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## 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.

### 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 was 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 included in the Statement of Specific Fiscal Risks were finalised at 31 March 1999.

## Quantifiable Contingent Liabilities Table

<b>Guarantees and indemnities</b>	<b>Status<sup>1</sup></b>	<b>(\$ million)</b>
Cook Islands - Asian Development Bank (ADB) Loans	Unchanged	23
Huntly East mine subsidence	Unchanged	25
Indemnification of touring exhibitions	New	64
Irrigation schemes	Unchanged	11
Post Office Bank (PostBank) - guaranteed deposits	Changed	24
Rural Banking and Finance Corporation of New Zealand Limited (the Rural Bank)	Changed	114
Guarantees and indemnities of State-owned enterprises and Crown entities	Changed	111
Other guarantees and indemnities	Changed	30
		<b>402</b>
<b>Uncalled capital</b>		
Asian Development Bank	Changed	1,264
European Bank for Reconstruction and Development	Changed	14
International Bank for Reconstruction and Development	Changed	1,543
		<b>2,821</b>
<b>Legal proceedings and disputes</b>		
Agriculture and Forestry - legal claims	Unchanged	26
Health - Lake Alice claims	New	132
New Zealand Defence Force - legal claims	Unchanged	16
Police - legal claims	Unchanged	80
Social Welfare - legal claims	Unchanged	22
Tax in dispute	Changed	104
Legal claims against State-owned enterprises and Crown entities	Changed	38
Other legal claims	Changed	112
		<b>530</b>
<b>Other quantifiable contingent liabilities</b>		
Health - other contingent liabilities	Unchanged	87
International finance organisations	Changed	1,568
Reserve Bank - demonetised currency	Unchanged	23
Other quantifiable contingent liabilities against State-owned enterprises and Crown entities	Changed	14
Other quantifiable contingent liabilities	Changed	43
		<b>1,735</b>
<b>Total quantifiable contingent liabilities</b>		<b>5,488</b>

1 Relative to reporting in the 31 December 1998 Crown Financial Statements.

## Non-Quantifiable Contingent Liabilities Table

<b>Institutional guarantees</b>	<b>Status</b>
Commerce Commission - indemnity for damages	Unchanged
District Court Judges and Justices of the Peace	Unchanged
Earthquake Commission	Unchanged
Fletcher Challenge Limited (FCL)	Unchanged
Māori Trustee	Unchanged
National Provident Fund	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust Office	Unchanged
Reserve Bank of New Zealand (the Reserve Bank)	Unchanged
<b>Other non-quantifiable contingent liabilities</b>	
Alkylammonium compound compensation	Unchanged
Bank of New Zealand (BNZ)	Unchanged
Contact Energy Limited (Contact)	Unchanged
Contaminated sites	Unchanged
Crown Research Institutes (CRIs)	Unchanged
DFC New Zealand Limited (under statutory management) (DFC)	Unchanged
Electricity Corporation of New Zealand (ECNZ)	Unchanged
Hospital and Health Services (HHS)	Unchanged
Housing Corporation of New Zealand (HCNZ)	Unchanged
Housing New Zealand Limited (HNZ)	Unchanged
Pharmaceutical Management Agency Limited (Pharmac)	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Solid Energy New Zealand Limited (Solid Energy)	Unchanged
Southland Electric Power Supply Consumer Trust	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.

\$23 million at 31 March 1999 (\$23 million at 31 December 1998).

#### *Huntly East mine subsidence*

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

\$25 million at 31 March 1999 (\$25 million at 31 December 1998).

#### *Indemnification of touring exhibitions*

The Crown has a contingent liability for damages or losses under the scheme for indemnifying touring exhibitions. The contingent liability took effect in February 1999 and expires in October 1999.

\$64 million at 31 March 1999 (nil at 31 December 1998).

#### *Irrigation schemes*

The Crown has given an indemnity through sale and purchase agreements, involving nine dams and six irrigation schemes, that if legislation concerning safety of dams has an adverse effect on the ability to maintain irrigation water supply then the purchaser is entitled to transfer the scheme back to the Crown.

\$11 million at 31 March 1999 (\$11 million at 31 December 1998).

#### *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.

\$24 million at 31 March 1999 (\$25 million at 31 December 1998).

*Rural Banking and Finance Corporation of New Zealand Limited (the Rural Bank)*

At the time of the sale of the Rural Bank to the Fletcher Challenge Group in 1989, the Government agreed that the existing guarantee over the Rural Bank's borrowings at the date of sale would continue. Fletcher Challenge Limited, as a condition of sale, agreed to indemnify the Crown against default by the Rural Bank on the Crown-guaranteed debt.

\$114 million at 31 March 1999 (\$119 million at 31 December 1998).

*Guarantees and indemnities of State-owned enterprises and Crown entities*

\$111 million at 31 March 1999 (\$108 million at 31 December 1998).

*Other guarantees and indemnities*

\$30 million at 31 March 1999 (\$32 million at 31 December 1998).

***Uncalled capital***

The Crown's uncalled capital subscriptions are as follows:

	<b>Uncalled Capital at 31 March 1999 (\$ million)</b>	<b>Uncalled Capital at 31 December 1998 (\$ million)</b>
Asian Development Bank	1,264	1,273
European Bank for Reconstruction and Development	14	15
International Bank for Reconstruction and Development	1,543	1,554

***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.

\$26 million at 31 March 1999 (\$26 million at 31 December 1998).

*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 1999 (nil at 31 December 1998).

*New Zealand Defence Force - legal claims*

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

\$16 million at 31 March 1999 (\$16 million at 31 December 1998).

*Police - legal claims*

Claims against the Police for alleged legal or administrative faults.

\$80 million at 31 March 1999 (\$80 million at 31 December 1998).

*Social Welfare - legal claims*

Claims against the Department of Social Welfare for alleged legal or administrative faults.

\$22 million as at 31 March 1999 (\$22 million at 31 December 1998).

*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.

\$104 million at 31 March 1999 (\$98 million at 31 December 1998).

*Legal claims against State-owned enterprises and Crown entities*

\$38 million at 31 March 1999 (\$23 million at 31 December 1998).

*Other legal claims*

\$112 million at 31 March 1999 (\$100 million at 31 December 1998).

**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, and other personal injury claims.

\$87 million at 31 March 1999 (\$87 million at 31 December 1998).

*International finance organisations*

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

	<b>31 March 1999</b> <b>(\$ million)</b>	<b>31 December 1998</b> <b>(\$ million)</b>
International Bank for Reconstruction and Development	70	70
International Monetary Fund	1,498	1,089

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 1999 (\$23 million at 31 December 1998).

*Other quantifiable contingent liabilities against State-owned enterprises and Crown entities*

\$14 million at 31 March 1999 (\$5 million at 31 December 1998).

*Other quantifiable contingent liabilities*

\$43 million at 31 March 1999 (\$36 million at 31 December 1998).

## Non-Quantifiable 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 indemnified the Commerce Commission under section 59 of the Public Finance Act 1989 for up to \$40 million per case for damages awarded against it by the Courts in certain circumstances.

#### *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).

#### *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 the Financial Statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 12).

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

### ***Other non-quantifiable 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.

### *Contact Energy Limited (Contact)*

The Deed of Assumption and Release between ECNZ, Contact and the Crown provides for compensation to Contact for any tax, levy, royalty or impost imposed on the company's use of water or geothermal energy for plants in existence or under construction at the date of the ECNZ Sale and Purchase Agreement (and which are not reflected in the increased prices of energy generally). It provides for compensation for any net costs to Contact arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988. The Deed also provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact.

### *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 Ltd (under statutory management) (DFC)*

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

### *Electricity Corporation of New Zealand Limited<sup>2</sup> (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.

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.

In addition the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations;

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<sup>2</sup> On 1 April 1999 ECNZ was split into three entities - Meridian Energy, Mighty River Power and Genesis Power. The benefits of these agreements have been transferred to these entities.

- hedge contracts and obligations; and
- any liabilities that arise out of the split itself.

#### *Hospital and Health Services (HHS)*

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

#### *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 Ltd, 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 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)*

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 established by the Health Funding Authority (HFA) 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 the HFA and 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.

#### *Solid Energy New Zealand Limited (Solid Energy)*

The Crown has indemnified Solid Energy for any liability, damages, claims, costs and expenses arising from coal mining operations carried out by State Coal Mines prior to 1 April 1987. In addition, the Crown has indemnified Solid Energy against illegal action, or action without the requisite right, if this is a continuation of State Coal Mines activity.

#### *Southland Electric Power Supply Consumer Trust*

The Crown has indemnified the Southland Electric Power Supply Consumer Trust for any gift duty arising from the vesting of the Crown's shares in The Power Company Limited (TPCL) with the Trust.

#### *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 that has been transferred by the Crown to a SOE or tertiary institution, or is subject to the Crown Forests Assets Act 1989.

### *Treaty of Waitangi claims - settlement relativity payments*

As part of the Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu, the Crown agreed that if the value of their respective settlements (in December 1994 dollars) is less than the agreed relativity percentage of the total settlement redress of all historical Treaty claims (17% for Waikato-Tainui), the Crown will be liable for additional payments to the extent required to maintain the relative value of each settlement. The non-quantifiable contingent liability relates to the risk that total settlement redress, including binding resumptions 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 prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to 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 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 forecasts incorporate operating and capital contingencies to accommodate policy initiatives. Many risks outlined in this chapter, if they crystallise, would be covered by these provisions.

Specific fiscal risks can include:

- government decisions or legislative commitments with uncertain fiscal consequences
- undecided policy under active consideration by Cabinet or Cabinet committees
- incomplete negotiations which have fiscal implications.

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

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

In addition, the responsible Ministers have 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.

Specific fiscal risks do not include:

- normal forecasting risks, such as uncertainty around welfare benefits, State-owned enterprise/Crown entity surpluses or finance costs
- policy proposals being developed by individual Ministers or departments which have yet to be considered by wider government processes such as Cabinet committees or Cabinet

- discussion documents containing proposals that Cabinet committees or Cabinet will not actively consider until the consultation process has been completed
- possible changes to the interpretation of accounting policies such as the changes to revenue recognition rules and recognition of liabilities.

The fiscal risks included in the Statement of Specific Fiscal Risks were finalised as at 30 April 1999.

### Quantified Risks Table<sup>3</sup>

Risks as at 30 April 1999	Operating Balance	Net Debt	Net Worth	(\$ million)
Corrections - construction of new facilities, associated operating expenses and deferred maintenance	Decrease	Increase	Decrease	Up to -311 of capital and -36 operating over three years
Defence - capital injections	N/A	Increase	N/A	Up to -36 in 1999/2000, -105 in 2000/01, -174 in 2001/02
Department of Social Welfare - Services to Children, Young Persons and Their Families	Decrease	Increase	Decrease	Up to -25 in 2000/01
Education - national assessment	Decrease	Increase	Decrease	Up to -26 over three years
Education - school property	N/A	Increase	N/A	Up to -30 in 1999/2000, up to -250 in both 2000/01 and 2001/02
Education - teacher collective employment contracts	Decrease	Increase	Decrease	-106 in 1999/2000, -118 in 2000/01, and -123 in 2001/02
Health - sustainable funding path	Decrease	Increase	Decrease	Up to -190 in 2000/01, -400 in 2001/02
Hospital and Health Services (HHS) - hospital projects in Auckland and Wellington	N/A	Increase	N/A	-130 in 2001/02
Māori Trustee - payment of services	Decrease	N/A	Decrease	-25

3 In the summary tables listing specific risks:

- positive numbers indicate an improvement 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

<b>Risks as at 30 April 1999</b>	<b>Operating Balance</b>	<b>Net Debt</b>	<b>Net Worth</b>
Agriculture and Forestry - South Island Landless Māori forest	Unclear	Unclear	Unclear
At Work - workplace insurer	N/A	Increase	N/A
Civil Defence - Disaster Recovery Plan	Decrease	Increase	Decrease
Defence - East Timor	Decrease	Increase	Decrease
Defence - operating increase	Decrease	Increase	Decrease
Education - annual review of principals' pay	Decrease	Increase	Decrease
Education - special education	Decrease	Increase	Decrease
Electricity - sale of small hydro stations	Increase	Decrease	Increase
Fisheries - allocation of fishing quota	Decrease	Increase	Decrease
Hospital and Health Services (HHS) - loan covenant	Unclear	Unclear	Unclear
Inland Revenue - superannuation funds	Increase	Decrease	Increase
Inland Revenue - restrictive covenants and lease inducements	Increase	Decrease	Increase
Land Information New Zealand (LINZ) - Survey and Land Titles Register automation	N/A	Increase	N/A
Police Capital Expenditure	N/A	Increase	N/A
Public Trust Office - business evaluation	Increase	Decrease	Increase
Sale of Crown-owned assets	Increase	Decrease	Increase
Solid Energy New Zealand Limited - carrying value of the Crown's investment	Decrease	N/A	Decrease

## Risks Removed since the 1998 December Update

Risk	In Forecasts	Comment
Agriculture and Forestry - Sale of the Crown's interest in Crown lease forests	Yes	Remaining risk not under active consideration
Commerce - Māori broadcasting	Yes	
Contact Energy Limited - scoping of Government's interest	Yes	
Courts - North Shore Court facilities	Yes	
Department of Work and Income - Fast On-Line Customer Information System (FOCIS) project	Yes	Remaining risk not under active consideration
Department of Social Welfare (DSW) restructuring	Yes	
Department of Work and Income (DWI) and DSW - single information technology infrastructure		Expired
Education - higher quality early childhood education		Expired
Education - review of the Private Schools Conditional Integration Act	Yes	
Education - school operations grant	Yes	
Electricity sector review		Expired
Fisheries - Implementation of the Fisheries Act 1996		Expired - remaining risk not material
Housing Corporation of New Zealand (HCNZ) - sale of Residual Mortgage Portfolio	Yes	
Inland Revenue - Committee of Experts on tax compliance		Expired
Inland Revenue - GST on services		Expired
Justice - citizen's initiated referenda		Expired - remaining risk not material
Justice - Treaty of Waitangi settlements		Now a forecast assumption
Timberlands West Coast - early cessation of the Buller overcut	Yes	

## Quantified Fiscal Risks

### ***Corrections - construction of new facilities, associated operating expenses and deferred maintenance (changed risk)***

Significant expenditure is required to address deferred maintenance and to bring the Department's buildings up to required standards. The Department has estimated that up to \$120 million in capital costs is required over the next three years.

To cope with expected increases in the prison population the Department will also need to construct new prisons, including separate youth facilities, at Northland and Auckland over the next three years. Separate youth facilities are also planned as part of a new prison for Dunedin; however, this is not scheduled to be constructed within the next three years. The Department has estimated that up to \$191 million in capital costs and \$36 million in operating costs are required over the next three years.

The above total estimated capital costs of \$311 million and operating costs of \$36 million over three years have reduced since the *December Update*, which reported capital and operating costs of \$335 million and up to \$122 million respectively over three years. The reduction is due to Cabinet decisions to provide capital funding for youth facilities and deferred maintenance of \$24 million and operating funding of \$21 million over the next three years. Additionally, the Department has revised the costings to take account of the latest available information.

Source: Department of Corrections

### ***Defence - capital injections (changed risk)***

The Defence Assessment has indicated that additional capital injections above those already approved will be considered on a case-by-case basis when individual capital projects are submitted to Cabinet for approval. The timing of these capital injections has been revised, following delays in progressing capital purchases. Lower levels of capital injections are now required in 1999/2000 and 2000/01 - but higher in the years beyond. The amount of capital injections over the 10 year capital plan remains the same as those agreed by Government at the time of the Defence Assessment.

The risk of additional capital contributions was previously estimated to not exceed \$51 million in 1999/2000, \$105 million in 2000/01, and \$101 million in 2001/02. These amounts have been revised to \$36 million in 1999/2000, \$79 million in 2000/01, and \$174 million in 2001/02.

Source: Ministry of Defence

### ***Department of Social Welfare - Services to Children, Young Persons and their Families (unchanged risk)***

Further policy work in the area of services to children, young persons and their families could increase the level of expenditure in this area by up to \$25 million in 2000/01.

Source: Department of Social Welfare

***Education - national assessment (changed risk)***

A discussion document on national assessment of primary school students was released in May 1998. The policies for the development of national tests, exemplars of student work and diagnostics tools arising from this document could cost up to \$26 million over three years. This risk has increased from \$14 million over three years as reported in the *December Update*, largely due to an expansion in the scope of the policy.

Source: Ministry of Education

***Education - school property (unchanged risk)***

Additional capital contributions for school accommodation are likely to be required in 1999/2000, 2000/01 and 2001/02 to meet roll growth. Capital costs are estimated to be up to an additional \$30 million in 1999/2000 and up to \$250 million in both 2000/01 and 2001/02.

The amount for 1999/2000 has reduced since the *December Update* to reflect revised roll growth projections and the \$100 million included in baselines for school property.

Source: Ministry of Education

***Education - teacher collective employment contracts (unchanged risk)***

Negotiations are underway for a new secondary teachers' collective employment contract. Any settlement is likely to have flow-on effects to wages for primary teachers. The Government has made an offer to settle the contract costing \$106 million in 1999/2000, \$118 million in 2000/01, and \$123 million in 2001/02. Overall costs remain unchanged since the *December Update*, however 1998/99 costs have been transferred into 1999/2000 as a result of delays in the negotiation process.

Source: Ministry of Education

***Health - sustainable funding path (new risk)***

From 1997/98 until 1999/2000 the Government funded increases in health spending, which was known as the "sustainable funding path". If the Government was to fund such increases in 2000/01 and 2001/02, the estimated extra cost would be around \$190 million in 2000/01 and around \$400 million in 2001/02.

Source: Ministry of Health

***Hospital and Health Services (HHS) - hospital projects in Auckland and Wellington (new risk)***

The Government is committed to providing new hospitals in Wellington and Auckland. The extent to which these projects are Crown financed is still uncertain. The capital cost of these projects is estimated to be \$120 million in 1999/2000, \$160 million in 2000/01 and \$130 million in 2001/02.

It is expected that any Crown financing necessary for these projects in 1999/2000 and probably 2000/01 can be funded within existing baselines and from a carry forward of the underspent 1998/99 equity appropriation. The Crown could finance the remaining costs by way of an advance or a capital injection. If a capital injection were made, net Crown debt would increase.

Source: The Treasury

***Māori Trustee - payment for services (changed risk)***

The fiscal forecasts make no allowance by way of a doubtful debts provision for the non-payment of \$25 million owed by the Māori Trust Office for services provided by the Ministry of Māori Development. Since the *December Update*, the fiscal risk has increased from \$23 million.

Source: Ministry of Māori Development

## Unquantified Fiscal Risks

### ***Agriculture and Forestry - South Island Landless Māori forest (unchanged risk)***

Forests granted to Māori under the South Island Landless Natives Act 1906 are exempt from the requirement 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. 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. This risk is unquantified as disclosure could compromise the Crown in negotiations.

### ***At Work - workplace insurer (changed risk)***

The Government is opening the provision of workplace insurance compensation to competitive pressures, with the commencement date to be 1 July 1999. The Government established a State-owned enterprise, At Work Insurance Limited (At Work) in March 1999 to compete in the workplace insurance compensation market.

At Work will require an injection of prudential capital in 1999/2000, and the fiscal forecasts include an amount of \$185 million for this. The actual requirements, however, will depend on a range of factors, the most important being At Work's eventual market share. Therefore the injection for prudential capital may be revised either upwards or downwards. In the medium to longer term, At Work may require further prudential capital over time, however the amount, timing and source for this injection has not yet been determined.

### ***Civil Defence - Disaster Recovery Plan (unchanged risk)***

In the event of a natural disaster or emergency, the National Civil Defence Plan for Disaster Recovery provides that, while local authorities or enterprises take first-line responsibility for dealing with the impact of a disaster in their own areas, central government will provide assistance in certain situations. These situations include:

- providing assistance to ensure physical safety where this cannot be provided by local agencies
- restoring those government facilities directly owned by the Government
- if the cost of repair or recovery of certain local authority assets is greater than certain specified amounts, meeting 60% of the cost of the additional amount
- providing assistance in restoration of individually owned assets or trading utilities where the risk of damage was uninsurable and hardship is demonstrated
- providing extra social welfare assistance if there is a requirement to provide an enhanced welfare base for the area affected for a period of time.

The fiscal implications of this risk are unquantifiable because they depend on the circumstances of a natural disaster.

### ***Defence - East Timor (new risk)***

The New Zealand Government is considering the possibility of deploying a peace - keeping force to East Timor. Any action will depend on whether an invitation is received from the Indonesian Government, and the outcome of the ballot process in East Timor. This risk is unquantifiable as the nature of a New Zealand Defence Force deployment, if any, is uncertain.

### ***Defence - operating increase (new risk)***

The Defence Assessment in 1997 estimated a baseline increase in 2001/02 of \$10 million would be required to achieve the Defence Assessment funding level in that year. This increase is being considered in conjunction with a review of Defence foreign-exchange risks. The fiscal impact of any change is unquantified at this stage.

### ***Education - annual review of principals' pay (new risk)***

This review aims to establish a new mechanism for adjusting principals' pay each year using labour market and job evaluation data. The risk is not quantified, as disclosing any estimate of costs could compromise the Crown in other negotiations.

### ***Education - special education (new risk)***

The Government is expected to take further decisions on special education policy during the 1999/2000 financial year. The fiscal impact of any decisions is unquantified at this stage.

### ***Electricity - sale of small hydro stations (changed risk)***

In 1995, the then Government and ECNZ agreed that eight of ECNZ's small hydro stations would be sold by ECNZ, subject to appropriate consultations with Māori about Treaty of Waitangi issues. Any sales receipts returned to the Crown would be used to repay public debt.

Since the December Update, ECNZ has completed the sales of Matahina and Highbank stations.

On 1 April 1999, ECNZ was split into three smaller State Owned Enterprises (Mighty River Power, Genesis Power, and Meridian Energy). At the time of the split, the remaining unsold stations were the Cobb and Waikaremoana stations (Tuai, Kaitawa and Piripaua). Meridian Energy is currently selling Cobb station, and Genesis Power has agreed to sell the Waikaremoana stations by 30 June 2000. This risk is unquantified, as disclosing any estimate of sales proceeds would be likely to compromise negotiations and commercial activity.

***Fisheries - allocation of fishing quota (unchanged risk)***

The Fisheries Act 1996 provides for 20% of the new species quota entering the Quota Management System to be allocated to Māori, to give effect to the Crown's obligation under the Treaty of Waitangi Fisheries Settlement. Eight of these new species are considered to be fully fished already, and the Crown may choose to purchase the quota to be allocated to Māori. This risk is unquantified because disclosure of compensation estimates could compromise negotiations.

***Hospital and Health Services (HHS) - loan covenant (unchanged risk)***

Several HHS holding private debt have had poor financial performance. Financial ratio covenants in the loan or bond agreements may be breached, triggering events of review, which may lead to events of technical default. This debt is not guaranteed by the Crown, although an event of technical default may necessitate the Crown's involvement in balance sheet or organisational restructuring of these entities. This risk is unquantified as full disclosure of the specific financial information could compromise the Crown in negotiations.

***Inland Revenue - superannuation funds (unchanged risk)***

Superannuation funds that are subject to tax on profits from the sale of shares have found a way of reducing that tax. This involves the use of investments in other superannuation funds. The method is to interpose a "passive investment" superannuation fund between the superannuation fund and its shares. The Government is considering an appropriate legislative response. The fiscal impact of any change is unquantified at this stage.

***Inland Revenue - restrictive covenants and lease inducements (unchanged risk)***

Inducements to enter into leases or restrictive covenants may in some cases be classified as non-taxable receipts of capital. In its recent report on tax compliance, the Committee of Experts recommended that payments for restrictive covenants involving services, inducement payments, certain capital contribution payments, and other similar payments should be taxable. Policy to ensure these amounts are treated as taxable income is being developed. The revenue at this stage is unquantified but would be positive.

***Land Information New Zealand (LINZ) - Survey and Land Titles Register automation (new risk)***

The Department of Land and Information (LINZ) is currently automating paper and counter-based services. This project was approved by Government in November 1997. Additional capital expenditure may be incurred as a result of increased costs and project delays. This risk is unquantified because any estimate of costs would compromise the Crown in negotiations.

***Police Capital Expenditure (new risk)***

The Police INCIS computer system currently under development has an approved capital cost of \$119 million to complete. The cost of the project is now expected to increase as a consequence of projected delays in the completion date. Other cost increases include the cost of the Traffic Enforcement System. The extent and impact of these cost increases on the project are currently under consideration.

Police face further capital expenditure pressures of approximately \$30 million over the forecast period. These relate principally to the upgrade of police stations.

***Public Trust Office - business evaluation (changed risk)***

In August 1998, the High Court declared that the reserves of the Public Trust Office (PTO) are not subject to any legal or equitable private interest. A business evaluation study of strategic directions and ownership options for the Office was then commissioned. In December, after considering the study's findings, the Government announced its intention to corporatise the PTO once current litigation over ownership is settled. At that time an appeal against the High Court judgement had been filed. This was dismissed by the Court of Appeal in March 1999. No final decisions have yet been taken on the PTO's future. Legislation will be required to enable the Office to be restructured.

***Sale of Crown-owned assets (new risk)***

The Government is currently considering the sale of Vehicle Testing New Zealand Limited. If a decision to sell is made, the cash proceeds from the sales will be used to reduce net debt. Any gain or loss on sale would impact on the operating statement. The Government has also agreed to conduct a scoping study of the Meteorological Service of New Zealand Limited. This risk is unquantified, as any estimate would compromise the Crown in negotiations

***Solid Energy New Zealand Limited - carrying value of the Crown's investment (changed risk)***

During 1998 the Government engaged in a sales process for the sale of its shares in Solid Energy New Zealand Limited (Solid Energy). Following the receipt of final bids, the Government decided to decline the bids and terminate the sales process.

There has been a deterioration in world coal markets. Solid Energy has already recognised in its accounts the costs required to close out surplus foreign exchange cover it currently holds. There is a risk that further foreign exchange losses could be recognised.

The Board of Solid Energy is also re-evaluating the company's strategies and operations to ensure that they are in line with current market realities.

Following this work, it may be necessary for the Government to review the carrying value of the investment in the SOE in the Crown's financial statements and forecasts. If any write-down is required, it will reduce the Crown's operating balance in 1998/99 or 1999/2000.