

(Treasury, 2023c: 4, 28, 44, 54, 68,
71, 72, 73, 170)
[Government Net Worth;
Government Revenue and Expenses]

Te Kāwanatanga o Aotearoa
New Zealand Government

Financial Statements of the Government of New Zealand

for the year ended 30 June 2023

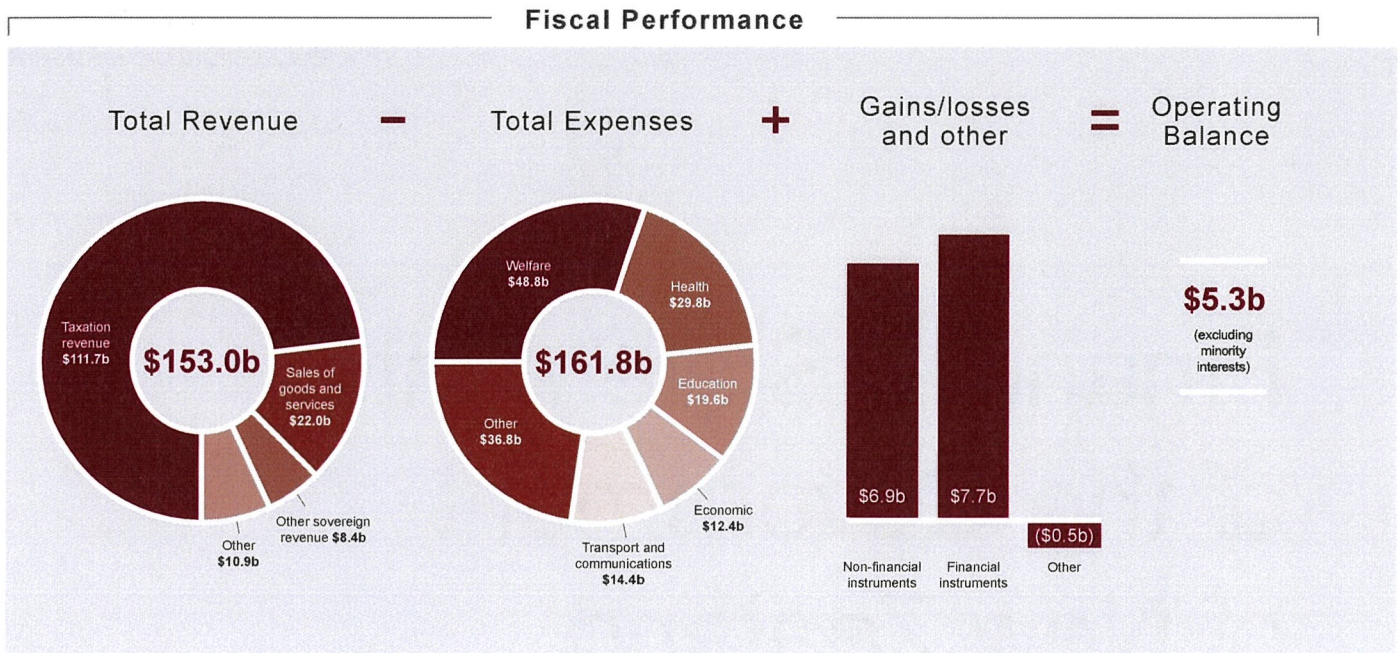
5 October 2023

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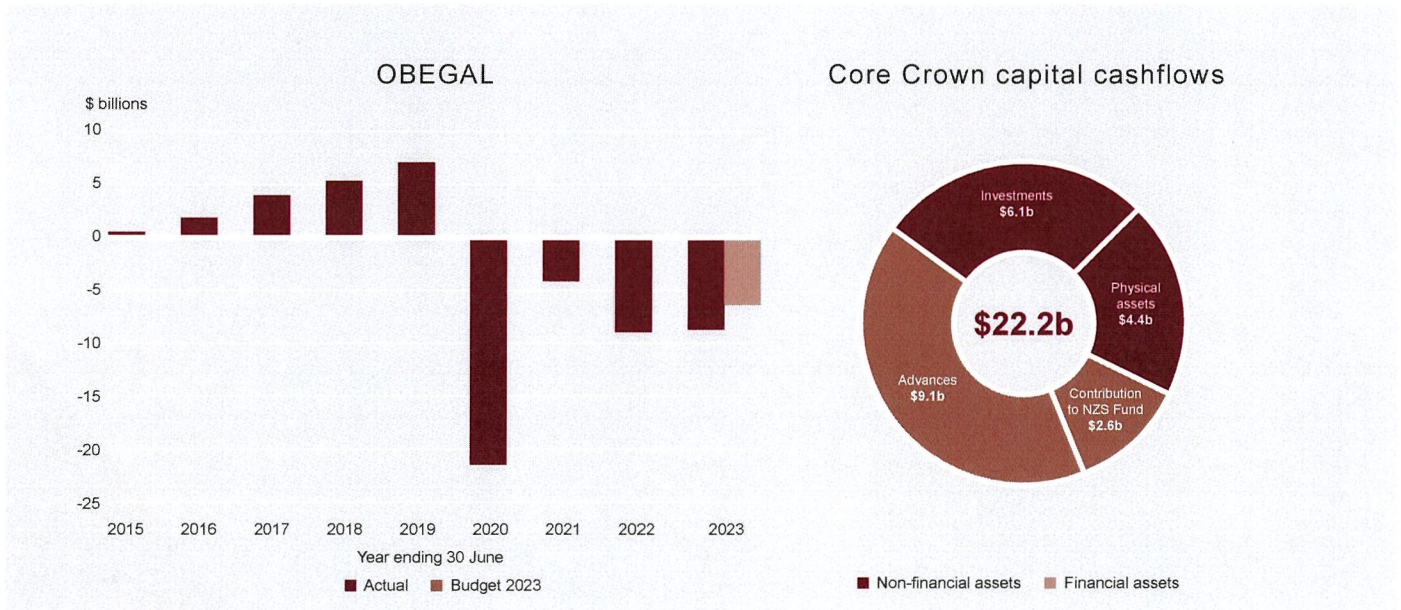
Fiscal Overview

2023 Financial Results



Fiscal Rules

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.



OBEGAL

The Government's short-term intention is to return to OBEGAL surplus by 2026/27, subject to economic and fiscal conditions. Once the operating balance (before gains and losses) has returned to a surplus, the long-term objective is to maintain an average surplus in the range of 0 percent to 2 percent of GDP. This will ensure that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenue. The Government reported a deficit of \$9.4 billion, which means some of this deficit will need to be funded by increasing net debt. In addition, capital spending totalled \$22.2 billion, with \$10.5 billion resulting in an increase in net debt.

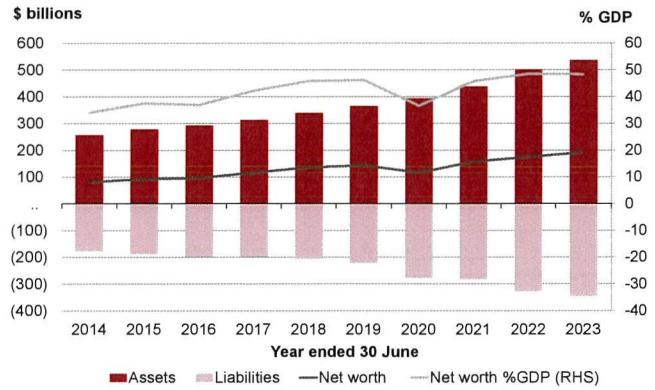
Fiscal Resilience (continued)

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 \$191.5 billion as at 30 June 2023. Of this, \$174.6 billion related to the Crown's property plant and equipment revaluation reserve, \$8.4 billion of taxpayers' funds and \$8.0 billion of net worth attributable to minority interests (see Table 16).

Figure 10 – Net worth



Source: The Treasury

Table 16 – Breakdown of net worth

Year ended 30 June	Actual		Variance ¹		Forecast		
	Actual 2023	Actual 2022	Budget 2023		Variance ¹		
	\$ millions	\$ millions	\$ millions	%	\$ millions	\$ millions	%
Taxpayers' funds	8,380	2,681	5,699	212.6	6,932	1,448	20.9
Property, plant and equipment revaluation reserve	174,575	164,385	10,190	6.2	164,188	10,387	6.3
Other reserves	559	(30)	589	-	(72)	631	-
Net worth attributable to the Crown	183,514	167,036	16,478	9.9	171,048	12,466	7.3
Net worth attributable to minority interests	7,958	7,283	675	9.3	7,908	50	0.6
Total net worth	191,472	174,319	17,153	9.8	178,956	12,516	7.0
Net worth as a % of GDP	48.4%	47.9%		0.5	45.4%		3.0

1 Percentage variances greater than 500% are presented as '-' as the variance is not meaningful.

Source: The Treasury

Net worth has increased by \$17.2 billion from a year earlier (see Figure 10). The increase in net worth this year is primarily a result of the revaluation uplifts of physical assets of \$10.2 billion, as well as the operating balance surplus for the year and an increase in other reserves. Favourable revaluations of liabilities such as the Government Superannuation Fund and veterans' disability entitlements contributed \$0.6 billion to the increase in net worth (reflected in other reserves in Table 16), as these revaluations are presented directly in net worth (not in the operating balance like ACC valuation gains). Net worth attributable to minority interests has increased by \$0.7 billion reflecting the SOE's performance during 2022/23.

As a share of the economy, net worth is broadly consistent with the prior year at 48.4% of GDP.

Net Worth compared to Budget 2023

Net worth at \$191.5 billion was \$12.5 billion higher than forecast. The key drivers were the revaluations of physical assets at 30 June 2023 which were \$10.4 billion higher than forecast (only revaluations that have already been completed at the time of the forecast are included in Budget forecasts), as well as the higher-than-expected operating balance result.

Statement of Financial Performance

for the year ended 30 June 2023

2023 Forecast at			Actual	
Budget	Budget		30 June	30 June
2022	2023		2023	2022
\$m	\$m		\$m	\$m
			Note	
		Revenue		
115,509	114,626	Taxation revenue	4	111,712 107,873
9,297	9,086	Other sovereign revenue	4	8,407 8,894
124,806	123,712	Total sovereign revenue		120,119 116,767
19,441	22,596	Sales of goods and services	5	21,954 17,442
2,829	4,110	Interest revenue	6	5,012 2,292
5,078	5,138	Other revenue	7	5,926 5,126
27,348	31,844	Total revenue earned through operations		32,892 24,860
152,154	155,556	Total revenue (excluding gains)		153,011 141,627
		Expenses		
39,444	38,926	Transfer payments and subsidies	8	38,803 44,087
32,998	35,308	Personnel expenses	9	36,052 32,648
6,613	6,571	Depreciation	17	6,601 6,152
61,968	68,665	Other operating expenses	10	64,134 58,273
5,233	7,236	Interest expenses	6	7,448 3,349
9,368	8,918	Insurance expenses	12	8,784 6,447
4,904	-	Forecast new operating spending		- -
(2,000)	(3,700)	Top-down expense adjustment		- -
158,528	161,924	Total expenses (excluding losses)		161,822 150,956
		Gains/(losses)		
4,894	5,888	Net gains/(losses) on financial instruments	6	7,711 (9,687)
(49)	5,301	Net gains/(losses) on non-financial instruments	11	6,947 2,965
4,845	11,189	Total gains/(losses)		14,658 (6,722)
		Other interests		
149	42	Net surplus/(deficit) from associates and joint ventures		29 (126)
(252)	(644)	Less minority interests' share of operating balance	24	(555) (755)
(1,632)	4,219	Operating balance (excluding minority interests)		5,321 (16,932)
252	644	Minority interests' share of operating balance	24	555 755
(1,380)	4,863	Operating balance (including minority interests)		5,876 (16,177)

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

Note 1: Basis of Reporting (continued)**Recognition of taxation revenue and assets**

Taxation is required to be measured when the taxable event occurs and when recognition criteria (probable inflow of resources and ability to reliably measure their fair value) are met. Judgement is required to determine if these criteria are met, particularly in the case of corporate and other persons taxes where limited evidence is available to the Government at the time corporate and other persons income is earned. The judgement has been made that, statistical models based on the history of tax in prior periods, taking account of current legislative and economic factors, provides sufficient evidence to enable fair value to be reliably measured at the point the taxable event occurs.

Recognition of non-exchange expenses and liabilities

Expenses (and related liabilities) are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Judgement is required in assessing each of these conditions, and therefore reporting if an expense and a present obligation should be reported.

Governments pursue a considerable number of policy targets and outcomes. However the commitment to these targets and outcomes, generally, do not of themselves constitute a present obligation 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.

As a consequence, liabilities are not reported for costs associated with the Government's policy objectives and targets because such 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.

Policy choices by Government contribute to targets and outcomes. Where a policy choice gives rise to an obligation that exists independently of a government's future actions, expenses (and related liabilities) are recognised for that policy. The recognition point is when there is a present obligation and it is probable there will be an outflow of resources in settling the obligation and the amount can be reliably measured.

Purpose and nature of financial instruments

Judgement is required in determining whether financial assets (including investments in securities and advances) and financial liabilities are held for trading or are managed on a fair value basis, or to provide a return (or be settled) through interest and principal transactions. Depending on that judgement, financial instruments will be reported at fair value or on an amortised cost basis. Note 28 provides further information on the application and consequences of this judgement.

Climate change obligations

New Zealand's current Nationally Determined Contribution (NDC) to deliver on the goals of the Paris Agreement sets a headline target of a 50 per cent reduction of net emissions below our gross 2005 level by 2030. 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 2023. 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 which 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, any costs will be reported in the future as they are incurred.

Note 4: Sovereign Revenue

2023 Forecast at		Taxation Revenue (accrual)	Actual	
Budget 2022 \$m	Budget 2023 \$m		30 June 2023 \$m	30 June 2022 \$m
Individuals				
45,022	47,055	Source deductions	47,386	42,448
11,265	10,980	Other persons	9,904	11,120
(2,001)	(1,853)	Refunds	(2,182)	(1,739)
657	732	Fringe benefit tax	769	684
54,943	56,914	Total individuals	55,877	52,513
Corporate Tax				
21,062	20,536	Gross companies tax	18,327	20,010
(410)	(731)	Refunds	(970)	(630)
571	576	Non-resident withholding tax	621	516
21,223	20,381	Total corporate tax	17,978	19,896
Other Direct Income Tax				
1,354	1,659	Resident withholding tax on interest revenue	2,092	842
980	1,110	Resident withholding tax on dividend revenue	1,127	1,108
2,334	2,769	Total other direct income tax	3,219	1,950
78,500	80,064	Total direct income tax	77,074	74,359
Indirect Income Tax Revenue				
Goods and Services Tax				
47,286	47,473	Gross goods and services tax	47,185	43,044
(17,904)	(19,343)	Refunds	(19,055)	(16,920)
29,382	28,130	Total goods and services tax	28,130	26,124
Other Indirect Taxation				
1,874	1,359	Road and track user charges	1,414	1,840
896	789	Alcohol excise – domestic production	785	738
1,890	1,274	Petroleum fuels excise ¹	1,326	1,749
504	505	Alcohol excise – imports ¹	505	503
1,705	1,722	Tobacco excise – imports ¹	1,666	1,866
203	181	Other customs duty	187	178
233	253	Gaming duties	255	189
234	235	Motor vehicle fees	236	234
65	91	Approved issuer levy and cheque duty	111	67
23	23	Energy resources levies	23	26
7,627	6,432	Total other indirect taxation	6,508	7,390
37,009	34,562	Total indirect taxation	34,638	33,514
115,509	114,626	Total taxation revenue	111,712	107,873
Other Sovereign Revenue				
3,598	3,819	ACC levies	3,855	3,461
3,190	2,538	Emission trading revenue	1,582	3,006
637	660	Fire and emergency levies	673	638
597	603	EQC levies	612	528
132	186	Clean vehicle discount	170	25
217	244	Child support and working for families penalties	371	287
115	115	Court fines	120	100
811	921	Other miscellaneous items	1,024	849
9,297	9,086	Total other sovereign revenue	8,407	8,894
124,806	123,712	Total sovereign revenue	120,119	116,767

¹ Includes customs excise-equivalent duty from both domestic production and imports.

Note 5: Sales of Goods and Services

2023 Forecast at			Actual	
Budget	Budget		30 June	30 June
2022	2023		2023	2022
\$m	\$m		\$m	\$m
11,330	11,707	Sales of goods	11,219	11,105
8,111	10,889	Provision of services	10,735	6,337
19,441	22,596	Total sales of goods and services	21,954	17,442

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received or receivable.

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative pattern of recognition better represents the stage of completion of the transaction.

Note 6: Investment and Finance Income/(Expense)

2023 Forecast at			Actual	
Budget	Budget		30 June	30 June
2022	2023		2023	2022
\$m	\$m		\$m	\$m
		Interest Revenue		
1,369	2,063	Financial assets classified as amortised cost	3,003	1,123
925	1,360	Financial assets classified as fair value through the Operating balance	1,322	766
535	687	Concessionary loans (interest unwind) ¹	687	403
2,829	4,110	Total interest revenue	5,012	2,292
		Interest Expense		
4,920	6,681	Financial liabilities classified as amortised cost	6,830	3,190
50	138	Financial liabilities classified as fair value through the Operating balance	192	61
263	417	Interest unwind on provisions and other interest	426	98
5,233	7,236	Total interest expenses	7,448	3,349
(2,404)	(3,126)	Net interest income/(expense)	(2,436)	(1,057)
		Gains and Losses on Financial Instruments		
-	-	Foreign exchange gains on financial assets and liabilities measured at amortised cost	357	494
(2)	(213)	Foreign exchange losses on financial assets and liabilities measured at amortised cost	(195)	(860)
(34)	353	Gains/(losses) on disposal of financial assets and liabilities measured at amortised cost	(84)	37
4,089	3,145	Change in fair value of financial assets and liabilities classified as fair value through the Operating balance	5,647	(2,896)
37	462	Change in fair value of student loans classified as fair value through the Operating balance	501	(1,113)
4,090	3,747	Net gains/(losses) on financial assets and liabilities	6,226	(4,338)
804	2,141	Net gains/(losses) on derivatives	1,485	(5,349)
4,894	5,888	Net gains/(losses) on financial instruments	7,711	(9,687)
		Other investment income/(expense)		
1,176	1,139	Dividend income (refer to note 7)	1,343	1,248
1,176	1,139	Total other investment income/(expense)	1,343	1,248
3,666	3,901	Total investment and finance income/(expense)	6,618	(9,496)

¹ Concessionary loans are advanced at below market rates, as such they are discounted to reflect their fair value. The interest unwind reflects the increase in value as the period to repayment reduces (Note 16). The interest unwind recognised for 30 June 2023 largely reflects lending relating to student loans and the small business cashflow loan scheme.

Note 6: Investment and Finance Income/(Expense) (continued)

Interest revenue and expense on financial assets and financial liabilities classified at amortised cost is accrued using the effective interest method. The effective interest rate discounts estimated future cash receipts/payments through the expected life of the financial instrument's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue or expense each period. This means interest is allocated at a constant rate of return over the expected life of the financial instrument based on the estimated cash flows.

Interest revenue on financial assets classified as fair value through the operating balance is recognised as it accrues.

The interest unwind on concessionary loans reflects the increase in value of the loans as the period to repayment reduces. Concessionary loans are classified as fair value through the operating balance and the interest unwind is calculated using the market discount rate at the beginning of the year.

Gains and losses on financial instruments are reported in the Statement of Financial Performance where financial instruments are revalued in accordance with the accounting policies of these financial statements.

Note 7: Other Revenue

2023 Forecast at			Actual	
Budget 2022 \$m	Budget 2023 \$m		30 June 2023 \$m	30 June 2022 \$m
1,176	1,139	Dividends	1,343	1,248
677	641	Donations	716	743
726	778	Rental revenue	775	717
2	11	EQC insurance claim on reinsurers	45	19
254	256	Sale of royalties	284	267
2,243	2,313	Other revenue	2,763	2,132
5,078	5,138	Total other revenue	5,926	5,126

Rental revenue is recognised in the Statement of Financial Performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental revenue.

Dividend revenue from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

Fiscal Indicator Analysis – Expenses by Functional Classification

for the year ended 30 June 2023

Below is an analysis of total Crown expenses by functional classification. Losses are excluded from the presentation of expenses as they are not functionally classified for reporting purposes.

2023 Forecast at		Actual	
Budget 2022 \$m	Budget 2023 \$m	30 June 2023 \$m	30 June 2022 \$m
Total Crown expenses			
50,226	49,264	48,845	48,303
25,493	29,389	29,824	27,658
19,518	20,013	19,609	18,911
12,598	13,230	12,384	16,673
12,568	15,271	14,428	9,528
6,403	6,780	6,666	5,921
6,180	6,537	6,663	5,426
3,414	3,474	3,417	3,260
5,318	5,014	4,396	3,935
2,906	2,956	2,838	2,803
3,033	3,182	2,353	2,535
2,493	3,084	2,740	2,302
78	77	78	110
163	117	133	242
5,233	7,236	7,448	3,349
4,904	-	-	-
(2,000)	(3,700)	-	-
158,528	161,924	161,822	150,956

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZ Superannuation Fund (NZS Fund) and the Reserve Bank, but not Crown entities and SOEs.

2023 Forecast at		Actual	
Budget 2022 \$m	Budget 2023 \$m	30 June 2023 \$m	30 June 2022 \$m
Core Crown expenses			
41,552	41,808	41,514	42,860
26,579	29,527	28,489	27,781
18,587	18,850	18,403	18,023
4,254	3,962	3,690	8,078
4,754	6,196	5,472	4,657
5,966	6,252	6,165	5,444
6,110	6,626	6,806	5,720
1,533	1,678	1,537	1,468
3,076	2,913	2,312	2,033
2,924	2,984	2,886	2,832
3,118	3,182	2,381	2,549
1,159	1,463	1,156	949
61	59	61	94
163	117	133	269
4,311	6,278	6,569	2,884
4,904	-	-	-
(2,000)	(3,700)	-	-
127,051	128,195	127,574	125,641