4

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 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, 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.

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 2005 included $60 million per annum as the first tranche of the 10-year plan. The following table shows the additional tranches as charged against future Budgets.

Budget to be Charged ($m)	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Budget 2006	72.6	72.6	72.6	72.6	72.6	72.6	72.6	72.6	72.6
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 Funding Package

In Budget 2005, the health sector received $475 million per annum as the third tranche of the Health Funding Package (HFP). A fourth tranche of $489 million per annum is charged against Budget 2006.

Budget to be Charged ($million)	2006/07	2007/08	2008/09	2009/10 and Outyears
Budget 2006	489	489	489	489

Official Development Assistance

The Government has committed to 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 increasing this to 0.28% in 2007/08. Budget 2005 included funding for 2005/06 levels only. The 0.27% in 2006/07 is expected to cost an additional $19 million per annum to be charged against Budget 2006, and the 0.28% in 2007/08 is expected to cost $38 million to be charged against Budget 2007.

Budget to be Charged ($million)	2006/07	2007/08	2008/09	2009/10 and Outyears
Budget 2006	19	19	19	19
Budget 2007		38	38	38

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

The Government has a policy of increasing Student Component funding rates for tertiary education by the rate of forecast CPI inflation on a rolling triennium. Funding is 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. The differential between the CPI increase and the appropriation is retained within the Vote for application elsewhere in the Student Component.

Budget to be Charged ($million)	2006/07	2007/08	2008/09	2009/10 and Outyears
Budget 2006	29.1	59.2	59.2	59.2
Budget 2007		28.5	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	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Auckland	100.0	100.0	100.0	100.0	-	-
Wellington	20.0	20.0	20.0	20.0	20.0	-
Western Corridor	120.0	120.0	100.0	40.0	40.0	20.0
Bay of Plenty	25.0	25.0	15.0	10.0	10.0	-

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	18 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	49 in 2005/06 and 11 in 2006/07
Housing	Rural housing programme	8 in each of 2005/06, 2006/07 and 2007/08
Internal Affairs	Significant Community-Based Projects Fund	40 from 2005/06 to 2008/09 (MYA)
Police	Regional assistance mission Solomon Islands and Solomon Island executive support	7 in each of 2005/06 and 2006/07
Tourism	Tourism promotional budget targeting high-yield tourists	9 in 2005/06

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)	2005/06	2006/07	2007/08	2008/09	2009/10 and Outyears
Funding to extend initiatives	-	9	64	72	90

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 7 December 2005	Operating Balance	Gross Debt	Value of Risk ($million)	Funding received in or since Budget 2005 ($million)
New Risks				
Education – Early Childhood Education	Decrease	-	Up to 54 per annum operating	-
Education – Vocational Training	Decrease	-	7 in 2006/07, 20 in 2007/08 and 24 per annum from 2008/09	-
Revenue – Extension of the Temporary Tax Exemption for New Migrants	Decrease	-	10-13 per annum operating	-
Changed Risks				
Corrections – Capital Projects	Decrease	Increase	236 operating and 180 capital	206 capital and 220 operating
Education – Tertiary Education Expenditure Review	Unclear	Increase	Up to 250 capital	-
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.	78 capital in 2005/06, and operating of 3 in 2005/06 and 10 from 2006/07
New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers	-	Decrease	120 capital	-
Revenue – Subsidies for Payroll-Related Tax Compliance Costs	Decrease	-	Between 7 and 45 per annum	-
Unchanged Risks				
Child, Youth and Family Services – Residential Services Strategy 2003	Decrease	Increase	Operating of 8 in 2005/06 rising to 16 from 2009/10, and capital of 30 from 2005/06 to 2007/08	-
Culture and Heritage – Public Broadcasting Programme of Action	Decrease	-	34 per annum	11 per annum

Quantified Risks as at 7 December 2005	Operating Balance	Gross Debt	Value of Risk ($million)	Funding received in or since Budget 2005 ($million)
Unchanged Risks – cont'd				
Economic Development – Large Budget Screen Production Fund	Decrease	-	17	12 in 2005/06
Finance – National Rail Network	-	Increase	200 to 300	-
Housing – Housing New Zealand Corporation's Long-Term Capital Requirements	-	Increase	1,600 over 10 to 15 years	25 in 2005/06, 65 in 2006/07, 20 in 2007/08 and 21 in 2008/09
Internal Affairs – 2004 and 2005 Storms Response and Infrastructure Costs	Decrease	-	5 to 20 in 2005/06	20 in 2005/06
Justice – New Supreme Court – Cost Escalation	-	Increase	15 to 20	-
New Zealand Defence Force – Defence – Capital Injections	-	Increase	554 from 2006/07 to 2010/11	410 capital in 2005/06
New Zealand Defence Force – Environmental Clean-up of Devonport Seabed Contamination	Decrease	-	13 over 2005/06 and 2006/07	-
Revenue – Fringe Benefit Tax Review	Decrease		24 to 64 per annum	Included in Business package
Revenue – Taxation of Offshore Portfolio Investment and Intermediaries, including Superannuation	Increase or decrease	-	-90 to +60 from 2007	Included in Business package
Youth Development – United Nations Convention on the Rights of the Child	Decrease	-	20 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 7 December 2005	Operating Balance	Gross Debt	Funding received in or since Budget 2005 ($million)
New Risks			
Conservation – Foreshore and Seabed Compensation	Decrease	-	-
Conservation – Lease of Taupo Property Rights from Tuwharetoa	Decrease	-	-
Education – Tertiary Student Support Changes	Decrease	Unclear	-
Environment – Review of Climate Change Policies	Unclear	-	-
Health – New Zealand's Preparedness for a Possible Pandemic	Decrease	-	13 across the forecast period

Unquantified Risks as at 7 December 2005	Operating Balance	Gross Debt	Funding received in or since Budget 2005 ($million)
New Risks – cont'd			
Immigration – New Immigration Service Delivery Strategy	Unclear	-	-
Labour – Department of Labour Strategic Baseline Review	Unclear	Unclear	-
Police – Increases to Police Staff	Decrease	Increase	-
Revenue – Family Assistance Indexation and Review of Rates	Decrease	-	-
Revenue – Rebuild of the Student Loan IT System	Decrease	Increase	-
Revenue – Taxation of Racing Industry	Unclear	-	-
Social Development – New Zealand Superannuation – International Mobility Issues	Unclear	-	-
Social Development – New Zealand Superannuation – Rate Adjustment	Decrease	-	-
Changed Risks			
Child, Youth and Family Services – Reviewing Levels of Funding and Service Delivery	Unclear	Unclear	-
Health – District Health Board deficits	Decrease	Increase	-
Transport – Regional Transport Initiatives	-	Increase	150 over 10 years
Unchanged Risks			
Child, Youth and Family Services – Collective Employment Contract Negotiations	Decrease	-	-
Education – Schools ICT Network Infrastructure Upgrade	Decrease	Increase	-
Education – Wananga Capital Injection	-	Increase	-
Finance – Crown Overseas Properties	-	Increase	-
Finance – National Rail Access Agreement	Unclear	Unclear	-
Finance – SOE Long-term Hold Reviews	-	Decrease	-
Fisheries – Māori Interest in Marine Farming	Decrease	-	-
Foreign Affairs and Trade – Official Development Assistance	Decrease	-	-
Housing – State Housing Project at Hobsonville	-	Increase	54 in 2005/06

Unquantified Risks as at 7 December 2005	Operating Balance	Gross Debt	Funding received in or since Budget 2005 ($million)
Unchanged Risks – cont'd			
Housing – Weathertight Homes	Decrease	-	-
Revenue – Review of Superannuation Contribution Withholding Tax	Unclear	-	-
Revenue – Tax and Depreciation	Decrease	-	-
Revenue – Taxation of Partnerships Review	Unclear	-	-
Social Development – Early Intervention	Decrease	-	38
Social Development – Extending Opportunities to Work	Unclear	-	-
State Services Commission – State Sector Retirement Savings Scheme	Decrease	-	-

Risks removed since the *Pre-election Update*

The following risks have been removed since the *Pre-election Update*.

Expired Risks	Reason	Funding Received ($million)
ACC – Public Health Acute	In forecasts	21 in 2005/06, 25 in 2006/07, 29 in 2007/08, 33 in 2008/09 and 38 per annum thereafter
Crown Risk – Pay and Employment Equity Plan of Action	Not currently under active consideration. Individual claims will be considered as they arise	-
Culture and Heritage – Rugby World Cup 2011	In forecasts	-
Education – Tertiary Savings Scheme	Not currently under active consideration	-
Environment – Hazardous Substances & New Organisms	Not currently under active consideration	-
Finance – Meridian Energy	Incorporated in SOE long term hold reviews risk	-
Immigration – Immigration Policy	In forecasts	-
Lands and Agriculture & Forestry – Implementation of Walking Access Strategy	In forecasts	2 per annum
Revenue – KiwiSaver	Expired	-
Social Development – Information Technology Systems	Expired	-

Statement of Fiscal Risks

Child, Youth and Family Services – Collective Employment Contract Negotiations (unchanged, unquantified risk)

The Department of Child, Youth and Family Services has two collective employment agreements that expired on 30 June 2005. The Government is currently in negotiation with the Public Service Association and the National Union of Public Employees to settle new collective employment agreements. Some funding has already been agreed, but any additional funding that may be sought would reduce the operating balance.

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

Child, Youth and Family Services – Residential Services Strategy 2003 (unchanged, quantified risk)

The Government is implementing the 2003 Residential Services Strategy for youth justice, which builds on the considerable investment made in facilities when implementing the 1996 Residential Services Strategy.

The Government has agreed in principle to fund the 2003 Strategy subject to fully developed and costed proposals. Some initiatives have already been agreed, and the remaining operating cost risk is $8.4 million in 2006/07 rising to $16.1 million in 2009/10 and outyears, which would decrease the operating balance. The remaining capital risk is $29.5 million, which would increase gross debt. The current proposed phasing of this is $4.4 million in 2006/07, $7.4 million in 2007/08 and $17.7 million in 2008/09.

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

Source: Department of Child, Youth and Family Services

Child, Youth and Family Services – Reviewing Levels of Funding and Service Delivery (changed, unquantified risk)

The Government is reviewing the Department of Child, Youth and Family Services' funding requirements in order to identify options for sustainable levels of funding and service delivery in the medium term. In addition, there are ongoing demand pressures for which additional funding is sought. Options may be submitted for consideration in Budget 2006. The risk is unquantified as it is unclear what change in departmental funding is required. Any change in funding to reflect a new baseline and/or meet necessary capital injections would impact on the operating balance and/or debt.

Conservation – Foreshore and Seabed Compensation (new, 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 (new, 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 2005, $206 million capital and $220 million operating was approved for Corrections capital projects. The Department of Corrections has estimated that a further total of $180 million capital and $236 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 the Otago Region Corrections Facility and Mt Eden Prison and have increased since the *Pre-election Update* to reflect revised inmate forecasts and construction costs.

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

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

Source: Department of Corrections

Culture and Heritage – Public Broadcasting Programme of Action (unchanged, 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 $10.5 million per annum were included in Budget 2005, leaving a remainder of around $33.5 million. Other individual elements of the Programme of Action may be considered in future Budgets over the next six 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 – Large Budget Screen Production Fund (unchanged, quantified risk)

The Large Budget Screen Production Fund was increased by $12 million in July to cover payments up to September 2005. In addition, the Film Commission is aware of a number of other possible applications being made later in 2005/06 that, if approved, would require up to a further $17 million. This would decrease the operating balance.

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

Source: Ministry of Economic Development

Education – Early Childhood Education (new, quantified risk)

As part of the ten-year Strategic Plan for Early Childhood Education, the Government provided funding in Budget 2004 to introduce 20 hours free early childhood education for all three and four year olds who attend community-based teacher-led ECE services from July 2007.

The Government is now considering expanding the type of providers eligible to offer the 20 hours free ECE policy to include any licensed, teacher-led services. Policy development is still underway but this initiative would decrease the operating balance by up to $54 million per annum from 2007/08.

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

Source: Ministry of Education

Education – School Property (changed, quantified risk)

The Government has provided capital of $77.5 million in 2005/06 for school accommodation. Additional capital injections for school accommodation are likely to be required in future years to meet roll growth. Additional capital injections could be up to $125 million in each of the next four years with a corresponding increase in debt.

In addition to capital injections, consequential operating costs of $7 million in 2007/08, $12 million in 2008/09 and $18 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 (unchanged, unquantified risk)

The Government is considering the roll-out of the Schools ICT Network Infrastructure Upgrade. This would assist schools to meet the costs of upgrading their computer networks to meet the new IT infrastructure standards.

The Government will consider rolling out phase 2 as part of Budget 2006. This would decrease the operating balance and increase debt.

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

Education – Tertiary Student Support Changes (new, unquantified risk)

The Government is considering increasing eligibility for student allowances and expanding scholarships over the parliamentary term. The impact on the operating balance and debt of these changes is unclear as it would depend upon the options chosen.

Education – Tertiary Education Expenditure Review (changed, quantified risk)

The Government has initiated a review on 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. The ongoing capital impacts of these and other decisions on Tertiary Education Institutions are as yet unclear but could increase debt by up to $250 million.

Further policy development is underway and decisions are expected late in 2005 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. At this stage the impact on the operating balance is unclear as decisions have yet to be taken.

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

Source: Ministry of Education

Education – Vocational Training (new, quantified risk)

The Government is considering a number of policies regarding the expansion of vocational training. These would include increasing the total number of Modern Apprentices to 14,000 by 2008 (up from the existing target of 11,000 funded places by 2007); having 250,000 people participating in industry training; and expanding the Gateway programme to all state secondary schools by 2007. These policies would decrease the operating balance by up to $7 million in 2006/07; $20 million in 2007/08; and $24 million per annum thereafter.

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

Source: Ministry of Education

Education – Wananga Capital Injection (unchanged, unquantified risk)

The Government is currently negotiating with one Wananga (Māori tertiary institution) 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, be provided funding to bring their facilities up to a standard comparable with other tertiary institutions, and to meet additional capital requirements. A second Wananga claim, which has already been settled, may require a further capital injection should certain conditions be met.

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

Environment – Review of Climate Change Policies (new, unquantified risk)

A review of all climate change policies is currently underway. The impact on the operating balance is unclear, as it would depend on the outcome of the review.

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 any additional capital funding would increase debt.

Finance – National Rail Access Agreement (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 Upgrade (unchanged, quantified risk)

The Government has committed $200 million between 2004/05 and 2007/08 to upgrade the national rail network. Further expenditure of between $200 million and $300 million is likely to be required over the forecast period, but the amount and timing will depend on policy 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 – 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 – 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; or 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 (as opposed to using new space), this would decrease the operating balance. The risk is unquantified as the amount or timing of any funding is unclear, and in addition, disclosure could compromise the Crown in negotiations with either commercial marine farm owners or Iwi.

Foreign Affairs and Trade – Official Development Assistance (unchanged, unquantified risk)

The Government is considering increasing the aid budget as and when resources allow, in line with United Nations commitments. The Government has committed to an ODA to GNI ratio of 0.27% for the fiscal years 2005/06 and 2006/07, increasing to 0.28% in 2007/08. From 2008/09, the Government will investigate a range of options for increasing and allocating any additional funding above 0.28% of GNI, which would decrease the operating balance.

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

Draft District Annual Plans from District Health Boards (DHBs) for 2005/06 and progress by DHBs against these indicate deficits in the order of $80 million in 2005/06 spread across Auckland, Waitemata, Tairawhiti and Whanganui. A similar level of deficits is forecast for 2006/07. 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 in excess of the forecast amount would potentially decrease the operating balance and/or increase debt. Specific potential pressures for DHBs include wage bargaining, funding for health of older people services, and financing costs of capital projects.

This risk has changed since the 2005 *Pre-election Update* to take into account the new projections of DHB deficits.

Health – New Zealand's Preparedness for a Possible Pandemic (new, unquantified risk)

The World Health Organisation and other international organisations are advising of the possibility of a new human influenza pandemic. The Government is currently developing a strategy aimed at improving New Zealand's response to a possible pandemic. The quantum of this risk will depend on the options chosen.

Housing – HNZC's Long-term Capital Requirements (unchanged, quantified risk)

The Government is currently considering Housing New Zealand Corporation's (HNZC) long-term capital requirements in light of the demand for state housing and the need to reconfigure and modernise its housing stock. While some decisions were made in the 2005 Budget regarding the acquisition of new stock, the Government is likely to review acquisition targets and has still to consider options around modernisation programmes directed at existing stock.

The Government is further examining the range of options and associated costs, with initial estimates of up to $1.6 billion of capital costs over a 10 to 15 year horizon. Any new capital contributions would increase gross debt and would likely lead to an increase in the Income-Related Rent subsidy with a subsequent decrease in the operating balance.

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

Source: Department of Building and Housing

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

In Budget 2005, HNZC has received funding of $54.3 million to acquire, under the Housing Act 1955, NZDF land at Hobsonville deemed surplus to defence requirements but suitable for state housing purposes. The Government is considering development options that may lead to the Crown giving additional capital to HNZC, which would increase gross debt.

Housing – Weathertight Homes (unchanged, unquantified risk)

The Government is considering measures to increase the rate at which non-weathertight homes in New Zealand are repaired. Options may include administrative or legislative changes to enhance the operation of the Weathertight Homes Resolution Service. The Government is also considering whether there is a need for targeted assistance for low income homeowners to undertake repairs. The fiscal impact, if any, depends on what measures and options are agreed, but any additional operating funding would decrease the operating balance.

Immigration – New Immigration Service Delivery Strategy (new, 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 early 2006. As options are still being developed the impact of the operating balance is unclear.

Internal Affairs – 2004 and 2005 Storms Response and Infrastructure Costs (unchanged, quantified risk)

The lower North Island and the Bay of Plenty were hit by severe storms during 2004, and the Bay of Plenty again in May 2005. The Government reimburses some local authority costs under the National Civil Defence Plan. Several local authorities have made submissions for reimbursement, and further submissions are expected. The Government has already provided around $20 million as a contribution toward response and recovery costs. Remaining costs could be between $5 million and $20 million and would reduce the operating balance.

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

Source: Department of Internal Affairs

Justice – New Supreme Court – Cost Escalation (unchanged, quantified risk)

In order to meet revised functional requirements, the Government is considering altering the 2003 design for accommodating the new Supreme Court. This could increase construction costs. The original scheme was approved by Cabinet at a cost of $19 million; the additional capital cost could range from $15 million to $20 million, depending on the revised design option selected. This would increase gross debt.

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 (new, 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.

New Zealand Defence Force – Defence – Capital Injections (unchanged, 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, $690 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 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. Investigatory work on the contamination is underway, 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, which 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 (changed, 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 $US110 million. 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 (new, unquantified risk)

The Government is considering increasing police numbers by 1000 over the next three years. Costs would depend on the types of positions created and the flow on effects through the justice system. This would decrease the operating balance and increase debt.

Revenue – Extension of the Temporary Tax Exemption for New Migrants (new, quantified risk)

Potential changes to the temporary tax exemption for new migrants could increase the cost of that exemption by $10-13 million per annum. This additional amount would reduce the operating balance.

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

Source: Inland Revenue

Revenue – Family Assistance Indexation and Review of Rates (new, 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. The indexation changes would reduce the operating balance.

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

The Budget 2005 Business Package 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 (new, unquantified risk)

To facilitate the implementation of zero-interest on student loans, the Government is considering 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. Work is still underway on assessing the indicative costs, but any additional funding would reduce the operating balance and increase debt.

Revenue – Review of Superannuation Contribution Withholding Tax (unchanged, unquantified risk)

The Government is considering reforming the provisions relevant to superannuation contributions withholding tax with a view to simplifying the provisions and investigating possible equity issues arising from the current provisions. Any changes to the provisions are expected to come into effect in 2007. Whether the outcome of this review will have an impact on the operating balance is unclear and would depend on the proposals that are finally developed and approved.

Revenue – Subsidies for Payroll-Related Tax Compliance Costs (changed, quantified risk)

As part of the tax simplification programme the Government plans to implement a legislative framework to subsidise the use of payroll agents to meet small employers' PAYE obligations. The structure and amount of the subsidy are contingent on successful negotiation with payroll agents and the reduction in the operating balance will depend on the final structure of the subsidy adopted. The estimated cost of the subsidy is between $7 million and $45 million per annum. This would decrease the operating balance. A target date has not yet been set for implementation.

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

Source: Inland Revenue

Revenue – Tax and Depreciation (unchanged, unquantified risk)

The Budget 2005 Business Package included changes to depreciation policies. The Government is considering further issues related to depreciation, including the treatment of long-lived assets and potential changes to the tax treatment of rental housing in particular. However, the impact on the operating balance remains unclear as it would depend on the options chosen.

Revenue – Taxation of Offshore Portfolio Investment and Intermediaries, Including Superannuation (unchanged, quantified risk)

The Budget 2005 Business Package included changes to the taxation of domestic intermediaries and further work is underway. This includes consideration of the taxation of both onshore and offshore investments in equity by New Zealand residents. A target date of April 2007 has been set for implementation of changes, some of which had been included in the Budget 2005 Business Package. Further proposals are being considered. Depending on the decisions made, there would be a reduction in the operating balance by an additional $80 million to $90 million or an increase in fiscal revenue by $50 million to $60 million. These changes would be on top of the previously announced expenditure on the taxation of investment income of $100 million. As a result, the total reduction in the operating balance for changes to investment income would range from a reduction of $40-50 million to a reduction of $180-190 million.

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

Source: Inland Revenue

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.

Revenue – Taxation of Racing Industry (new, unquantified risk)

A new taxation regime for the racing industry is under consideration. The impact on the operating balance is unclear as it would depend on the outcome of the review.

Social Development – Early Intervention (unchanged, unquantified risk)

Budget 2005 includes initial funding of $37.6 million over four years in early intervention services for children and families. Ministers are considering proposals for further development of the early intervention programme, including enhancements and expansion of the existing initiatives. New programmes may also be considered to respond better to the needs of children and their families. Further proposals are still being developed, with a report-back due in early 2006. Any additional funding would decrease the operating balance.

Social Development – Extending Opportunities to Work (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. Decisions are likely to be made as part of Budget 2006. The impact on the operating balance is unclear, as proposals are still being developed.

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

Over the next 12 months, 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.

Social Development – New Zealand Superannuation – Rate Adjustment (new, unquantified risk)

The Government is considering increasing the net married couple rate of New Zealand Superannuation (NZS) to 66% of the net average ordinary time weekly wage on 1 April. The impact on the operating balance would be dependent on future CPI and wage statistics. This policy would decrease the operating balance.

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. The decrease in the operating balance would vary depending on the options chosen.

Transport – Regional Transport Initiatives (changed, unquantified risk)

The Government is involved in regional transport initiatives working in conjunction with Local Government to make significant and timely improvements to regional land transport outcomes. This would decrease the operating balance and increase debt.

Youth Development – United Nations Convention on the Rights of the Child (unchanged, quantified risk)

If unconditionally adopted, the United Nations Convention on the Rights of the Child would require New Zealand to confer the rights of the Convention on all children. To date, New Zealand has reserved its right to distinguish between persons according to the nature of their authority to be in New Zealand. The Government established a review to consider whether this reservation can be removed. This could involve making changes to eligibility for some health, education and social services, which would decrease the operating balance by approximately $20 million per annum.

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

Source: The Treasury

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 October 2005, 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/hyefu/2005/.

Quantifiable Contingent Liabilities

Guarantees and indemnities	**Status**[4]	**($ million)**
Cook Islands – Asian Development Bank loans	Unchanged	16
Indemnification of receivers and managers – Terralink Limited	Unchanged	10
Ministry of Justice – Treaty settlement, tax liabilities	Changed	82
Ministry of Transport – funding guarantee	Unchanged	10
Post Office Bank – guaranteed deposits	Unchanged	11
Guarantees and indemnities of SOEs and Crown entities	Unchanged	16
		145
Uncalled capital		
Asian Development Bank	Changed	1,047
European Bank for Reconstruction and Development	Unchanged	12
International Bank for Reconstruction and Development	Changed	1,168
		2,227
Legal proceedings and disputes		
Health – legal claims	Unchanged	88
Tax in dispute	Changed	475
Other legal claims	Changed	117
		680
Other quantifiable contingent liabilities		
International finance organisations	Changed	1,343
Reserve Bank – demonetised currency	Unchanged	24
Social Development – claim for judicial review	Changed	60
Transpower New Zealand Limited	Changed	99
Other quantifiable contingent liabilities of SOEs and Crown entities	Changed	14
Other quantifiable contingent liabilities	Changed	30
		1,570
Total quantifiable contingent liabilities		**4,622**

4 Relative to reporting in the 30 June 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	Changed
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
Genesis Power Limited	Unchanged
Geothermal carbon tax indemnity	Changed
Housing New Zealand Corporation (HNZC)	Unchanged
Indemnities against acts of war and terrorism	Unchanged
Maui Partners	Unchanged
Ministry of Fisheries – indemnity provided for delivery of registry services	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)	Changed
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
Foreshore and Seabed	Unchanged
Genesis Power Limited	Unchanged
Sale of Crown assets	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged