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## Specific Fiscal Risks

### Introduction

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

### Criteria for Disclosure of Specific Fiscal Risks

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

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

### Exclusions from Disclosure

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

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

Specific fiscal risks do not include:

- normal forecasting risks, such as uncertainty around welfare benefits, State Owned Enterprise/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 prior years’ 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. There are new 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 overall level of the forecasts. The risks have been disclosed to indicate the pressure the risks place upon the forecast spending amounts.
- If the total of all risks considered exceeds the forecast new operating spending amounts in the forecasts, this would impact on the operating balance.
- There are a number of other pressures on the fiscal position that have not been included as risks. These pressures comprise proposals largely generated within individual departments and not yet considered by the Minister of Finance and responsible Ministers. Such items are expected to be managed within forecast spending amounts noted above.

## Charges against Future Budgets

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

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

### *Defence Funding Package*

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

<b>Budget to be Charged (\$million)</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>
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 – Additional Elective Services*

The Government has agreed that the indicative Health allocation of \$750 million for Budget 2007 may be pre-committed by \$59.5 million per annum for additional elective services.

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and Outyears</b>
Budget 2007	59.5	59.5	59.5	59.5

### *Official Development Assistance*

The Government has provided funding for an Official Development Assistance to Gross National Income ratio (ODA:GNI ratio) of 0.27% for the fiscal years 2005/06 and 2006/07 and is committed to increasing this to 0.28% in 2007/08. Budget 2006 included funding of \$19 million per annum to reach the 0.27% ratio. The 0.28% ratio in 2007/08 is expected to cost \$30 million, and will be charged against Budget 2007.

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and Outyears</b>
Budget 2007	30	30	30	30

### **Removal of Carbon Charge**

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

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and Outyears</b>
Budget 2007	347	344	349	349

### **Specified Superannuation Contribution Withholding Tax (SSCWT) Exemption for KiwiSaver**

The Government has agreed that employer contributions to KiwiSaver would be exempt from income tax (ie, Specified Superannuation Contributions Withholding Tax) up to a cap of the lesser of the employee's contribution or 4% of the employee's salary or wages. The cost of this exemption will be met from Budget 2007.

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13 and Outyears</b>
Budget 2007	35	71	104	133	162	203

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

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

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and Outyears</b>
Budget 2007	28.5	57.0	57.0	57.0

### **Transport Capital Decisions**

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

<b>Transport Project (\$million)</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Auckland	100.0	100.0	100.0	-	-	-
Wellington	20.0	20.0	20.0	20.0	-	-
Western Corridor	125.0	200.0	195.0	10.0	5.0	-
Bay of Plenty	25.0	15.0	10.0	10.0	-	-
Waikato	22.0	22.0	22.0	22.0	22.0	22.0

## Time-limited Funding

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

The following table outlines those areas where initiatives have time-limited funding that decreases or ceases at some point and may potentially be extended, using a \$5 million materiality threshold. Time-limited funding often relates to pilot programmes, and in some cases Multi Year Appropriations (MYAs) if they are likely to require further funding in the future.

Vote	Description of Initiative	Operating Impact (\$million)
Community and Voluntary Sector	Digital Strategy – Community Partnerships Fund	17 from 2005/06 to 2008/09 (MYA)
Communications	Digital Strategy – High-speed Connectivity for Growth	20 from 2005/06 to 2008/09 (MYA)
Economic, Industry and Regional Development	Regional Partnerships and Facilitation for Sustainable Economic Growth	57 from 2004/05 to 2006/07 (MYA)
Energy	Acquisition of Petroleum Exploration Data	21 from 2004 to 2007 (MYA)
Energy	Electricity Efficiency Programme	8 in 2005/06 and 10 in 2006/07
Housing	Rural Housing Programme	9 in each of 2005/06 and 2006/07, 7 in 2007/08
Internal Affairs	Significant Community-based Projects Fund	40 from 2005/06 to 2008/09 (MYA)
Lands	Land Tenure Reform	40 from 2005/06 to 2007/08 (MYA)
Police	Regional Assistance Mission Solomon Islands and Solomon Island executive support	7 in each of 2005/06 and 2006/07
Sport & Recreation	Children’s and Young People’s Lifestyles	8 in 2006/07, 10 in 2007/08, 6 in each of 2008/09 and 2009/10
Tourism	Tourism Demand Subsidy Scheme	7 in 2006/07

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

Operating Impact (\$million)	2006/07	2007/08	2008/09	2009/10	2010/11 and Outyears
Funding to extend initiatives	-	50	77	88	94

## Quantified Risks

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

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

Quantified Risks as at 8 December 2006	Operating Balance	Gross Debt	Value of Risk (\$million)	Funding Received in or since Budget 2006 (\$million)
<b>New Risks</b>				
Education – Early Childhood Education Ratio Changes	Decrease	-	90 per annum	-
Social Development – New Zealand Superannuation – Rate Adjustment	Decrease	-	23 in 2006/07, 90 in 2007/08, 68 in 2008/09 and 28 in 2009/10 only	-
<b>Changed Risks</b>				
Culture and Heritage – Broadcasting Initiatives	Decrease	-	27 per annum	6 per annum
Education – School Property	Decrease	Increase	180 capital in each of next 4 years, and operating of 10 per annum from 2007/08	158 capital and 27 operating from 2006/07 to 2010/11
Education (Tertiary) – Centres of Research Excellence	Decrease	Increase	20 capital in 2007/08 and 10 per annum operating	-
Health – Indicative Funding for Budgets 2007 and 2008	Decrease	-	691 in 2007/08 and 1,441 per annum from 2008/09	-
Justice – New Supreme Court – Cost Escalation	Decrease	Increase	Up to 45 capital and 4 per annum operating	-
New Zealand Defence Force – Defence – Capital Injections	-	Increase	257 capital from 2007/08 to 2010/11	297 capital in 2006/07
Police – Increases to Police Staff	Decrease	Increase	Operating of 63 in 2007/08, 105 in 2008/09, 116 in 2009/10 and 117 per annum from 2010/11 and capital of 122 from 2007/08 to 2010/11	32 per annum operating and 49 capital from 2006/07 to 2010/11
<b>Unchanged Risks</b>				
Economic Development – Venture Investment Fund	-	Increase	40 capital in 2009/10 and 2010/11	60 capital from 2006/07 to 2008/09
Education (Tertiary) – Vocational Training	Decrease	-	8 in 2007/08, 23 in 2008/09 and 30 per annum from 2009/10	16 from 2006/07 to 2010/11
Finance – National Rail Network – Obligations of Rail Agreement	-	Increase	60-70 per annum capital from 2007/08	50 capital in 2006/07
Finance – National Rail Network – Reconfiguration of Land	-	Increase	30 capital in 2007/08, unclear thereafter	53 capital in 2006/07
New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers	-	Decrease	120 capital	-
Research, Science and Technology – Multi-year Funding Profile	Decrease	-	30 in 2007/08, 60 in 2008/09 and 90 per annum from 2009/10	25 per annum operating and 5 capital in 2006/07

## Unquantified Risks

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

Unquantified Risks as at 8 December 2006	Operating Balance	Gross Debt	Funding Received in or since Budget 2006 (\$million)
<b>New Risks</b>			
Economic Development – Increasing Stadium Capacity for the Rugby World Cup	-	Increase	-
Economic Development – Radio Spectrum Rights	Increase	-	-
Revenue – Extending the Specified Superannuation Contribution	Decrease	-	-
Revenue – International Financial Reporting Standards	Unclear	-	-
Revenue – Life Insurance	Unclear	-	-
Revenue – Tax Incentives for Giving to Charities and Other Non-Profit Organisations	Unclear	-	-
Transport – Extending the State Highway Construction and Revenue Guarantee	-	Increase	-
<b>Changed Risks</b>			
Corrections – Capital Projects	Decrease	Increase	121 operating
Education (Tertiary) – Tertiary Education Expenditure Review	Unclear	Unclear	-
Education (Tertiary) – Tertiary Education Institutions – Capital Injections	-	Increase	-
Education (Tertiary) – Wananga Capital Injections	-	Increase	-
Environment – Climate Change Policies	Unclear	-	16 in 2006/07
Health – District Health Board Deficits	Decrease	Increase	-
Revenue – Business Tax Review	Unclear	-	-
Social Development – Working New Zealand – Work Focused Support	Decrease	-	-
State Services Commission – State Sector Retirement Savings Scheme	Decrease	-	-
<b>Unchanged Risks</b>			
Conservation – Lease of Taupo Property Rights from Tuwharetoa	Decrease	-	-
Education – Schools ICT Network Infrastructure Upgrade	Decrease	Increase	4 capital
Education – Year One Class Sizes	Decrease	Increase	-
Education (Tertiary) – Partnerships for Excellence	-	Increase	-
Education (Tertiary) – Tertiary Student Support Changes	Decrease	Unclear	Operating expenditure of 1 in 2006/07, 2 in 2007/08, 3 in 2008/09 and 4 per annum from 2009/10; capital savings of 13 in 2006/07, 22 in 2007/08 and 25 in 2008/09 and 2009/10

Unquantified Risks as at 8 December 2006	Operating Balance	Gross Debt	Funding Received in or since Budget 2006 (\$million)
Finance – Crown Overseas Properties	-	Increase	-
Finance – National Rail Access Agreement Amendments	Unclear	Unclear	-
Finance – SOE Long-term Hold Reviews	-	Decrease	-
Fisheries – Civilian Maritime Aerial Surveillance	Decrease	Increase	-
Fisheries – Māori Interest in Marine Farming	Decrease	-	-
Housing – State Housing Project at Hobsonville	-	Increase	-
Immigration – New Immigration Service Delivery Strategy	Unclear	-	-
Justice – Strengthening the National Court Infrastructure	Decrease	Increase	-
National Library – National Library Building Extension	-	Increase	-
Revenue – Family Assistance Indexation and Review of Rates	Decrease	-	-
Revenue – Rebuild of the Student Loan IT System	Decrease	Increase	-
Revenue – Taxation of Partnerships Review	Unclear	-	-
Social Development – Child, Youth and Family Services – Reviewing Levels of Funding and Service Delivery	Unclear	Unclear	-
Social Development / Housing – Accommodation Supplement Review	Decrease	Increase	-
Social Development – New Zealand Superannuation – International Mobility Issues	Unclear	-	-

## Risks Removed Since the 2006 *Budget Update*

The following risks have been removed since the 2006 *Budget Economic and Fiscal Update*.

Expired Risks	Reason	Funding Received (\$million)
Conservation – Foreshore and Seabed Compensation	No longer meets criteria for disclosure	-
Corrections – Collective Employment Contract Negotiations	In forecasts	-
Education – Expansion of NZ Diploma in Specialist Subjects	In forecasts	11 in 2006/07 and 10 in 2007/08 only
Energy – Oil Security – Meeting International Energy Agency Obligations	In forecasts	-
Justice Sector Agencies – Potential Flow-on Impact of Extra Police	In forecasts	96 from 2006/07 to 20010/11
Labour – Department of Labour Strategic Baseline Review	Expired	-
New Zealand Defence Force – Environmental Clean-up of Devonport Seabed Contamination	No longer meets criteria for disclosure	-
Police – Wage Negotiations	In forecasts	40 in 2006/07, 83 in 2007/08, 90 in 2008/09 and 91 per annum thereafter
Reserve Bank of New Zealand – Liquidity Management Policy	In forecasts	-
Revenue – Fringe Benefit Tax Review	Expired	-
Revenue – Tax and Depreciation	Now part of Business Tax Package	-
State Services Commission – All-of-Government Authentication	In forecasts	11 in 2006/07, 7 in 2007/08 and 4 in each of 2008/09 and 2009/10

## Statement of Fiscal Risks

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

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

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

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

In Budget 2006, \$121 million operating funding was approved for Corrections capital projects. The Department of Corrections has estimated that further capital and operating funding may be required over the forecast period for Mt Eden Prison. The actual amounts depend on the specification and timing of the individual projects and the contracted prices.

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

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

### ***Culture and Heritage – Broadcasting Initiatives (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 \$11 million and \$6 million per annum were included in Budgets 2005 and 2006, respectively. The Government is considering proposals for the remaining \$27 million per annum. Individual elements of the Programme of Action may be considered in future Budgets over the next five years. These would decrease the operating balance.

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

Source: Ministry for Culture and Heritage

### ***Economic Development – Increasing Stadium Capacity for the Rugby World Cup (new, unquantified risk)***

Eden Park in Auckland requires redevelopment in order to increase stadium capacity ahead of the Rugby World Cup in 2011. The Eden Park Trust Board estimates its latest proposal to cost around \$380 million. The Government is considering meeting a portion of the redevelopment costs, which would increase debt.

### ***Economic Development – Radio Spectrum Rights (new, unquantified risk)***

The Government has agreed a process for setting prices for offering renewal of property rights to radio spectrum. Any revenue from sale of rights would increase the operating balance. Offers for rights of renewal to existing owners of spectrum rights are being set five

years in advance of rights expiring from 2010 onwards. Owners of spectrum rights will have a choice about whether to renew them after 2010, so expected revenue from sale of renewal rights is not reflected in current forecasts of revenue.

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

In Budget 2006, the Government agreed to additional investment commitments in the Venture Investment Fund of \$60 million from 2006/07 to 2008/09. The Government is also considering further commitments of \$40 million over two years (2009/10 and 2010/11) in Budget 2009 depending on the results of the scheduled evaluation of the Venture Investment Fund which is due for completion by 31 March 2009. This would increase gross debt.

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

Source: Ministry of Economic Development

***Education – Early Childhood Education Ratio Changes (new, quantified risk)***

As part of the Early Childhood Education strategic plan, the Government is considering changes to adult:child ratios for licensed, teacher-led services. Current funding is insufficient for full implementation, so further funding of up to \$90 million per annum will be considered as part of the budget process. Any increased funding would reduce the operating balance.

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

Budget 2006 provided capital of \$138 million in 2006/07 for school accommodation. A further \$20 million in capital was provided for additional school furniture and equipment in 2005/06 to allow for a change in accounting treatment. The operating impact associated with the capital expenditure and property policies was \$8.6 million in 2006/07 and the total operating impact was \$27 million from 2006/07 to 2009/10 to meet associated depreciation and other costs.

Additional capital injections for school accommodation will be required in future years to meet roll growth and could cost up to \$180 million in each of the next four years with a corresponding increase in debt. In addition to capital injections, consequential operating costs of \$10 million per annum 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)***

Budget 2006 provided \$4 million in capital and \$0.6 million in associated operating funding for a partial roll-out of the Schools ICT Network Infrastructure Upgrade, as part of the School Property Business Case 2006/07. The roll-out is intended to assist schools to meet the costs of upgrading their computer networks to meet the new IT infrastructure standards. The Government will consider further roll-out as part of Budget 2007. This would decrease the operating balance and increase debt.

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

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

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

***Education (Tertiary) – Centres of Research Excellence (changed, quantified risk)***

The Government is considering providing additional capital funding of up to \$20 million and operating funding of \$10 million per annum to establish up to two new Centres of Research Excellence and provide further funding to existing centres. This would decrease the operating balance and increase debt.

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

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

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

The Government has initiated a review 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. In February 2006 the Government decided to place an overall constraint on tertiary education expenditure, and in July 2006 it decided on the overall shape of a new planning and funding framework. Work is also underway to review the quality assurance and monitoring system. Decisions around the details of the new funding framework and the baseline for tertiary education will not be taken until March 2007. At this stage the impact on the operating balance and debt is unclear.

***Education (Tertiary) – Tertiary Education Institutions – Capital Injections (changed, unquantified risk)***

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

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

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

***Education (Tertiary) – Vocational Training (unchanged, quantified risk)***

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

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

Source: Tertiary Education Commission

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

The Government is currently negotiating with Te Wananga O Raukawa over settlement of its Waitangi Tribunal claim. The Waitangi Tribunal has recommended that the Wananga be compensated for capital expenditure it has incurred on facilities to date, and be provided with funding to bring its facilities up to a standard comparable with other tertiary institutions, and meet additional capital requirements. Negotiations are also taking place with Te Whare Wananga o Awanuiarangi in relation to an outstanding item from an original settlement.

This risk is unquantified as disclosure could compromise the Crown in negotiations with the Wananga, but any capital injections would increase gross debt.

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

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

The forecasts make provision for New Zealand's liability under the Kyoto Protocol, currently estimated at 41.2 million tonnes of carbon dioxide equivalent. The Government has not, at this point, taken a decision on whether to finance part of this liability through purchase of Kyoto-compliant emission units on the international market. However, should a purchasing policy be pursued, the commensurate funding required would increase gross debt while having a neutral effect on net worth.

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

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

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

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

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

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

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

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

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

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

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

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

Source: The Treasury

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

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

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

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

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

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

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

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

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

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

Draft District Annual Plans from Auckland and Whanganui District Health Boards (DHBs) indicate projected operating deficits in 2006/07. Tairāwhiti DHB is also projected to have a deficit in 2006/07. The Government does not view DHB deficits as acceptable and cost-containment strategies are in place.

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

This risk has changed since the 2006 *Budget Economic and Fiscal Update* to take into account the new projections of DHB deficits.

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

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

The Government has agreed that the indicative allocation for Budget 2007 is pre-committed to \$59.5 million per annum for 2007/08 onwards. This was shown in the Charges against Future Budgets section of this chapter. The operating balance could be adjusted to the totals as follows:

<b>Budget to be Charged (\$million)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and Outyears</b>
Budget 2007	690.5	690.5	690.5	690.5
Budget 2008	-	750.0	750.0	750.0

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

Source: The Treasury

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

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

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

The Government is in the process of developing options for a new immigration service delivery strategy that would allow better management of the risk surrounding immigration decision-making. Options are still being developed, and are likely to be considered in early 2007. Any additional funding would reduce the operating balance and increase debt.

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

In order to meet revised functional requirements, the Government is considering altering the 2003 design for accommodating the new Supreme Court, which is likely to increase construction costs. The original scheme was approved by Cabinet at a cost of \$19 million capital and \$4 million per annum operating. The additional capital cost may be up to \$45 million with associated operating costs of \$20 million over the forecast period, depending on the design option selected. Additional capital injections would increase gross debt and additional operating funding would decrease the operating balance.

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

Source: Ministry of Justice

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

The Government is considering options to ensure that Christchurch's court facilities are able to adequately deliver court and associated justice services to the region. This risk is unquantified as disclosure could compromise any commercial property negotiations the Crown may enter into. Any additional operating funding would decrease the operating balance and any additional capital would increase debt.

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

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

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

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

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

Of the \$1.244 billion, \$987 million has been agreed with the remaining \$257 million likely to be required within the forecast period. The actual expenditure profile will depend on the specification and timing of the individual projects, the contracted prices, and the prevailing exchange rate at the time of purchase.

Any further capital injections would increase gross debt.

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

Source: New Zealand Defence Force

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

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

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

Source: New Zealand Defence Force

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

The Government has committed to funding an additional 1,000 front-line Police and 250 non-sworn Police staff over Budgets 2006 to 2008. The Government will consider further increases in future Budgets with a view to achieving police officer ratios comparable with those of Australia by 2010. Budget 2006 included \$32 million per annum operating and \$49 million capital over the forecast period to provide for the first tranche of additional police (including non-sworn staff and some associated infrastructure costs).

The Government intends to roll out the second tranche in Budget 2007, and the third and final tranche in 2008. The indicative operating costs are \$63 million in 2007/08, \$105 million in 2008/09, \$116 million in 2009/10 and \$117 million per annum from 2010/11. Indicative capital costs are \$26 million in 2007/08, \$36 million in 2008/09, \$53 million in 2009/10 and \$7 million in 2010/11. A small portion of the operating costs will be funded through the National Land Transport Fund.

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

Source: New Zealand Police

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

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

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

Source: Ministry of Research, Science and Technology

***Revenue – Business Tax Package (changed, unquantified risk)***

The Government is conducting a review of the current business taxation regimes with a view to ensuring the system works to give better incentives for productivity improvements and improved competitiveness with Australia. The review will result in business tax reductions that will be announced as part of Budget 2007 and will come into force from April 2008.

The review of business taxation may also have implications for personal taxation, which will be considered in the context of the business tax reforms.

As announced in the Business Tax Review discussion document, the Government is also reviewing the international tax regime, in particular the Controlled Foreign Company rules, with a view to improving productivity and international competitiveness.

Treasury forecasts currently include an indicative allowance of \$1 billion for tax reforms, however the exact amount may be greater or smaller depending on fiscal out-turns and the nature of final proposals for changes in business, personal and international taxation.

***Revenue – Extending the Specified Superannuation Contribution (new, unquantified risk)***

In mid-2006, the Government announced that employer contributions to KiwiSaver accounts will be exempt from Specified Superannuation Contributions Withholding Tax (SSCWT) up to a cap of the lesser of the employee's contribution to the scheme or 4% of the employee's salary or wages (see Charges against Future Budgets section of this chapter). The Government is now considering extending the SSCWT exemption to other employer superannuation schemes that meet certain criteria (similar to KiwiSaver schemes). Options are still being developed, but any further exemptions would reduce the operating balance.

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

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

**Revenue – International Financial Reporting Standards (new, unquantified risk)**

The Government is considering the tax policy issues that could arise from the adoption of International Financial Reporting Standards (IFRS). There are two areas where IFRS could have a significant impact, firstly, the Income Tax Act's general timing of income rules are underpinned by Generally Accepted Accounting Practices (GAAP). Secondly, the financial arrangements rules could be considerably revised to allow for more alignment of taxation and accounting. The impact on the operating balance is unclear at this stage and would depend on the proposals that are finally developed and approved.

**Revenue – Life Insurance (new, unquantified risk)**

The Government is considering reform of the tax rules in respect of life insurance including ensuring consistency of the taxation of life insurers' savings products with similar products of other savings vehicles. The impact on the operating balance is unclear at this stage and would depend on the proposals that are finally developed and approved.

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

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

**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 2008. The impact on the operating balance is unclear and would depend on the proposals that are finally developed and approved.

**Revenue – Tax Incentives for Giving to Charities and Other Non-Profit Organisations (new, unquantified risk)**

The Government's Confidence and Supply Agreement with United Future includes a new tax rebate regime for charities as one of its policy priorities. A discussion document was released to progress this issue. It includes an outline of options for encouraging New Zealanders to give more of their money, skills and time, and to reinforce the concept of giving to charities and other non-profit organisations. The impact on the operating balance is unclear and would depend on the proposals that are finally developed and approved.

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

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

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

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

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

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

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

The Government has ensured that the net married couple rate of NZS applying for the tax year from 1 April 2006 is above 66% of the net average ordinary time weekly wage (known as the 66% wage floor). It will review each year the level to be set for the following tax year. Under the 2006 *Half Year Economic and Fiscal Update* (HYEFU) forecasts, CPI-indexation of NZS rates is not predicted to be enough to maintain the 66% wage floor. While the impact on the operating balance will depend on the actual CPI and wage statistics that occur, HYEFU forecasts estimate the cost of maintaining the 66% wage floor on 1 April 2007 would reduce the operating balance by approximately \$23 million in 2006/07, \$90 million in 2007/08, \$68 million in 2008/09 and \$28 million in 2009/10. This increase has no costs in fiscal years beyond 2009/10.

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

Source: Ministry of Social Development

***Social Development – Working New Zealand: Work-focused Support (changed, unquantified risk)***

Working New Zealand: Work-focused Support is a package of policy and operational changes aimed at simplifying the benefit system and enhancing the opportunities for beneficiaries to participate in the labour market. The first stage, already underway, focuses on getting services and support in place to help people move into work and stay employed. The Government is considering further options and costs to simplify the benefit system. The next stages will be submitted for consideration in future Budgets. The remaining proposals are still being developed, but any additional funding would decrease the operating balance.

***State Services Commission – State Sector Retirement Savings Scheme (changed, 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 2006/07) and extending the scheme to the wider state sector. The impact of the KiwiSaver scheme on the State Sector Retirement Savings Scheme is also being evaluated. All of these proposals would decrease the operating balance, but the quantum would vary depending on the options chosen.

***Transport – Extending the State Highway Construction and Revenue Guarantee (new, unquantified risk)***

The Government has agreed to extend the revenue guarantee for the National Land Transport Programme and the State Highway Plan guarantee from five years to six. The Crown is still considering how and when to add a sixth year to the current five-year State Highway Plan guarantee and National Land Transport Programme revenue guarantee.

## Contingent Liabilities

Contingent liabilities are costs 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 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 2006, being the latest 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/2006>.

## Quantifiable Contingent Liabilities

<b>Guarantees and indemnities</b>	<b>Status<sup>6</sup></b>	<b>(\$million)</b>
Cook Islands – Asian Development Bank loans	Changed	16
Indemnification of receivers and managers – Terralink Limited	Unchanged	10
Indemnification of touring exhibitions	Unchanged	250
Ministry of Justice – Treaty settlement, tax liabilities	Changed	105
Ministry of Transport – funding guarantee	Unchanged	10
Post Office Bank – guaranteed deposits	Unchanged	11
Guarantees and indemnities of SOEs and Crown entities	Unchanged	19
Other guarantees and indemnities	Unchanged	1
		<b>422</b>
<b>Uncalled capital</b>		
Asian Development Bank	Changed	1,116
European Bank for Reconstruction and Development	Changed	14
International Bank for Reconstruction and Development	Changed	1,235
		<b>2,365</b>
<b>Legal proceedings and disputes</b>		
Health – legal claims	Unchanged	90
Tax in dispute	Changed	827
Other legal claims against SOEs and Crown entities	Changed	3
Other legal claims	Changed	93
		<b>1,013</b>
<b>Other quantifiable contingent liabilities</b>		
International finance organisations	Changed	1,860
Reserve Bank – demonetised currency	Unchanged	23
Social Development – claim for judicial review	Changed	71
Transpower New Zealand Limited	Changed	98
Other quantifiable contingent liabilities of SOEs and Crown entities	Changed	37
Other quantifiable contingent liabilities	Changed	22
		<b>2,111</b>
<b>Total quantifiable contingent liabilities</b>		<b>5,911</b>

<sup>6</sup> Relative to reporting in the 30 June 2006 *Financial Statements of the Government of New Zealand*.

## Unquantifiable Contingent Liabilities

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