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Financial Statements of the Government of New Zealand

for the year ended 30 June 2022

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Contents

Ministerial Statement

The 2021/22 financial year covers what, in many cases, was the toughest year for New Zealanders since the global COVID-19 pandemic began.

As a country, we faced the Delta and Omicron outbreaks, requiring significant financial support for businesses and families. We were in a strong position to deal with these outbreaks given our protections through vaccinations and therapeutics and the investment in our health and social response. The year also saw us approach the end of emergency COVID-19 measures, and our reconnection with the world. This has seen us secure new trade deals, open up our immigration system and restart key sectors of the economy like tourism.

The Government's financial accounts for the year show that we managed this with a stronger economy and a lower deficit than forecast. Unemployment is at record lows, and our net debt remains among the lowest in the world due to balanced spending decisions and strong growth.

New Zealanders can be proud of what we've done together during the pandemic. Our focus on protecting lives and jobs means families and the economy came through the pandemic in a better position than after the Global Financial Crisis. As clouds continue over the global economic situation, our strong starting point means we can continue to invest in a more secure economy that provides higher wages and drives down carbon emissions.

The accounts for the year to 30 June 2022 show the operating balance before gains and losses (OBEGAL) recorded a deficit of $9.7 billion, roughly half of what was forecast at Budget 2022. This was due to stronger economic conditions and lower spending than forecast.

Core Crown revenue was 4.1 percent ahead of forecast, as our economic settings provided for strong business results and more people in work in the economy than ever before, contributing to higher tax revenue.

Core Crown expenses were 2.2 percent below forecast, as our successful COVID-19 response meant allocated pandemic-related spending was not required in full. Some of these expenses, such as ongoing investment in protections like therapeutics and vaccines, will shift into the 2022/23 fiscal year. However, the end of the 2021/22 financial year marks the closing of the COVID-19 Response and Recovery Fund and the end of emergency spending which was necessary to underpin our pandemic response.

Net debt ended the year at 17.2 percent of GDP, in line with Budget 2022 forecasts. This is one of the lowest levels in the OECD and well below the Government's debt ceiling of 30 percent, ensuring we are well positioned to weather further economic shocks. On a comparative measure produced by the IMF, our debt position as a percentage of GDP is roughly half the level of Australia, a quarter of the UK, and a fifth of the US.

While much of the focus for the Government was on dealing with the immediate pandemic response, we continued to invest in an economic plan to increase productivity, profits and wages. These accounts show $10.3 billion was invested in building critical infrastructure including roads, hospitals, new houses, and classrooms during the year. This represents the largest investment in Crown infrastructure in recent history. We contributed $2.4 billion to the New Zealand Superannuation Fund, an investment in the future of all Kiwis.

These accounts are published at a time of increasing global uncertainty, with the IMF recently downgrading its forecasts for global growth due to the war in Ukraine, COVID-19 supply chain disruptions and high global inflation. This will affect New Zealand's economy. But the accounts show we are in a strong position to respond to the challenges ahead and provide all New Zealanders with greater economic security.

Our borders are open, COVID-19 restrictions are largely gone, and we are in a position to lock in the gains of the near record low unemployment, rising incomes and a larger economy than before the COVID-19 pandemic. We're set to accelerate our progress as tourists and international students arrive back and working holidaymakers and skilled migrants fill workforce gaps.

Despite the challenges that the world has, and will continue to throw at us, we have every reason to be optimistic about the future for Aotearoa New Zealand.

Hon Grant Robertson
Minister of Finance

30 September 2022

Commentary on the Financial Statements

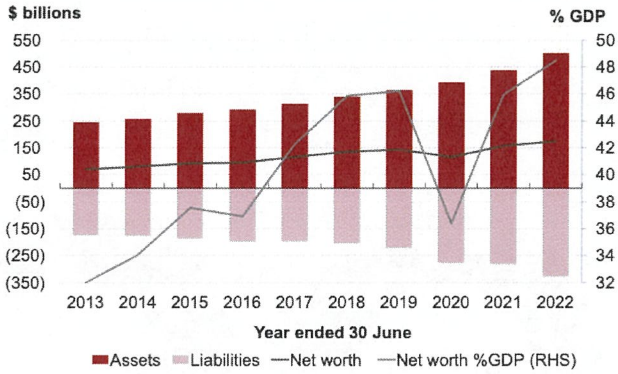
Fiscal Resilience (continued)

Net Worth

Net worth is the difference between total Crown assets (what the government owns) and total Crown liabilities (what the government owes). This difference primarily consists of the accumulation of past operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts of physical assets.

Net worth was $174.3 billion as at 30 June 2022. Of this $164.4 billion related to the Crown's property plant and equipment revaluation reserve, $2.7 billion of taxpayers' funds and $7.3 billion of net worth attributable to minority interests (see Table 17).

Figure 17 – Net worth



Source: The Treasury

Table 17 – Breakdown of net worth

Year ended 30 June	Actual 2022 $ millions	Actual 2021 $ millions	Variance $ millions	Variance %	Forecast Budget 2022 2022 $ millions	Variance $ millions	Variance %
Taxpayers' funds	2,681	19,857	(17,176)	(86.5)	(8,674)	11,355	130.9
Property, plant and equipment revaluation reserve	164,385	134,003	30,382	22.7	134,125	30,260	22.6
Other reserves	(30)	(2,391)	2,361	98.7	(1,598)	1,568	98.1
Net worth attributable to the Crown	**167,036**	**151,469**	**15,567**	**10.3**	**123,853**	**43,183**	**34.9**
Net worth attributable to minority interests	7,283	5,724	1,559	27.2	6,515	768	11.8
Total net worth	**174,319**	**157,193**	**17,126**	**10.9**	**130,368**	**43,951**	**33.7**
Net worth as a % of GDP	**48.5%**	**46.0%**		**2.5**	**36.0%**		**12.5**

Source: The Treasury

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Net worth has increased by $17.1 billion from a year earlier (see Figure 17). 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 (reflected in other reserves in Table 17), as these revaluations are presented directly in net worth (not in the operating balance like ACC valuation gains).

As a share of the economy, net worth increased by 2.5% from 46.0% of GDP in 2020/21 to 48.5% of GDP in the current year.

Net Worth compared to the *Budget 2022* forecast

Total Crown net worth at $174.3 billion was $44.0 billion higher than forecast. The key drivers were the favourable operating balance result ($10.9 billion better than forecast as discussed previously) combined with the revaluations of physical assets at 30 June 2022 which were $30.7 billion higher than forecast (only revaluations that have already been completed at the time of the forecast are included in Budget forecasts). In addition, other reserves (largely the defined benefit retirement plan reserve) were $1.6 billion higher than forecast primarily owing to actuarial gains on the updated Government Superannuation Fund valuation at 30 June 2022 which are taken to reserves.

Climate Change	How we addressed this matter
The Government has declared a climate emergency and has committed to emissions reductions targets, either by international treaty, domestic legislation, or policy announcement.	
Obligations arising from emissions reduction targets As disclosed in note 21 on page 118, the Government has not recognised any liabilities in relation to its commitments to achieve its carbon targets, including its updated Paris Agreement commitment to reduce net greenhouse emissions to 50 percent below gross 2005 levels by 2030. 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.	We reviewed the Treasury's assessment of whether a liability should be recognised for committed emissions reductions targets. The Treasury's assessment noted that there is no enforceable obligation in the Paris Agreement and unlike the Kyoto Protocol (for which a liability was recognised) there is no settlement mechanism. We considered whether the nature of the Paris Agreement meant a liability should be recognised. It is challenging determining whether or not the Government has an obligation that should be recognised as a liability. The matter requires judgement and consideration of factors such as the ability of the Government to modify or change the obligation before it crystalises. We reviewed the annual financial statements of other governments to see whether they had recognised a liability for their Paris Agreement commitments. I am satisfied that not recognising a liability for the Government's emissions reductions targets at this point in time is a reasonable interpretation of the financial reporting standards and that the disclosures are appropriate.
Emissions Trading Scheme (ETS) Liability As outlined in note 21 on pages 117 and 118, the New Zealand Emissions Trading Scheme liability is $11.3 billion at 30 June 2022. This liability represents the quantity of New Zealand Units (NZUs) on issue at the prevailing market price. The administering and accounting for the ETS presents a significant audit risk due to its public interest, its accounting impact and the degree of judgement and inherent uncertainty involved. Under the accounting policy for the ETS, a liability and expense is recognised for the carbon units (NZUs) issued (for example to foresters for carbon sequestration from forest growth) and a reduction in the liability and revenue for NZUs surrendered to meet emissions obligations. This has a significant impact on the Government's financial statements. Because the ETS operates according to the calendar year, an estimate is required to be made for carbon emissions and sequestration that occurs in the January to June period of the financial year. These estimates require significant judgement and are subject to high levels of inherent uncertainty. A significant estimate is the amount of carbon sequestration by post 1989 forests for which NZUs have been earned but an emissions return has not yet been submitted. As post 1989 foresters are only required to submit a mandatory return once every five years the accrual for post 1989 forest growth is significant and based on forecast forest growth over the period.	We reviewed the governance and cooperation arrangements in place between the agencies with administrative responsibilities for parts of the ETS. We updated our understanding of the ETS systems and processes. We tested key controls over ETS registrations and return processing, including both NZU surrenders and allocations. We carried out substantive analytical procedures over ETS revenue and expenditure and tested reconciliations between the ETS systems. We reviewed the appropriateness of the methodology, data and assumptions used to estimate ETS accruals. We confirmed the NZU price at 30 June to market price information. I am satisfied that the ETS liability at 30 June 2022 is reasonable and that the disclosures are appropriate.