4

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 have been stated as at 30 April 2000, being the last set of published contingent liabilities.

Quantifiable Contingent Liabilities Table

Guarantees and indemnities	Status[11]	($ million)
Cook Islands - Asian Development Bank (ADB) Loans	Changed	24
Huntly East mine subsidence	Unchanged	23
Post Office Bank (PostBank) - guaranteed deposits	Changed	20
Guarantees and indemnities of state-owned enterprises and Crown entities	Unchanged	273
Other guarantees and indemnities	Changed	27
		367
Uncalled capital		
Asian Development Bank	Changed	1,381
European Bank for Reconstruction and Development	Unchanged	13
International Bank for Reconstruction and Development	Changed	1,679
		3,073
Legal proceedings and disputes		
Health - Lake Alice claims	Unchanged	132
Māori Development	Unchanged	94
New Zealand Defence Force - legal claims	Unchanged	15
Police - legal claims	Changed	83
Tax in dispute	Changed	107
Legal claims against state-owned enterprises and Crown entities	Unchanged	29
Other legal claims	Changed	103
		563
Other quantifiable contingent liabilities		
Health - other contingent liabilities	Changed	90
International finance organisations	Changed	1,557
Reserve Bank – demonetised currency	Unchanged	23
Other quantifiable contingent liabilities	Changed	77
		1,747
Total quantifiable contingent liabilities		**5,750**

11 Relative to reporting in the 31 December 1999 Crown Financial Statements.

Non-Quantifiable Contingent Liabilities Table

Institutional guarantees	**Status**
Commerce Commission - indemnity for damages	Unchanged
District Court Judges and Justices of the Peace	Unchanged
Earthquake Commission	Unchanged
Fletcher Challenge Limited (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
Other non-quantifiable contingent liabilities	
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 Limited (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) – indemnity	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.

$24 million at 30 April 2000 ($22 million at 31 December 1999).

Huntly East mine subsidence

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

$23 million at 30 April 2000 ($23 million at 31 December 1999).

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.

$20 million at 30 April 2000 ($21 million at 31 December 1999).

Guarantees and indemnities of state-owned enterprises and Crown entities

$273 million at 30 April 2000 ($273 million at 31 December 1999).

Other guarantees and indemnities

$27 million at 30 April 2000 ($28 million at 31 December 1999).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	**Uncalled Capital at 30 April 2000 $m**	**Uncalled Capital at 31 December 1999 $m**
Asian Development Bank	1,381	1,296
European Bank for Reconstruction and Development	13	13
International Bank for Reconstruction and Development	1,679	1,576

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.

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 30 April 2000 ($132 million at 31 December 1999).

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.

A statement of claim has been filed in the High Court by various parties seeking a judgement be made against the Crown for the sum of $94 million.

$94 million at 30 April 2000 ($94 million at 31 December 1999).

New Zealand Defence Force – legal claims

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

$15 million at 30 April 2000 ($15 million at 31 December 1999).

Police - legal claims

Claims against the Police for alleged legal or administrative faults.

$83 million at 30 April 2000 ($82 million at 31 December 1999).

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.

$107 million at 30 April 2000 ($84 million at 31 December 1999).

Legal claims against state-owned enterprises and Crown entities

$29 million at 30 April 2000 ($29 million at 31 December 1999).

Other legal claims

$103 million at 30 April 2000 ($73 million at 31 December 1999).

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.

$90 million at 30 April 2000 ($85 million at 31 December 1999).

International finance organisations

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

	30 April 2000 $m	31 December 1999 $m
International Bank for Reconstruction and Development	nil	66
International Monetary Fund	1,557	1,554

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 30 April 2000 ($23 million at 31 December 1999).

Other quantifiable contingent liabilities

$77 million at 30 April 2000 ($79 million at 31 December 1999).

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 in interim injunctions

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

District Court Judges and Justices of the Peace

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

Earthquake Commission

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

Fletcher Challenge Limited (FCL)

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

Māori Trustee

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

National Provident Fund

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

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

Persons exercising investigating powers

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

Public Trust Office

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

Reserve Bank of New Zealand (the Reserve Bank)

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

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

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

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

Hospital and health services (HHS's)

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 the 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) - 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 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 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 which has been transferred by the Crown to an 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 and 16.13% for Ngai Tahu), 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 and Development prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

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

Specific Fiscal Risks

Specific fiscal risks (excluding contingent liabilities) are a category of government decisions or circumstances which may have a material impact on the fiscal position. The risks have not been included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain and/or the timing is uncertain.

To ensure a practicable and consistent disclosure approach, risks have been reported which:

- have an expected cost or saving of over $10 million in any one outyear; 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.

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 provisions.

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

Specific fiscal risks do not include:

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

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

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

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

The fiscal risks included in the Statement of Specific Fiscal Risks were finalised as at 29 May 2000.

Quantified Risks Table[12]

Risks as at 29 May 2000	Operating balance	Net debt	Net worth	($ million)
Accident Insurance – accident insurance policy changes	Decrease	Increase	Decrease	Up to -4 in 2000/01 -17 in remaining outyears
Agriculture and Forestry – food regulation and administrative structural options	Decrease	Increase	Decrease	Up to -10 one off
Child, Youth and Family Services – residential services strategy	Decrease	Increase	Decrease	Up to -28 one off capital and -15 operating for 2001/02 and subsequent outyears
Corrections – capital projects	Decrease	Increase	Decrease	-380 capital and -210 operating across the outyears
Defence – East Timor	Decrease	Increase	Decrease	-15 in 2000/01 and -55 2001/02.
Earthquake Commission – capital projects	N/A	Increase	N/A	-9 in 2000/01; -10 in 2001/02; -11 in 2002/03 and 2003/04.

12 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.

Risks as at 29 May 2000	Operating balance	Net debt	Net worth	($ million)
Education – school property	Decrease	Increase	Decrease	-20 in 2000/01; -250 in subsequent outyears for capital and -7 in 2001/02; -21 in 2002/03 and -36 in 2003/04 for operating.
Government Superannuation Fund diversification	Increase	Decrease	Increase	14 to 44 million in all outyears
Health – sewage treatment subsidy scheme	Decrease	Increase	Decrease	-10 in all outyears
Inland Revenue – taxing income of minor beneficiaries at the trustee tax rate	Increase	Decrease	Increase	15 in all outyears
Māori Trustee – payment of services	Decrease	N/A	Decrease	–30 one off
Treaty Settlements – Treaty heads of agreement	Unclear	N/A	Unclear	Up to –70 in 2000/01

Unquantified Risks Table

Risks as at 29 May 2000	Operating Balance	Net Debt	Net Worth
Agriculture and Forestry – South Island landless Māori	Unclear	Unclear	Unclear
Agriculture and Forestry – *varroa jacobsoni* bee mite eradication	Decrease	Increase	Decrease
Defence – capital injections	N/A	Increase	N/A
Defence – foreign exchange	Unclear	Unclear	Unclear
Economic Development – sale of spectrum licences	Increase	Decrease	Increase
Education – collective employment contract renewals	Decrease	Increase	Decrease
Education – school operating funding	Decrease	Increase	Decrease
Education – tertiary education institutions capital injections	Decrease	Increase	Decrease
Education – wananga capital injections	N/A	Increase	N/A
Environment – climate change policy	Unclear	Unclear	Unclear
Fisheries – allocation of fishing quota	Decrease	Increase	Decrease
Government Superannuation Fund – change in policy	Decrease	Increase	Decrease
Health – private sector finance	Unclear	Increase	Unclear
Health – sector changes	Decrease	Increase	Decrease
Housing – changes to organisation structure	Unclear	Unclear	Unclear
Inland Revenue – restrictive covenants and lease inducements	Increase	Decrease	Increase
Inland Revenue – superannuation funds	Increase	Decrease	Increase
State-Owned Enterprises – refinancing debt position	N/A	Decrease	N/A
TVNZ – change of direction	Unclear	Unclear	Unclear
Work and Income – Australian social security agreement	Decrease	Increase	Decrease
Work and Income – delivery of income and employment services	Decrease	Increase	Decrease

Risks Removed since the 1999 *Pre-election Economic and Fiscal Update*

Risk	In Forecasts	Comment
At Work – workplace insurer	No	Change in Government policy
Child, Youth and Family Services	Yes	Baselines
Civil Defence – disaster recovery plan	No	No longer meets risk criteria
Commerce and Māori Affairs – Māori broadcasting	Yes	Baselines
Conservation – biodiversity strategy	Yes	Baselines
Courts – information technology (INSLAW)	Yes	Baselines
Culture and Heritage – public broadcasting fee	Yes	Baselines
Defence – operating increases	Yes	Baselines
Defence – real estate rationalisation	Yes	Baselines
Education – annual review of principals' pay	No	Expired
Electricity – sale of hydro stations	No	Change in Government policy
Hospital and Health Services – hospital projects in Auckland and Wellington	Yes	Baselines
Hospital and Health Services – loan covenant	No	Expired
Inland Revenue – tax rate reductions	No	Change in Government policy
International finance organisation's contributions	Yes	Baselines
Police – computer system	Yes	Baselines
Police – cost pressures	Yes	Baselines
Public Trust Office – corporatisation	No	Government policy pending
TVNZ – digital TV proposal	No	Change in Government policy

Quantified Fiscal Risks

Accident Insurance – accident insurance policy changes (new risk)

Cabinet is considering a package of options for changes to the accident insurance regime. These policies will have an impact on the costs in the Non Earners Account. Initial estimates are $4 million in 2000/01 and $17 million in the remaining outyears.

The Treasurer/Minister of Finance has yet to fully consider the quantum of this risk. The amounts disclosed are those submitted by the Department.

Source: Department of Labour

Agriculture and Forestry – food regulation and administrative structural options (new risk)

Implementation of structural change for food administration and regulation was halted in mid-1999, with the Government requiring further work to be done on the costs and benefits of alternative options.

This work has now been completed and a report on preferred structural options for food regulation and administration has recently been submitted to an ad hoc committee of Ministers. Once Ministers have decided on their preferred option, a full costing for both transitional and any ongoing marginal costs will need to be undertaken.

The costs are anticipated to be one off and up to $10 million.

Source: Ministry of Agriculture and Forestry

Child, Youth and Family Services – residential services strategy (new risk)

The Government approved the Residential Services Strategy in 1996 and updated the strategy in 1998 to increase bed capacity. The capital costs of land purchase and construction of new residences have been higher than originally estimated in 1998 while revenue from the sale of surplus properties is lower than forecast at that time. Operating costs for future outyears are also likely to be higher than originally estimated in 1998.

Additional costs are estimated to be up to $28 million in additional one-off capital costs and up to $15 million per annum in on-going operating cost for 2001/02 and subsequent outyears to finance the current strategy. The strategy will be re-assessed as part of the 2001/02 budget process.

Source: Department of Child, Youth and Family Services

Corrections – capital projects (changed risk)

The Department of Corrections has estimated a total of $380 million in capital costs and $210 million in operating costs may be required over the forecast period. These costs comprise of:

- deferred maintenance and risk mitigation
  ($180 million capital and $70 million operating)
- new prison construction to meet demand
  ($160 million capital and $100 million operating)
- expansion of existing prisons to meet demand
  ($40 million capital and $40 million operating)

Factors driving these expected costs are higher prison muster forecasts, asset degradation and operational risks.

The Treasurer/Minister of Finance has yet to fully consider the quantum of the risks identified above. The amounts disclosed are those submitted by the Department.

Source: Department of Corrections

Defence – East Timor (changed risk)

Funding was agreed during the *2000 Budget* for New Zealand's contribution to the United Nations Transitional Administration of East Timor for the period 1 July 2000 to 31 March 2001.

The future contribution by the Government to the United Nations is dependent on the nature of New Zealand's involvement including the size of the deployment. Estimated additional costs for the period 1 April 2001 to 30 June 2001 are $15 million and $55 million for the period 1 July 2001 to 31 March 2002 based on levels of deployment at the time of this update.

The United Nations may reimburse a portion of the overall costs contributed by the New Zealand Government throughout the East Timor deployment. The reimbursement is unquantified at this stage as the United Nations has yet to specify the timing of any reimbursement.

The Treasurer/Minister of Finance has yet to fully consider the quantum of this risk. The amounts disclosed are those submitted by the NZDF.

Source: New Zealand Defence Forces

Earthquake Commission – capital projects (new risk)

The Earthquake Commission (EQC) has proposed to purchase a national geological monitoring system and contract the Institute of Geological and Nuclear Sciences (IGNS) to operate the system. The system could cost $9 million in 2000/01; $10 million in 2001/02; $11 million in 2002/03 and $11 million in 2003/04.

The Treasurer/Minister of Finance has yet to consider fully the size of this risk. The amounts disclosed are provided by IGNS.

Source: Institute of Geological and Nuclear Sciences (IGNS)

Education – school property (unchanged risk)

Additional capital injections for school accommodation are likely to be required in future outyears to meet roll growth. Capital injections are estimated to be up to an additional $20 million in 2000/01 and up to $250 million in each subsequent outyear.

In addition to capital injections associated operating costs are likely to be incurred. These are estimated at $7 million in 2001/02; $21 million in 2002/03 and $36 million in 2003/04.

The Treasurer/Minister of Finance has yet to fully consider the quantum of this risk. The amounts disclosed are the amounts submitted by the Ministry.

Source: Ministry of Education

Government Superannuation Fund diversification (new risk)

A decision has been made to diversify the Government Superannuation Fund (GSF) assets and place them in the control of a new GSF Crown entity Board. Initial costings of the savings are estimated at $14 to $44 million per annum in Crown subsidy payments.

Source: The Treasury

Health – sewage treatment subsidy scheme (new risk)

The Government is investigating improvements to sewage treatment systems in rural areas. The Government may consider providing additional funding in 2001/02 and out years for such improvements. Estimates indicate the costs could be approximately $10 million per annum.

Source: Ministry of Health

Inland Revenue – taxing income of minor beneficiaries at the trustee tax rate (new risk)

The Government has indicated that it intends to take steps to prevent channelling of income through trusts to minors as a means of reducing tax payable by individuals. The proposal is to tax distributions from trusts to most minor beneficiaries at the trustee rate.

It is estimated that the successful introduction of such measures could raise approximately $15 million per annum.

The Treasurer/Minister of Finance has yet to fully consider the quantum of this risk. The amounts disclosed are those submitted by the IRD.

Source: Inland Revenue Department/Treasury

Māori Trustee – payment of services (unchanged risk)

The fiscal forecasts make no allowance for a doubtful debts provision for the non-payment of $30 million owed by the Māori Trust Office for services provided by the Ministry of Māori Development.

Source: Te Puni Kokiri

Treaty Settlements – Treaty heads of agreement (unchanged risk)

Heads of agreement have been signed for Ngati Awa, Ngati Ruanui, Ngati Mutunga, Ngati Tama, Rangitane o Manawatu and Te Uri o Hau for the settlement of historic Treaty claims totalling around $170 million. These agreements may be reflected in the Crown's financial statements in 1999/2000 or 2000/01 pending the signing of a Deed of Settlement between the Crown and each iwi.

The forecast operating balance includes a provision of $100 million per annum from 2000/01 for Treaty settlements costs. The forecast operating balance will be affected to the extent that the Deeds of Settlement in a year are greater or less than the provision.

Source: The Treasury

Unquantified Fiscal Risks

Agriculture and Forestry – South Island landless Māori (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. The Government has determined that it wishes to extend sustainable management provisions to SILNA forests.

Agreement has been reached with the landowners for the Lord's River block on Stewart Island, and a voluntary moratorium has been agreed for other SILNA lands although this is not yet fully implemented.

The Crown has continued consultations with potentially affected landowners on policy options. This risk is unquantified as disclosure could compromise the Crown in negotiations.

Agriculture and Forestry – varroa jacobsoni bee mite eradication (new risk)

The presence of *varroa jacobsoni* bee mite in South Auckland was confirmed by MAF on 11 April 2000.

MAF is currently completing a delimiting survey to determine the spread of varroa and to determine the likely cost and effectiveness of eradication and control options. The risk is unquantified as the final extent or cost of control measures has not been determined.

Defence – capital injections (changed risk)

The Government intends to assess its defence policy priorities during 2000/01 – capital injections may be required to implement these priorities once this is completed and the NZDF's capability needs are determined.

This risk differs from that previously reported, as the current Defence Capital Plan may be revised once the process is complete.

Defence – foreign exchange (new risk)

The NZDF is exposed to foreign exchange risk as part of its day-to-day activities. The Government has agreed to consider any fiscal repercussions for the NZDF (either positive or negative) arising from foreign exchange movements in the 2000/01 *Supplementary Estimates.*

Economic Development – sale of spectrum licences (changed risk)

The 2 GHz auction is scheduled to commence on 10 July 2000. The 2 GHz band includes 60 MHz of spectrum which is suitable for third generation cellular services. The management rights for 45 MHz of this third generation spectrum will be auctioned. The rights for the other 15 MHz will be sold to a pan-Māori trust at a discounted rate. The proceeds received from the auction will improve the operating balance and net worth and decrease net debt. The risk is unquantified as values of the spectrum have yet to be determined.

Education – collective employment contract renewals (new risk)

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

Education – school operational funding (new risk)

The Government has committed to annually adjust school operational funding to reflect inflation. This risk is unquantified but as an indication of cost a 1% inflation level will increase operational funding by around $8 million per school year from 2002 onwards.

Education – tertiary education institution capital injections (new risk)

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

Education – wananga capital injections (changed risk)

In response to interim capital injections, the three wananga (Māori tertiary institutions) agreed to a strategy with the Government which requires strategic plans and business cases to be prepared to support the interim and any additional capital injections. The risk is unquantified at this stage as the amounts of any further capital injections are not known.

Environment – climate change policy (unchanged risk)

As part of New Zealand's response to the Kyoto Protocol, Cabinet is to consider options for addressing pre-2008 greenhouse gas omissions including forward trading of international emission permits, a carbon tax, and a "pilot" emission trading scheme. At this stage it is unclear what impact (both positive and negative) any policies, if introduced, would have upon the forecasts.

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. The Fourth Schedule contains a list of species which are exempt from the no compensation provisions contained in the Fisheries Act 1996 when these species are introduced into the quota management system.

Legislation has been drafted and is now before the Select Committee to provide for a fixed amount per tonne in compensation for quota lost by current permit holders as a result of the Crown's obligations to Māori when the Fourth Schedule species are introduced into the Quota Management System.

Government Superannuation Fund – change in policy (new risk)

The Government has indicated that it intends to review Government Superannuation Fund policies including reinstating the allowance for widowed spouses who remarry. The amount is unquantified at this stage but will negatively impact on the operating balance.

Health – private sector finance (new risk)

Current health sector changes will lead to an additional capital injection if:

- a policy change occurs so that the Government is the sole provider for financing in the health sector; or
- private financiers willingness to continue financing the sector is affected by the change in structure to District Health Boards.

This would impact net debt and may have a small positive impact on the operating balance by the difference in public and private finance costs.

Health – sector changes (new risk)

The Government is implementing changes to health structures, including disestablishing the Health Funding Authority and replacing Hospital and Health Services (HHSs) with District Health Boards (DHBs). A maximum amount of $20 million has been provided, and included in forecasts, for additional costs during 2000/01. An estimate of any additional ongoing costs of the changes is yet to be finalised and it is also unclear what effect the transition to DHB's will have on the financial performance of the HHS sector.

Housing – changes to organisational structure (new risk)

Ministers have sought advice on the integration of the various aspects of housing delivery and housing policy advice into a single agency, with an implementation date in 2001. Cabinet has decided that the statutory objective of Housing New Zealand be changed. This change has been included in the Housing Restructuring (Income Related Rents) Amendment Bill. No decisions have been made on the detailed form of a new entity or the transition path, and therefore at this time it is not possible to identify the possible costs.

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 report on tax compliance, the Committee of Experts recommended that payments for restrictive covenants involving services, inducements 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.

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.

State-Owned Enterprises – refinancing debt position (new risk)

The Government is considering reviewing the capital structure of state-owned enterprises (SOE’s) to align with commercial best practice. An increase in private sector funding may result in return of capital to the Crown which will decrease Crown net debt.

TVNZ – change of direction (new risk)

The Government has announced a work programme for development of future directions and priorities for public broadcasting, and public policy on transmission services and digital technology. This work programme includes development of a new direction for TVNZ, including a charter and consideration of its status as an SOE. Decisions taken as a result of this work programme could impact on TVNZ’s profits and dividends for the forecast period. At this stage the extent of this impact is unclear.

Work and Income – Australian social security agreement (unchanged risk)

An interim arrangement has been approved for reimbursement by New Zealand of social security costs incurred by Australia in respect of New Zealanders. The interim agreement is based on a formula driven approach. This arrangement finishes in 2000/01 and the agreement is being renegotiated. However, if the agreement is not renegotiated in time, the formula in the interim agreement will be carried over into 2001/02 and 2002/03.

The additional operating costs in these outyears arising from either a carry over of the interim agreement or a renegotiated agreement are unclear at this stage.

Work and Income – delivery of income and employment services (new risk)

The Government is currently completing a review of service delivery options within the Department of Work and Income to improve the delivery of income support and to ensure employment services are appropriately directed to meet client needs. The risk is unquantified as the fiscal impacts will not be known until the review is completed.