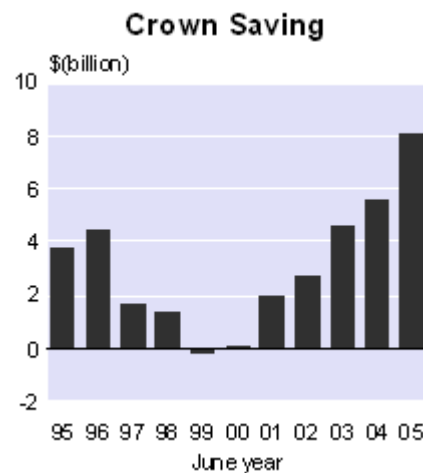


Embargoed until 10:45 AM - Wednesday, November 16, 2005

Crown Accounts Analysis: Year ended 30 June 2005

Highlights

- **Crown saving, the surplus of current income over current expenditure, increased by 42.6 percent, to \$8,099 million, in the June 2005 year.**
- **Total current income increased by 10.1 percent to reach \$51,424 million.**
- **A \$3,549 million increase in income taxation and a \$444 million increase in GST revenue were the greatest contributors to the rise in income.**
- **The cost of providing Crown services rose by 5.6 percent, to reach \$43,325 million**



Brian Pink
Government Statistician

16 November 2005
Cat 54.001 Set 05/06 – 079

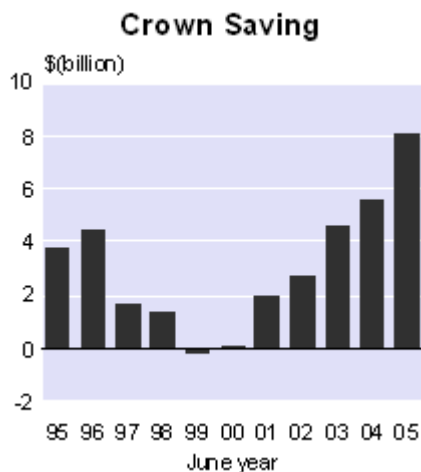
Commentary

Introduction

This release of the Crown Accounts Analysis is for the period 1991–2005 inclusive. It is both the first release of the provisional June 2005 data for the Crown, and a re-release of the previously published Crown Accounts Analysis 1991–2004. The analysis of the Crown accounts records the financial transactions of the Government with all other economic sectors, such as private enterprise, households, local government, state-owned enterprises (SOEs) and the rest of the world. The coverage corresponds to the core Crown activities reported in the Financial Statements of the Government of New Zealand (Parliamentary Paper B.11), specifically in relation to ministers of the Crown, and departments and offices of Parliament. State-owned enterprises and other Crown entities are excluded, although any transactions between these bodies and the core Crown will be included. The accounting information is presented in a New Zealand System of National Accounts (NZSNA) format. The analysis therefore provides an alternative statement of the major revenue and expenditure items, and results in key economic variables and balances (such as saving) which are consistent with those found in the national accounts.

Current account surplus (Crown saving)

The Crown recorded a surplus in the current account during the June 2005 financial year. The \$8,099 million surplus, or saving, was \$2,419 million higher than the result for the June 2004 year, when a surplus of \$5,680 million was recorded. The increase in saving was the result of a 10.1 percent rise in current income (to \$51,424 million) exceeding a 5.6 percent rise in current expenditure (to \$43,325 million).

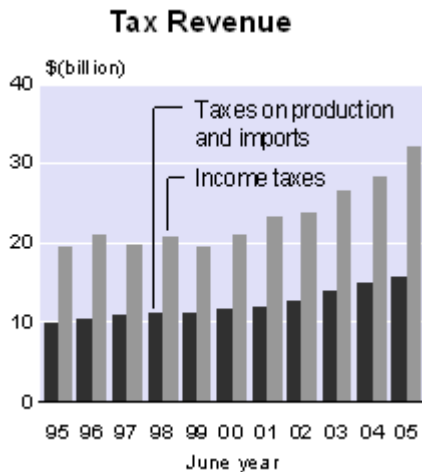


Revenue from taxation

There was a 9.8 percent increase in taxation revenue in the June 2005 year (up \$4,273 million to \$47,755 million).

Income taxation increased by \$3,549 million (12.4 percent) in the June 2005 financial year to reach \$32,067 million. Company tax increased \$1,599 million and taxes on individuals' income increased by \$1,476 million. Withholding tax increased by \$474 million. The increase in taxation revenue reflected the growth in the economy over the year (gross domestic product in constant prices grew by 3.1 percent in the year to June 2005), and employment and wage growth.

Total taxes on production and imports increased by 4.8 percent to reach \$15,688 million for the year ended June 2005. The greatest contribution to the increase came from a \$444 million (4.3 percent) increase in GST. The increase in revenue was driven by relatively strong economic growth during the year resulting from increased consumer spending and new housing construction.



Other revenue

There was a \$365 million increase in total property income for the year ended June 2005. Dividend income paid to the Government by both Crown Research Institutes and SOEs increased by \$182 million, interest received increased by \$137 million, and rent on natural assets increased by \$46 million.

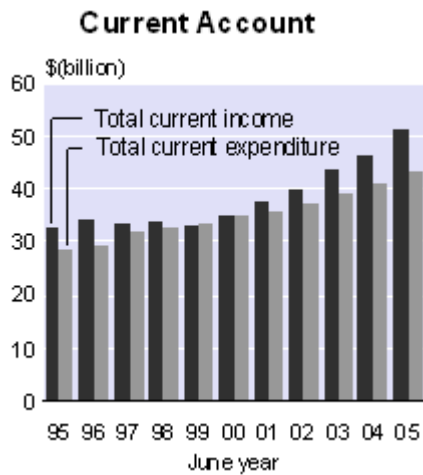
Current expenditure

Current expenditure rose from \$41,016 million in the June 2004 year to \$43,325 million in the June 2005 year, an increase of \$2,309 million (5.6 percent).

Current transfers accounted for much of the increase, with current transfers to other government entities, such as health and educational institutions, increasing by \$933 million (7.4 percent) to reach \$13,533 million.

Social assistance benefits paid in cash increased by \$96 million (0.7 percent) in the year to June 2005. Increases in payments to superannuitants (up \$192 million) and to recipients of the invalids benefit and disability allowance (up \$113 million) were partly offset by a \$256 million decrease in payments of unemployment benefit due to falling unemployment. Social assistance benefits in kind increased by \$370 million in the June 2005 year, largely as a result of increased health payments.

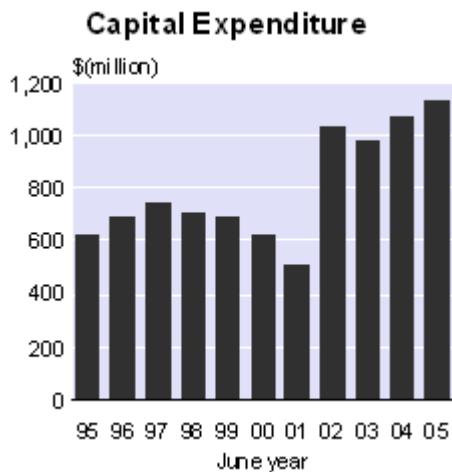
Interest paid on domestic and foreign debt was \$2,586 million in the June 2005 year, up 1.7 percent from the \$2,544 million recorded a year earlier.



Capital account

With revenue exceeding both current and capital expenditure, the Crown recorded a rise in net lending. Net lending increased from \$5,300 million in the June 2004 year to \$7,721 million in the June 2005 year, an increase of \$2,421 million. This follows a \$966 million increase from the June 2003 year to the June 2004 year.

Gross fixed capital formation was \$1,062 million in the June 2005 year, \$105 million higher than in the previous year. In 2005 there was major capital expenditure on corrections facilities.



Reconciliation

In Table 7, the Crown Account Analysis (CAA) saving figure of \$8,099 million is reconciled to the operating balance of \$6,247 million, as shown in the "Financial Statements of the Government of New Zealand" – the latter being presented according to generally accepted accounting practice (GAAP). The major reason for the difference lies in the treatment of the unfunded liability of the Government Superannuation Fund, debt provisions and write-offs, and asset/liability revaluations. In the Crown's accounts these items are recorded as expenses and included in the operating balance. In the CAA these items are either excluded or they are not considered current expenses.

Treatment of computer software

On 17 November 2005, the National Accounts: Year ended March 2005 figures will be released. They will include revisions relating specifically to the treatment of computer software in the System of National Accounts (SNA93). These revisions have not yet been incorporated into this release.

Revisions

Ongoing work on the above reconciliation has resulted in a number of reclassifications and corrections to previously published series.

For technical information contact:

Greg Hughes

Christchurch 03 964 8700

Email: national.accounts@stats.govt.nz

Technical notes

The Crown Accounts Analysis records the financial transactions of the Government with those of all other economic sectors, such as private enterprise, households, local government, state-owned enterprises (SOEs) and the rest of the world. The coverage corresponds to the core Crown activities reported in the Financial Statements of the Government of New Zealand (Parliamentary Paper B.11), specifically in relation to ministers of the Crown and departments and offices of Parliament. The data is presented in a New Zealand System of National Accounts (NZSNA) format. The analysis therefore provides an alternative statement of the major revenue and expenditure items.

The definitions and classifications used in the analysis are consistent across time, and therefore key aggregates, such as government savings and net borrowing, are consistent year-on-year. These definitions and classifications are compatible with those used in other macroeconomic series, such as the national accounts and the balance of payments, and conform to the international standards on which these series are based.

It should be noted that although the series provides a valuable analysis tool, it does not yet provide a comprehensive picture of government activity. Still to be developed are detailed financial transactions tables, a government balance sheet and the expression of some expenditure flows in constant prices.

On 17 March 2005, the National Accounts: Year ended March 2005 figures will be released. They will include revisions relating specifically to the treatment of computer software in the System of National Accounts (SNA). These revisions have not been incorporated into this release.

Data for the period 1991 to 2005

The data for the period 1991 to 2005 is available from INFOS or on request.

Coverage of the analysis

The statistics contained in this release relate to fiscal (June) years. This is consistent with the balance date of the Government's financial statements.

The analysis reflects the change in the Government's accounting conventions. From 1992, departmental income and expenditure was recorded on an accrual basis, with the Crown transactions (receipts and payments) continuing to be recorded on a cash basis. From 1995, all transactions were reported on an accrual basis. In compiling the accounts, no adjustments have been made to convert all the transactions to a consistent cash (or accrual) basis. The transactions included in these accounts are therefore both cash and accrual.

The analysis of the Crown accounts covers:

- a. Ministers of the Crown
- b. Departments
- c. Offices of Parliament.

The institutions not fully reported in this analysis are:

- a. State-owned enterprises, such as New Zealand Post Ltd
- b. Crown entities that are either dependent on funding from Parliament, such as the Law Commission, or self-funded organisations, such as the Earthquake Commission
- c. The Reserve Bank of New Zealand.

However, funding grants to Crown entities, and flows of funds between the core Crown and these other types of organisations, are included.

In terms of the New Zealand Institutional Sector Classification 1996 (NZISC), the Crown Account Analysis (CAA) covers the core government units classified to institutional sector 3.11.

Classification of transactions

One of the main purposes of this analysis is to enable an examination of the effects of government activity on the economy. Transactions are classified by economic type. This groups the payments and receipts according to the type of transaction involved, whether they are current or capital and, if current, whether they relate to transactions in goods and services or to transfers. For convenience, a number of these are further analysed by the sector of the economic unit associated with the transaction, for example current transfers to households.

Description of the tables

The layout of these tables closely follows that recommended in the System of National Accounts 1993 (SNA1993), although some item descriptions differ in order to match as closely as possible the terminology used in the Government's own accounts.

Table 1: Current Account – Records all current transactions other than those relating to the production of goods and services by market units of government departments (see Table 3). Saving is the residual item in the account.

Table 2: Capital Finance Account – Records the accumulation of all capital items, and how these are financed after net capital transfers have been accounted for. Net borrowing/lending is the residual of the capital finance account. If accumulation is greater than the funds available for its financing, then the balance must be 'borrowed'. Conversely, if funds available to finance capital accumulation are greater than the amount spent on accumulation, then the balance will be available for 'lending'. The composition of net borrowing/lending, that is the net acquisition of financial assets and financial liabilities, is not shown in this account.

A number of major transactions that do not involve an actual cash payment are included, such as debt write-offs of earlier years. These are classified as capital transfers and are included in the capital account.

Transactions relating to major projects and producer boards' refinancing are included, as are transactions relating to other debt restructuring. Not included are miscellaneous financing transactions relating to the establishment of state-owned enterprises and their subsequent sale.

These are classified as transactions in financial assets and liabilities and do not affect either savings or net borrowing.

Table 3: Production Account – Market Units – Summarises the trading accounts for those departments with units involved in the production of goods and services for sale. The residual in the account is operating surplus. Operating surplus also appears in Table 1 as a source of finance.

Table 4: Taxation Revenue – Shows taxation revenue by type of tax collected.

Table 5: Social Assistance Benefits Paid in Cash and in Kind – Shows social assistance grants paid to households, by type of benefit.

Table 6: Reconciliation of SNA Saving and the Crown Operating Balance– Records the groups of transactions required to match SNA saving with the Crown's operating balance. The financial statements of the Crown are prepared according to generally accepted accounting practice (GAAP). The CAA presents the financial transactions of the Crown within the framework of NZSNA. This table shows the reconciliation of the NZSNA savings figure to the Crown's operating balance.

Income and expense transactions are generally treated in a similar manner by NZSNA and GAAP. However, whereas the NZSNA is a framework designed to facilitate macroeconomic analysis and is required to record consistent entries for all institutions across the economy, the Crown's financial statements are designed for general purpose financial reporting of the Crown reporting entities. The different objectives of the two systems lead to some variation in the treatment of certain items. This differing treatment relates predominantly to the definitions of revenues and expenses under the two frameworks. Some of the major differences are described in the table below.

Explanation of Main Differences between GAAP and NZSNA Reporting

Issue	GAAP Treatment	NZSNA Treatment
Asset/liability Revaluation	Treated as part of Operatine Expenses.	Treated as revaluations and therefore removed from expenses.
Gains/losses on asset sale	Treated as Part of operating revenues/expenses.	Treated as revaluations and therefore removed from revenues/expenses.
Debt Provisions and write off	Treated as part of operating expenses.	Act of creating provisions is not considered an economic event and is therefore not considered an expense.
Additions to military equipment less depreciation	Treated as capital expenditure and appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense, and do not appear as an asset on the balance sheet. No depreciation is recorded in the operating statement.

Definitions

Current expenditure

Intermediate consumption: Value of goods and services used in producing government output. Included are costs associated with rent, power and other office overheads. In addition, some

output of market units is imputed to be 'purchased' by the non-market parent. The income from sales on the market does not necessarily cover their costs of production, and this deficit is treated as 'other expenses'.

Consumption of fixed capital: Depreciation as recorded by the Crown has been used as a proxy for consumption of fixed capital. This is not equivalent to consumption of fixed capital as recorded in the national accounts.

Compensation of employees: Payments of salaries and wages, both in cash and in kind. The latter refers to the value of fringe benefits in goods and services given to employees as payment for labour. Levies paid to the Accident Compensation Corporation by employers on behalf of employees, and government payments to superannuation funds on behalf of government employees, are re-routed as compensation of employees.

Taxes on production: These are taxes assessed on departments in respect of their roles as producers of government services. They include the value of withholding tax levied on superannuation payments made by employers on the employees' behalf, fringe benefit taxes paid for compensation in kind to employees, and local authority rates.

Sales revenue: Sum of sales of goods and services by the non-market units, plus imputed sales to employees for goods and services, such as fringe benefits.

Social assistance benefits in kind: The purchase of goods by government for the direct benefit of households. They include payments made in the health sector, eg payments of pharmaceutical benefits and the general medical services benefit. Also included are the government grants paid to private hospitals on behalf of individual patients and current transfers to schools outside the State system, which receive grants on a per capita basis.

Final Consumption Expenditure (FCE): Value of goods and services provided by government for current consumption by the community. FCE is valued as the net cost of providing government services plus social assistance benefits in kind. The net cost of providing government services is valued as the sum of costs, less the value of any sales of goods and services or own account capital formation.

Interest: Largely consists of debt servicing, but also includes other interest payments, such as interest paid as part of major project refinancing, discounts and premiums on finance raised. Interest payments are further split into those paid in New Zealand dollars and those paid in foreign currencies. Where it is not clear, it has been assumed payments are made in New Zealand dollars.

Subsidies: Subsidies are current unrequited payments that government makes to private and public enterprises. These payments ensure a guaranteed price, or enable market prices of goods and services to be held below the costs of production. Subsidies are not payable to final consumers, and monetary benefits paid to households are treated as social assistance benefit in cash. Subsidies also do not include grants that government may make to enterprises in order to finance their capital formation, or compensate them for damage to their capital assets. These grants are treated as capital transfers.

Current transfers: Unrequited transfers of income which add to the current income of recipients for such purposes as consumption expenditure. Current transfers paid have been grouped according to the institutional sector of the recipient.

Social assistance benefits in cash: Cash paid to individuals and households. This includes the unemployment benefit, domestic purposes benefit, New Zealand Superannuation, and disability allowances.

Current transfers – other government: Current transfers between the different subsectors of general government. They include current transfers between different levels of government, such as between central and local government. Major components in this category are funding for district health boards, education, and Transit New Zealand. Current transfers to other government functions do not include transfers of funds committed to finance gross fixed capital formation. Such transfers are treated as capital transfers.

Current transfers – other New Zealand residents: Transfers to private non-profit (PNP) organisations.

Current transfers – rest of world: Current transfers between governments of different countries or between the Government and international organisations. It includes items such as contributions to meeting the operating cost of international organisations, relief contributions and overseas aid.

Saving: Residual item in the current account. It may be positive or negative, depending on whether current income exceeds current expenditure, or vice versa.

Current income

Operating surplus: This originates from the Crown's market units that are classified within the scope of sector 3.11 (NZISC). It equates to the residual item in the production account of these market-oriented government units and is a measure of the surplus accruing from the production process. It is equal to their output less the sum of intermediate consumption, compensation of employees, consumption of fixed capital and taxes on production net of subsidies.

Interest: Interest received on marketable securities and advances. Receipts of interest are recorded gross when possible. It may differ, therefore, from that recorded in the Government's financial statements when, in some cases, interest expense has been netted off receipts.

Dividends and profits: Profits and dividends received by the Crown, including payments from SOEs.

Rent on natural assets: This includes rent on land and royalties that the Government receives for extraction of natural assets, such as coal, iron sands and minerals. Rental income from leasing buildings is included in sales revenue.

Taxes on production and imports – GST, net: Value of Goods and Services Tax (GST), net of amounts paid via annual appropriations.

Taxes on production and imports – other: Taxes on goods and services paid by producers in respect of the production, sale, purchase and use of goods, and which the producers treat as an

expense of production. The main taxes included are customs and excise duties. Other taxes on production and imports include fringe benefit tax, taxes on gambling and various regulatory charges and fees, such as road user charges.

Income taxes: Income tax paid (net of refunds) by individuals and companies. No allowance is made for taxes due but not paid.

Current transfers and other current taxes: These include voluntary and compulsory transfers, fees, fines and levies. Included are receipts, such as pensions received by the New Zealand Government from other countries for disbursement to ex-residents of those countries, and motor vehicle registration fees.

Social contributions: This is the contra entry to the notional Government Superannuation Fund contributions made by departments on behalf of employees. This payment is also included in compensation of employees.

Capital expenditure

Gross Fixed Capital Formation (GFCF): Expenditure by departments on new or existing fixed assets (net of sales). Fixed assets consist of tangible or intangible assets that have come into existence as outputs from processes of production, and are themselves used repeatedly or continuously in other processes of production. It includes capital expenditure on New Zealand embassies overseas, which are considered New Zealand territory. It is possible for the gross fixed capital formation to be negative if the value of assets sold or transferred exceeds purchases.

Changes in inventories: Represents the change in levels of inventory, from the stock held at the start of the period to the stock held at the end of the period, using GAAP valuations. No 'inventory valuation adjustment' is made to align with the valuation used in the NZSNA.

Net purchases of land: Represents a transfer of an asset, not the creation of an asset, and as such is identified separately from GFCF.

Investment grants: Investment grants consist of capital transfers in cash or in kind made by governments to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets. These grants are often tied to specific investment projects, such as new hospitals, or community irrigation schemes.

Capital transfers: Unrequited payments which would be regarded by the recipient as being of a capital nature, that is those payments that would normally be intended to alter the net worth of the enterprise. Included are debt restructuring transfers, Treaty of Waitangi claims and large compensation payments.

Financing of capital expenditure

Capital transfers: Unrequited capital receipts.

Net borrowing/lending: The residual of the capital account. If accumulation is greater than the funds available for its financing, then the balance must be 'borrowed'. Conversely, if funds available to finance capital accumulation are greater than the amount spent on accumulation, then the balance will be available for 'lending'. Lending and borrowing have wider meanings than in

normal usage. Lending can take the form of increasing cash balances (reserves); borrowing can take the form of decreasing such reserves.

Imputations and re-routings

Most of the transactions recorded in the accounts are taken directly and unaltered from the key sources. However, a small number of imputations (estimating a monetary value for a non-monetary transaction) and re-routing of transactions have been made. This is done to more fully reflect their economic impact. For example:

Imputed sales: Output not sold by government market units is 'purchased' by a non-market parent enterprise (thus increasing the sales of the market units and other expenses and FCE of the non-market enterprise).

Data sources

There are three main data sources used in this analysis:

1. **Central Government Enterprise Survey (CGES)** – The survey results are reconciled to the audited accounts of the government departments. This was the main data source from June 1991 to June 1996.
2. **Crown Financial Information System (CFIS)** – Since September 1996, Statistics New Zealand has received data from The Treasury's CFIS. This is reconciled to the audited accounts of the government departments.
3. **Parliamentary Papers** – Financial statements of the Government of New Zealand contain all the information collected via the main departmental sources, as well as including other transactions that are attributed directly to the Crown.

With recent financial management reforms, most Crown transactions fall within departmental votes or are recorded as payments and receipts on behalf of the Crown, both of which were captured by the CGES and, currently, CFIS. As a result, Parliamentary Paper B.11 is no longer a major primary data source. However, it is essential, as are the Budget tables and departmental accounts, for monitoring the accuracy of the CGES and CFIS data, which are reconciled with the figures contained in the audited accounts.

The SNA1993 is a further source of information in preparing this publication:

Commission of the European Communities, IMF, OECD, United Nations, World Bank (1993). System of National Accounts 1993, Brussels/Luxembourg, New York, Paris, Washington DC.

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More information

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Next release ...

Statistics New Zealand, in conjunction with The Treasury, is developing an improved range of government finance statistics which will encompass this release. Government Finance Statistics: Year ended June 2006 will be released in November 2006.

Tables

The following tables can be downloaded from the Statistics New Zealand website in Excel 97 format. If you do not have access to Excel 97 or higher, you may use the [*Excel file viewer*](#) to view, print and export the contents of the file.

List of tables

1 Current account

2 Capital finance account

3 Production account - market units

4 Taxation revenue

5 Social assistance benefits paid in cash and in kind

6 Reconciliation of SNA savings and the Crown operating balance

Appendix 1 Government enterprises