
Specific Fiscal Risks

Introduction

This chapter describes the specific fiscal risks of the Crown, including contingent liabilities and other specific fiscal risks. The risks are disclosed as either quantifiable or unquantifiable, depending on their characteristics. Only contingent liabilities and other specific fiscal risks involving amounts of \$10 million or more in any one year are separately disclosed. Contingent liabilities below \$10 million are included in the “other quantifiable contingent liabilities” total. Comparatives have been adjusted where appropriate to align with the disclosure of new “material” contingent liabilities. The total amount of contingent liabilities remains unchanged.

Contingent liabilities

Contingent liabilities are costs which the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability were realised it would have a negative impact on the operating balance, net Crown debt and net worth. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to net Crown debt.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Contingent liabilities have been stated as at 31 March 2001, being the last set of published contingent liabilities.

Quantifiable Contingent Liabilities Table

Guarantees and indemnities	Status²⁰	(\$ million)
Cook Islands – Asian Development Bank loans	Changed	25
Huntly East mine subsidence	Unchanged	34
Indemnification of receivers and managers – Terralink Limited	New	10
Post Office Bank – guaranteed deposits	Changed	17
Guarantees and indemnities of state-owned enterprises and Crown entities	Changed	260
Other guarantees and indemnities	Changed	15
		361
Uncalled capital		
Asian Development Bank	Changed	1,675
European Bank for Reconstruction and Development	Unchanged	14
International Bank for Reconstruction and Development	Changed	2,035
		3,724
Legal proceedings and disputes		
Agriculture and Forestry – legal claims	Unchanged	16
Education – legal claims	Unchanged	10
Health – Lake Alice claims	Unchanged	132
Māori Development – Māori Reserved Land	Unchanged	94
New Zealand Defence Force – legal claims	Unchanged	15
Police – legal claims	Changed	45
Tax in dispute	Changed	86
Treasury – legal claims	Unchanged	21
Legal claims against state-owned enterprises and Crown entities	Changed	27
Other legal claims	Changed	53
		499
Other quantifiable contingent liabilities		
Health – other contingent liabilities	Changed	91
International finance organisations	Changed	1,907
Reserve Bank – demonetised currency	Unchanged	23
Other contingent liabilities against state-owned enterprises and Crown entities	Changed	54
Other quantifiable contingent liabilities	Changed	72
		2,147
Total quantifiable contingent liabilities		6,731

²⁰ Relative to reporting in the 31 December 2000 Crown Financial Statements.

Unquantified Contingent Liabilities Table

Institutional guarantees	Status
Commerce Commission – indemnity for damages	Unchanged
District Court Judges and Justices of the Peace	Unchanged
Earthquake Commission	Unchanged
Fletcher Challenge Limited	Unchanged
Māori Trustee	Unchanged
Ministry of Fisheries – indemnity provided for delivery of registry services	New
National Provident Fund	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust Office	Unchanged
Reserve Bank of New Zealand	Unchanged
Other unquantified contingent liabilities	
Alkylammonium compound compensation	Unchanged
Bank of New Zealand	Unchanged
Contaminated sites	Unchanged
Crown research institutes	Unchanged
DFC New Zealand Limited (under statutory management)	Unchanged
District health boards	Unchanged
Electricity Corporation of New Zealand Limited	Unchanged
Housing Corporation of New Zealand	Unchanged
Housing New Zealand Limited	Unchanged
Pharmaceutical Management Agency Limited – indemnity	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Tax liabilities	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Works Civil Construction	Unchanged
Works Consultancy Services	Unchanged

Quantifiable Contingent Liabilities

Guarantees and indemnities

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the ADB. These guarantees have first call on New Zealand's Official Development Assistance to the Cook Islands.

\$25 million at 31 March 2001 (\$24 million at 31 December 2000).

Huntly East mine subsidence

For claims from private landowners concerning property damage or loss of value.

\$34 million at 31 March 2001 (\$34 million at 31 December 2000).

Indemnification of receivers and managers – Terralink Limited

The Crown has issued a Deed of Receivership indemnity to the appointed receivers of Terralink Limited.

\$10 million at 31 March 2001 (nil at 31 December 2000).

Post Office Bank (PostBank) – guaranteed deposits

In the sale of PostBank to ANZ Banking Group Limited (ANZ), the Crown agreed to continue its guarantee, under the Post Office Bank Act 1987, for certain PostBank deposits lodged with the Bank before 1 July 1988. ANZ agreed to indemnify the Crown for the cost of any liability that may arise from the Crown guarantee. The amount guaranteed will reduce as deposits mature.

\$17 million at 31 March 2001 (\$18 million at 31 December 2000).

Guarantees and indemnities of state-owned enterprises and Crown entities

\$260 million at 31 March 2001 (\$259 million at 31 December 2000).

Other guarantees and indemnities

\$15 million at 31 March 2001 (\$70 million at 31 December 2000).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled Capital at 31 March 2001 \$million	Uncalled Capital at 31 December 2000 \$million
Asian Development Bank	1,675	1,533
European Bank for Reconstruction and Development	14	14
International Bank for Reconstruction and Development	2,035	1,865

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Agriculture and Forestry – legal claims

For claims against the Ministry of Agriculture and Forestry for alleged legal or administrative faults.

\$16 million at 31 March 2001 (\$16 million at 31 December 2000).

Education – legal claims

For claims against the Crown in respect of the reduction of dental subsidies at Otago University between 1995 and 1999.

\$10 million at 31 March 2001 (\$10 million at 31 December 2000).

Health – Lake Alice claims

For claims against the Crown in respect of patients at Lake Alice Hospital in the early to mid-1970s.

\$132 million at 31 March 2001 (\$132 million at 31 December 2000).

Māori Development – Māori Reserved Land

The Māori Reserved Land Amendment Act 1997 provides for compensation to lessees for the move to market rents for land, for shorter review periods and for additional transaction costs. In addition, Schedule 5 to the Act recognises that Māori have not been obtaining fair market rents for their land and that this issue will be dealt with by the Government as part of its consideration of historical grievances.

\$94 million at 31 March 2001 (\$94 million at 31 December 2000).

New Zealand Defence Force – legal claims

Claims against the New Zealand Defence Force for alleged legal or administrative faults.

\$15 million at 31 March 2001 (\$15 million at 31 December 2000).

Police – legal claims

Claims against the Police for alleged legal or administrative faults.

\$45 million at 31 March 2001 (\$39 million at 31 December 2000).

Tax in dispute

Represents 50% of the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding.

\$86 million at 31 March 2001 (\$92 million at 31 December 2000).

Treasury – legal claim

A claim against the Crown relating to a dispute involving the supply of gas in 1987/88.
\$21 million at 31 March 2001 (\$21 million at 31 December 2000).

Legal claims against state-owned enterprises and Crown entities

\$27 million at 31 March 2001 (\$29 million at 31 December 2000).

Other legal claims

\$53 million at 31 March 2001 (\$57 million at 31 December 2000).

Other quantifiable contingent liabilities*Health – other contingent liabilities*

For claims against the Crown in respect of people allegedly contracting Hepatitis C through contaminated blood and blood products, unlawful detention, hospital treatment claims and other personal injury claims.

\$91 million at 31 March 2001 (\$99 million at 31 December 2000).

International finance organisations

The Crown has lodged promissory notes with the following international finance organisations:

	31 March 2001 \$million	31 December 2000 \$million
Asian Development Bank	11	11
International Monetary Fund	1,896	2,060

Payment of the notes depends upon the operation of the rules of the individual organisations.

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised \$1 and \$2 notes issued which have yet to be repatriated.

\$23 million at 31 March 2001 (\$23 million at 31 December 2000).

Other contingent liabilities against state-owned enterprises and Crown entities

\$54 million at 31 March 2001 (\$56 million at 31 December 2000).

Other quantifiable contingent liabilities

\$72 million at 31 March 2001 (\$53 million at 31 December 2000).

Unquantified Contingent Liabilities

This part of the statement provides details of those contingent liabilities of the Crown which cannot be quantified.

Institutional guarantees

The following institutional guarantees have been provided through legislation.

Commerce Commission – indemnity for damages

The Crown has granted the Commerce Commission an indemnity, under section 59 of the Public Finance Act 1989, to give undertakings as to damages when seeking interim injunctions up to a maximum liability of \$40 million per case.

District Court Judges and Justices of the Peace

Section 119 of the District Courts Act 1947 indemnifies District Court Judges acting in their civil jurisdiction. Section 196A of the Summary Proceedings Act 1957 also indemnifies District Court Judges for any liabilities arising as a result of an act done by a Judge in excess of, or without, jurisdiction. Under section 197 of the Summary Proceedings Act 1957, Justices of the Peace are similarly indemnified as long as a High Court Judge certifies that they have acted in good faith and ought to be excused.

Earthquake Commission

The Crown is liable to meet any deficiency in the Earthquake Commission's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993).

Fletcher Challenge Limited (FCL)

Under the sale and purchase agreement for the sale of Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the cost of cleaning up on-site environmental contamination incurred up to settlement date (27 September 1996). The Crown is to pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020. The Crown has also indemnified FCL in respect of off-site environmental costs and losses incurred up until settlement date. The off-site indemnity is unlimited as to amount and time.

Māori Trustee

The Crown is liable to meet any deficiency in the Māori Trustee's Common Fund (section 27(1) of the Māori Trustee Act 1953).

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified the New Zealand Seafood Industry Council and Commercial Fisheries Services Limited against claims made by third parties arising from the New Zealand Seafood Industry Council and Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 1 October 2003.

National Provident Fund

The Crown guarantees the benefits payable by all National Provident Fund Board schemes (section 60 of the National Provident Fund Restructuring Act 1990). The Crown also guarantees investments and interest thereon deposited with the National Provident Fund Board prior to 1 April 1991 (section 61 of the same Act).

A provision has been made in these Financial Statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 12 of the Forecast Financial Statements).

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Public Trust Office

The Crown is liable to meet any deficiency in the Public Trust Office's Common Fund (section 36 of the Public Trust Office Act 1957).

Reserve Bank of New Zealand (the Reserve Bank)

Under section 146 of the Reserve Bank of New Zealand Act 1989, every statutory manager of a Registered Bank, every person appointed under section 99 or section 101 of the Act and every member of an advisory committee, shall be indemnified by the Crown in respect of any liability arising from the exercise, purported exercise or omission to exercise of any power conferred by Part V of the Act, unless that power has been exercised in bad faith.

The Crown pays to the Reserve Bank any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17, 18 and 21(2) of the Act.

Other unquantified contingent liabilities*Alkylammonium compound compensation*

The Crown is liable, under an agreement with Carter Holt Harvey Limited, Thames Sawmilling Limited, Dashwood Treated Timber & Post Limited and McAlpines Limited, to meet 50% of settlement of claims relating to alkylammonium compound preservation of timber. The Crown is also liable for 50% of the costs of private claimants who cannot identify the timber treater and 100% of negotiated settlements of Prolog Industries Limited.

Bank of New Zealand (BNZ)

A deed, entered into by the Crown, Fay Richwhite and Company Limited and National Australia Group Limited (the purchaser of BNZ), provides for the sharing of certain costs arising from defined risks that pre-date the sale of the BNZ. These risks are associated with New Zealand taxation and specified litigation.

Contaminated sites

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities. The *Discussion Document on Contaminated Sites Management* discusses the possibility of the Crown contributing to funding the clean-up of “orphan” contaminated sites.

Crown research institutes (CRIs)

The Crown has indemnified the CRIs for any costs arising from certain third-party claims that are the result of acts or omissions prior to the transfer date, for costs of complying with statutes, ordinances and bylaws which relate to or affect certain buildings, and (subject to certain limitations) for the costs of obtaining title to land.

DFC New Zealand Limited (under statutory management) (DFC)

DFC and the National Provident Fund have been indemnified for certain potential tax liabilities.

District health boards (DHBs)

The Crown has provided transitional indemnities to directors and officers of some DHBs, for liabilities arising from inherited assets and business practices under the Building Act 1991 and the Health and Safety in Employment Act 1992.

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, royalty or impost imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to the corporation arising from resumption of assets pursuant to the Treaty of Waitangi (State enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact Energy. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ’s successors – Meridian Energy Limited, Mighty River Power Limited, and Genesis Power Limited.

Under the Trans Power New Zealand Limited (Trans Power) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Trans Power separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ’s pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations
- any liabilities that arise out of the split itself.

Housing Corporation of New Zealand (HCNZ)

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HCNZ mortgages: ANZ Banking Group Limited, Mortgage Corporation, Countrywide Bank, TSB Bank, and Westpac Banking Corporation.

The Crown has indemnified the directors and officers of HCNZ against any liabilities in respect of the sale of mortgages to ANZ Bank and Mortgage Corporation.

Under the sale of mortgages to Westpac, HCNZ has insured the purchaser against certain credit losses with the Crown standing behind this obligation.

Legal proceedings have been initiated against a number of defendants, including the Crown, alleging breach of fiduciary duties in respect of the transfer of the Agreement for Sale and Purchase and mortgage agreements to HCNZ under the Housing Assets Transfer Act 1993.

Housing New Zealand Limited (HNZ)

The Crown has provided a warranty in respect of title to the assets transferred to HNZ and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third party claims that are as a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of the company against any liability consequent upon the assets not complying with statutory requirements, provided they are taking steps to rectify any non-compliance.

Pharmaceutical Management Agency Limited (Pharmac) – indemnity

Section 99 of the Social Security Act 1964 provided for the fixing of prices for pharmaceutical products by way of a list specified by the Minister of Health (“the Drug Tariff”). This list was superseded by a list (“the Pharmaceutical Schedule”) developed and issued by Pharmac, a company owned by the Ministry of Health and having various powers under the Health Reforms (Transitional Provisions) Act 1993.

Under the Transfer Agreement between Pharmac and the Crown, the Crown has indemnified Pharmac against any liability in respect of operations, activities, decisions and policies relating to the Drug Tariff and the Pharmaceutical Schedule.

A number of legal claims have been lodged against Pharmac. If these claims are successful, the Crown’s financial position may be adversely affected by any damages arising either directly through the indemnity, or indirectly through its ownership of Pharmac.

Purchasers of Crown operations

The Crown has indemnified the purchasers of various Crown operations for losses owing to changes in legislation which uniquely and adversely affect those purchasers.

Sale of Crown assets

On the sale of Crown assets and the corporatisation of Crown assets into state-owned enterprises and Crown entities, the Crown has generally provided a warranty that the Crown was the rightful owner of the assets transferred, and that the assets were free of encumbrances.

Tax liabilities

The Crown has granted to the purchasers of the Shipping Corporation of New Zealand Limited, Telecom Corporation of New Zealand Limited, State Insurance Office Limited, and the Rural Banking and Finance Corporation Limited an indemnity for certain potential tax liabilities.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to a state-owned enterprise or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

Settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds \$1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngai Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngai Tahu. The non-quantifiable contingent liability relates to the risk that total settlement redress, including binding recommendations from the Waitangi Tribunal, will trigger these relativity payments.

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works and Development prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

The Crown has provided an indemnity to the purchasers of Works Consultancy Services in relation to the activities of the Ministry of Works and Development prior to 1 April 1989.

Specific Fiscal Risks

Specific fiscal risks (excluding contingent liabilities) are a category of Government decisions or circumstances which may have a material impact on the fiscal position. The risks have not been included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain and/or the timing is uncertain. The risks disclosed may not eventuate into Government policy and the final cost or saving may differ from the amount disclosed if the policy is developed.

To ensure a practicable and consistent disclosure approach, risks have been reported which have an expected cost or saving of over \$10 million in any one forecast year; and either:

- reflect Government decisions or legislative commitments with uncertain fiscal consequences or timing, or
- are generally being actively considered by the Minister of Finance and Responsible Ministers, or
- are decisions which have been deferred until a later date.

The forecasts incorporate operating and capital provisions to accommodate policy initiatives on which decisions have yet to be made. Some risks outlined in this chapter, if they eventuate, would be covered by these provisions and therefore have no impact on the forecasts. These risks have been disclosed to provide an indication of the pressure the risks place upon the fiscal provisions.

There are a number of other “pressures” on the fiscal position which have not been included as risks. These “pressures” comprise proposals largely generated within individual departments and not yet considered by the Minister of Finance and Responsible Ministers. Such items are also expected to be managed within the provisions noted above.

Specific fiscal risks do not include:

- normal forecasting risks, such as uncertainty around welfare benefits, state-owned enterprise/Crown entity surpluses or finance costs
- possible changes to the interpretation of accounting policies such as the changes to revenue recognition rules and recognition of liabilities
- discussion documents containing proposals that the Minister of Finance and Responsible Ministers will not actively consider until the consultation process has been completed.

The Fiscal Responsibility Act 1994 requires that all specific fiscal risks be disclosed, except where it is determined by the Minister of Finance that disclosing a risk is likely to:

- prejudice the substantial economic interests of New Zealand, or
- prejudice the security or defence of New Zealand or international relations of the Government, or
- compromise the Crown in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Crown.

In addition, the Minister of Finance has to determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss by making a decision on the fiscal risk before the finalisation of the forecasts, or by disclosing the fiscal risk without reference to its fiscal implications.

The fiscal risks included in the Statement of Specific Fiscal Risks were finalised as at 11 May 2001.

Quantified Risks Table²¹

Risks as at 11 May 2001	Operating Balance	Net Debt	Net Worth	(\$ million)
Accident Insurance – Medical Misadventure Account	Increase	Decrease	Increase	Up to 14 in 2002/03, 14 in 2003/04 and 16 in 2004/05.
Accident Insurance – treatment cost review	Decrease	Increase	Decrease	-6 from 2001/02 and up to -11 in subsequent outyears.
Corrections – capital projects	Decrease	Increase	Decrease	-188 capital and -78 operating across the outyears.
Defence – capital injections	Decrease	Increase	Decrease	-1,000 over the next five years to ten years.
Defence – East Timor	Decrease	Increase	Decrease	-27 in 2002/03.
Economic Development – sale of spectrum licences	Increase	Decrease	Increase	14 when sale completed.
Education – Centres of Excellence	Decrease	Increase	Decrease	-20 capital.
Education – school property	Decrease	Increase	Decrease	-90 in 2001/02, -200 in 2002/03, -160 in 2003/04 and -175 in subsequent outyears for capital; and -2 in 2001/02, -11 in 2002/03, -21 in 2003/04 and -31 in 2004/05 for operating.
Inland Revenue – tax simplification	Decrease	Increase	Decrease	-5 to -20 operating.
Māori Trustee – payment of services	Decrease	N/A	Decrease	-34 one-off operating.
Transport – roading improvements	Decrease	Increase	Decrease	-250 per year.
Work and Income – review of information systems for international agreements	Decrease	Increase	Decrease	-10 to -15 one-off operating.

²¹ In the summary tables listing specific risks:

- negative numbers indicate a deterioration in the Crown's financial position
- "N/A" means no effect
- "Unclear" means insufficient information is available to determine the risk's effect.

Unquantified Risks Table

Risks as at 11 May 2001	Operating Balance	Net Debt	Net Worth
Accident Insurance – seriously injured claimants	Decrease	Increase	Decrease
Agriculture and Forestry – South Island landless Māori	Unclear	Unclear	Unclear
Conservation – asset maintenance	Decrease	Increase	Decrease
Education – collective employment contracts	Decrease	Increase	Decrease
Education – pay parity for kindergarten teachers	Decrease	Increase	Decrease
Education – review of school staffing	Decrease	Increase	Decrease
Education – school and early childhood operational funding	Decrease	Increase	Decrease
Education – school property code	Decrease	Increase	Decrease
Education – stabilisation of tertiary fees	Decrease	Increase	Decrease
Education – Tertiary Education Advisory Commission	Decrease	Increase	Decrease
Education – tertiary education institutions capital injections	N/A	Increase	N/A
Education – wananga capital injections	N/A	Increase	N/A
Environment – climate change policy	Unclear	Unclear	Unclear
Finance – purchase of Auckland rail network	Unclear	Increase	Unclear
Health – asset testing	Decrease	Increase	Decrease
Health – primary health care strategy	Decrease	Increase	Decrease
Health – Sustainable Funding Path	Decrease	Increase	Decrease
Inland Revenue – financial services and imported services reviews	Increase	Decrease	Increase
Inland Revenue – tax on superannuation funds	Decrease	Increase	Decrease
Inland Revenue – trans-Tasman triangular tax relief	Decrease	Increase	Decrease
Labour – paid parental leave	Unclear	Unclear	Unclear
Police – capital projects	Decrease	Increase	Decrease
Police – pay pressures	Decrease	Increase	Decrease
Public Trust Office – modernisation	N/A	Decrease	N/A
Rating exemption on Crown land	Decrease	Increase	Decrease
TVNZ – change of direction	Decrease	Unclear	Decrease

Risks Removed since the 2000 December *Economic and Fiscal Update*

Risk	In Forecasts	Comment
Agriculture and Forestry – southern saltmarsh mosquito	No	No longer greater than \$10 million
Agriculture and Forestry – TB vector control	Yes	Included in 2001 Budget
Child Youth and Family Services – residential services strategy	Yes	Included in 2001 Budget
Defence – operating pressures	Yes	Included in 2001 Budget
Defence – pay review	Yes	Included in 2001 Budget
Earthquake Commission – diversification	Yes	Included in 2001 Budget
Education – early childhood funding	Yes	Included in 2001 Budget
Government Superannuation Fund – change in policy	Yes	Included in 2001 Budget
Government Superannuation Fund – diversification	Yes	Included in 2001 Budget
Health – elective surgery	Yes	Included in 2001 Budget
Health – sector restructuring	Yes	Included in 2001 Budget
Health – sewage treatment subsidy scheme	No	No longer under active consideration
Housing – debt refinancing	Yes	Included in 2001 Budget
New Zealand Post Limited – expansion into banking	Yes	Included in 2001 Budget
State-owned enterprises – refinancing debt position	No	No longer under active consideration
Work and Income – Australia Social Security Agreement	Yes	Included in 2001 Budget

Quantified Fiscal Risks

Accident Insurance – Medical Misadventure Account (unchanged risk)

The Medical Misadventure Account is currently funded partly from the Earners' Account and partly by the Crown through the Non-Earners' Account. Ministers are considering a proposal to charge registered health professionals, treatment providers and organisations a premium to fund the cost of medical misadventure claims. This proposal would have a positive impact on the operating balance over the forecast period.

The proposal would reduce Crown funding to the Medical Misadventure Account and therefore the operating balance by approximately \$14 million in 2002/03 and 2003/04, and \$16 million in 2004/05.

The Treasurer/Minister of Finance has yet to fully consider the quantum of this risk.

Source: ACC

Accident Insurance – treatment cost review (changed risk)

The Department of Labour is currently undertaking a review of the system for paying accident-related treatment costs. Some of these costs are paid out of the Non-Earners' Account, which is funded by the Crown. The outcome of this review is likely to increase the cost for 2001/02 by up to \$6 million and subsequent outyears by up to \$11 million per year, which would decrease the operating balance.

Source: Department of Labour

Corrections – capital projects (changed risk)

The Department of Corrections has estimated that a total of \$188 million (\$141 million in DEFU) of capital costs and \$78 million (\$122 million in DEFU) in operating costs may be required over the forecast period for the proposed South Auckland Men's Prison as a result of higher prison musters.

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Source: Department of Corrections

Defence – capital injections (changed risk)

Implementing the Government's decisions on the future force structure of the New Zealand Defence Force will involve a series of capital acquisitions across all three armed services to achieve the required capability upgrades. The capital acquisition plan has yet to be finalised. However, it is anticipated that capital injections of around \$1 billion over the next ten years may be necessary, with the bulk of it likely to be required within the next five years. The actual amount will depend on the specification and timing of individual projects, the contracted prices, and the prevailing exchange rate at the time of purchase.

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Defence – East Timor (changed risk)

Funding was agreed in the 2001 Budget for New Zealand's contribution to the United Nations Transitional Administration of East Timor until 31 May 2002. The future contribution by the Government to the United Nations operation is dependent on the nature of New Zealand's involvement. The estimated additional cost of extending New Zealand's involvement at its current level for an additional six months is \$27 million. It is expected that the United Nations will reimburse a proportion of the in-theatre costs of the deployment. The level of reimbursement is estimated at \$19 million (based on the mission remaining "peace-making"), although the timing of the payment is unknown.

Source: New Zealand Defence Force

Economic Development – sale of spectrum licences (changed risk)

The 2GHz auction was completed in early January of 45MHz of spectrum that is suitable for third generation cellular services for approximately \$140 million. The rights for a further 15 MHz are reserved for sale to a pan-Māori trust at a discounted rate. This sale has yet to be completed and will increase the operating balance and net debt.

The sale proceeds from the trust are estimated to be \$14 million.

Source: Ministry of Economic Development

Education – Centres of Excellence (new risk)

The Government has provided operational funding in the 2001 Budget for the establishment and support of Centres of Research Excellence within the tertiary education sector. Capital injections will be required to fund these Centres and will increase net debt.

The Ministry of Education estimates \$20 million of capital injections may be required.

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Source: Ministry of Education

Education – school property (changed risk)

The Government provided \$98 million in the 2001 Budget for school accommodation. Additional capital injections for school accommodation are likely to be required late this year and in future years to meet roll growth. Capital injections are estimated to be up to \$90 million in 2001/02, \$200 million in 2002/03, \$160 million in 2003/04 and \$175 million in each subsequent outyear.

In addition to capital injections, consequential operating costs are likely to be incurred. These are estimated at \$2 million in 2001/02, \$11 million in 2002/03, \$21 million in 2003/04, and \$31 million in 2004/05.

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Source: Ministry of Education

Inland Revenue – tax simplification (new risk)

The Government is considering tax simplification measures that were outlined in the discussion document *More Time for Business* released earlier this month. The areas targeted for simplification include:

- the provisional tax rules
- aspects of PAYE and resident withholding tax (RWT) rules
- the need for end-of-year tax adjustments
- non-resident contractors' withholding tax (NRCWT) rules
- return non-filing criteria
- family assistance rules.

In addition, a number of new technology tools are being considered to assist taxpayers in complying with their tax obligations.

The adoption of these measures is likely to decrease the operating balance by between \$5 million and \$20 million per year once initial timing impacts have occurred.

Source: Inland Revenue Department

Māori Trustee – payment of services (changed risk)

The fiscal forecasts make no allowance for a doubtful debts provision for the non-payment of \$34 million (\$32 million in DEFU) owed by the Māori Trustee for services provided by Te Puni Kokiri.

Source: Te Puni Kokiri

Transport – roading improvements (new risk)

The Ministry of Transport is developing a land transport and road safety proposal which if fully implemented could cost up to \$250 million per year (between operating and capital).

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Source: Ministry of Transport

Work and Income – review of information systems for international agreements (new risk)

A strategic review of current and future information systems' requirements for administering international social security agreements is being undertaken. Should the review recommend an upgrade to the existing SWIFTT system, the likely one-off operating cost is estimated to be between \$10 million and \$15 million. If the review recommends developing a new system, a capital contribution will be required. The review team will report back by June 2001 on its recommendations.

The Minister of Finance/Treasurer has yet to fully consider the quantum of this risk.

Source: Department of Work and Income

Unquantified Fiscal Risks

Accident Insurance – seriously injured claimants (new risk)

A recent court decision has determined that the ACC practice, prior to the Accident Insurance Act 1998, of allowing for familial responsibility when determining attendant care entitlements was not legitimate. The decision is likely to apply to a number of seriously injured claimants. The impact of the court decision has yet to be quantified but will decrease the operating balance.

Agriculture and Forestry – South Island landless Māori (changed risk)

Forests granted to Māori under the South Island Landless Natives Act (SILNA) 1906 are exempt from the requirements that indigenous forests be sustainably harvested and managed, as established under the Forests Amendment Act 1993. Consequently, these forests can be clear-felled at the discretion of forest owners. The Government has determined that it wishes to extend sustainable management provisions to SILNA forests.

The Crown has continued consultations with potentially affected landowners on policy options. A settlement is expected to be reached during 2001/02. This risk is unquantified as disclosure could compromise the Crown in negotiations.

Conservation – asset maintenance (unchanged risk)

The Department of Conservation provides a range of recreation facilities including campsites, tracks and huts. Many of these facilities are rundown due in part to deferred maintenance issues. These facilities require further maintenance and possibly upgrading to meet more rigorous building standards recently introduced.

The associated operating and capital cost pressures are unclear at this stage.

Education – collective employment contracts (unchanged risk)

The primary, secondary and area school teachers' and principals' collective employment contract expired on 30 April 2001. The Crown will need to meet any fiscal impact in 2001/02 and beyond, due to the renegotiation of these contracts and any adjustments to individual employment contracts.

The risk is unquantified at this stage as disclosure could compromise the Crown in negotiations.

Education – pay parity for kindergarten teachers (new risk)

The Government has decided to establish a ministerial working group on pay parity for kindergarten teachers which will convene in July 2001. The working group will negotiate benchmarks and recommend a phased approach to the implementation of pay parity for kindergarten teachers. The impact of pay parity would be to decrease the operating balance.

Education – review of school staffing (unchanged risk)

A major review of school staffing is currently being undertaken. The review is likely to result in increased staff entitlements for primary and secondary schools.

This risk is unquantified at this stage as disclosure could compromise the Crown in negotiations.

Education – school and early childhood operational funding (unchanged risk)

The Government has previously adjusted annually the school and early childhood education operational funding to reflect inflation. This risk is unquantified. However, as an indication of cost a 1% adjustment would increase annual operational funding by around \$10 million for schools from the 2003 school year and \$4 million for early childhood from 2002/03.

Education – school property code (changed risk)

The Ministry of Education is currently developing a new intermediate school property code which will allow the property entitlement of each school to be defined explicitly. It is expected that the existing entitlements of many schools will be below the new code. Additional capital injections may be required to upgrade schools to the new code level and will increase net debt. Associated operating costs including depreciation and maintenance will decrease the operating balance.

This risk is unquantified as the implementation process of the code has yet to be considered.

Education – stabilisation of tertiary fees (changed risk)

In the 2001 Budget, additional funding was provided to offset the increasing costs faced by the tertiary education sector. This funding allowed for the stabilisation of student fees. Additional funding for the same purpose may be considered as part of the 2002 Budget process, depending on decisions taken in response to the Tertiary Education Advisory Commission's recommendations. Any additional funding would decrease the operating balance.

Education – Tertiary Education Advisory Commission (new risk)

The Tertiary Education Advisory Commission was established in April 2000 to provide advice on aspects of the tertiary education sector. It will provide three reports during 2001. The Government will be developing its response to the Commission's recommendations over the course of this year. The likely impacts will be a decrease in the operating balance and increase in net debt.

Education – tertiary education institutions capital injections (unchanged risk)

Several tertiary education institutions are facing financial pressure. They may seek assistance from the Government as they develop their plans for the future. The risk is unquantified as the amount or timing of any request for financial assistance is unclear.

Education – wananga capital injections (unchanged risk)

Ministers are currently negotiating with three wananga (Māori tertiary institutions) over settlement of their Waitangi Tribunal claim. The Waitangi Tribunal has recommended that the wananga be compensated for capital expenditure that has been incurred on facilities to date, as well as to bring their facilities up to a standard comparable with other tertiary institutions and to meet additional capital requirements over the next three years.

The fiscal risk is unquantified at this stage as the amounts of any future capital injections are not clear.

Environment – Climate Change Policy (unchanged risk)

As part of New Zealand's response to the Kyoto Protocol, Cabinet has decided on an approach to options for addressing pre-2008 greenhouse gas emissions. It has:

- agreed in principle to allow forward trading of international emission units;
- forwarded to the tax review consideration of the option of a carbon charge; and
- deferred consideration of pilot emissions trading until the tax review has been completed.

At this stage, it is unclear what impact (either positive or negative) any policies, if introduced, would have upon the forecasts.

Environment – Climate Change Policy (unchanged risk)

As part of New Zealand's response to the Kyoto Protocol, Cabinet is considering options for addressing pre-2008 greenhouse gas emissions including forward trading of international emission permits, a carbon tax, and a pilot emission-trading scheme.

At this stage, it is unclear what impact (either positive or negative) any policies, if introduced, would have upon the forecasts.

Finance – purchase of Auckland rail network (new risk)

The Government has agreed to commence negotiations with the objective of purchasing Tranz Rail's Auckland rail lease and infrastructural assets.

The risk is unquantified as disclosure could compromise the Crown in negotiations.

Health – asset testing (unchanged risk)

The Government is considering a proposal to remove asset testing on all forms of long-stay geriatric care, including public and private hospitals and rest homes. The proposal costs have yet to be finalised but will reduce the operating balance.

Health – primary health care strategy (new risk)

The Government has adopted a primary health care strategy that aims to reduce cost barriers to accessing primary health care services. Implementation details of the strategy have yet to be decided, however the strategy is expected to be partially implemented in the forecast period and will decrease the operating balance.

Health – Sustainable Funding Path (unchanged risk)

The Government has previously provided additional funding for the “Sustainable Funding Path” to maintain health services at an acceptable level. The amount of funding required from 2002/03 and outyears is unknown at this stage but is likely to decrease the operating balance.

Inland Revenue – imported services and financial services reviews (unchanged risk)

In March 1999 a discussion document entitled *GST: A Review* outlined potential longer-term changes to the Goods and Services Tax Act 1985 of taxing financial services and imported services (which include electronic commerce) and asked for comments. With the growth of imported services and financial services, revenue from GST will reflect a smaller portion of the economy over time unless the tax base is extended accordingly. The Government is considering issuing more detailed discussion documents both on imported services and on financial services, and these are likely to contain proposals that will result in amendments to the GST Act within the forecast period.

Inland Revenue – tax on superannuation funds (new risk)

Following the introduction of the Crown-funded New Zealand Superannuation Fund the Government is considering a review of the taxation laws of other superannuation and savings schemes. The details of the review have yet to be finalised and the impacts are unknown at this stage, but are likely to decrease the operating balance. Any impacts from the review would not be expected to occur prior to 2003/04.

Inland Revenue – trans-tasman triangular tax relief (unchanged risk)

Imputation credits generated by a New Zealand subsidiary company with a non-resident parent company cannot be passed on to New Zealand shareholders of the parent company. As such, New Zealand taxes residents twice on their New Zealand-sourced income. The Government is considering providing relief for this aspect of double taxation, in a trans-Tasman context only.

This risk is unquantified as no clear estimate of the impact of this proposal has been finalised.

Labour – paid parental leave (new risk)

The policy parameters for taxpayer funded paid parental leave are still being considered by Ministers. The fiscal cost is unquantified at this stage as final details of the eligibility criteria adopted, the level of payments to be made and the number of weeks for payment have yet to be made. However, the costs will decrease the operating balance. Implementation is planned for 1 April 2002.

Police – capital projects (new risk)

Police is currently developing a new strategic business plan. The plan may require significant investment in Police infrastructure. This investment may include the need for replacement or new stations, refreshment and expansion of computing and communications infrastructure and funding to allow Police to comply with its vehicle replacement policy.

Police has also identified a number of Police stations that are in poor condition and will require a significant amount of maintenance work performed to bring them up to a suitable operating standard.

The costs are unknown at this stage including the split between operating and capital costs. Any capital contributions will increase net debt and operational funding will decrease the operating balance.

Police – pay pressures (new risk)

The current Police pay award expires in December 2001. The outcome of negotiations for the 2001 wage round and impact on Baselines are unknown at this stage but are likely to decrease the operating balance.

Public Trust Office – modernisation (changed risk)

A bill currently before Parliament provides the Public Trust Office (PTO) to become a Crown entity – “Public Trust” – from 1 July 2001 and for the payment to the Crown of any of the PTO’s reserves. The amount of such a distribution will be determined by the Minister of Finance with the agreement of the Minister in charge of the PTO. Any withdrawal of surplus reserves would reduce net debt.

Rating exemption on Crown land (new risk)

An investigation into rates exemptions on Crown-owned land is being conducted as part of the review of local government funding powers. The Government’s response to the review could lead to the rating of Crown land. The timing of decisions relating to the investigation and impact on Baselines are uncertain but any decision to retract the rate exemption on Crown land would negatively impact the operating balance.

TVNZ – change of direction (unchanged risk)

The Government is implementing its work programme for development of future directions and priorities for public service broadcasting. This work programme includes development of a new direction for TVNZ, including a charter and consideration of both its status as a state-owned enterprise and separation of Broadcasting Communications Limited. Decisions taken as a result of this work programme could impact on TVNZ’s profits and dividends for the forecast period.