

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 that 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 reduce the operating balance and net worth, and increase net Crown debt. 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 2002, being the last set of published contingent liabilities.

Quantifiable Contingent Liabilities

Guarantees and indemnities	Status¹	(\$ million)
Cook Islands – Asian Development Bank loans	Changed	24
Huntly East mine subsidence	Unchanged	22
Ministry of Transport – funding guarantee	Unchanged	10
Post Office Bank – guaranteed deposits	Changed	15
Guarantees and indemnities of state-owned enterprises and Crown entities	Changed	258
Other guarantees and indemnities	Changed	58
		387
Uncalled capital		
Asian Development Bank	Changed	1,428
European Bank for Reconstruction and Development	Changed	14
International Bank for Reconstruction and Development	Changed	1,863
		3,305
Legal proceedings and disputes		
Agriculture and Forestry – legal claims	Unchanged	19
Education – legal claims	Unchanged	16
Health – legal claims	Changed	121
Māori Development – Māori Reserved Land	Unchanged	94
New Zealand Defence Force – legal claims	Unchanged	10
Police – legal claims	Unchanged	49
Tax in dispute	Changed	67
Other legal claims	Changed	103
		479
Other quantifiable contingent liabilities		
International finance organisations	Changed	1,626
Reserve Bank – demonetised currency	Unchanged	25
Other quantifiable contingent liabilities	Changed	126
		1,777
Total quantifiable contingent liabilities		5,948

1 Relative to reporting in the 31 December 2001 Crown financial statements.

Unquantified Contingent Liabilities

Institutional guarantees	Status
Commerce Commission – indemnity for damages	Unchanged
District Court Judges, Justices of the Peace, Coroners and Disputes Tribunal	Unchanged
Earthquake Commission	Unchanged
Fletcher Challenge Limited	Unchanged
Ministry of Fisheries – indemnity provided for delivery of registry services	Unchanged
National Provident Fund	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust	Changed
Reserve Bank of New Zealand	Unchanged
Other unquantified contingent liabilities	
Accident Compensation Corporation	Unchanged
Air New Zealand	New
Bank of New Zealand	Unchanged
Contaminated sites	Unchanged
Crown research institutes	Unchanged
DFC New Zealand Limited (under statutory management)	Unchanged
District health boards	Unchanged
Education – legal claim	New
Electricity Corporation of New Zealand Limited	Unchanged
Housing New Zealand Corporation	Unchanged
Indemnities against acts of war and terrorism	Changed
Maui Gas Partners	New
New Zealand Railways Corporation	New
Pharmaceutical Management Agency Limited – indemnity	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Tax liabilities	Changed
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.

\$24 million at 31 March 2002 (\$25 million at 31 December 2001).

Huntly East mine subsidence

Claims from private landowners concerning property damage or loss of value.

\$22 million at 31 March 2002 (\$22 million at 31 December 2001).

Ministry of Transport – funding guarantee

The Minister of Finance has issued a guarantee of \$10 million to the Transport Accident Investigation Commission. The guarantee allows the Commission to assure payment to suppliers of specialist salvage equipment in the event of the Commission initiating an urgent investigation of any future significant transport accident.

\$10 million at 31 March 2002 (\$10 million at 31 December 2001).

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 reduces as deposits mature.

\$15 million at 31 March 2002 (\$16 million at 31 December 2001).

Guarantees and indemnities of state-owned enterprises and Crown entities

\$258 million at 31 March 2002 (\$266 million at 31 December 2001).

Other guarantees and indemnities

\$58 million at 31 March 2002 (\$61 million at 31 December 2001).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 March 2002 \$ million	Uncalled capital at 31 December 2001 \$ million
Asian Development Bank	1,428	1,514
European Bank for Reconstruction and Development	14	15
International Bank for Reconstruction and Development	1,863	1,975

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.

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.

Agriculture and Forestry – legal claims

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

\$19 million at 31 March 2002 (\$19 million at 31 December 2001).

Education – legal claims

Claims against the Crown in respect of the reduction of tuition subsidies to the Otago University School of Dentistry. On 26 April 2002 the High Court issued its judgment, which ruled that the Crown's decision to reduce dental subsidies was *ultra vires*, invalid and of no effect. The Crown is considering its response to this judgment.

\$16 million at 31 March 2002 (\$16 million at 31 December 2001).

Health – legal claims

Claims against the Crown in respect of people allegedly contracting hepatitis C through contaminated blood and blood products, claims arising from the Gisborne inquiry, and claims relating to the cervical screening inquiry.

\$121 million at 31 March 2002 (\$124 million at 31 December 2001).

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. Since 31 March 2002 negotiations have been completed and the Crown has agreed to settlement and has included this amount in the forecasts.

\$94 million at 31 March 2002 (\$94 million at 31 December 2001).

New Zealand Defence Force – legal claims

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

\$10 million at 31 March 2002 (\$10 million at 31 December 2001).

Police – legal claims

Claims against the Police for alleged legal or administrative faults.

\$49 million at 31 March 2002 (\$49 million at 31 December 2001).

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.

\$67 million at 31 March 2002 (\$68 million at 31 December 2001).

Other legal claims

\$103 million at 31 March 2002 (\$87 million at 31 December 2001).

Other quantifiable contingent liabilities*International finance organisations*

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

	31 March 2002 \$ million	31 December 2001 \$ million
International Monetary Fund	1,626	1,788

Payment of the notes depends upon the operation of the rules of the organisation.

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.

\$25 million at 31 March 2002 (\$25 million at 31 December 2001).

Other quantifiable contingent liabilities

\$126 million at 31 March 2002 (\$96 million at 31 December 2001).

Unquantifiable 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

Under a Deed of Indemnity dated 12 November 1991, the Minister of Finance agreed to indemnify the Commission when it gives an undertaking as to damages when seeking injunctions under the Fair Trading and Commerce Acts, and subsequently the Court orders the Commission to pay damages. The sum payable under this Deed is limited to an amount up to \$40 million per case taken to Court. The Commerce Act was amended with effect from 26 May 2001, to remove the need for the Commission to provide such undertakings.

District Court Judges, Justices of the Peace, Coroners and Dispute Tribunals

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.

Section 35 of the Coroners Act 1988 confers on Coroners acting within the Coroner Act 1988 the same privileges and immunities as District Court Judges under the Summary Proceedings Act 1957.

Under section 197 of the Summary Proceedings Act 1957, Justices of the Peace are similarly covered as long as a High Court Judge certifies that they have acted in good faith and ought to be indemnified.

Section 58 of the Disputes Tribunal Act 1988 confers on Disputes Tribunal referees acting within the Disputes Tribunal Act 1988 the same protection as Justices of the Peace under the Summary Proceedings Act 1957.

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 with FCL for the sale of the Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the costs of cleaning up environmental contamination. In respect of on-site environmental costs and

losses incurred up to settlement date (27 September 1996), FCL will pay the first \$30 million of any clean-up and half of the next \$20 million. The Crown will 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.

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from 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 30 October 2006 unless varied, in which case it will expire on 30 September 2008.

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 11 of the 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

The Crown is liable to meet any deficiency in the Public Trust's Common Fund (section 52 of the Public Trust Act 2001).

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 unquantifiable contingent liabilities

Accident Compensation Corporation (ACC)

A 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.

Air New Zealand

The Crown indemnified the directors of Air New Zealand against any liability arising from breaches of sections 135 and 136 of the Companies Act 1993. The indemnities expired on 18 January 2002, but it is possible that claims could arise retrospectively.

As part of the Air New Zealand settlement with the Voluntary Administrator for the Ansett Group, the Minister of Finance provided the Voluntary Administrator with an indemnity that would be triggered if Air New Zealand were liquidated within two years of the settlement and the settlement monies were sought by the liquidator at that time. The indemnity expires on 3 October 2003 and is for a maximum of AU\$150 million.

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 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.

Education - legal claim

The judgment in *Daniels and Others v Attorney-General* has found that some parts of the policy known as Special Education 2000 are inconsistent with the Education Acts 1964 and 1989. There are potential implications of the judgment:

- in relation to its application to students with special needs
- in relation to remedies and policy initiatives required for education more generally and beyond students with special needs
- regarding remedies for the plaintiffs in relation to the High Court judgment on Special Education.

The Crown has decided to appeal this judgment.

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 ECNZ 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 Transpower New Zealand Limited (Transpower) 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 Transpower 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 New Zealand Corporation (HNZC)

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HNZC (formerly Housing Corporation of New Zealand) mortgages: Countrywide Bank, TSB Bank, and Westpac Banking Corporation.

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

Under the sale of mortgages to Westpac, HNZC 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 HNZC under the Housing Assets Transfer Act 1993.

In addition, the Crown has provided a warranty in respect of title to the assets transferred to HNZC (formerly Housing New Zealand) and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third-party claims that are 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 it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism, that cannot be met from insurance, up to a limit of US\$2 billion in respect of any one claim.

The Crown has offered non-airline aviation companies indemnities against acts of war, terrorism and related causes where commercial cover has been withdrawn following the events in the United States on 11 September 2001. The indemnities are for a maximum of US\$200 million for each party. At 31 March 2002, indemnities had been signed with the Civil Aviation Authority (US\$100 million), the Aviation Security Service of New Zealand (US\$200 million), Auckland International Airport (US\$50 million), Christchurch International Airport (US\$50 million), and Wellington International Airport (US\$50 million). Further indemnities may be offered to eligible parties.

Maui Gas Partners

The Crown has signed a Deed of Confidentiality with the Maui Gas Partners relating to the provision of information to assist in the redetermination of Maui gas reserves. The deed contains an indemnity against any losses arising from a breach of the deed.

New Zealand Railways Corporation

The Crown has indemnified the directors of the New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

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 Crown and having various powers under the New Zealand Public Health and Disability Act 2000.

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 SOEs 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 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 an SOE 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 Ngāi 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 Ngāi 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 Ngāi 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 that 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 that 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 that 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 that 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, SOE/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 10 May 2002.

Quantified Risks²

Risks as at 10 May 2002	Operating Balance	Gross Debt	Net Worth	(\$ million)
Corrections – capital projects	Decrease	Increase	Decrease	-391 capital and -188 operating across the outyears.
Defence – capital injections	Decrease	Increase	Decrease	-1,000 over the next five to ten years.
Education – Auckland University Business School	Decrease	Increase	Decrease	-25 capital in 2002/03.
Education – e-learning	Decrease	Increase	Decrease	-11 in 2002/03 and -7 in outyears for capital.
Education – school property	Decrease	Increase	Decrease	-90 in 2002/03, -200 in 2003/04 and subsequent outyears for capital; and -1 in 2002/03, -8 in 2003/04, -18 in 2004/05, and -29 in 2005/06 for operating.
Energy Efficiency and Conservation – renewables policy	Decrease	Increase	Decrease	-1 in 2002/03, increasing to -20 in 2005/06
Energy Efficiency and Conservation – national strategy	Decrease	Increase	Decrease	-63 operating over four years.
Health – Southern Saltmarsh Mosquito	Decrease	Increase	Decrease	-30 operating over five years.
Inland Revenue – GST and imported services and financial services review	Decrease	Increase	Decrease	-20 operating from 2003/04.
Inland Revenue – trans-Tasman triangular tax relief	Decrease	Increase	Decrease	-10 operating from 2004/05.
Social Development – benefit payment systems	Decrease	Increase	Decrease	Up to -95 split between operating and capital.

2 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.

The "Gross Debt" column replaces the "Net Debt" column used in the *December Update*.

Unquantified Risks

Risks as at 10 May 2002	Operating balance	Gross debt	Net worth
Accident Insurance – Medical Misadventure	Unclear	Unclear	Unclear
Agriculture and Forestry – painted apple moth	Decrease	Increase	Decrease
Courts – Supreme Court	Decrease	Increase	Decrease
Defence – sale of Skyhawks and Aermacchi trainers	Increase	Decrease	Increase
Education – capital injections for tertiary education institutions	N/A	Increase	N/A
Education – Centres of Research Excellence	Decrease	Increase	Decrease
Education – collective employment agreements	Decrease	Increase	Decrease
Education – ECE Strategic Plan	Unclear	Unclear	Unclear
Education – improved internet access	Decrease	Increase	Decrease
Education – Partnerships for Excellence	N/A	Increase	N/A
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 – tertiary education funding	Decrease	Increase	Decrease
Education – wananga capital injection	N/A	Increase	N/A
Health – district health board deficits	Unclear	Unclear	Unclear
Health – population-based funding	Decrease	Increase	Decrease
Health – remove asset testing from long-stay care	Decrease	Increase	Decrease
Inland Revenue – exemption for overseas earnings	Unclear	Unclear	Unclear
Inland Revenue – Gaming Review	Unclear	Unclear	Unclear
Inland Revenue – Risk Free Return Method	Unclear	Unclear	Unclear
Inland Revenue – taxation of savings and investment vehicles, including superannuation funds	Decrease	Increase	Decrease
Police – capital projects	Decrease	Increase	Decrease
Prime Minister and Cabinet – climate change	Unclear	Unclear	Unclear
Social Development – response to Joychild Report	Decrease	Increase	Decrease
Transport – lease of rail assets	Unclear	Unclear	Unclear

Risks Removed Since the 2001 December Update

Risk	In forecasts	Comment
Accident Insurance – treatment cost review	No	No longer greater than \$10m
Child Youth and Family Service – potential underpayment of care allowances	Yes	Baselines
Conservation – asset maintenance	Yes	Baselines
Defence - East Timor	Yes	Baselines
Education – stabilisation of tertiary fees	Yes	Baselines
Environment – genetic modification	Yes	Baselines
Finance – Air New Zealand	Yes	Baselines
Finance – purchase of Auckland rail network	Yes	Baselines
Health – Budget allocation	Yes	Baselines
Health – district health board debt financing	Yes	Baselines
Health – meningococcal vaccine	Yes	Baselines
Inland Revenue – tax simplification	Yes	Baselines
Social Development – families and work	Yes	Baselines
Social Development – making work pay	Yes	Baselines
Transport – Transport Strategy	Yes	Baselines

Quantified Fiscal Risks

Corrections – capital projects (changed risk)

The Department of Corrections has estimated that a total of \$391 million (\$475 million in *December Update*) of capital injections and operating funding of \$188 million (\$152 million in *December Update*) will be required over the forecasting periods for capital projects to meet future prison muster forecasts.

The actual amounts will depend on the specification and timing of the individual projects and the contracted prices.

These estimates include consideration of funding for the:

- South Auckland Men's Corrections Facility
- Otago Men's Corrections Facility
- Bay of Plenty Men's Corrections Facility
- Auckland Women's Corrections Facility.

In addition, the Department is reviewing options for the future of Mount Eden prison.

Capital injections would increase gross debt while operating funding would decrease the operating balance.

The Minister of Finance has yet to fully consider the quantum of these risks.

Source: Department of Corrections

Defence – capital injections (unchanged 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.

It is anticipated that capital injections of up to \$1 billion over the next 10 years may be necessary, with the bulk likely to be required within the next five years.

The actual profile will depend on the specification and timing of the individual projects, the contracted prices, and the prevailing exchange rate at the time of purchase. Any capital injections would increase gross debt.

The Minister of Finance has yet to fully consider the individual projects that make up this risk.

Source: New Zealand Defence Force

Education – Auckland University Business School (new risk)

The Government has agreed to provide a capital injection of up to \$25 million to the proposed Auckland University Business School, subject to a number of conditions being met. The injection is likely to be provided in 2002/03. The actual amount of the capital injection has yet to be confirmed, but any injection would increase gross debt.

Source: Ministry of Education

Education – e-learning (new risk)

The Government has made a commitment to improve e-learning capability in the tertiary education sector through the provision of advice and through assistance to e-learning providers. Capital injections are estimated to be \$11 million in 2002/03 and \$7 million in outyears, which would increase gross debt.

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

Source: Ministry of Education

Education – school property (changed risk)

The Government has provided \$168 million in 2002/03 for school accommodation as part of the 2002 Budget. Additional capital injections for school accommodation are likely to be required in future years to meet roll growth. Capital injections are estimated to be up to \$90 million in 2002/03 (\$200 million in *December Update*) and \$200 million in 2003/04 and outyears (\$160 million in *December Update*).

In addition to capital injections, consequential operating costs are likely to be incurred. These are estimated at \$1 million in 2002/03, \$8 million in 2003/04, \$18 million in 2004/05 and \$29 million in 2005/06 (\$10 million, \$20 million, \$30 million, \$40 million respectively in *December Update*).

Any capital injection would increase gross debt while operating funding would decrease the operating balance.

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

Source: Ministry of Education

Energy Efficiency and Conservation – renewables policy (new risk)

The National Energy Efficiency and Conservation Strategy was launched in September 2001. It contains an energy efficiency target and a renewables target. The Government is still considering issues related to implementing a renewables policy package, including a contestable project fund.

The policy and programme for the strategy overlap with climate change policy work, and are being consulted on alongside the climate change preferred policy package. Final decisions on renewables are expected in July 2002. Initial estimates of the investment required to achieve the target indicate this could range from around \$1 million in 2002/03 to around \$20 million per annum from 2005/06, which would decrease the operating balance.

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

Source: Ministry for the Environment

Energy Efficiency and Conservation – national strategy (changed risk)

The National Energy Efficiency and Conservation Strategy was launched in September 2001. It includes an economy-wide energy efficiency target and a renewable energy target range.

Implementation of further policy measures to achieve these targets has been estimated at up to \$63 million over four years (*December Update*: \$78 million over five years), which would decrease the operating balance. The final cost will depend on what policy and implementation options are chosen.

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

Source: Ministry for the Environment

Health – southern saltmarsh mosquito (new risk)

The Government is considering possible responses to the incursion of the southern saltmarsh mosquito into the Kaipara Harbour, Tairāwhiti, Porangahau and Mahia. The cost of responding to the virus is estimated at \$30 million over five years, with the majority of the cost in 2002/03 and 2003/04. Any funding would decrease the operating balance.

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

Source: Ministry of Health

Inland Revenue – GST and imported services and financial services review (changed risk)

In June 2001 the Government issued a discussion document proposing that GST be applied to some imported services. In 2002 the Government also intends to release a discussion document on the treatment of GST on financial services. As part of that document the Government will propose zero-rating GST on financial services supplied by the financial services sector to registered businesses. It is intended that, following consultation on the financial services proposal, both measures would apply from 1 April 2004.

The net effect of both measures together is expected to be a decrease in the operating balance of up to \$20 million per year.

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

Source: Inland Revenue Department

Inland Revenue – trans-Tasman triangular tax relief (changed risk)

Imputation credits generated by a New Zealand subsidiary company with an Australian parent company cannot be passed on to New Zealand shareholders of that parent company. Consequently, New Zealand residents are taxed twice on their New Zealand-sourced income. The New Zealand and the Australian Governments have agreed in principle to provide relief on this double taxation using a method known as pro rata allocation.

At this stage the estimated fiscal cost is \$10 million per year from 2004/05 onwards, which would decrease the operating balance.

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

Source: Inland Revenue Department

Social Development – benefit payment systems (unchanged risk)

The Ministry of Social Development is undertaking an assessment of options for the upgrading of benefit payment systems SWIFTT and TRACE. The assessment is expected in June 2002.

If the assessment leads to improvement of the existing systems, the development cost is estimated at \$25 million to \$40 million. If the assessment leads to replacement of systems, the development cost is estimated at \$95 million. Operating funding would decrease the operating balance and capital injections would increase gross debt.

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

Source: Ministry of Social Development

Unquantified Fiscal Risks

Accident Insurance – Medical Misadventure (unchanged risk)

The Medical Misadventure Account is currently funded partly from the Earners' Account and partly by the Crown through the Non-Earners' Account. A review of the Medical Misadventure Account is underway, considering all aspects of the Account. The net impact of the review is unquantified and may either increase or decrease the operating balance.

Agriculture and Forestry – painted apple moth (new risk)

The Ministry of Agriculture and Forestry will report by June 2002 on progress with the painted apple moth eradication programme. The report will present options for the future management of the pest. The costs associated with these responses depend on the options chosen, but any further funding would decrease the operating balance.

Courts – Supreme Court (new risk)

The Government has announced that it intends to establish a New Zealand-domiciled Supreme Court as the court of final appeal.

The timing, scale and funding for a new court are unclear at this stage, but any capital injections would increase gross debt, while associated operating costs would decrease the operating balance.

Defence – sale of Skyhawks and Aermacchi trainers (new risk)

As a result of the Government's decisions on the future force structure of the New Zealand Defence Force (NZDF), the NZDF is in the process of selling its Skyhawks and Aermacchi trainers. The proceeds from the sale would increase the operating balance and decrease gross debt.

This risk is unquantified as disclosure could compromise the Crown in the sale process.

Education – capital injections for tertiary education institutions (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, but any capital injections will increase gross debt.

Education – Centres of Research Excellence (changed risk)

The Government has provided funding for the establishment and support of Centres of Research Excellence. Since the *December Update*, the Government has provided an additional \$38 million in operating funding, and \$20 million in capital injections over the forecast period. Further funding may be required in 2002/03 for these Centres, however the amount is unclear at this stage. Any additional operating funding would decrease the operating balance while capital injections would increase gross debt.

Education – collective employment agreements (changed risk)

The secondary teachers' and principals' collective employment agreements expired on 30 April 2001. The Crown will need to meet any fiscal impact in 2002/03 and beyond, owing to the renegotiation of these agreements and any adjustments to individual employment agreements, which would decrease the operating balance.

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

Education – ECE Strategic Plan (unchanged risk)

The Early Childhood Education (ECE) Strategic Plan working group submitted its final report to the Government in October 2001. The Government will develop its response to this report during the next six months. The impact of the response depends on the options chosen, but any additional operating funding would decrease the operating balance and capital injections would increase gross debt.

Education – improved internet access (new risk)

The Government is considering options to improve high-speed internet access to rural communities and their schools from 2002/03. This risk is unquantified as negotiations with providers are currently in progress. The costs associated with this proposal would decrease the operating balance.

Education – Partnerships for Excellence (new risk)

The Government has established "Partnerships for Excellence", whereby the Crown matches private sector investment in the tertiary sector. Funds will be allocated on an annual basis, subject to budgetary pressures from 2002/03. Any capital injections will increase gross debt.

Education – pay parity for kindergarten teachers (changed risk)

The Ministerial Working Group on Pay Parity for Kindergarten Teachers recommended to the Minister of Education in December 2001 a phased approach to the implementation of pay parity for kindergarten teachers. The Government is currently developing its response. Any costs associated with the response are unclear at this stage, but would decrease the operating balance.

Education – review of school staffing (changed risk)

The Government has included further funding in Budget 2002 to increase school staffing levels in response to a report from the School Staffing Review Working Group. The Government is considering further response options; any additional funding would decrease the operating balance.

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

The Government has previously made annual adjustments to school and early childhood education operational funding to reflect inflation. This risk is unquantified, but would decrease the operating balance. However, as an indication of cost, a 1% adjustment would increase annual operational funding by around \$10 million for schools from the 2004 school year and \$4 million for early childhood education providers from 2003/04.

Education – school property code (unchanged risk)

The Ministry of Education is developing a new intermediate school property code that 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 would increase gross debt. Associated operating costs, including depreciation and maintenance, would decrease the operating balance.

This risk is unquantified because the implementation process for the code has yet to be considered.

Education – tertiary education funding (changed risk)

The Government will be considering its new tertiary education funding system during 2002. This will include consideration of the Integrated Funding Framework and the release of a discussion document on student support. The individual components of these reforms may have positive or negative fiscal impacts, but the overall impact is likely to be a decrease in the operating balance and an increase in gross debt.

Education – wananga capital injection (unchanged risk)

The Government is currently negotiating with two wananga (Māori tertiary institutions) over settlement of a Waitangi Tribunal claim. The Waitangi Tribunal has recommended that the wananga be compensated for capital expenditure that has been incurred on facilities to date, and be provided funding to bring their facilities up to a standard comparable with other tertiary institutions and to meet additional capital requirements over the next three financial years. Any capital injection would increase gross debt.

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

Health – District health board deficits (new risk)

Included in the Health funding allocation announced in December 2001 is an implied deficit track for District health boards (DHBs) of \$80 million in 2002/03, declining to zero by 2005/06. The DHBs have submitted draft annual plans to the Ministry of Health that have combined deficits of around \$200 million in each year from 2002/03. The Government has rejected these deficit forecasts as being unacceptable and is actively discussing actions and cost-containment measures with the DHBs to manage back the deficits to the deficit track implicit in the funding allocations announced in December 2001.

The impact on the operating balance, if any, is unclear. Any deficits above that provided for within the health funding allocation will decrease the operating balance and increase gross debt.

Health – population-based funding (new risk)

The Government is considering funding DHBs on the basis of a population-based formula. This could result in changes to DHB funding to reflect the impact of inter-regional patient flows – patients from one DHB being treated in another. The costs of this proposal, if any, are unclear at this stage, but any increased funding would decrease the operating balance.

Health – remove asset testing from long-stay care (unchanged risk)

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

Inland Revenue – exemption for overseas earnings (new risk)

The Government is considering options to encourage skilled migrants to come to New Zealand, including the introduction of a time-limited exemption for overseas earnings for new migrants.

Details of the proposal need to be further developed and the proposal will be subject to consultation, so it is not expected to be implemented before 2003/04.

The impact, if any, of this proposal on the operating balance is unclear as it depends on the options chosen.

Inland Revenue – Gaming Review (changed risk)

The Gaming Review was completed and the Responsible Gambling Bill is before Parliament. The Government will consider the taxation of gaming in 2003. Any impact on the operating balance arising from a response, whether positive or negative, is unclear.

Inland Revenue – Risk Free Return Method (new risk)

The Government is considering the application of the Risk Free Return Method of taxation to equity investments on capital account outside a business context. A number of details of the proposal need to be further developed and the proposal will be subject to full consultation, so it is not expected to be implemented before 2003/04.

The impact on the operating balance is unclear at this stage as this will depend on the specific measures introduced.

Inland Revenue – taxation of savings and investment vehicles, including superannuation funds (changed risk)

The Government is considering its response to the recommendations on the taxation of savings and investment vehicles of the Tax Review 2001.

The Government is examining options to improve the tax environment for savings through changes to employer contribution schemes. The options under review are:

- to match the withholding tax paid by employers to the statutory marginal tax rate paid by the worker, or
- to extend the 6% concessional rate now enjoyed by those earning over \$60,000 a year to all income earners.

Any new regime would not be implemented prior to the 2003/04 year.

The overall impact of the measures if adopted would be to reduce the operating balance.

Police – capital projects (changed risk)

New Zealand Police have identified a number of Police stations that require capital work to bring them up to a modern operating standard. The timing, scale and funding for new assets are unclear at this stage, but any capital injections would increase gross debt.

Prime Minister and Cabinet – climate change (changed risk)

The Government has indicated its intention to ratify the Kyoto Protocol by August 2002, and is in the process of consulting on the issue of ratification, and the policy options required to meet commitments under the Protocol. The package to be consulted on includes the following elements, which will be targeted at different sectors as appropriate:

- existing policies aimed at greenhouse gas reduction – waste strategy, renewables strategy, energy efficiency and conservation strategy
- negotiated greenhouse agreement and/or emissions charges
- emissions reduction projects
- methane and nitrous oxide mitigation research (including option of compulsory levy)
- voluntary containment and handling standards for synthetic gases
- mechanisms to incentivise establishment and enhancement of carbon sinks.

Following the consultation process, the Government will consider these policies in July 2002.

At this stage, it is unclear what impact the decision to ratify the Protocol would have on the operating balance, either positive or negative, since this is closely related to which policy options are accepted.

Social Development – response to Joychild Report (new risk)

The Government intends to review 15,000 cases where a debt was established against a Domestic Purposes Benefit recipient between November 1996 and December 2000, to ensure that appropriate legal tests were used in establishing the debts.

The potential costs of reviewing the cases, and of rectifying any cases where the review finds that a debt was improperly established, cannot be determined until decisions are made on the nature of the review. Any operating funding required would decrease the operating balance.

Transport – lease of rail assets (new risk)

The Government has purchased the Auckland rail lease and infrastructure assets, and intends to lease them to an Auckland Local Authority Trading Enterprise in 2002/03. Details of the lease are uncertain at this stage, and therefore the impacts on the operating balance are unclear.

