to be allocated to support future health and economic responses needed in the case of further COVID-19 resurgences such as the recent delta outbreak.

Net core Crown debt was 30% of GDP at 30 June, below the 34% forecast in the *Budget 2021* which is significantly lower than other countries around the world.

Investment in infrastructure continues to grow with the Crown infrastructure investment this year being $9.4 billion, $0.4 billion higher than in the previous year. Core Crown capital investment was $12.7 billion during the year, $3.3 billion higher than the previous year and included $2.1 billion invested into the Super Fund to help cover future retirement costs. The core Crown residual cash deficit was $13.8 billion, compared to a forecast deficit of $25.3 billion at the *Budget 2021*. This lower cash deficit meant less cash needed to be borrowed and resulted in a lower net debt position than forecast.

The COVID-19 pandemic will continue to have an effect on the New Zealand and global economies, with the most recent delta outbreak in New Zealand likely to affect next year's results. However, the 2020/21 Crown accounts on the back of a solid result in 2019/20 put New Zealand in a strong position to support social and economic recovery and development.

Hon Grant Robertson
Minister of Finance

30 September 2021

Financial Statements Summary (continued)

...the operating results from Crown entities and SOEs have improved...

Crown entities and SOEs have recorded a $2.2 billion operating balance deficit, a change of $2.8 billion from the $5.0 billion deficit the previous year.

A number of Crown entities and SOEs are showing stronger results than the prior year and one-off costs that occurred in the prior year are not being incurred in the current year. Reductions in insurance expenditure has also positively impacted the operating balance.

...and substantial net gains have positively impacted the operating balance...

Overall, total net gains for 2020/21 were $21.0 billion. This is largely owing to $18.1 billion of gains on financial instruments, primarily NZS Fund and ACC investment gains, and the ACC outstanding claims liability being valued downwards by $8.2 billion. Offsetting these gains were losses in relation to the LSAP programme of $4.0 billion and losses on ETS obligations of $1.5 billion.

...resulting in an operating balance surplus...

All of the factors outlined above led to an operating balance surplus of $16.2 billion for the year ended 30 June 2021 (see Figure 7).

...and an increase in net worth as the growth in assets exceeds that in liabilities

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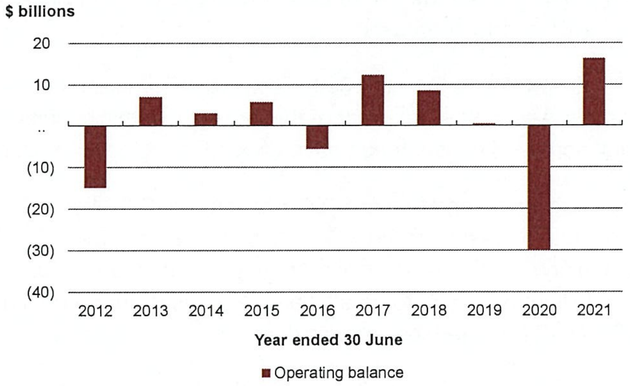
The increase in net worth has been largely driven by property, plant and equipment asset revaluations of $22.1 billion. The defined benefit plans and veterans' disability entitlement liabilities were revalued downward by $2.8 billion, which also increased net worth.

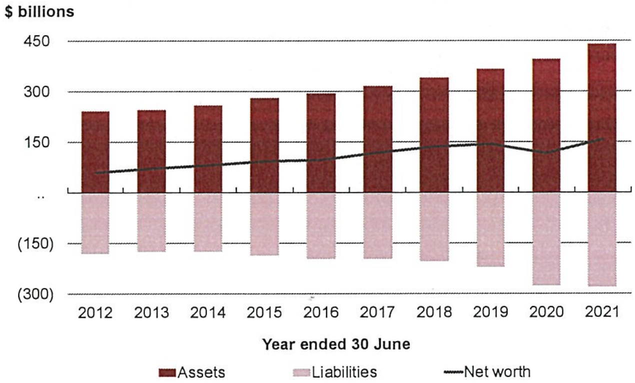
When these revaluations are combined with the operating balance surplus of $16.2 billion and minority interest transactions, net worth increased to $157.2 billion, an increase of $41.3 billion (see Figure 8).

Figure 7 – Operating balance (excluding minority interests)



Source: The Treasury

Figure 8 – Net worth



Source: The Treasury

Total assets grew by $45.2 billion in the 2020/21 year to reach $438.6 billion, while at the same time liabilities increased by $3.9 billion to reach $281.4 billion.

Of the increase in assets, property, plant and equipment increased the most by $26.7 billion (including revaluation uplifts of $22.1 billion) and financial assets grew by $17.9 billion. Of the increase in liabilities, borrowings increased by $9.8 billion, which was offset by insurance liabilities decreasing by $6.4 billion.

Statement of Financial Position

as at 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Assets			
31,651	14,947	Cash and cash equivalents		18,755	21,927
28,787	25,001	Receivables	13	26,829	24,743
74,510	57,741	Marketable securities, deposits and derivatives in gain	14	56,783	61,005
33,581	43,494	Share investments	15	48,539	33,791
5,693	4,276	Investments in controlled enterprises	15	4,718	4,220
43,752	47,044	Advances	16	45,612	37,629
1,616	2,075	Inventory		2,194	1,773
3,399	3,326	Other assets		3,928	3,610
190,846	191,557	Property, plant & equipment	17	213,216	186,502
14,205	14,162	Equity accounted investments	18	14,421	14,308
4,197	4,129	Intangible assets and goodwill		3,601	3,892
2,202	-	Forecast new capital spending		-	-
(1,700)	(800)	Top-down capital adjustment		-	-
432,739	**406,952**	**Total assets**		**438,596**	**393,400**
		Liabilities			
7,366	8,419	Issued currency		8,256	8,022
18,397	16,005	Payables	19	17,577	16,971
2,735	2,331	Deferred revenue		2,549	2,590
238,164	173,227	Borrowings	20	162,560	152,717
61,952	58,529	Insurance liabilities	12	60,336	66,690
12,264	12,725	Retirement plan liabilities	21	11,038	13,983
15,371	18,453	Provisions	22	19,087	16,484
356,249	**289,689**	**Total liabilities**		**281,403**	**277,457**
76,490	**117,263**	**Total assets less total liabilities**		**157,193**	**115,943**
		Net Worth			
(29,724)	4,600	Taxpayer funds		19,857	3,154
106,857	112,003	Property, plant and equipment revaluation reserve	17	134,003	112,334
(2,691)	(3,251)	Defined benefit retirement plan reserve	21	(1,560)	(3,886)
(3,500)	(1,095)	Veterans disability entitlements reserve		(659)	(1,095)
77	(267)	Other reserves		(172)	(187)
71,019	**111,990**	**Total net worth attributable to the Crown**		**151,469**	**110,320**
5,471	5,273	Net worth attributable to minority interests	23	5,724	5,623
76,490	**117,263**	**Total net worth**		**157,193**	**115,943**

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27b

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

Note 15: Share Investments and Investments in Controlled Enterprises

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
33,581	43,494	Share investments	48,539	33,791
5,693	4,276	Investments in controlled enterprises	4,718	4,220
39,274	**47,770**	**Total share investments and investments in controlled enterprises**	**53,257**	**38,011**
		Expected Realisation		
18,105	23,720	Expected to be realised within one year	27,932	17,323
21,169	24,050	Expected to be held for more than one year	25,325	20,688
39,274	**47,770**	**Total share investments**	**53,257**	**38,011**

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

Share investments and investments in controlled enterprises that are categorised within level 3 of the fair value hierarchy make up a minority of the overall portfolio, these investments, by their nature, are inherently more subjective and are more exposed to valuation uncertainty as at 30 June 2021. This category predominantly includes private equity investments held directly or via investment funds, controlled enterprises and other externally managed investment vehicles.

Further information is provided on these financial assets in note 27.

Note 16: Advances

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
24,335	24,615	Kiwi Group Holdings loans and advances	25,155	22,189
10,782	10,833	Student loans	10,841	10,395
-	4,540	Funding for Lending advances	2,558	-
-	953	Small business cashflow loans	921	737
8,635	6,103	Other advances	6,137	4,308
43,752	**47,044**	**Total advances**	**45,612**	**37,629**

Further information on the management of risks associated with these financial assets is provided in note 27.

Note 17: Property, Plant and Equipment

for the year ended 30 June 2021	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2020	205,689	57,835	47,668	39,410	17,481	6,393	5,157	5,194	3,079	6,906	16,566
Additions	10,762	621	4,383	1,818	128	295	61	658	33	836	1,929
Disposals	(1,101)	(158)	(192)	(16)	(19)	(71)	(3)	(4)	(9)	-	(629)
Net revaluations	16,131	12,190	3,852	1,464	415	-	(1,578)	-	84	(298)	2
Transfers from/(to) other asset classes	(258)	(177)	7	(10)	-	-	(26)	-	-	-	(52)
Other	11	(19)	(11)	-	3	(1)	-	-	-	2	37
Total gross carrying amount	**231,234**	**70,292**	**55,707**	**42,666**	**18,008**	**6,616**	**3,611**	**5,848**	**3,187**	**7,446**	**17,853**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2020	19,187	-	2,614	-	390	2,102	1,363	1,855	54	34	10,775
Eliminated on disposal	(636)	-	(34)	-	(2)	(23)	(1)	(3)	(8)	-	(565)
Eliminated on transfer to other asset classes	(56)	-	(7)	-	-	-	-	-	-	-	(49)
Eliminated on revaluation	(5,979)	-	(2,354)	(608)	(921)	-	(1,578)	-	(43)	(475)	-
Impairment losses charged to operating balance	(58)	-	(6)	-	-	-	(52)	-	-	-	-
Depreciation expense	5,566	-	1,988	608	563	219	268	348	27	479	1,066
Other	(6)	-	(1)	-	(1)	-	-	(1)	1	1	(5)
Total accumulated depreciation and impairment	**18,018**	**-**	**2,200**	**-**	**29**	**2,298**	**-**	**2,199**	**31**	**39**	**11,222**
Carrying value as at 30 June 2021	**213,216**	**70,292**	**53,507**	**42,666**	**17,979**	**4,318**	**3,611**	**3,649**	**3,156**	**7,407**	**6,631**
By holding											
Leasehold	1,492	-	334	-	2	-	1,112	-	-	-	44
Public Private Partnerships	4,249	243	1,842	2,156	-	-	-	-	-	-	8
Freehold (excluding PPP)	207,475	70,049	51,331	40,510	17,977	4,318	2,499	3,649	3,156	7,407	6,579
Carrying value as at 30 June 2021	**213,216**	**70,292**	**53,507**	**42,666**	**17,979**	**4,318**	**3,611**	**3,649**	**3,156**	**7,407**	**6,631**

The total amount of property, plant and equipment under construction is $6,415 million (2020: $4,990 million).

Note 17: Property, Plant and Equipment (continued)

For the year ended 30 June 2020	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2019	**192,808**	55,006	42,438	37,222	17,252	6,103	4,993	4,873	3,239	6,435	15,247
Additions	**9,568**	674	3,558	2,154	188	324	372	337	35	525	1,401
Disposals	**(1,202)**	(448)	(68)	(11)	(3)	(32)	(95)	(16)	(8)	-	(521)
Net revaluations	**2,477**	2,506	183	47	17	-	-	-	(202)	(73)	(1)
Transfers from/(to) other asset classes	**(425)**	(271)	(1)	(2)	11	-	(113)	-	15	-	(64)
Other[1]	**2,463**	368	1,558	-	16	(2)	-	-	-	19	504
Total gross carrying amount	**205,689**	**57,835**	**47,668**	**39,410**	**17,481**	**6,393**	**5,157**	**5,194**	**3,079**	**6,906**	**16,566**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2019	**15,189**	-	1,707	-	13	1,930	-	1,520	89	28	9,902
Eliminated on disposal	**(686)**	-	(84)	-	(2)	(23)	(44)	(15)	(7)	-	(511)
Eliminated on transfer to other asset classes	**(138)**	-	(19)	-	-	-	(79)	-	1	-	(41)
Eliminated on revaluation	**(2,086)**	-	(867)	(591)	(201)	-	-	-	(56)	(371)	-
Impairment losses charged to operating balance	**1,193**	-	8	-	-	-	1,068	1	-	10	106
Depreciation expense	**5,294**	-	1,789	591	580	196	417	349	27	366	979
Other[1]	**421**	-	80	-	-	(1)	1	-	-	1	340
Total accumulated depreciation and impairment	**19,187**	**-**	**2,614**	**-**	**390**	**2,102**	**1,363**	**1,855**	**54**	**34**	**10,775**
Carrying value as at 30 June 2020	**186,502**	**57,835**	**45,054**	**39,410**	**17,091**	**4,291**	**3,794**	**3,339**	**3,025**	**6,872**	**5,791**
By holding											
Leasehold	**1,589**	1	327	-	2	-	1,177	-	45	-	37
Public Private Partnerships	**3,705**	338	1,417	1,950	-	-	-	-	-	-	-
Freehold (excluding PPP)	**181,208**	57,496	43,310	37,460	17,089	4,291	2,617	3,339	2,980	6,872	5,754
Carrying value as at 30 June 2020	**186,502**	**57,835**	**45,054**	**39,410**	**17,091**	**4,291**	**3,794**	**3,339**	**3,025**	**6,872**	**5,791**

1 The other movements in land, buildings and other plant and equipment mainly relates to the establishment of Te Pūkenga - New Zealand Institute of Skills and Technology.

12. Government Net Worth

This graph illustrates changes in the New Zealand government's net worth. Fiscally, net worth is defined as the government's total assets less total liabilities. Section 26G of the Public Finance Act 1989 requires the government to pursue its policy objectives in accordance with the principles of responsible fiscal management. Two of these principles relate directly to an obligation to maintain fiscal resilience against factors that could potentially have adverse impacts on New Zealand's fiscal position. These are:

(i) reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year; and ...

(ii) achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future.

The graph on the left illustrates how the buffer was:

- restored after the global financial crisis (2008),
- significantly impacted by the Canterbury earthquakes (2011),
- significantly impacted by COVID-19 (2020), and
- significantly increased due to revaluations in the books of key assets. See the explanation below:

The 30 June 2021 report notes an increase in net worth of $41.3 billion:

> The increase in net worth has been largely driven by property, plant and equipment asset revaluations of $22.1 billion. The defined benefit plans and veterans' disability entitlement liabilities were revalued downward by $2.8 billion, which also increased net worth. When these revaluations are combined with the operating balance surplus of $16.2 billion and minority interest transactions, net worth increased to $157.2 billion, an increase of $41.3 billion.

The 30 June 2022 report notes an increase in net worth of $17.1 billion:

> Net worth has increased by $17.1 billion from a year earlier. The increased net worth this year is primarily a result of the revaluation uplifts of physical assets of $30.9 billion partially offset by the operating balance deficit for the year. Also, favourable revaluations of liabilities such as the Government Superannuation Fund and veterans' disability entitlements contributed $1.7 billion to the increase in net worth ... as these revaluations are presented directly in net worth.

The graph illustrates the need for the buffer to ensure New Zealand has the ability to absorb financial shocks, maintaining prudent debt levels and healthy levels of net worth.

Climate change commitments

The financial statements currently do not recognise New Zealand's climate change commitments. The Notes to the 2022 Financial Statements of the Government of New Zealand state:

> At the Glasgow COP26 Conference in November 2021 the Government strengthened New Zealand's National Determined Contribution (NDC) to reduce greenhouse gas emissions over the 2021-2030 period to a target of a 50% reduction in net emissions from 2005 levels. This follows New Zealand's ratification of the Paris Agreement in October 2016, the introduction in New Zealand of the Climate Change Response (Zero Carbon) Amendment Act 2019, with a target of net zero carbon emissions by 2050 and the Government's declaration of a climate emergency in December 2020 (joining at the time, over 1,800 jurisdictions in 32 countries to declare a climate emergency and commit to reducing emissions to avoid a more than 1.5°C rise in global warming).
>
> As there is no enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, no liability is recognised in these financial statements as at 30 June 2022. Liabilities are not reported at balance date for costs associated with the Government's policy objectives and targets (even if included in legislation or declared in international treaties) if there is no clear financial liability that the Government will incur if these targets are not met.
>
> The Government's commitment to climate change action does not constitute a present obligation on the Government's balance sheet unless the Government is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence, has raised a valid expectation in those affected that they will benefit, either because the criteria for the payment has been met or the entity, as a result of the expectation, has been influenced to incur expenditure, or acted in the expectation of receiving assistance. Climate change commitments made are ongoing and adjustable future costs and are not considered a present obligation, as they do not exist independently of a government's future actions. While future costs will be incurred in pursuit of these objectives and targets, these costs will be reported in the future as they are incurred.

As noted by the Office of the Auditor-General (OAG), in order to 'meet its international commitments, New Zealand will need to reduce its domestic emissions and purchase carbon credits from international markets. The amount of carbon credits required will depend on the extent of domestic emissions reductions. The cost of the carbon credits will depend on carbon prices at the time. There is no financial reporting standard that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements. Determining at what point a liability should be recognised requires judgement.'

Arguably it is only a matter of time before this liability should be recognised in the Financial Statements of the Government of New Zealand. New Zealand could face a bill of between $3 billion and $24 billion in the years leading up to 2030. Some argue that carbon credits should be purchased in advance, in order to reduce the level of uncertainty over the net fiscal impact on the country's net wealth.

— Adapted from Ball, 2020; Figure NZ, 2017; Neilson, M., 2023; Treasury, 2019b; 2020a; 2020b; 2021b; 2022; 2023a; 2023b

Treasury, 2021b:4

Fiscal Overview

FISCAL STRATEGY

Operating revenue

Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.

Operating expenses

Ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.

Operating balance

Use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow. Run an operating balance consistent with meeting the long-term debt objective.

2021 FINANCIAL RESULTS

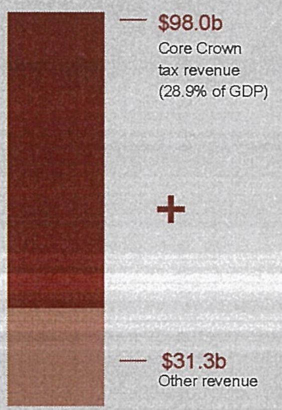
Total Crown

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

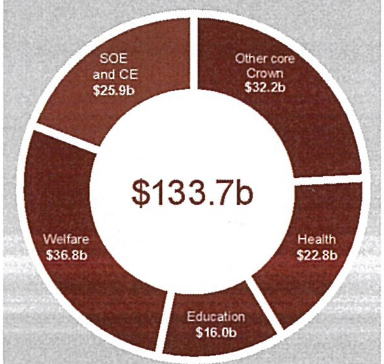
$129.3b TOTAL REVENUE − **$133.7b** TOTAL EXPENSES = **($4.6b)** OBEGAL (excluding minority interests)

- minority interests $0.2b

Revenue

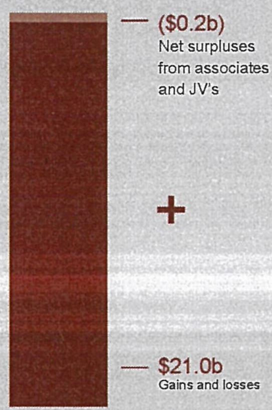


Expenses



■ Core Crown expenses (31.7% of GDP)
■ SOE and Crown Entities

Gains and losses



$16.2b
Operating balance surplus
(excluding minority interests)

Net worth

$115.9b Opening net worth

$16.2b Operating balance

$25.3b Revaluations

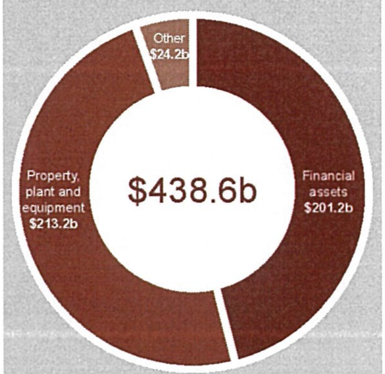
($0.2b) Other movements

$157.2b Closing net worth

17.3
17.2
17.1

=

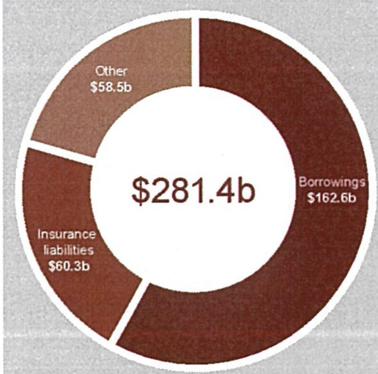
Assets



■ Financial assets
■ Property, plant and equipment
■ Other

−

Liabilities



■ Borrowings
■ Insurance liabilities
■ Other

Numbers may not add due to rounding.

Financial Statements of the Government of New Zealand

for the year ended 30 June 2021

13. Government Revenue and Expenses

The Financial Statements of the Government of New Zealand are produced every year and set out the Crown Revenue and Expenses and the fiscal strategy. Excerpts from the 2017–2022 financial statements are illustrated on pp. 358, 360 and 361.

The 2022 fiscal strategy is summarised in the 2022 Financial Statements of the Government of New Zealand as follows:

> Under the Public Finance Act the Government is required to articulate a fiscal strategy following the principles of responsible fiscal management. Ahead of Budget 2022 the Government announced that their fiscal strategy will be underpinned by two fiscal rules. These rules aim to ensure that over time operating expenses do not add to net debt as a share of GDP, providing fiscal space for high-quality capital investment and ensures a sufficient fiscal buffer for any future shocks.