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# Specific Fiscal Risks

## Introduction

This chapter describes the specific fiscal risks to the Crown, including contingent liabilities. The Public Finance Act 1989 (PFA) requires disclosure of all government decisions and other circumstances that may put pressure on the forecast spending amounts, and/or have a material effect on the fiscal and economic outlook.

### Criteria for Disclosure of Specific Fiscal Risks

To ensure a practicable and consistent disclosure approach, fiscal risks are disclosed based on the following criteria, consistent with the principles of the PFA:

- *Reasonable certainty criterion* – risks have not been included in the fiscal forecasts because they reflect Government decisions or legislative commitments with uncertain fiscal consequences or timing.
- *Materiality criterion* – risks have an impact on the fiscal forecasts (operating balance, net worth or gross debt) of $10 million or more in any one forecast year.
- *Active consideration criterion* – risks are being actively considered by the Minister of Finance and responsible Ministers (e.g., are the subject of written reports) or are decisions that have been deferred until a later date.

### Exclusions from Disclosure

The PFA 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
- 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, or
- result in a material loss of value to the Crown.

Specific fiscal risks do not include:

- normal forecasting risks, such as uncertainty around welfare benefits, SOE/Crown entity surpluses, the impact of regular revaluations of physical assets, finance costs, or fluctuations in external markets

- possible changes to the interpretation of accounting policies, such as the changes to revenue recognition rules and recognition of liabilities, or

- discussion documents containing proposals that the Minister of Finance and responsible Ministers will not actively consider until the consultation process has been completed.

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.

Contingent liabilities are also included according to materiality. Contingent liabilities below $10 million are included in the “other quantifiable contingent liabilities” total. Comparatives have been adjusted where appropriate to align with the disclosure of new “material” contingent liabilities. The total amount of contingent liabilities remains unchanged.

## Information Relating to All Disclosed Risks

- The risks disclosed may not eventuate into Government policy and the final cost or saving may differ from the amount disclosed if the policy is developed.

- All risks, should they eventuate, would impact on the Government’s forecast operating and/or capital spending amounts. These are forecast spending amounts already incorporated into the forecasts to accommodate policy initiatives on which decisions have yet to be made. Most risks outlined in this chapter, if they eventuate, would be covered by these amounts and therefore have no impact on the forecasts. The risks have been disclosed to indicate the pressure the risks place upon the forecast spending amounts.

- If the total of all risks considered exceeds the forecast new operating spending amounts in the forecasts, this would impact on the operating balance.

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

# Charges against Future Budgets

As part of its Budget strategy, the Government has put in place some longer-term funding paths for particular sectors. This aids long-term planning and demonstrates the Government's commitment to specific policies.

Charges against future Budgets do not meet the definition of a "risk" under the PFA, as these items are incorporated in the fiscal forecasts. This section is provided to increase transparency about the provisions for future Budgets.

### *Defence Funding Package*

The Defence Funding Package (DFP) is designed to provide the New Zealand Defence Force (NZDF) with the funding required to address issues identified by the Defence Capability and Resourcing Review, including capability, and maintaining equipment and reserves. Budget 2006 included $73 million per annum as the second tranche of the 10-year plan. The following table shows the additional tranches as charged against future Budgets.

| Budget to be Charged ($m) | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 |
|---|---|---|---|---|---|---|---|---|
| Budget 2007 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 | 58.0 |
| Budget 2008 | | 69.1 | 69.1 | 69.1 | 69.1 | 69.1 | 69.1 | 69.1 |
| Budget 2009 | | | 85.7 | 85.7 | 85.7 | 85.7 | 85.7 | 85.7 |
| Budget 2010 | | | | 108.1 | 108.1 | 108.1 | 108.1 | 108.1 |
| Budget 2011 | | | | | 66.9 | 66.9 | 66.9 | 66.9 |
| Budget 2012 | | | | | | 14.2 | 14.2 | 14.2 |
| Budget 2013 | | | | | | | 58.6 | 54.2 |
| Budget 2014 | | | | | | | | 0 |

### *Health Pre-commitment*

In Budget 2006, the Government agreed that the indicative Health allocation of $750 million for Budget 2007 may be pre-committed by up to $77 million per annum in 2010/11 and outyears. This is to allow for Budget 2006 initiatives that may be further developed in 2006/07, and have a rising profile.

| Budget to be Charged ($million) | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|
| Budget 2007 | 50 | 65 | 77 | 77 |

### *Official Development Assistance*

The Government has provided funding for an Official Development Assistance to Gross National Income ratio (ODA:GNI ratio) of 0.27% for the fiscal years 2005/06 and 2006/07 and is committed to increasing this to 0.28% in 2007/08. Budget 2006 included funding of $19 million per annum to maintain the 0.27% ratio. The 0.28% ratio in 2007/08 is expected to cost $38 million, and will be charged against Budget 2007.

| Budget to be Charged ($million) | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|
| Budget 2007 | 38 | 38 | 38 | 38 |

### *Removal of Carbon Charge*

The Government has decided not to proceed with a broad-based carbon tax. As compensatory measures are still being developed, the cost of the removal of the carbon tax has been agreed as a pre-commitment against Budget 2007.

| Budget to be Charged ($million) | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|
| Budget 2007 | 347 | 344 | 349 | 349 |

### *Tertiary Student Component Funding Rate Changes (the rolling funding triennium and fee and course cost maxima)*

The Government had a policy of increasing Student Component funding rates for tertiary education by the rate of forecast CPI inflation on a rolling triennium. Funding was appropriated for future years at the rate of the CPI forecast plus 1%, and in the Budget preceding the relevant academic year funding rates are confirmed using a more up-to-date CPI forecast. This particular policy has been discontinued, and there is no further charge against any Budget beyond 2007.

| Budget to be Charged ($million) | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|
| Budget 2007 | 28.5 | 57.0 | 57.0 | 57.0 |

### *Transport Capital Decisions*

The Government has made several long-term capital commitments relating to Transport. This table notes the implications for the capital allowances beyond the forecast period.

| Transport Project | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|---|
| Auckland | 100.0 | 100.0 | 100.0 | - | - | - |
| Wellington | 20.0 | 20.0 | 20.0 | 20.0 | - | - |
| Western Corridor | 120.0 | 100.0 | 40.0 | 40.0 | 20.0 | - |
| Bay of Plenty | 25.0 | 15.0 | 10.0 | 10.0 | - | - |
| Waikato | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 |

## Time-Limited Funding

Time-limited funding does not meet the definition of a "risk" under the PFA, but is further information that is prepared to increase transparency about initiatives with funding profiles that cease or decrease during the forecast period.

The following table outlines those areas where initiatives have time-limited funding that decreases or ceases at some point and may potentially be extended, using a $5 million materiality threshold. They are often related to pilot programmes.

| Vote | Description of Initiative | Operating Impact ($million) |
|---|---|---|
| Community and Voluntary Sector | Digital Strategy – Community Partnerships Fund | 17 from 2005/06 to 2008/09 (MYA) |
| Communications | Digital Strategy – high-speed connectivity for growth | 20 from 2005/06 to 2008/09 (MYA) |
| Economic, Industry and Regional Development | Regional partnerships and facilitation for sustainable economic growth | 57 from 2004/05 to 2006/07 (MYA) |
| Education | Microsoft software licensing | 8 in 2005/06 and 4 in 2006/07 |
| Energy | Electricity efficiency programme | 8 in 2005/06 and 10 in 2006/07 |
| Health | Meningococcal vaccine programme | 44 in 2005/06, 19 in 2006/07 and 7 in each of 2007/08 and 2008/09 |
| Housing | Rural housing programme | 9 in each of 2005/06 and 2006/07, 7 in 2007/08 |
| Internal Affairs | Significant Community-Based Projects Fund | 40 from 2005/06 to 2008/09 (MYA) |
| Lands | Land Tenure Reform | 40 from 2005/06 to 2007/08 (MYA) |
| Police | Regional Assistance Mission Solomon Islands and Solomon Island executive support | 7 in each of 2005/06 and 2006/07 |

The following table shows the impact on the operating balance if funding were to be appropriated to maintain funding levels for these initiatives (i.e., extend the initiatives beyond their current scheduled completion dates). These amounts would need to be managed within the forecast operating spending.

| Operating Impact ($million) | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|---|
| Funding to extend initiatives | 4 | 40 | 61 | 87 | 87 |

## Quantified Risks

The risks outlined in these tables would, if they eventuated, impact on the Government's forecast new operating and/or capital spending amounts.

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

| Quantified Risks as at 8 May 2006 | Operating Balance | Gross Debt | Value of Risk ($million) | Funding Received in Budget 2006 ($million) |
|---|---|---|---|---|
| New Risks | | | | |
| Economic Development – Venture Investment Fund | - | Increase | 40 capital in 2009/10 and 2010/11 | 60 capital from 2006/07 to 2008/09 |
| Finance – National Rail Network – Reconfiguration of Land | - | Increase | 30 capital in 2007/08, unclear thereafter | 53 capital in 2006/07 |
| Health – Indicative Funding for Budgets 2007 and 2008 | Decrease | - | 700 in 2007/08, 1435 in 2008/09 and 1423 per annum from 2009/10 | - |
| Justice Sector Agencies – Potential Flow-on Impact of Extra Police | Decrease | Increase | 150 to 200 per annum | - |
| Research, Science and Technology – Multi-year Funding Profile | Decrease | - | 30 in 2007/08, 60 in 2008/09 and 90 per annum from 2009/10 | 25 per annum operating and 5 capital in 2006/07 |
| Reserve Bank of New Zealand – Liquidity Management Policy | - | Increase | 5000 | - |
| Changed Risks | | | | |
| Corrections – Capital Projects | Decrease | Increase | 209 capital and 25 operating from 2006/7 to 2010/11 | 121 operating |
| Culture and Heritage – Broadcasting Initiatives | Decrease | - | 27 per annum | 6 per annum |
| Education – School Property | Decrease | Increase | 125 capital in each of next 4 years, and operating of 7 in 2007/08, 12 in 2008/09 and 18 per annum from 2009/10 | 158 capital and 27 operating from 2006/07 to 2010/11 |
| Education (Tertiary) – Vocational Training | Decrease | - | 8 in 2007/08, 23 in 2008/09 and 30 per annum from 2009/10 | 6 in 2006/07,15 in 2007/08 and 19 per annum from 2008/09 to 2010/11 |
| Finance – National Rail Network – Obligations of Rail Agreement | - | Increase | 60-70 per annum capital from 2007/08 | 50 capital in 2006/07 |
| Justice – New Supreme Court – Cost Escalation | - | Increase | Up to 53 capital | - |
| New Zealand Defence Force – Defence – Capital Injections | - | Increase | 289 capital from 2007/08 to 2010/11 | 265 capital in 2006/07 |
| Police – Increases to Police Staff | Decrease | Increase | Operating of 42 in 2007/08, 86 in 2008/09 and 95 per annum from 2009/10 and capital of 63 from 2007/08 to 2009/10 | 32 per annum operating and 49 capital from 2006/07 to 2010/11 |

| Quantified Risks as at 8 May 2006 | Operating Balance | Gross Debt | Value of Risk ($million) | Funding Received in Budget 2006 ($million) |
|---|---|---|---|---|
| Unchanged Risks | | | | |
| New Zealand Defence Force – Environmental Clean-up of Devonport Seabed Contamination | Decrease | - | 13 over 2006/07 and 2007/08 | - |
| New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers | - | Decrease | 120 capital | - |
| Revenue – Fringe Benefit Tax Review | Decrease | | 24 to 64 per annum | - |

## Unquantified Risks

The risks outlined in these tables would, if they eventuated, impact on the Government's forecast new operating and/or capital spending amounts.

| Unquantified Risks as at 8 May 2006 | Operating Balance | Gross Debt | Funding Received in Budget 2006 ($million) |
|---|---|---|---|
| New Risks | | | |
| Corrections – Collective Employment Contract Negotiations | Decrease | - | - |
| Education – Expansion of NZ Diploma in Specialist Subjects | Decrease | - | - |
| Education – Year One Class Sizes | Decrease | Increase | - |
| Education (Tertiary) – Centres of Research Excellence | Decrease | Increase | - |
| Education (Tertiary) – Partnerships for Excellence | - | Increase | - |
| Education (Tertiary) – Tertiary Education Institutions at Risk | - | Increase | - |
| Energy – Oil Security – Meeting International Energy Agency Obligations | Decrease | - | - |
| Fisheries – Civilian Maritime Aerial Surveillance | Decrease | Increase | - |
| Justice – Strengthening the National Court Infrastructure | Decrease | Increase | - |
| National Library – National Library Building Extension | - | Increase | - |
| Police – Wage Negotiations | Decrease | - | - |
| Revenue – Business Tax Review | Unclear | - | - |
| Social Development / Housing – Accommodation Supplement Review | Decrease | Increase | - |
| State Services Commission – All-of-Government Authentication | Decrease | Increase | - |

| Unquantified Risks as at 8 May 2006 | Operating Balance | Gross Debt | Funding Received in Budget 2006 ($million) |
|---|---|---|---|
| Changed Risks | | | |
| Education – Schools ICT Network Infrastructure Upgrade | Decrease | Increase | 4 capital |
| Education (Tertiary) – Tertiary Education Expenditure Review | Unclear | Unclear | - |
| Education (Tertiary) – Tertiary Student Support Changes | Decrease | Unclear | Operating expenditure of 1 in 2006/07, 2 in 2007/08, 3 in 2008/09 and 4 per annum from 2009/10; capital savings of 13 in 2006/07, 22 in 2007/08 and 25 in 2008/09 and 2009/10 |
| Education (Tertiary) – Wananga Capital Injection | - | Increase | - |
| Environment – Climate Change Policies | Unclear | - | - |
| Health – District Health Board deficits | Decrease | Increase | - |
| Revenue – Rebuild of the Student Loan IT System | Decrease | Increase | - |
| Revenue – Tax and Depreciation | Unclear | - | - |
| Unchanged Risks | | | |
| Conservation – Foreshore and Seabed Compensation | Decrease | - | - |
| Conservation – Lease of Taupo Property Rights from Tuwharetoa | Decrease | - | - |
| Finance – Crown Overseas Properties | - | Increase | - |
| Finance – National Rail Access Agreement Amendments | Unclear | Unclear | - |
| Finance – SOE Long-term Hold Reviews | - | Decrease | - |
| Fisheries – Māori Interest in Marine Farming | Decrease | - | - |
| Housing – State Housing Project at Hobsonville | - | Increase | - |
| Immigration – New Immigration Service Delivery Strategy | Unclear | - | - |
| Labour – Department of Labour Strategic Baseline Review | Unclear | Unclear | - |
| Revenue – Family Assistance Indexation and Review of Rates | Decrease | - | - |
| Revenue – Taxation of Partnerships Review | Unclear | - | - |
| Social Development – Child, Youth and Family Services – Reviewing Levels of Funding and Service Delivery | Unclear | Unclear | - |
| Social Development – New Zealand Superannuation – International Mobility Issues | Unclear | - | - |
| Social Development – Working for New Zealand | Unclear | - | - |
| State Services Commission – State Sector Retirement Savings Scheme | Decrease | - | - |

## Risks Removed Since the 2005 Half Year Update

The following risks have been removed since the 2005 *Half Year Economic and Fiscal Update.*

| Expired Risks | Reason | Funding Received ($million) |
|---|---|---|
| Child, Youth and Family Services – Collective Employment Contract Negotiations | In forecasts | - |
| Child, Youth and Family Services – Residential Services Strategy 2003 | In forecasts | - |
| Economic Development – Large Budget Screen Production Fund | In forecasts | 27 in 2005/06 |
| Education – Early Childhood Education | In forecasts | 3 in 2006/07, 39 in 2007/08, 41 in 2008/09, 44 in 2009/10, 43 in 2010/11 and 44 per annum from 2011/12 |
| Foreign Affairs and Trade – Official Development Assistance | Not currently under active consideration | - |
| Health – New Zealand's Preparedness for a Possible Pandemic | In forecasts | - |
| Housing – Housing New Zealand Corporation's Long-Term Capital Requirements | Expired | - |
| Housing – Weathertight Homes | In forecasts | 9 in 2006/07, 10 in 2007/08, 8 in 2008/09 and 4 per annum from 2009/10 |
| Internal Affairs – 2004 and 2005 Storms Response and Infrastructure Costs | Expired | - |
| Revenue – Extension of the Temporary Tax Exemption for New Migrants | In forecasts | - |
| Revenue – Review of Superannuation Contribution Withholding Tax | Expired | - |
| Revenue – Subsidies for Payroll-Related Tax Compliance Costs | In forecasts | 5 in 2006/07, 11 in 2007/08, 22 in 2008/09 and 43 per annum from 2009/10 |
| Revenue – Taxation of Offshore Portfolio Investment and Intermediaries, including Superannuation | In forecasts | 13 per annum |
| Revenue – Taxation of Racing Industry | In forecasts | 32 in 2006/07, 34 in 2007/08 and 35 per annum from 2008/09 |
| Social Development – Early Intervention | In forecasts | 4 per annum |
| Social Development – New Zealand Superannuation – Rate Adjustment | In forecasts | - |
| Transport – Regional Transport Initiatives | In forecasts | 1,500 over 11 years |
| Youth Development – United Nations Convention on the Rights of the Child | Expired | - |

# Statement of Fiscal Risks

### *Conservation – Foreshore and Seabed Compensation (unchanged, unquantified risk)*

Section 25 of the Foreshore and Seabed Act 2004 directs the Minister of Conservation to provide compensation to local authorities that lost their title to any area of foreshore and seabed through the operation of section 13 of the Foreshore and Seabed Act. Councils were to apply for redress by 25 November 2005.

As work is still underway on assessing the quantum of these claims, total potential compensation is not yet known.

### *Conservation – Lease of Taupo Property Rights from Tuwharetoa (unchanged, unquantified risk)*

On 18 May 2005, the Government agreed to enter into negotiations with Tuwharetoa Māori Trust Board following legal clarification of property rights relating to Lake Taupo. The Crown is considering leasing certain property rights from the Tuwharetoa Māori Trust Board in order to resolve current disputes. Negotiations are ongoing and the outcome is not yet known.

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

### *Corrections – Capital Projects (changed, quantified risk)*

In Budget 2006, $121 million operating funding was approved for Corrections capital projects. The Department of Corrections has estimated that a further total of $209 million capital and $25 million operating funding may be required over the forecast period. The actual amounts depend on the specification and timing of the individual projects and the contracted prices. These estimates include consideration of funding for Mt Eden Prison and expanding the estate, and have changed since the *Half Year Economic and Fiscal Update* to reflect investment decisions made during the 2005/06 financial year.

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

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

Source: Department of Corrections

### *Corrections – Collective Employment Contract Negotiations (new, unquantified risk)*

The Department of Corrections has three collective employment agreements that have expired and a further nine that are due to expire between May and July 2006. The Department will be entering into negotiations with the Public Service Association and the Corrections Association of New Zealand to settle new collective employment agreements. Any additional funding that the Government agreed to provide would reduce the operating balance.

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

***Culture and Heritage – Broadcasting Initiatives (changed, quantified risk)***

On 3 February 2005, the Government released a Public Broadcasting Programme of Action. The Programme contains a set of priorities to guide public broadcasting policy over the next six years, and a series of proposals to give effect to these priorities. The Programme as a whole (if fully implemented) would have total ongoing operating costs rising to around $44 million in 2009/10. Broadcasting initiatives of $11 million and $6 million per annum were included in Budgets 2005 and 2006, respectively. The Government is considering proposals for the remaining $27 million per annum. Individual elements of the Programme of Action may be considered in future Budgets over the next five years. These would decrease the operating balance.

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

Source: Ministry for Culture and Heritage

***Economic Development – Venture Investment Fund (new, quantified risk)***

In Budget 2006, the Government agreed to additional investment commitments in the Venture Investment Fund of $60 million over three years. The Government is also considering further commitments of $40 million in 2009/10 and 2010/11 in Budget 2009 following the scheduled evaluation of the Venture Investment Fund (due for completion by 31 March 2009). This would increase gross debt.

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

Source: Ministry of Economic Development

***Education – Expansion of NZ Diploma in Specialist Subjects (new, unquantified risk)***

The Government is considering expanding the NZ Diploma in Specialist Subjects (Secondary Teacher) (NZ Dip SS) so that more teachers are eligible to work towards this qualification. This risk is unquantified as disclosure could compromise the Crown in negotiations, but expanding the Diploma would decrease the operating balance.

***Education – School Property (changed, quantified risk)***

Budget 2006 provided $158 million of capital and $27 million of associated operating funding over the forecast period for school accommodation. Additional capital injections for school accommodation may be required in future years to meet roll growth and could cost up to $90 million in each of the next four years with a corresponding increase in debt. In addition to capital injections, consequential operating costs of $8 million per annum thereafter are likely to be incurred, which would decrease the operating balance.

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

Source: Ministry of Education

***Education – Schools ICT Network Infrastructure Upgrade (changed, unquantified risk)***

Budget 2006 has provided $4 million in capital and $0.6 million in associated operating funding for a partial roll-out of the Schools ICT Network Infrastructure Upgrade. The roll-out is intended to assist schools to meet the costs of upgrading their computer networks to meet the new IT infrastructure standards. The Government is considering the continued roll-out of this upgrade as part of Budget 2007.

This risk is unquantified as disclosure could compromise the Crown in negotiations, but any additional funding would decrease the operating balance and increase debt.

***Education – Year One Class Sizes (new, unquantified risk)***

The Government is considering reducing year one class sizes to ensure there are no more than 15 pupils in a class. This will require funding to employ approximately 1,500 additional primary teachers and provide additional school property. This initiative would decrease the operating balance and increase debt, but the precise costs have yet to be quantified as the phasing of the policy is still being determined.

***Education (Tertiary) – Centres of Research Excellence (new, unquantified risk)***

The Government is considering providing additional funding for Centres of Research Excellence. This risk is unquantified as disclosure could compromise the Crown in negotiations with the tertiary sector, but any additional funding would decrease the operating balance and increase debt.

***Education (Tertiary) – Partnerships for Excellence (new, unquantified risk)***

The Government has established an arrangement called "Partnerships for Excellence" whereby the Crown matches private sector investment in the tertiary sector. Further funding for 2006/07 is being considered. The future approach to capital funding for tertiary education institutions, including Partnerships for Excellence, may be considered as part of a funding system review. Any capital injections would increase gross debt.

***Education (Tertiary) – Tertiary Education Expenditure Review (changed, unquantified risk)***

The Government has initiated a review of the quality, relevance, sustainability and predictability of tertiary education spending. A number of decisions relating to certificate and diploma tertiary education provision were taken in July 2005. Further policy development is underway and decisions are expected late in 2006 with a particular focus on policy and funding mechanisms that support the long-term sustainability of tertiary education and research that is high quality, relevant and value for money. The impact on the operating balance and debt is unclear as decisions have yet to be taken.

***Education (Tertiary) – Tertiary Education Institutions at Risk (new, unquantified risk)***

The Government may consider making loans or capital injections to tertiary education institutions where ongoing educational provision or financial viability are at risk. This would increase gross debt, but the precise impact is unclear as it would depend on progress made by institutions in managing their pressures, and decisions taken by Government.

### *Education (Tertiary) – Tertiary Student Support Changes (changed, unquantified risk)*

The Government is considering increasing eligibility for student allowances over the parliamentary term. The impact of these changes is likely to reduce the operating balance and debt, but the quantum is unclear as it would depend upon the options chosen.

### *Education (Tertiary) – Vocational Training (changed, quantified risk)*

The Government is considering a number of policies regarding the expansion of vocational training. One of these is to have 250,000 people participating in industry training. Budget 2006 includes $15.6 million over four years to fund an additional 5,000 Industry Training places in 2007, bringing the total number of people participating in industry training to 195,000. The cost of funding the additional 55,000 places required to meet the target would reduce the operating balance by approximately $7.5 million in 2007/08, $22.5 million in 2008/09 and $30 million per annum thereafter.

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

Source: Tertiary Education Commission

### *Education (Tertiary) – Wananga Capital Injection (changed, unquantified risk)*

The Government is currently negotiating with Te Wananga o Raukawa over settlement of its Waitangi Tribunal claim. The Waitangi Tribunal has recommended that the Wananga be compensated for capital expenditure that has been incurred on facilities to date, and be provided with funding to bring its facilities up to a standard comparable with other tertiary institutions, and meet additional capital requirements.

Any capital injection would increase gross debt. This risk is unquantified as disclosure could compromise the Crown in negotiations with the Wananga.

### *Energy – Oil Security – Meeting International Energy Agency Obligations (new, unquantified risk)*

New Zealand has a treaty obligation to hold 90 days of petroleum stocks. It became apparent in 2004 that New Zealand’s stocks were about 28 days below this level. The Government is considering a range of options to bring New Zealand into compliance with its International Energy Agency obligations.

This risk is unquantified as disclosure could compromise the Crown in negotiations, but any additional funding would reduce the operating balance.

### *Environment – Climate Change Policies (changed, unquantified risk)*

Work on climate change policies is currently underway. The impact on the operating balance and debt is unclear, as it will depend on the outcomes of the various work streams underway.

The forecasts make provision for New Zealand’s liability under the Kyoto Protocol, currently estimated at 64 million tonnes of carbon dioxide equivalent. The Government has not, at this point, taken a decision on whether to finance part of this liability through purchase of Kyoto-compliant emission units on the international market. However, should a purchasing policy be pursued, the commensurate funding required would increase gross debt.

***Finance – Crown Overseas Properties (unchanged, unquantified risk)***

The Government is considering options relating to the continued use of certain Crown overseas properties.

The risk is unquantified as disclosure could compromise any negotiations the Crown may enter, but any additional operating funding would decrease the operating balance, and/or any additional capital funding would increase debt.

***Finance – National Rail Access Agreement Amendments (unchanged, unquantified risk)***

The Government is considering options for amending the National Rail Access Agreement between Toll and ONTRACK. Any impact on the operating balance or debt would depend on the option chosen.

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

***Finance – National Rail Network – Obligations of Rail Agreement (changed, quantified risk)***

The Government has committed $200 million between 2004/05 and 2007/08 to upgrade and renew the national rail network. A further $50 million in 2006/07 has been agreed in the 2006 Budget. Additional expenditure of around $60 to $70 million per annum will be required from 2007/08 for renewals, with additional funding on top of this for upgrades, but the exact amount will depend on decisions yet to be made. Under the National Rail Access Agreement, additional funding of this nature would generally be recovered through track access fees. Any additional funding would increase debt.

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

Source: The Treasury

***Finance – National Rail Network – Reconfiguration of Land (new, quantified risk)***

The Agreement for Sale and Purchase of Rail Network and Associated Assets between the Crown and Toll provides for Toll to reconfigure their operations to enable the release of land they occupy to the Crown (ONTRACK) for other uses. ONTRACK requires funding from the Crown for the reconfiguration costs and the settlement of the land value with Toll. Funding of $53 million to ONTRACK for land release in 2006/07 has been agreed in the 2006 Budget. Further funding of around $30 million may be required in 2007/08, with unquantified amounts in years beyond that. The exact amounts of funding will depend on decisions yet to be made. Any additional funding would increase debt.

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

Source: The Treasury

### *Finance – SOE Long-Term Hold Reviews (unchanged, unquantified risk)*

To implement its long-term hold ownership policy, the Government is conducting reviews of each SOE. These reviews are examining the strategic direction for each SOE and therefore the appropriate capital structure to support the individual SOE's strategy. One possible outcome of current reviews is that some capital could be returned to the Crown. This may be in the form of a special dividend, which would decrease gross debt.

### *Fisheries – Civilian Maritime Aerial Surveillance (new, unquantified risk)*

The Government is considering options to provide increased maritime aerial surveillance for civilian agencies in the short to medium range. Options include delivery of a range of different surveillance capabilities by either military or commercial providers. The amount of funding required would depend on the option chosen, if any. Any capital injections required would increase gross debt, while operating funding would decrease the operating balance.

The risk is unquantified as the amount or timing of any funding is unclear.

### *Fisheries – Māori Interest in Marine Farming (unchanged, unquantified risk)*

The Māori Commercial Aquaculture Claims Settlement Act 2004 addresses Māori claims in commercial marine farming space from 21 September 1992 to 31 December 2004 (pre-commencement space) by providing Iwi with 20% equivalent space. This obligation is to be met through three possible options: the provision of additional new space; Crown purchase of existing farms from 2008; or provision of the financial equivalent of space from 2013.

Under the Act, any Māori claim relating to new aquaculture space after 31 December 2004 will be met by the provision of 20% of the new space.

To the extent that financial compensation or Crown purchase of existing farms is necessary to address Māori interests in pre-commencement space (as opposed to using new space), this would decrease the operating balance. This risk is unquantified as the amount or timing of any funding is unclear. In addition, disclosure could compromise the Crown in negotiations with either commercial marine farm owners or Iwi.

### *Health – District Health Board Deficits (changed, unquantified risk)*

Draft District Annual Plans from District Health Boards (DHBs) indicate projected operating deficits in 2006/07 for Auckland, Waitemata, Whanganui, Hutt, and West Coast DHBs. The Government has not accepted the size of the forecast deficits and is actively discussing actions and cost-containment measures with these DHBs.

Any deficits would potentially decrease the operating balance and/or increase debt. Specific potential pressures for DHBs include wage bargaining and financing costs of capital projects.

This risk has changed since the 2005 *Half Year Update* to take into account the new projections of DHB deficits.

### *Health – Indicative Funding for Budgets 2007 and 2008 (new, quantified risk)*

The Government is considering indicative operating allocations of $750 million per annum for Vote Health for each of Budgets 2007 and 2008. These indicative amounts indicate the likely level of increased funding to be provided to Vote Health in future Budgets and to assist the Minister of Health to plan spending priorities over the period. The final allocations will depend on economic and fiscal conditions at the time of each Budget. Finalising the amounts and details of how these allocations will be spent will be subject to normal Budget processes.

The Government has also agreed that the indicative allocation for Budget 2007 above may be pre-committed up to $77 million per annum in 2009/10 and outyears. This was shown in the *Charges Against Future Budgets* section of this chapter. The operating balance could be adjusted to the totals as follows:

| Budget to be Charged ($million) | 2007/08 | 2008/09 | 2009/10 | 2010/11 and Outyears |
|---|---|---|---|---|
| Budget 2007 | 700 | 685 | 673 | 673 |
| Budget 2008 | | 750 | 750 | 750 |

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

Source: The Treasury

### *Housing – State Housing Project at Hobsonville (unchanged, unquantified risk)*

In Budget 2005, Housing New Zealand Corporation (HNZC) received funding of $54 million to acquire, under the Housing Act 1955, New Zealand Defence Force (NZDF) land at Hobsonville deemed surplus to defence requirements but suitable for state housing purposes. The Government is considering development options for this land, and the purchase of adjoining NZDF land. These may lead to the Crown giving additional capital to HNZC, which would increase gross debt.

### *Immigration – New Immigration Service Delivery Strategy (unchanged, unquantified risk)*

The Government is in the process of developing options for a new immigration service delivery strategy that would allow better management of the risk surrounding immigration decision-making. Options are likely to be considered in mid-2006. As options are still being developed, the impact of the operating balance is unclear.

### *Justice – New Supreme Court – Cost Escalation (changed, quantified risk)*

In order to meet revised functional requirements, the Government is considering altering the 2003 design for accommodating the new Supreme Court, which is likely to increase construction costs. The original scheme was approved by Cabinet at a cost of $19 million. The additional capital cost may be up to $53 million, depending on the design option selected. If approved, this would increase gross debt, with the associated operating costs decreasing the operating balance.

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

Source: Ministry of Justice

***Justice – Strengthening the National Court Infrastructure (new, unquantified risk)***

The Government is considering options to ensure that Christchurch's court facilities are able to adequately deliver court and associated justice services to the region.

The risk is unquantified as disclosure could compromise any commercial property negotiations the Crown may enter into. Any additional operating funding would decrease the operating balance and any additional capital would increase debt.

***Justice Sector Agencies – Potential Flow-on Impact of Extra Police (new, quantified risk)***

The associated flow-on cost of 1,000 extra Police to other agencies (e.g., the Ministry of Justice and the Department of Corrections) has yet to be quantified. Justice sector agencies have made some preliminary estimates based on the assumption that current policy settings remain unchanged, which suggest that the flow-on costs, excluding those costs for Police, could be in the order of $150 million to $200 million per annum over the forecast period.

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

Source: Ministry of Justice

***Labour – Department of Labour Strategic Baseline Review (unchanged, unquantified risk)***

The Government is currently conducting a review of the Department of Labour. The review will consider the appropriate mix of delivery outputs to achieve desired labour market outcomes. The impact on the operating balance and/or gross debt is unclear.

***National Library – National Library Building Extension (new, unquantified risk)***

The Government is considering funding an extension to the National Library Building, subject to a fully developed and costed proposal.

This risk is unquantified as disclosure could compromise the Crown in negotiations, but any additional funding would increase debt.

***New Zealand Defence Force – Defence – Capital Injections (changed, quantified risk)***

Implementing the Government's decisions on the future structure of the NZDF will involve a series of capital acquisitions across all three armed services and for HQNZDF to achieve the required capability upgrades. The Government has agreed to a capital injection of up to $1.244 billion over 2001/02 to 2010/11.

Of the Long-Term Development Plan funding, $955 million has been agreed, with the remainder likely to be required within the forecast period. The actual expenditure profile will depend on the specification and timing of the individual projects, the contracted prices, and the prevailing exchange rate at the time of purchase.

Any further capital injections would increase gross debt.

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

Source: New Zealand Defence Force

### *New Zealand Defence Force – Environmental Clean-up of Devonport Seabed Contamination (unchanged, quantified risk)*

The Government has identified historic contamination in the seabed adjacent to the Calliope Dock at the Devonport Naval Base. A preliminary study on the contamination has commenced, and it is anticipated that better information will be available shortly to determine the scope of the issue. Costs are estimated to be $13 million over 2006/07 and 2007/08. The extent to which extra funding is provided would decrease the operating balance.

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

Source: New Zealand Defence Force

### *New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers (unchanged, quantified risk)*

As a result of the Government's decisions on the future structure of the NZDF, NZDF has signed an agreement with Tactical Air Services Inc for the sale of the Skyhawks and Aermacchi trainers for US$110 million. A formal contract has yet to be signed, but proceeds from the sale would decrease debt and increase the operating balance.

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

Source: New Zealand Defence Force

### *Police – Increases to Police Staff (changed, quantified risk)*

The Government has committed to funding an additional 1,000 front-line police over Budgets 2006 to 2008. The Government will consider further increases in future Budgets with a view to achieving police officer ratios comparable with those of Australia by 2010. Budget 2006 includes $32 million per annum operating and $49 million capital over the forecast period to provide for the first tranche of additional police (including non-sworn staff and some associated infrastructure costs). The Government intends to roll out the second tranche in Budget 2007, and the third and final tranche in 2008. The indicative operating costs are $42 million in 2007/08, $86 million in 2008/09 and $95 million in 2009/10. Indicative capital costs are $38 million in 2007/08, $16 million in 2008/09 and $9 million in 2009/10.

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

Source: New Zealand Police

### *Police – Wage Negotiations (new, unquantified risk)*

The Police collective employment agreement for sworn staff expires on 30 June 2006. The Police will be entering into negotiations with the Police Association to settle a new collective employment agreement in April/May. Any additional funding agreed would reduce the operating balance.

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

### *Research, Science and Technology – Multi-year Funding Profile (new, quantified risk)*

As part of Budget 2006, the Government signalled its broad intention to move towards a medium-term focus for investment in research, science and technology by indicating increases in the order of $30 million per annum in Budgets 2007, 2008 and 2009, subject to the context of each Budget and the Government's overall fiscal strategy. These increases would decrease the operating balance.

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

Source: Ministry of Research, Science and Technology

### *Reserve Bank of New Zealand – Liquidity Management Policy (new, quantified risk)*

The Reserve Bank is reviewing its liquidity management regime and has proposed to increase the Settlement Cash Level by an additional $5 billion. The Reserve Bank has not finalised the implementation plan but expects that if this proposal is accepted it will be phased in over a period of time. The Reserve Bank's proposed liquidity management regime also has implications for the Treasury bill market and the structure of the Government funding programme. The Treasury is considering how best to manage these impacts. If adopted, this proposal could result in an increase in gross sovereign-issued debt of $5 billion. Net Crown debt is unaffected by the Reserve Bank's proposal.

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

Source: The Treasury

### *Revenue – Business Tax Review (new, unquantified risk)*

The Government is conducting a review of the current business taxation regimes with a view to ensuring the system works to give better incentives for productivity improvements and improved competitiveness with Australia. Proposals for consultation are due to be released in the middle of 2006. The impact on the operating balance is unclear as it would depend on the outcome of the review.

### *Revenue – Family Assistance Indexation and Review of Rates (unchanged, unquantified risk)*

The Working for Families package included a commitment to index Family Assistance payment rates and abatement thresholds, once inflation beyond 1 April 2007 cumulatively exceeds 5%. Legislation also requires a review of the amounts of the In-Work Payment and Parental Tax Credits to be undertaken no later than June 2008. This policy cannot be costed with sufficient accuracy until the reviews are completed, but the indexation changes would reduce the operating balance.

### *Revenue – Fringe Benefit Tax Review (unchanged, quantified risk)*

The Taxation (Depreciation, Payment Dates Alignment, FBT and Miscellaneous Provisions) Act included changes to fringe benefit tax policies. The Government is considering further work on changes to the fringe benefit tax rules focusing on eliminating certain anomalies in relation to motor vehicles.

The reduction in the operating balance would depend on what proposals are finally approved and the details of the legislation. However, the estimated net fiscal cost is likely to be within the range of $24 million to $64 million per annum.

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

Source: Inland Revenue

***Revenue – Rebuild of the Student Loan IT System (changed, unquantified risk)***

To facilitate the implementation of zero-interest on student loans, the Government is considering options for rebuilding the student loans IT system. The rebuild would allow zero-interest to be assessed, improve the integrity of the system, produce better information to inform policy decisions and allow flexibility for policy changes. This risk is unquantified as disclosure could compromise the Crown in negotiations.

***Revenue – Tax and Depreciation (changed, unquantified risk)***

The Taxation (Depreciation, Payment Dates Alignment, FBT and Miscellaneous Provisions) Act included changes to depreciation policies. The Government is considering further issues related to depreciation, including the treatment of losses on disposals of buildings and depreciation loadings in particular. However, the impact on the operating balance remains unclear as it would depend on the options chosen.

***Revenue – Taxation of Partnerships Review (unchanged, unquantified risk)***

The Government is considering reform to the taxation of partnerships, including replacing the current “special partnerships” tax rules with more modern and internationally comparable “limited partnerships” tax rules. Any new rules are likely to take effect on 1 April 2007. The impact on the operating balance is unclear and would depend on the proposals that are finally developed and approved.

***Social Development – Child, Youth and Family Services – Reviewing Levels of Funding and Service Delivery (unchanged, unquantified risk)***

The Government is reviewing Child, Youth and Family Services’ funding requirements in order to identify options for sustainable levels of funding and service delivery in the medium term. Options may be submitted for consideration in Budget 2007. This risk is unquantified as it is unclear what change in funding would be required. Any change in funding to reflect a new baseline and/or meet necessary capital injections would impact on the operating balance and/or gross debt.

***Social Development/Housing – Accommodation Supplement Review (new, unquantified risk)***

The Government is reviewing the Accommodation Supplement to assess how well it is performing as an income support policy and as a housing assistance policy. If the review identifies a need to adjust the Accommodation Supplement, the Government will consider policy options in future Budgets. While the amounts are unclear and would depend on the policy options chosen, any additional operating funding would decrease the operating balance and any additional capital funding would increase debt.

***Social Development – New Zealand Superannuation – International Mobility Issues (unchanged, unquantified risk)***

During this year, the Government will consider the results of a review of arrangements for the payment of New Zealand Superannuation to New Zealanders residing overseas; and the treatment of overseas pensions paid to recipients of New Zealand pensions and welfare benefits. The impact on the operating balance is unclear, as proposals are still being developed. Any additional funding would decrease the operating balance.

***Social Development – Working for New Zealand (unchanged, unquantified risk)***

Following on from Working for Families, the Government is considering options for simplifying the benefit system and reforming labour market assistance and service delivery in order to better support beneficiaries' entry to employment. The impact on the operating balance is unclear, as proposals are still being developed.

***State Services Commission – All-of-Government Authentication (new, unquantified risk)***

The Government is considering options relating to the all-of-government on-line authentication programme. The programme would implement two-factor logins for participating agencies to allow individuals secure on-line access to government information, services and processes. This risk is unquantified as disclosure could compromise any negotiations the Crown may enter into, but any additional operating funding would decrease the operating balance, and/or any additional capital funding would increase debt.

***State Services Commission – State Sector Retirement Savings Scheme (unchanged, unquantified risk)***

The Government is considering options for extending the employer subsidy for members of the State Sector Retirement Savings Scheme beyond 3% (3% is the level of employer subsidy from 2005/06), and is also considering options for extending the scheme to the wider state sector. Both proposals would decrease the operating balance, but the quantum would vary depending on the options chosen.

# Contingent Liabilities

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

Only contingent liabilities involving amounts of over $10 million are separately disclosed. Contingent liabilities below $10 million are included in the “other quantifiable contingent liabilities” total. Comparatives have been adjusted where appropriate to align with the disclosure of new “material” contingent liabilities. The total amount of prior years’ contingent liabilities remains unchanged.

Contingent liabilities have been stated as at 31 March 2006, being the last set of published contingent liabilities.

Details of each of the following contingent liabilities can be accessed from the Treasury website at http://www.treasury.govt.nz/forecasts/befu/2006/

## Quantifiable Contingent Liabilities

| Guarantees and indemnities | Status[1] | ($ million) |
|---|---|---|
| Cook Islands – Asian Development Bank loans | Changed | 17 |
| Indemnification of receivers and managers – Terralink Limited | Unchanged | 10 |
| Ministry of Justice – Treaty settlement, tax liabilities | Unchanged | 87 |
| Ministry of Transport – funding guarantee | Unchanged | 10 |
| Post Office Bank – guaranteed deposits | Unchanged | 11 |
| Guarantees and indemnities of SOEs and Crown entities | Unchanged | 16 |
| | | **151** |
| **Uncalled capital** | | |
| Asian Development Bank | Changed | 1,203 |
| European Bank for Reconstruction and Development | Changed | 14 |
| International Bank for Reconstruction and Development | Changed | 1,341 |
| | | **2,558** |
| **Legal proceedings and disputes** | | |
| Health – legal claims | Changed | 90 |
| Tax in dispute | Changed | 462 |
| Other legal claims against SOEs and Crown entities | Changed | 4 |
| Other legal claims | Changed | 96 |
| | | **652** |
| **Other quantifiable contingent liabilities** | | |
| International finance organisations | Changed | 1,716 |
| Reserve Bank – demonetised currency | Unchanged | 24 |
| Social Development – claim for judicial review | Changed | 65 |
| Transpower New Zealand Limited | Unchanged | 99 |
| Other quantifiable contingent liabilities of SOEs and Crown entities | Changed | 11 |
| Other quantifiable contingent liabilities | Changed | 31 |
| | | **1,946** |
| **Total quantifiable contingent liabilities** | | **5,307** |

1 Relative to reporting in the 31 December 2005 *Crown Financial Statements*.

## Unquantifiable Contingent Liabilities

| Guarantees and indemnities | Status |
|---|---|
| Asure New Zealand Limited | Unchanged |
| At Work Insurance Limited | Unchanged |
| Auckland Rail lease | Unchanged |
| Bona Vacantia property | Unchanged |
| Building Industry Authority | Unchanged |
| Crown Research Institutes (CRIs) | Unchanged |
| District Court Judges, Justices of the Peace, Coroners and Disputes Tribunal | Unchanged |
| District Health Boards – director indemnity – (DHBs) | Unchanged |
| Earthquake Commission (EQC) | Unchanged |
| Electricity Corporation of New Zealand Limited (ECNZ) | Unchanged |
| Ministry of Fisheries – indemnity provided for delivery of registry services | Unchanged |
| Genesis Power Ltd (Genesis Energy) | Unchanged |
| Geothermal carbon tax indemnity | Unchanged |
| Housing New Zealand Corporation (HNZC) | Unchanged |
| Indemnities against acts of war and terrorism | Unchanged |
| Maui Partners | Unchanged |
| National Provident Fund | Unchanged |
| New Zealand Railways Corporation | Unchanged |
| Persons exercising investigating powers | Unchanged |
| Ports of Auckland | Unchanged |
| Public Trust | Unchanged |
| Purchasers of Crown operations | Unchanged |
| Reserve Bank of New Zealand (the Reserve Bank) | Unchanged |
| State Insurance and Rural Bank – tax liabilities | Unchanged |
| Synfuels-Waitara Outfall Indemnity | Unchanged |
| Tainui Corporation | Unchanged |
| Toll NZ Ltd – purchase of rail network assets | Unchanged |
| Works Civil Construction | Unchanged |
| Works Consultancy Services | Unchanged |
| **Other unquantifiable contingent liabilities** | |
| Abuse claims | Unchanged |
| Accident Compensation Corporation (ACC) litigations | Unchanged |
| Environmental liabilities | Unchanged |
| Genesis Power Limited | Unchanged |
| Sale of Crown assets | Unchanged |
| Treaty of Waitangi claims | Unchanged |
| **Other contingencies** | |
| Foreshore and seabed | Unchanged |