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. Comparatives have been adjusted where appropriate to align with the disclosure of new "material" contingent liabilities. The total amount of contingent liabilities remains unchanged.

Contingent Liabilities

Contingent liabilities are costs which the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability 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 31 October 2000, being the last set of published contingent liabilities.

Quantifiable Contingent Liabilities Table

Guarantees and indemnities	Status [1]	($ million)
Cook Islands - Asian Development Bank Loans	Unchanged	24
Huntly East mine subsidence	Changed	34
Indemnification of touring exhibitions	Changed	56
Post Office Bank - guaranteed deposits	Changed	18
Guarantees and indemnities of state-owned enterprises and Crown entities	Changed	280
Other guarantees and indemnities	Changed	17
		429
Uncalled capital		
Asian Development Bank	Changed	1,692
European Bank for Reconstruction and Development	Unchanged	14
International Bank for Reconstruction and Development	Changed	2,058
		3,764
Legal proceedings and disputes		
Agriculture and Forestry	Changed	13
Education	Changed	11
Health - Lake Alice claims	Unchanged	132
Mâori Development	Changed	94
New Zealand Defence Force - legal claims	Unchanged	15
Police - legal claims	Changed	41
Tax in dispute	Changed	99
Treasury	Changed	21
Legal claims against state-owned enterprises and Crown entities	Changed	29
Other legal claims	Changed	45
		500
Other quantifiable contingent liabilities		
Health - other contingent liabilities	Changed	114
International finance organisations	Changed	1,944
Reserve Bank – demonetised currency	Unchanged	23
Other contingent liabilities against state-owned enterprises and Crown entities	Changed	54
Other quantifiable contingent liabilities	Changed	56
		2,191
Total quantifiable contingent liabilities		**6,884**

1 Relative to reporting in the 30 June 2000 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	Unchanged
Mâori Trustee	Unchanged
National Provident Fund	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust Office	Unchanged
Reserve Bank of New Zealand	Unchanged
Other non-quantifiable contingent liabilities	
Alkylammonium compound compensation	Unchanged
Bank of New Zealand	Unchanged
Contaminated sites	Unchanged
Crown research institutes	Unchanged
DFC New Zealand Limited (under statutory management)	Unchanged
Electricity Corporation of New Zealand Limited	Unchanged
Hospital and health services	Unchanged
Housing Corporation of New Zealand	Unchanged
Housing New Zealand Limited	Unchanged
Pharmaceutical Management Agency Limited – indemnity	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Tax liabilities	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims - settlement relativity payments	Unchanged
Works Civil Construction	Unchanged
Works Consultancy Services	Unchanged

Quantifiable Contingent Liabilities

Guarantees and indemnities

Cook Islands – Asian Development Bank (ADB) Loans

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

$24 million at 31 October 2000 ($24 million at 30 June 2000).

Huntly East mine subsidence

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

$34 million at 31 October 2000 ($34 million at 30 June 2000).

Indemnification of touring exhibitions

The Crown has a contingent liability for damages or losses under the scheme for indemnifying touring exhibitions. The contingent liability of $56 million took effect in October 2000 and expires in February 2001.

$56 million at 31 October 2000 ($225 million at 30 June 2000).

Post Office Bank (PostBank) – guaranteed deposits

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

$18 million at 31 October 2000 ($19 million at 30 June 2000).

Guarantees and indemnities of state-owned enterprises and Crown entities

$280 million at 31 October 2000 ($273 million at 30 June 2000).

Other guarantees and indemnities

$17 million at 31 October 2000 ($17 million at 30 June 2000).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	**Uncalled capital at 31 October 2000 $m**	**Uncalled capital at 30 June 2000 $m**
Asian Development Bank	1,692	1,443
European Bank for Reconstruction and Development	14	14
International Bank for Reconstruction and Development	2,058	1,753

Legal proceedings and disputes

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

Agriculture and Forestry – legal claims

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

$13 million at 31 October 2000 ($24 million at 30 June 2000).

Education – legal claims

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

$11 million at 31 October 2000 ($10 million at 30 June 2000).

Health – Lake Alice claims

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

$132 million at 31 October 2000 ($132 million at 30 June 2000).

Mâori Reserved Land

The Mâori 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 Mâori have not been obtaining fair market rents for their land and that this issue will be dealt with by the Government as part of its consideration of historical grievances.

$94 million at 31 October 2000 ($94 million at 30 June 2000).

New Zealand Defence Force – legal claims

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

$15 million at 31 October 2000 ($15 million at 30 June 2000).

Police – legal claims

Claims against the Police for alleged legal or administrative faults.

$41 million at 31 October 2000 ($48 million at 30 June 2000).

Tax in dispute

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

$99 million at 31 October 2000 ($107 million at 30 June 2000).

Treasury – legal claim

A claim against the Crown relating to a dispute involving the supply of gas in 1987/88.

$21 million at 31 October 2000 ($6 million at 30 June 2000).

Legal claims against state-owned enterprises and Crown entities

$29 million at 31 October 2000 ($51 million at 30 June 2000).

Other legal claims

$45 million at 31 October 2000 ($55 million at 30 June 2000).

Other quantifiable contingent liabilities

Health – other contingent liabilities

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

$114 million at 31 October 2000 ($90 million at 30 June 2000).

International finance organisations

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

	31 October 2000 $m	**30 June 2000 $m**
Asian Development Bank	11	Nil
International Monetary Fund	1,933	1,754

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

Reserve Bank – demonetised currency

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

$23 million at 31 October 2000 ($23 million at 30 June 2000).

Other quantifiable contingent liabilities claims against state-owned enterprises and Crown entities

$54 million at 31 October 2000 ($54 million at 30 June 2000).

Other quantifiable contingent liabilities

$56 million at 31 October 2000 ($62 million at 30 June 2000).

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.

Mâori Trustee

The Crown is liable to meet any deficiency in the Mâori Trustee's Common Fund (section 27(1) of the Mâori 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 Reserve Bank any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17, 18 and 21(2) of the Act.

Other 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.

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.

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

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

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

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

Hospital and health services (HHSs)

The Crown has provided transitional indemnities to directors and officers of some HHSs, 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 the Agreement for Sale and Purchase and mortgage agreements to HCNZ under the Housing Assets Transfer Act 1993.

Housing New Zealand Limited (HNZ)

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

Pharmaceutical Management Agency Limited (Pharmac) – indemnity

Section 99 of the Social Security Act 1964 provided for the fixing of prices for pharmaceutical products by way of a list specified by the Minister of Health ("the Drug Tariff"). This list was superseded by a list ("the Pharmaceutical Schedule") developed and issued by Pharmac, a company owned by the 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.

Tax liabilities

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

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Mâori 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.

Settlement relativity payments

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

Works Civil Construction

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

Works Consultancy Services

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

Specific Fiscal Risks

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

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

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

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

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

Specific fiscal risks do not include:

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

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

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

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

The fiscal risks included in the Statement of Specific Fiscal Risks were finalised as at 27 November 2000.

Quantified Risks Table[2]

Risks as at 27 November 2000	Operating balance	Net debt	Net worth	($ million)
Accident Insurance – medical misadventure account	Increase	Decrease	Increase	Up to 7 in 2001/02 14 in 2002/03, 2003/04 and 16 in 2004/05
Accident Insurance – treatment cost review	Decrease	Increase	Decrease	-11 from 2001/02 and subsequent outyears
Agriculture and Forestry – food regulation and administrative structural options	Decrease	Increase	Decrease	Up to -20 one off
Agriculture and Forestry – TB vector control	Decrease	Increase	Decrease	Up to -35 in 2001/02
Child, Youth and Family Services – residential services strategy	Decrease	Increase	Decrease	Up to -25 one off capital and -12 operating for 2001/02 and subsequent outyears
Corrections – capital projects	Decrease	Increase	Decrease	-141 capital and -122 operating across the outyears
Defence – capital injections	Decrease	Increase	Decrease	-58 in 2001/02 and -49 in 2002/03
Defence – East Timor	Decrease	Increase	Decrease	-14 in 2000/01 and -52 2001/02
Defence – operating pressures	Decrease	Increase	Decrease	-40 in 2000/01
Education – school property	Decrease	Increase	Decrease	-200 in 2001/02, -150 in 2002/03 and -150 to -175 in subsequent outyears for capital and -5 in 2001/02; -14 in 2002/03 , -22 in 2003/04 and -29 in 2004/05 for operating

2 In the summary tables listing specific risks:

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

Risks as at 27 November 2000	Operating balance	Net debt	Net worth	($ million)
Government Superannuation Fund – diversification	Increase	Decrease	Increase	14 to 44 in each year from 2000/01
Health – sewage treatment subsidy scheme	Decrease	Increase	Decrease	-10 from 2001/02 and subsequent outyears
Housing New Zealand – increase in level of owned stock	N/A	Increase	N/A	-42 in 2001/02, -20 in 2002/03 and -30 in 2003/04
Mâori Trustee – payment of services	Decrease	N/A	Decrease	-32 one off

Unquantified Risks Table

Risks as at 27 November 2000	Operating Balance	Net Debt	Net Worth
Agriculture and Forestry – South Island landless Mâori	Unclear	Unclear	Unclear
Agriculture and Forestry – Southern Saltmarsh mosquito	Decrease	Increase	Decrease
Conservation – asset maintenance	Decrease	Increase	Decrease
Defence – pay review	Decrease	Increase	Decrease
Earthquake Commission – diversification	Unclear	Unclear	Unclear
Economic Development – sale of spectrum licences	Increase	Decrease	Increase
Education – collective employment contract	Decrease	Increase	Decrease
Education – early childhood funding	Decrease	Increase	Decrease
Education – review of school staffing	Decrease	Increase	Decrease
Education – school operational funding	Decrease	Increase	Decrease
Education – school property code	Decrease	Increase	Decrease
Education – stabilisation of tertiary fees	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
Government Superannuation Fund – change in policy	Decrease	Increase	Decrease
Health – asset testing	Decrease	Increase	Decrease
Health – elective surgery	Decrease	Increase	Decrease
Health – sector restructuring	Decrease	Increase	Decrease
Health – Sustainable Funding Path	Decrease	Increase	Decrease
Housing New Zealand – debt refinancing	Unclear	Increase	Unclear
Inland Revenue – financial and imported services review	Unclear	Unclear	Unclear
Inland Revenue – Trans-Tasman triangular tax relief	Decrease	Increase	Decrease
New Zealand Post Limited – expansion into banking	Unclear	Unclear	Unclear
Public Trust Office – modernisation	N/A	Decrease	N/A
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	Unclear	Unclear	Unclear

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

Risk	In Forecasts	Comment
Accident Insurance – accident insurance policy	Yes	Baselines
Agriculture and Forestry – varroa jacobsoni bee mite eradication	Yes	Baselines
Earthquake Commission – capital projects	No	No capital injections required from the Crown
Fisheries – allocation of fishing quota	Yes	Baselines
Health – private sector finance	No	Included as part of Health restructuring risk
Housing – changes to organisational structure	Yes	Baselines
Inland Revenue – restrictive covenants and lease inducements	Yes	Baselines
Inland Revenue – superannuation funds	No	No longer under active consideration
Inland Revenue – taxing income of minor beneficiaries at the trustee tax rate	Yes	Baselines
Treaty Settlements – Treaty heads of agreement	No	Included as forecasting assumption
Work and Income – delivery of income and employment services	No	Review completed

Quantified Fiscal Risks

Accident Insurance – medical misadventure account (new risk)

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

The proposal would increase revenue in the Medical Misadventure Account and therefore the operating balance by approximately $7 million in 2001/02, $14 million in 2002/03 and 2003/04, and $16 million in 2004/05.

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

Source: ACC

Accident Insurance – treatment cost review (new risk)

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

Source: Department of Labour

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

Implementation of structural change of 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 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.

Updated estimated costings have increased the potential cost from $10 million to $20 million since the Budget Update.

Source: Ministry of Agriculture and Forestry

Agriculture and Forestry – TB vector control (new risk)

A consultative document released by the Animal Health Board has called for increases of up to $35 million in Crown funding for TB vector control. The Government will make decisions on its contribution to TB Vector control as part of the 2001 Budget process.

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

Child Youth and Family Services – residential services strategy (changed 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 has been lower than that forecast in 1998. Future operating costs are also likely to be higher than originally estimated in 1998.

Additional costs are estimated by the Department of Child, Youth and Family Services to be up to $25 million ($28 million Budget Update) in additional one-off capital costs in 2001/02 and up to $12 million ($15 million Budget Update) per annum in on-going operating costs for 2001/02 and subsequent outyears to finance the current strategy.

Source: Department of Child, Youth and Family Services

Corrections – capital projects (changed risk)

The Department of Corrections has estimated that a total of $141 million ($380 million Budget Update) in capital costs and $122 million ($210 million Budget Update) in operating costs may be required over the forecast period for capital projects as a result of higher prison musters. These costs comprise:

- New prison construction to meet demand
  ($128 million capital and $118 million operating)

- Expansion of existing prisons to meet demand
  ($13 million capital and $4 million operating)

The Treasurer/Minister of Finance has yet to fully consider the quantum of the risks identified above.

Source: Department of Corrections

Defence – capital injections (changed risk)

The New Zealand Defence Forces (NZDF) will require additional capital injections for the acquisition of the 105 Light Armoured Vehicles and Tactical Mobile Communications Equipment. Indicative injections of $58 million in 2001/02 and $49 million in 2002/03 were signalled during the approval-in-principle process. However, these are likely to change once the final project costs are confirmed.

In addition, the Government is reviewing its Defence Capability Requirements following the release of its Defence Policy Framework. NZDF's long term capital injection requirements and associated operating impact will not be known until this work is completed and the NZDF's full capability needs are determined.

Source: NZDF / Ministry of Defence

Defence – East Timor (changed risk)

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

The future contribution by the Government to the United Nations operation is dependent on the nature of New Zealand's involvement. Estimated additional costs for the period 1 April to 30 June 2001 are $14 million ($15 million Budget Update) and $52 million ($55 million Budget Update) for the period 1 July 2001 to 31 May 2002.

Source: Ministry of Defence

Defence – operating pressures (new risk)

The New Zealand Defence Force is reporting operating pressures largely arising from increases in fuel costs and foreign exchange movements. This risk is estimated to be up to $40 million in 2000/01.

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

Source: New Zealand Defence Force

Education – school property (changed risk)

Additional capital injections for school accommodation are likely to be required in future years to meet roll growth. Capital injections are estimated to be up to $200 million in 2001/02, $150 million in 2002/03 and between $150 million and $175 million ($250 million Budget Update) in each subsequent outyear.

In addition to capital injections, consequential operating costs are likely to be incurred. These are estimated at $5 million in 2001/02 ($7 million Budget Update), $14 million in 2002/03 ($21 million Budget Update), $22 million in 2003/04 ($36 million Budget Update) and $29 million in 2004/05.

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

Source: Ministry of Education

Government Superannuation Fund – diversification (unchanged risk)

A decision has been made to diversify the Government Superannuation Fund (GSF) assets and place them in the control of a new GSF 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 (unchanged risk)

The Government is investigating improvements to sewage treatment systems in rural areas. Estimates indicate the costs could be approximately $10 million per annum from 2001/02.

Source: Ministry of Health

Housing New Zealand – increase in level of owned stock (new risk)

The Government is considering a proposal for Housing New Zealand (HNZ) to increase its level of properties over time. Initial costings suggest potential net debt impacts for the Crown of around $42 million in 2001/02, $20 million in 2002/03 and $30 million in 2003/04. In addition, there would be operating balance impacts (up to $4 million per annum).

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

Source: The Treasury

Mâori Trustee – payment of services (changed risk)

The fiscal forecasts make no allowance for a doubtful debts provision for the non-payment of $32 million owed by the Mâori Trustee for services provided by Te Puni Kokiri.

Source: Te Puni Kokiri

Unquantified Fiscal Risks

Agriculture and Forestry – South Island Landless Mâori (unchanged risk)

Forests granted to Mâori under the South Island Landless Native Act (SILNA) 1906 are exempt from the requirement that indigenous forests be sustainably harvested and managed, as established under the Forest 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 of 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 – Southern Saltmarsh Mosquito (new risk)

The presence of the Southern Saltmarsh Mosquito was confirmed on the East Coast in October/November 2000. The Ministry of Health is currently undertaking an exercise to limit the spread of the mosquito and establish costs of eradication.

The risk is unquantified as the potential costs are unclear at this stage.

Conservation – asset maintenance (new risk)

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

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

Defence – pay review (new risk)

The Government is in the process of considering the remuneration levels of NZDF personnel, in particular the junior ranks.

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

Earthquake Commission – diversification (new risk)

The Minister of Finance has agreed in principle to permit the Earthquake Commission to diversify the investments in the Natural Disaster Fund out of New Zealand Government stock and New Zealand bank bills into other asset classes.

The impact on net Crown debt, from the diversification from Government stock, has been factored into the forecasts. The investment strategy is yet to be finalised. However, because the current portfolio is primarily Government stock, any change to the strategy is likely to result in a higher expected return but more volatile revenue stream.

Economic Development – sale of spectrum licences (unchanged risk)

The 2GHz auction is currently being conducted. The 2GHz 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-Mâori trust at a discounted rate. The proceeds received from the auction would improve the operating balance and decrease net debt.

The risk is unquantified as the auction is currently in progress and quantification could compromise the Crown auction proceeds.

Education – collective employment contract (unchanged 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 to individual employment contracts.

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

Education – early childhood funding (new risk)

The Government is developing an Equity Funding System for early childhood education to address some of the inequities that currently exist in the sector. The system will assist services in low income or rural communities, services providing immersion programmes for children for whom English is a second language, and services for children with low to moderate special education needs. A working group is currently developing the specifics of the system with implementation scheduled for July 2001.

The risk is unquantified as the working group have yet to make recommendations.

Education – review of school staffing (new risk)

In May 2000, the Minister of Education announced a major review of school staffing. The review is likely to result in increased staffing entitlements for primary and secondary schools. This risk is unquantified, as final recommendations will not be provided to the Minister of Education until February 2001.

Education – school operational funding (unchanged risk)

The Government has previously adjusted annually the school operational funding to reflect inflation. This risk is unquantified but as an indication of cost a 1% inflation level would increase operational funding by around $8 million per school year from 2001/02 onwards.

Education – school property code (new risk)

The Ministry of Education is developing a new secondary school property code which will allow the property entitlement of each school to be defined explicitly. The new code will replace the current code which was developed in 1972 and is out-of-date. It is expected that the existing entitlements of many schools will fall short of the new code. Additional capital injections would increase net Crown debt with flow on effects to the operating balance with maintenance costs and depreciation across the forecast period.

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

Education – stabilisation of tertiary fees (new risk)

In the 2000 Budget, additional funding was provided to offset the increasing costs faced by the tertiary education sector. This funding allowed for the stabilisation of student fees. Additional funding for the same purpose will be considered as part of the 2001 Budget process.

Education – tertiary education institutions capital injections (unchanged risk)

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

Education – Wananga capital injections (unchanged risk)

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

The Wananga have received $11 million in the past year to address immediate capital needs and growth in student rolls.

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

Environment – climate change policy (unchanged risk)

As part of New Zealand’s response to the Kyoto Protocol, Cabinet is considering options for addressing pre-2008 greenhouse gas 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 (either positive or negative) any policies, if introduced, would have upon the forecasts.

Government Superannuation Fund – change in policy (unchanged 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 would negatively impact on the operating balance.

Health – asset testing (new risk)

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

Health – elective surgery (new risk)

Additional funding of $22 million in 1999/2000 and $74 million in 2000/01 and outyears was provided in the 2000 Budget for extra elective surgery to reduce the backlog of cases. Further funding of $84 million which was previously provided for minimising waiting times is due to expire in 2000/01. The Government is currently considering the level of services required to ensure the waiting times are kept at an acceptable level in the future. The level of services required for 2001/02 and subsequent outyears has yet to be determined.

Health – sector restructuring (changed risk)

The Government has made an in-principle decision that District Health Boards (DHBs), once established, will not be able to borrow privately, but instead would be required to borrow from the Crown. This has been incorporated into the forecasts.

In addition, the transition to DHBs may impact hospitals' net financial performance, which would affect the operating balance. There may also be some one-off costs involved in establishing the enlarged Ministry of Health and DHBs above the amount provided for in the 2000 Budget Update.

Health – Sustainable Funding Path (new risk)

Additional funding of $159 million was provided in the 2000 Budget Update for the "Sustainable Funding Path" to maintain existing levels of health services. The Government is currently considering the amount of funding required for 2001/02 to maintain health services at an acceptable level.

Housing New Zealand – debt refinancing (new risk)

Cabinet has agreed that the new housing entity, Housing New Zealand Corporation, to be formed by the integration of Housing New Zealand and Housing Corporation of New Zealand and the housing policy function of the Ministry of Social Policy on 1 July 2001, will only be permitted to borrow from the private sector to the extent agreed by the Minister of Finance.

As Housing New Zealand's existing debt expires, it may be replaced by Crown debt.

Inland Revenue – financial and imported services review (new risk)

In March 1999 a discussion document entitled "GST: A Revision" outlined potential longer-term changes to the GST Act 1986 of taxing financial services and imported services (which includes internet commerce) and asked for comments. With the growth of imported services and financial services, revenue from GST will reflect a smaller portion of the economy over time unless the tax base is extended accordingly. The Government is considering issuing a further discussion document with more detailed proposals for making changes to the GST Act within the forecast period.

Inland Revenue – Trans-Tasman triangular tax relief (new risk)

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

This risk is unquantified as estimates of costs are unclear at this stage.

New Zealand Post Limited – expansion into banking (new risk)

New Zealand Post Limited has submitted a proposal to shareholding Ministers for expansion into banking. Ministers and New Zealand Post are still discussing the proposal, and in particular how the establishment costs of the bank will be financed, including the level of any capital injection by the Crown. Irrespective of financing, New Zealand Post expects that entry into banking would lower New Zealand Post's forecast profits and dividends in the short run, but raise them by the end of the forecast period. However, the precise composition of these forecasts has not been disclosed due to commercial sensitivity.

Public Trust – modernisation (new risk)

The Government has indicated that it intends to modernise the Public Trust Office. The Office was recognised as part of the Crown reporting entity in 1998/99 following litigation concerning ownership of its assets and reserves. Some of those reserves may be paid to the Crown depending upon the new Public Trust's capital requirements. Any capital withdrawals would reduce net debt.

State-owned Enterprises – refinancing debt position (unchanged risk)

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

TVNZ – change of direction (unchanged 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 both its status as an SOE and separation of Broadcasting Communications Limited. Decisions taken as a result of this work programme could impact on TVNZ's profits and dividends for the forecast period. 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 years arising from either a carry-over of the interim agreement or a renegotiated agreement are unclear at this stage.