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 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.
- The impact of capital spending initiatives is described as increasing the Government's gross debt position. This is correct but because the Government also holds some financial assets the actual impact could equivalently be described as reducing the Government's assets.
- 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.

Business Tax Reform

In Budget 2007 the Government announced the Business Tax Review, a package of reforms to business taxation. This included:

- reducing the company tax rate from 33% to 30%
- reducing the maximum tax rate that applies to widely-held savings vehicles and the top portfolio investment entity cap in line with the reduced company tax rate, and
- introducing a tax credit for research and development.

The package cost is being met from the Budget 2008 allowance.

Charge against Budget 2008 ($ million)	2008/09	2009/10	2010/11	2011/12 and Outyears
Operating	1,056.3	1,135.4	1,129.5	1,129.5
Capital	3.2	-	-	-

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 2007 included $58 million per annum as the third tranche of the 10-year plan. The following table shows the additional tranches to be charged against future Budgets.

Budget to be Charged ($ million)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Budget 2008	69.1	69.1	69.1	69.1	69.1	69.1	69.1
Budget 2009		85.7	85.7	85.7	85.7	85.7	85.7
Budget 2010			108.1	108.1	108.1	108.1	108.1
Budget 2011				66.9	66.9	66.9	66.9
Budget 2012					14.2	14.2	14.2
Budget 2013						58.6	54.2
Budget 2014							0

Health – Pre-commitment

The Government has agreed that the indicative Health allocation of $750 million for Budget 2008 may be pre-committed by $53 million per annum in 2011/12 and outyears. This is to allow for Budget 2007 initiatives that may be further developed in 2007/08 and have a rising profile.

Budget to be Charged ($ million)	2008/09	2009/10	2010/11	2011/12 and Outyears
Budget 2008	34	48	53	53

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)
Child, Youth, and Family Services	Pathway to Partnership: Strengthening Community Based Child and Family Services	3.736 in 2007/08 and 6.759 in 2008/09
Communications	Digital Strategy – High-speed Connectivity for Growth	20 from 2005/06 to 2008/09 (MYA)
Education	Pathway to Partnership: Strengthening Community Based Child and Family Services	0.149 in 2007/08 and 0.282 in 2008/09
Finance	Equity Injection to ONTRACK	49.15 in 2007/08
Finance	Loans to ONTRACK	108.005 in 2007/08
Finance	ONTRACK operating and maintenance costs	12.8 in 2007/08
Health	Meningococcal Vaccine Delivery	7.098 in 2007/08 and 6.081 in 2008/09
Social Development	Pathway to Partnership: Strengthening Community Based Child and Family Services	2.922 in 2007/08 and 6.029 in 2008/09
Youth Development	Pathway to Partnership: Strengthening Community Based Child and Family Services	0.180 in 2007/08 and 0.343 in 2008/09

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)	2007/08	2008/09	2009/10	2010/11	2011/12 and Outyears
Funding to Extend Initiatives	0	169.955	196.449	196.449	196.449

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 5 December 2007	Operating Balance	Gross Debt	Value of Risk ($ million)	Funding in Budget 2007 ($ million)
New Risks				
Customs – CusMod Replacement	Decrease	Increase	22 per annum operating and 100 capital	1 in 2007/08
Education (Tertiary) – Performance-Based Research Fund	Decrease	-	6.5 operating in 2009/10 and 13 per annum operating from 2010/11	-
Education (Tertiary) – Upskilling the Workforce Strategy	Decrease	-	44 operating in 2008/09, 79 operating in 2009/10, and 81 per annum operating from 2010/11	-
Housing – Rural Housing	Decrease	-	15-20 per annum operating for five years including 2008/09-2011/12	2.7 in 2007/08
New Zealand Agency for International Development	Decrease	-	10 in 2008/09, 5 in 2009/10, and savings of 5 in 2010/11	70 in 2007/08, 102 in 2008/09, 174 in 2009/10, and 246 ongoing from 2010/11
Social Development – Youth Court Sentencing Orders	Decrease	Increase	12 per annum operating and 4 capital	-
Changed Risks				
Education – Early Childhood Education Ratio Changes	Decrease	-	51 per annum from 2011/12	-
Education – School Property	Decrease	Increase	100 capital in 2008/09 and up to 260 capital in each of the three years 2009/10-2011/12 and operating of 12 per annum	203 capital and 11 operating ongoing
Finance – National Rail Network – Obligations of Rail Agreement	-	Increase	92 to 102 per annum capital from 2008/09	104 capital in 2007/08 to 2010/11
Foreign Affairs and Trade – Additional Baseline Funding	Decrease	Increase	523 operating and 98 capital total over the period 2008/09 to 2012/13	
Health – National Systems Development Programme Tranche 2	Decrease	Increase	100 operating (33 ongoing) from 2008/09 to 2011/12 and 64 capital	

Quantified Risks as at 5 December 2007	Operating Balance	Gross Debt	Value of Risk ($ million)	Funding in Budget 2007 ($ million)
Police – Increases to Police Staff	Decrease	Increase	Operating of 42 in 2008/09, 45 in 2009/10 and outyears and capital of 54 capital over the forecast period	49 per annum operating ongoing and 10 capital
Social Development – New Zealand Superannuation and Veteran's Pension	Decrease	-	7 operating in 2007/08, 28 operating in 08/09, 22 operating in 09/10	250 operating from 2007/08 to 2010/11
Unchanged Risks				
Corrections – Capital Projects	Decrease	Increase	1,200 capital through to 2014 and operating implications of 123 through 2010/11, 89 operating ongoing	
Culture and Heritage – Broadcasting Initiatives	Decrease	-	24 per annum	3 per annum
Economic Development – Venture Investment Fund	-	Increase	40 capital in 2009/10 and 2010/11	-
Education (Tertiary) – Vocational Training	Decrease	-	2.5 in 2008/09, 7.5 in 2009/10, 15 in 2010/11, and 20 in 2011/12 and outyears	71 from 2007/08 to 2010/11
Health – Indicative Funding for Budgets 2008, 2009, and 2010	Decrease	-	716 in 2008/09, 1,502 from 2009/10, and 2,347 per annum from 2008/09	-
Housing – Shared Equity Home Ownership	Decrease	Increase	30 per annum capital over the forecast period and 1 per annum operating over the forecast period	1.4 in 2007/08
Housing – Wellington City Council Social Housing Assistance	Decrease	-	220 operating spread over a 10-15 year period	1.2 in 2007/08
Justice Sector and Other Agencies – Effective Interventions	Decrease	-	150 per annum	
Justice Sector Agencies – Potential Flow-on Impact of Extra Police	Decrease	Increase	119 operating from 2008/09 to 2011/12 and 19 capital	
New Zealand Defence Force – Defence – Capital Injections	-	Increase	210 capital from 2008/09 to 2010/11	44 capital

Quantified Risks as at 5 December 2007	Operating Balance	Gross Debt	Value of Risk ($ million)	Funding in Budget 2007 ($ million)
New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers	-	Decrease	US$110 capital	-
Police – International Deployment Capability	Decrease	-	30 per annum	-
Research, Science and Technology – Multi-year Funding Profile	Decrease	-	30 in 2008/09 and 60 per annum from 2009/10	55.5 over three years from 2007/08

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 5 December 2007	Operating Balance	Gross Debt	Funding Received in Budget 2007 ($million)
New Risks			
Agriculture and Forestry – Industry Partnership for Food and Pastoral Innovation	Decrease	Increase	-
Social Development – Children, Young Persons, and Their Families Act	Decrease	Increase	-
Environment – Purchase of Kyoto Compliant Emission Units	-	Increase	-
Housing – Tamaki	-	Increase	-
Justice – Financial Action Taskforce Recommendations	Decrease	Increase	-
Justice – Greater Auckland Region Service Delivery Strategy	Decrease	Increase	-
Local Government – Responses to Rates Inquiry	Decrease	Increase	-
Māori Affairs – Māori Business Aotearoa New Zealand	Decrease	Increase	-
Prime Minister and Cabinet – Government House Wellington Refurbishment	Decrease	Increase	-
Revenue – Changes to the Petroleum Mining Tax Rules	Decrease	-	-

Unquantified Risks as at 5 December 2007	**Operating Balance**	**Gross Debt**	**Funding Received in Budget 2007 ($million)**
Changed Risks			
Finance – SOE Long-term Hold Reviews	-	Decrease	-
Health – District Health Board Deficits	Decrease	Increase	-
Health – Strengthening Child and Adolescent Oral Health Services	Decrease	-	-
Immigration – New Immigration Service Delivery Strategy	Decrease	Increase	-
National Library – National Library Building Redevelopment	-	Increase	-
Revenue – Life Insurance	Unclear	-	25 per annum (reduced revenue)
Revenue – Management of Inland Revenue Lease Portfolio in Auckland	Decrease	-	-
Revenue – Working for Families Review of Rates	Decrease	-	-
Transport – Regional Transport Projects	-	Increase	-
Unchanged Risks			
Corrections – Collective Employment Contract Negotiations	Decrease	-	-
Economic Development – Radio Spectrum Rights	Increase	-	-
Economic Development – Shanghai Expo 2010: New Zealand Participation	Decrease	-	-
Education – Schools ICT Network Infrastructure Upgrade	Decrease	Increase	-
Education (Tertiary) – Wananga Capital Injections	-	Increase	-
Education – Year One Class Sizes	Decrease	Increase	-
Education (Tertiary) – Tertiary Education Institutions – Capital Injections	-	Increase	-
Education (Tertiary) – Tertiary Student Support Changes	Decrease	Decrease	Operating expenditure of 29 from 2007/08 through to 2010/11; capital savings of 16 through 2007/08 to 2010/11
Finance – Crown Overseas Properties	-	Increase	-

Unquantified Risks as at 5 December 2007	Operating Balance	Gross Debt	Funding Received in Budget 2007 ($million)
Finance – National Rail Access Agreement Amendments	Unclear	Unclear	-
Fisheries – Māori Interest in Marine Farming	Decrease	-	-
Fisheries – Civilian Maritime Aerial Surveillance	Decrease	Increase	-
Justice – Strengthening the National Court Infrastructure	Decrease	Increase	-
Police – Wage Negotiations	Decrease	-	-
Revenue – International Tax Review	Decrease	-	-
Revenue – Rebuild of the Student Loan IT System	Decrease	Increase	-
Revenue – Reducing Compliance Costs for Small and Medium-sized Enterprises	Unclear	-	-
Revenue – Renegotiation of Double Tax Agreements	Decrease	-	-
Social Development – Working New Zealand: Work-focused Support	Decrease	-	-
Social Development / Housing – Accommodation Supplement Review	Decrease	Increase	-
Transport – Cost Guarantee for the State Highway Programme	-	Increase	-

Risks Removed Since the 2007 Budget Update

The following risks have been removed since the 2007 *Budget Economic and Fiscal Update:*

Expired Risks	Reason	Funding Received ($ million)
Conservation – Lease of Taupo Property Rights from Tuwharetoa	Cabinet has decided to set aside funding (CAB Min (07) 32/1 refers)	Commercially sensitive
Economic Development – Increased Stadium Capacity for the Rugby World Cup	Moved to Contingent Liabilities	Operating: 14 in 2006/07; Capital: 20 in 2006/07
Education (Tertiary) – Centres of Research Excellence	Cabinet has decided to set aside funding (POL Min (07) 11/2 refers)	Operating: 10 in 2007/08 and outyears; Capital: 20 in 2007/08
Education – School Staffing Review	Cabinet has decided to set aside funding (CAB Min (07) 37/7 refers)	Operating: 2 in 2007/08, 17 in 2008/09 and outyears; Capital: 10
Environment – Climate Change Policies	Now funded	Operating: 25 in 2007/08, 50 in 2008/09 and 2009/10, 41 in 2010/11 and outyears
Finance – Development of Rail Land	Incorporated into other Finance rail risks	None
Housing – Hobsonville: Additional Land Purchase	No longer meets SFR criteria – not greater than $10 million in any one year over the forecast period	None
Revenue – Taxation of Redundancy Payments	Funding has been agreed (CAB Min (07) 39/5 refers)	Estimated reduction in tax revenue: 14.6 in 2007/08, 12.6 in 2008/09, 11.6 in 2009/10 and outyears; Operating: 1.089 in 2007/08, 1.311 in 2008/09, 2.356 in 2009/10, 0.485 in 2010/11 and outyears; Capital: 0.159 in 2007/08 and 0.487 in 2009/10
Revenue – Tax Treatment for Relocation Expenses	No longer meets SFR criteria – not greater than $10 million in any one year over the forecast period	None
Revenue – Tax Incentives for Giving to Charities and Other Not-for-profit Organisations	No longer meets SFR criteria – not greater than $10 million in any one year over the forecast period	None
Social Development – New Zealand Superannuation – International Portability	No longer meets SFR criteria – not greater than $10 million in any one year over the forecast period	None
Transport – Extending the State Highway Construction and Revenue Guarantee	The changes to the funding and planning system mean these guarantees will be superseded as user charges will be adjusted to manage cost and revenue pressures	None
Transport – Investment in Transport Infrastructure	The Government has agreed to fully hypothecate fuel excise duty to land transport investment from 1 July 2008.	None

Agriculture and Forestry – Industry Partnership for Food and Pastoral Innovation (new, unquantified risk)

The Government is considering options for a partnership with industry to enhance pastoral sector and food innovation. This would decrease the operating balance and/or increase gross debt. This risk is unquantified as disclosure may compromise the Crown in commercial negotiations.

Corrections – Collective Employment Contract Negotiations (unchanged, unquantified risk)

The Government will be entering into negotiations with the Public Service Association and the Corrections Association of New Zealand to settle six new collective employment agreements. Current agreements expire in the first half of 2008. Any additional funding would decrease the operating balance. This risk is unquantified as disclosure may compromise the Crown in negotiations.

Corrections – Capital Projects (unchanged, quantified risk)

The Government is considering the asset management of current Corrections facilities, and requirements for increased capacity to meet the continued forecast prisoner growth in the foreseeable future, including the replacement of Mt Eden Prison. Estimated costs of upgrade and expansion are $1.2 billion capital through to 2014, with ongoing operating implications of $123 million per annum for the programme of capital projects completed by the end of the forecast period, and additional ongoing operating implications of $89 million from 2013/14 for the remainder of the capital programme. These estimates are based on the 2006 Justice Sector Prisoner Forecast which includes the impact of 1,000 Police and Effective Intervention decisions to date, and in response to the 2006 Capital Asset Management Review. Capital injections would increase gross debt while operating funding would decrease the operating balance.

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

Source: Department of Corrections

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 six-year period to 2009/10, 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 totalling $11 million, $6 million and $3 million per annum have been included in Budgets 2005, 2006 and 2007, respectively. The Government may consider individual proposals relating to the Programme for the remaining $24 million per annum over the next three Budgets. If funded, 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

Customs – CusMod Replacement (new, quantified risk)

Customs' border management systems (CusMod) are over ten years old. Customs received funding in Budget 2007 to develop a business case for replacement systems for consideration in Budget 2008. In accordance with the two-stage approval process for major IT projects, funding for the CusMod replacement is dependent on approval of the two business cases. The indicative cost of the project is up to $100 million capital and up to $22 million operating per annum. Any additional funding would decrease the operating balance and increase gross debt.

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

Source: New Zealand Customs Service

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). This depends on the results of the evaluation of the Venture Investment Fund scheduled 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

Economic Development – Radio Spectrum Rights (unchanged, unquantified risk)

The Government sets the processes for the renewal or auction of property rights to radio spectrum in consultation with industry. Any revenue from sale of rights would increase the operating balance by the full amount of the sales less the cost of sales as charged to the Spectrum Sales Appropriation. Offers for rights of renewal to existing owners of spectrum rights are set approximately five years in advance of rights expiring from 2010 onwards with settlement being required prior to granting the new right. If any offers are rejected then they will be allocated by way of auction on the open market. (For this reason the expected revenue from sale of renewal rights is not reflected in current forecasts of revenue).

Economic Development – Shanghai Expo 2010: New Zealand Participation (unchanged, unquantified risk)

The Government has announced New Zealand's participation in the Shanghai Expo 2010 and officials are in the process of developing a detailed proposal for the design and construction of a pavilion to be used at the agreed site for New Zealand at the Expo. The Government is considering meeting part of the overall cost of New Zealand's participation. However, the amount that the Government contributes will depend on the level of industry contribution obtained and the development of a more definitive budget for New Zealand's participation at the Expo. Any contribution from the Government would decrease the operating balance.

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 in future budgets. This would decrease the operating balance and increase gross debt.

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

Education (Tertiary) – Wananga Capital Injections (unchanged, 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 to meet additional capital requirements. Negotiations are also taking place with Te Whare Wananga o Awanuiarangi in relation to an outstanding item from the 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.

Education (Tertiary) – Performance-Based Research Fund (new, quantified risk)

The Government is considering increasing the Performance-Based Research Fund to $250 million by 2010. Meeting this proposal would reduce the operating balance by approximately $13 million per annum from 2010/11 (with $6.5 million in 2009/10 also). The Minister of Finance has yet to fully consider the quantum of this risk.

Source: Ministry of Education

Education (Tertiary) – Upskilling the Workforce Strategy (new, quantified risk)

The Government is considering a proposal to upskill the existing workforce, which has a focus on increasing literacy, numeracy, and language levels for the workforce. The proposal would decrease the operating balance by $44 million in 2008/09, $79 million in 2009/10 and approximately $81 million in 2010/11 and outyears.

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

Source: Tertiary Education Commission

Education – Early Childhood Education Ratio Changes (changed, quantified risk)

The Government has committed to increasing adult to child ratios as part of the Early Childhood Education Strategic Plan, and consulted on options for new ratios in 2004 and 2005. In October 2006, the Government agreed to initial changes to ratios to implement part of one option consulted on, to take place from July 2009 and 2010. The Government has also communicated that further changes are being considered. The current funding is thought to be insufficient for further changes, so additional funding of approximately up to $51 million per annum from 2011/12 will be considered as part of Budget 2008. Any increased funding would reduce the operating balance.

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

Source: Ministry of Education

Education – School Property (changed, quantified risk)

Additional capital injections for school accommodation will be required in future years to meet roll growth and to establish new schools. They could cost $100 million in 2008/09, and up to $260 million in each of the next three years 2009/10-2011/12, with a corresponding increase in debt. In addition to capital injections, consequential operating costs are likely to increase by approximately $12 million per annum, which would decrease the operating balance. New expenditure rules have been put in place to time limit new capital budget approvals, but this will take some time to take effect. It is expected that the liability for schools' unspent property entitlements and delayed projects will continue to increase until 2010/2011 before levelling off and then declining.

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

Source: Ministry of Education

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.

As at Budget 2007, funding supports participation of approximately 220,000 trainees by 2011. To work to achieving a participation of 250,000 trainees, the Industry Training Fund would need to increase by approximately $2.5 million in 2008/09, $7.5 million in 2009/10, $15 million in 2010/11 and $20 million in 2011/12 and outyears.

This proposal would decrease the operating balance.

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

Source: Tertiary Education Commission

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

The Government will consider providing more teachers to further reduce Year 1 class sizes in future budgets. Any future increase in teachers for this purpose would decrease the operating balance and increase gross debt, but the precise costs have yet to be quantified as the phasing has yet to be determined.

Education (Tertiary) – Tertiary Education Institutions – Capital Injections (unchanged, 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.

The Government may also consider making capital injections to tertiary education institutions when a strategic investment to support the development of their infrastructure is warranted.

The provision of capital injections would increase gross debt, but the precise impact is unclear as it would depend on progress made by institutions in managing their pressures, and on decisions taken by Government.

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

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

Budget 2007 provided around $29 million in operating funding and around $16 million in capital savings over the forecast period to inflation adjust the student allowance personal income threshold, increase the student allowance parental income threshold, expand the Step Up scholarship programme, and strengthen the Ngariumu VC and 28th Māori Battalion Memorial Scholarships.

Further proposals to increase eligibility for student allowances are likely to be considered in future budgets.

Environment – Purchase of Kyoto Compliant Emission Units (new, unquantified risk)

The forecasts currently include a provision for New Zealand's forecast liability under the Kyoto Protocol. The Government has taken a decision to finance part of this liability through the purchase of Kyoto-compliant emission units on the international market. This risk is unquantified as disclosure would harm the Crown in commercial negotiations. This would increase gross debt.

Finance – Crown Overseas Properties (unchanged, unquantified risk)

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

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

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

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

Upgrade of National Rail Network

The Government has committed significant expenditure to upgrade and renew the national rail network. However, additional funding for as-yet un-scoped projects may be required in 2008/09. Beyond this, expenditure of around $60 to $70 million per annum may also be required from 2008/09 to 2011/12 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 gross debt.

Reconfiguration of Land

The agreement for Sale and Purchase of Rail Network and Associated Assets between the Crown and Toll provides for Toll to reconfigure its operations to enable the release of land it occupies 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 approximately $48 million to ONTRACK for land release in 2007/08 was agreed in Budget 2007. Further funding of around $32 million may be required in 2008/09, 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 gross debt.

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

Source: The Treasury

Finance – State Owned Enterprise Long-term Hold Reviews (changed, unquantified risk)

To implement its long-term hold ownership policy, the Government has conducted reviews of State-Owned Enterprises (SOEs). These reviews have examined appropriate capital structures to support the strategies of SOEs. One possible outcome of these 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; 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.

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.

Foreign Affairs and Trade – Additional Baseline Funding (changed, quantified risk)

The Government is considering funding an additional $523 million of operating funding and $98 capital funding related to the 'Response to Foreign and Trade Policy Changes' bid, including the opening of new posts. The additional operating funding would decrease the operating balance and associated capital funding would increase gross debt.

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

Source: Ministry of Foreign Affairs and Trade

Health – National Systems Development Programme Tranche 2 (changed, quantified risk)

The Ministry of Health is developing and implementing the National Systems Development Programme (NSDP). NSDP is a four-year information technology project for the central health payment systems and national data collections. The project has been divided into two tranches with a decision on whether to proceed with Tranche 2 expected in July 2008. It is anticipated that implementation of Tranche 2 will require additional capital funding of around $64 million and operating funding of $100 million over four years from 2008/09 to 2011/12. $33 million per annum of the additional operating funding would be required on an ongoing basis. This would decrease the operating balance and increase gross debt.

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

Source: Ministry of Health

Health – Indicative Funding for Budgets 2008, 2009 and 2010 (unchanged, quantified risk)

The Government is considering indicative operating allocations of $750 million, $800 million and $850 million for Budgets 2008, 2009 and 2010 respectively. 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. This would decrease the operating balance.

The Government has also agreed that the indicative allocation for Budget 2008 above may be pre-committed up to $53 million per annum in 2010/11 and outyears. This was shown in the Charges against Future Budgets section of this chapter. The operating balance would be decreased by the totals as follows:

Budget to be Charged ($million)	2008/09	2009/10	2010/11	2011/12 and Outyears
Budget 2008	716	702	697	697
Budget 2009	-	800	800	800
Budget 2010	-	-	850	850

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

Source: Ministry of Health

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

District Annual Plans from Whanganui, West Coast, Southland (draft) and Capital and Coast District Health Boards (DHBs) indicate projected operating deficits in 2007/08. 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 gross debt. Specific potential pressures for DHBs include wage bargaining and financing costs of capital projects.

This risk has changed since the 2007 Budget Economic and Fiscal Update to take into account the new projections of DHB deficits.

Health – Strengthening Child and Adolescent Oral Health Services (unchanged, unquantified risk)

The Government has agreed to provide capital funding to District Health Boards for new infrastructure for strengthening child and adolescent oral health services. This capital investment is likely to result in additional operating expenditure, which may be sought from funding to be agreed in Budget 2008. This would decrease the operating balance.

Housing – Rural Housing (new, quantified risk)

The Government is considering a new model for the future delivery of essential repairs to houses as part of the Rural Housing Programme. Funding for the current model for the delivery of essential repairs finishes in 2007/08. The cost of fully implementing the new model would be between $15 and $20 million per annum over the next five years. This would have the effect of decreasing the operating balance.

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

Source: Department of Building and Housing

Housing – Shared Equity Home Ownership (unchanged, quantified risk)

The Government is considering a two year shared equity pilot. While the fiscal impacts would depend on the final size of the pilot, the capital outlay required would be approximately $30 million per annum and the operating expenditure would be approximately $1 million per annum for the duration of the pilot, plus an unknown amount in subsequent years to maintain the loans. This would have the effect of decreasing the operating balance and increasing gross debt.

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

Source: Department of Building and Housing

Housing – Wellington City Council Social Housing Assistance (unchanged, quantified risk)

The Government has agreed to provide the Wellington City Council with a conditional grant of $220 million over an investment period of 10 to 15 years (representing approximately $150 million in net present value terms) to upgrade its social housing portfolio. It is currently in negotiations with the Council about the details of the assistance, including the spread of the funding. The conditional grant would decrease the operating balance.

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

Source: Department of Building and Housing

Housing – Tamaki (new, unquantified risk)

The Government is considering a wider urban development in Tamaki as part of progress to integrated urban communities. Any additional capital funding would increase gross debt.

Immigration – New Immigration Service Delivery Strategy (changed, 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 and delivering immigration services. Options are still being developed, and are likely to be considered early in 2008. A portion of the additional funding is expected to be funded by third party revenue and the rest would reduce the operating balance and increase gross debt.

Justice – Financial Action Taskforce Recommendations (new, unquantified risk)

In order to implement the recommendations of the Financial Action Task Force, the Government is considering a new anti-money laundering and counter terrorist financing regime. Increased supervision and enforcement is expected to result in increased costs to the following agencies: the Reserve Bank, the Securities Commission, the Department of Internal Affairs, the Financial Intelligence Unit of the New Zealand Police and the Ministry of Justice. This risk is unquantified as costs are still being finalised but would reduce the operating balance.

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 gross debt.

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

The addition of 1,000 Police will result in additional activity in other justice sector agencies (eg, the Ministry of Justice and the Department of Corrections). Excluding the costs associated with additional prison beds, the Government estimates additional operating costs of $119 million over the forecast period with an ongoing cost of $34 million per annum, and capital cost of $19 million over the forecast period. This would decrease the operating balance and increase gross debt.

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

Source: Ministry of Justice

Justice Sector and Other Agencies – Effective Interventions (unchanged, quantified risk)

As part of a comprehensive approach to reducing crime and the pressures on the prison population, the Government is considering measures to address the precursors of crime, and measures to reduce re-offending. The measures focus on early interventions for vulnerable children, youth offending, restorative justice, preventing crime in local communities, reintegrating offenders, and drug and alcohol treatment for offenders.

Funding of $37 million per annum was approved in 2006. Further operating funding to implement the approach could be up to $150 million per annum, depending on the specific options chosen. This would decrease the operating balance.

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

Source: Ministry of Justice

Justice – Greater Auckland Region Service Delivery Strategy (new, unquantified risk)

The Government is considering a strategy to address the need for additional Courts in the greater Auckland region. A wide range of stakeholders are currently being consulted over a variety of service delivery options. Any impact on the operating balance or gross debt will depend on the options chosen.

Courthouses - establishing specialist and purpose-built jury courthouses - establishing a service centre to deal with customer enquiries and process bulk work - moving to electronic filing and an electronic court record - moving file storage offsite to a specialist external provider - establishing a Community Justice Centre(s).

Local Government – Response to Rates Inquiry (new, unquantified risk)

The Government is considering its response to the recommendations of the Independent Inquiry into Local Government Rates, which were reported in August 2007. The potential impact on the operating balance and/or gross debt is unknown at this stage, as it would depend on the nature and scope of any measures that are subsequently pursued.

- Many of the Rates Inquiry's recommendations require local government action
- Central government can offer support in some areas, but the sector needs to take responsibility
- The Government will review regulatory settings around user charging and rating powers to ensure councils can make effective use of these tools
- There is no case for generalised central government assistance for local authorities – but the Government will consider optimising its investment in local government through further targeted assistance in the Budget round
- Rates exemptions will not be removed in the short term – but the Government will review them to ensure the Crown is making a fair contribution as a member of local communities, and
- The Government will keep a watching brief on the affordability of rates and consider making some further adjustments to the Rates Rebate Scheme.

Māori Affairs – Māori Business Aotearoa New Zealand (new, unquantified risk)

The Government has decided to establish a new statutory corporation under the Māori Trustee Act 1953, for the purpose of furthering Māori economic development. The new entity is provisionally entitled Māori Business Aotearoa New Zealand (MBANZ). Any new Crown funding contribution to MBANZ over and above those establishment costs that have already been provided for would decrease the operating balance and/or increase gross debt.

National Library – National Library Building Redevelopment (changed, unquantified risk)

The Government is considering funding redevelopment of the National Library building.

This risk remains unquantified as disclosure would compromise the Crown in negotiations, but any additional capital funding would increase gross debt and any additional operating funding would reduce the operating balance.

New Zealand Agency for International Development – Adjustment of Official Development Assistance Fund (new, quantified risk)

The Government has indicated its intention to increase Official Development Assistance (ODA) as a percentage of Gross National Income (GNI) as follows: 0.31% in 2008/09, 0.33% in 2009/10 and 0.35% in 2010/11. The risk relates to changes in forecast GNI between BEFU 2007 and HYEFU 2007. Based on current forecasts funding may need to be increased by $10 million in 2008/09, $5 million in 2009/10, and may be able to be reduced by $5 million in 2010/11. The net impact of these risks would reduce the operating balance.

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

Source: The Treasury

New Zealand Defence Force – 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 the 10-year period from 2002 to 2012.

Of the $1.244 billion, $1.034 billion has been agreed with the remaining $210 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 gross 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 – Wage Negotiations (unchanged, unquantified risk)

The Police collective employment agreements expire on 30 June 2008. The Government will be entering into negotiations with police service organisations to settle new collective employment agreements prior to the expiration date of the current agreements. Any additional funding would decrease the operating balance. This risk is unquantified as disclosure may compromise the Crown in negotiations.

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

The Government has committed to funding an additional 1,000 sworn 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 2007 included $49 million per annum operating in outyears; and $10 million capital over the forecast period to provide for the second tranche of additional police (including 90 non-sworn staff and some associated infrastructure costs). The Government intends to roll out the third tranche in Budget 2008. The indicative operating costs are $42 million in 2008/09 and $45 million in 2009/10 and out years. Indicative capital costs associated with the third tranche are $54 million. 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: New Zealand Police

Police – International Deployment Capability (unchanged, quantified risk)

The Government is considering options to ensure that the New Zealand Police has sufficient capability to manage requests for assistance overseas. The funding required depends on the quantity of personnel and the funding structure associated with the option chosen, but could be in the order of $30 million operating per annum. Any additional operating funding would decrease the operating balance.

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

Source: New Zealand Police

Prime Minister and Cabinet – Government House Wellington Refurbishment (new, unquantified risk)

The Government is considering options around the refurbishment of Government House Wellington. Options are currently being developed, and decisions on the preferred option and funding are likely to be made in early 2008. Depending on the option chosen and funding decision, this would decrease the operating balance and/or increase gross debt.

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

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 2008 and 2009, subject to the context of each Budget and the Government's overall fiscal strategy. In Budget 2007, there was $55.5 million of new investment in research, science and technology over the three years from 2007/08 to 2009/10. Further 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 – Changes to the Petroleum Mining Tax Rules (new, unquantified risk)

The Government is currently considering modifications to the petroleum mining tax rules. The Government has yet to fully consider the quantum of this risk but it is likely to reduce the operating balance. The extent of the impact will depend on the specific proposals finally approved and the details of the legislation.

Revenue – Life Insurance (changed, unquantified risk)

The Government is considering changes to 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. A discussion document was issued in November 2007 outlining a broad framework for reform of the life insurance tax rules, relating to risk insurance and further integration of life products into the Portfolio Investment Entity (PIE) rules. The Government will be consulting with interested parties on the reforms and as such has not decided on the final details of the reforms. Accordingly, the impact on the operating balance of this second phase cannot yet be quantified.

Revenue – Management of Inland Revenue's Lease Portfolio in Auckland (changed, unquantified risk)

Inland Revenue is currently exploring options for its lease portfolio in Auckland. This risk is unquantified as disclosure could compromise the Crown in negotiations. This would decrease the operating balance.

Revenue – Working for Families Review of Rates (changed, unquantified risk)

Working for Families legislation requires a review of the amounts of the In-Work Tax Credit and Parental Tax Credits to be undertaken no later than June 2008. This review is to assess whether the current rates still meet the policy objectives behind Working For Families. This policy cannot be quantified until the reviews are completed.

Revenue – International Tax Review (unchanged, unquantified risk)

In Budget 2007 the Government announced the major features of the international tax reform package, which would introduce a tax exemption for the active income of Controlled Foreign Companies. Subsequently two issues papers have been released by officials suggesting detailed design features for the new regime. The proposed reform follows the release of a Government discussion document in December 2006. The cost of the reform package is uncertain as many detailed design decisions have yet to be made but it would reduce the operating balance. The international tax reform package is expected to be included in a Bill introduced in May 2008, with the new rules applying from the 2009/10 income year.

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

The Government is considering options for redesigning the student loans IT system. This would decrease the operating balance and/or increase gross debt.

Revenue – Reducing Compliance Costs for Small- and Medium-Sized Enterprises (unchanged, unquantified risk)

The Government is considering measures to simplify the tax rules for small- and medium-sized enterprises. A discussion document was issued in late 2007. The potential impact on the operating balance is unknown at this stage, as it would depend on the nature and scope of any measures that are subsequently pursued.

Revenue – Renegotiation of Double Tax Agreements (unchanged, unquantified risk)

A Government discussion document released in December 2006 considered the case for negotiating lower rates of Non-Resident Withholding Tax (NRWT) in New Zealand's Double Tax Agreements (DTAs). Subsequently, it has been announced that the renegotiation of the New Zealand and Australia DTA is expected to commence shortly. Although any effect on the operating balance will depend on the outcome of bilateral treaty negotiations, to the extent that lower rates are agreed, this will likely have the effect of decreasing the operating balance.

Social Development – New Zealand Superannuation and Veteran's Pension (changed, quantified risk)

The Government has ensured that the net married couple rate of New Zealand Superannuation (NZS) applying for the tax year from 1 April 2007 is equivalent to 66% of the net average ordinary time weekly wage (known as the 66% wage floor). This also applies to the Veteran's Pension, which is set at the same rates as NZS. The Government will review each year the level to be set for the following tax year. Under the 2007 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 2008 would reduce the operating balance by approximately $7 million in 2007/08, $28 million in 2008/09 and $22 million in 2009/10.

Social Development – Working New Zealand: Work-focused Support (unchanged, 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 has already been implemented and focused 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 and further support people to stay in work. The next stage will be submitted for consideration in future Budgets. The remaining proposals are still being developed, but any additional funding would decrease the operating balance.

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 – Children, Young Persons and their Families Act (new, unquantified risk)

The Government is considering a number of changes to the Children, Young Persons, and Their Families Act 1989. Most of the costs relating to these changes arise from the proposal to increase the age of a young person from 17 to 18. The fiscal impacts would depend on what proposals are finally approved and the details of the legislation. Any additional operating funding would decrease the operating balance and any additional capital would increase gross debt.

Social Development – Youth Court Sentencing Orders (new, quantified risk)

The Government is considering the inclusion of new Youth Court orders in the Children, Young Persons, and Their Families Act 1989. These new Youth Court orders are extended supervision with residents and extended supervision with activity. The estimated cost is approximately $12 million per annum in operating funding and $4 million in capital funding. This would have the effect of decreasing the operating balance and increasing debt.

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

Source: Ministry of Social Development

Transport – Regional transport projects (changed, unquantified risk)

The Government is considering funding options for a number of regional transport projects. There is potential for some of these projects to be debt funded and repaid via a regional fuel tax in those regions. This would increase gross debt.

Transport – Cost guarantee for the State Highway Programme (unchanged, unquantified risk)

In Budget 2006 the Government agreed to provide a cost guarantee for a five-year State Highway Construction Programme. In Budget 2007 funding was provided to cover estimated cost escalation in the State Highway Construction Programme between 2006/07 and 2007/08. Decisions on funding for 2008/09 and beyond have been deferred until Budget 2008. Any further funding decisions would increase gross debt and/or decrease the operating balance.

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 gross sovereign issued debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to gross sovereign issued debt.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the estimation of the possible amount of any award against the Crown. It does not represent either an admission that the claim is valid or an estimation of the 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 2007, 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/2007

Quantifiable Contingent Liabilities

Guarantees and indemnities	**Status[7]**	**($ million)**
Cook Islands – Asian Development Bank loans	Changed	14
Indemnification of receivers and managers – Terralink Limited	Unchanged	10
Ministry of Justice – Treaty settlement, tax liabilities	Unchanged	105
Ministry of Transport – funding guarantee	Unchanged	10
Guarantees and indemnities of SOEs and Crown entities	Unchanged	18
Other guarantees and indemnities	Changed	14
		171
Uncalled capital		
Asian Development Bank	Changed	1,002
Bank for International Settlements	New	25
European Bank for Reconstruction and Development	Changed	13
International Bank for Reconstruction and Development	Changed	1,074
		2,114
Legal proceedings and disputes		
Health – legal claims	Changed	53
Tax in dispute	Changed	322
Other legal claims against SOEs and Crown entities	Unchanged	33
Other legal claims	Unchanged	76
		484
Other quantifiable contingent liabilities		
International finance organisations	Changed	1,531
Ministry of Economic Development – 2011 Rugby World Cup, Eden Park Upgrade	Unchanged	146
New Zealand Export Credit Office – export guarantees	New	29
Reserve Bank – demonetised currency	Unchanged	23
Social Development – claim for judicial review	Changed	83
Transpower New Zealand Limited	Unchanged	98
Other quantifiable contingent liabilities of SOEs and Crown entities	Changed	50
Other quantifiable contingent liabilities	Changed	54
		2,014
Total quantifiable contingent liabilities		**4,783**

7 Relative to reporting in the 30 June 2007 *Financial Statements of the Government of New Zealand*.

Unquantifiable Contingent Liabilities

Guarantees and indemnities	**Status**
AgriQuality Limited (formerly Asure New Zealand Limited)	Changed
At Work Insurance Limited	Unchanged
Auckland Rail lease	Unchanged
Bona Vacantia property	Unchanged
Building Industry Authority	Unchanged
District Court Judges, Justices of the Peace, Coroners and Disputes Tribunal	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
State Insurance and Rural Bank – Tax liabilities	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Tainui Corporation	Unchanged
Toll NZ Ltd – purchase of rail network assets	Changed
Other unquantifiable contingent liabilities	
Abuse claims	Unchanged
Accident Compensation Corporation (ACC) litigations	Changed
Environmental liabilities	Changed
Rugby World Cup 2011 – joint venture arrangements	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Other contingencies	
Foreshore and seabed	Unchanged