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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.
- 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.

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 2008 included $69.1 million per annum as the fourth tranche of the 10-year plan. The following table shows the additional tranches to be charged against future Budgets.

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Budget 2009	85.700	85.700	85.700	85.700	85.700	85.700
Budget 2010	-	108.100	108.100	108.100	108.100	108.100
Budget 2011	-	-	66.900	66.900	66.900	66.900
Budget 2012	-	-	-	14.200	14.200	14.200
Budget 2013	-	-	-	-	58.600	54.200
Budget 2014	-	-	-	-	-	0.00

Economic Transformation: Innovation - Pre-commitment

Budget 2008 included significant funding for Economic Transformation: Innovation. In addition to this, the Government has agreed that the following funding for this purpose will be pre-committed against future budgets:

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13 and Outyears**
Budget 2009	93.000	100.000	100.000	100.000
Budget 2010	-	75.000	75.000	75.000
Budget 2011	-	-	25.000	25.000

Foreign Affairs and Trade - Funding Package Pre-commitment

The Foreign Affairs and Trade Package is designed to provide the Ministry of Foreign Affairs and Trade (MFAT) with certainty to progress growth plans while also providing the Government and MFAT the flexibility to respond to emerging issues that may arise as a result of an increasingly complex international environment. The pre-commitment is $133 million operating and $39 million in capital funding to be allocated in Budget 2009 to Budget 2012.

Operating:

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Budget 2009	8.298	8.035	8.035	8.035
Budget 2010	-	13.557	13.369	13.369
Budget 2011	-	-	18.267	17.68
Budget 2012	-	-	-	24.493

Capital:

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Budget 2009	7.031	-	-	-
Budget 2010	-	5.007	-	
Budget 2011	-	-	15.655	-
Budget 2012	-	-	-	11.307

Health - Pre-commitment

The Government has agreed that the indicative Health allocation of $800 million for Budget 2009 may be pre-committed by $2.233 million in 2010/11 rising to $13.736 million per annum in 2012/13 and outyears.

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13 and Outyears**
Budget 2009	-	2.233	16.000	13.736

Teachers' and Principals' Collective Agreements

The Government previously set aside funding for the Teachers' and Principals' Collective Agreements in Budgets 2007 and 2008. These Collective Agreements have now been settled, and the remaining costs are $169.128 million in 2009/10 rising to $192.414 million in 2010/11 and outyears. These costs will be charged against Budget 2009.

Budget to be Charged ($ million)	**2009/10**	**2010/11**	**2011/12**	**2012/13 and Outyears**
Budget 2009	169.128	192.414	192.414	192.414

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 in the forecast period 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	Impact of Continuing Funding ($ million)
Biosecurity	Southern Saltmarsh Mosquito Eradication Programme	7.000 in 2008/09, 9.000 in 2009/10 and 11.000 in 2010/11 and outyears
Child, Youth and Family Services	Demand driven pressures on care and protection Services	6.800 in 2008/09 and outyears
Finance	Funding for ONTRACK's revenue shortfall as a consequence of the extension of Toll's interim track access charge pending the outcome of the expert determination process	28.000 in 2009/10 and outyears
Finance	Funding to ONTRACK to cover the cost of Wellington Railway Station, land released by Toll NZ Ltd and specific expenditure	26.350 capital in 2008/09, 42.750 capital in 2009/10 and outyears
Finance	Loan facility to ONTRACK to build a range of infrastructure projects	46.995 capital in 2008/09, 110.000 capital in 2009/10 and outyears
Finance	National rail network improvements	25.000 capital in 2009/10 and outyears
Health	Meningococcal Vaccine - Ongoing Delivery	7.000 ongoing from 2009/10
Health	Healthy Housing Programme	15.000 ongoing from 2010/11
Housing	Shared Equity Home Ownership Pilot	17.500 capital ongoing from 2010/11
Revenue	Property Audit Strategy	23.567 in 2010/11 and outyears
Transport	Canterbury Transport Project	9.000 in 2011/12, 14.000 in 2012/13 and outyears

The following table shows the debt and operating impact 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 spending.

Impact ($ million)	2007/08	2008/09	2009/10	2010/11	2011/12 and Outyears
Funding to Extend Operating Initiatives (Impact on Operating Balance)	-	13.800	50.800	91.367	100.367
Funding to Extend Capital Initiatives (Impact on Debt)	-	73.345	177.750	195.250	195.250

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 14 May 2008	Operating Balance	Gross Debt	Value of Risk ($ million)	Funding in Budget 2008 ($ million)
New Risks				
Finance - Restructuring the Rail Industry	Decrease	Increase	80-120 million capital in 2008/09	690 million capital in 2007/08
Changed Risks				
Customs - Border Management System (CusMod) Replacement	Decrease	Increase	22 per annum operating and 100 capital	1 operating one-off to further develop the business case
Education - School Property	Decrease	Increase	Up to 84 capital in each of the next four years	Operating: 6 in 2008/09, 5 in 2009/10 and outyears Capital: 71 in 2008/09, 3 in 2009/10 and 1 in 2010/11
Finance - Upgrade of National Rail Network	-	Increase	375-425 capital over four years	65 capital in 2008/09
Health - Indicative Funding for Budgets 2009 and 2010	Decrease	-	800 in 2009/10, 1648 in 2010/11, 1634 in 2011/12 and 1636 in 2009/10	750 per annum from 2008/09
Māori Affairs - Māori Business Aotearoa New Zealand	Increase	Increase	40 capital in 2008/09 and ongoing operating savings of 4	-
Police - Increases to Police Staff	-	Increase	45 capital over the forecast period	41 per annum operating and 10 capital in 2008/09
Police - International Deployment Capability	Decrease	-	20 per annum operating	-
Unchanged Risks				
Economic Development - Venture Investment Fund	-	Increase	40 capital in 2009/10 and 2010/11	-
Education - Early Childhood Education Ratio Changes	Decrease	-	51 per annum operating from 2011/12	-

Quantified Risks as at 14 May 2008	Operating Balance	Gross Debt	Value of Risk ($ million)	Funding in Budget 2008 ($ million)
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	-
Housing - Wellington City Council Social Housing Assistance	Decrease	-	220 operating spread over a 10-15 year period	Funding set aside in a contingency but has not been appropriated
New Zealand Defence Force - Sale of Skyhawks and Aermacchi Trainers	-	Decrease	US$110 capital	-
New Zealand Defence Force - Defence - Capital Injections	-	Increase	210 capital from 2008/09 to 2010/11	-
Social Development - Youth Court Sentencing Orders	Decrease	Increase	12 per annum operating and 4 capital	-

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 14 May 2008	Operating Balance	Gross Debt	Funding Received in Budget 2008 ($ million)
New Risks			
Economic Development - Implementation of the New Zealand Tourism Strategy	Decrease	Increase	-
Economic Development - Review of Financial Products and Providers	Decrease	Increase	-
Education - Schools Plus	Decrease	Increase	-
Education/Social Development - Inter-agency Plan for Conduct Disorder/Severe Antisocial Behaviour	Decrease	-	-
Housing - Local Government and NGO Housing Projects	Decrease	Increase	-
Housing - Urban Development Agencies	Decrease	Increase	-
Housing - Hobsonville Urban Development	-	Increase	33 capital and 5 operating between 2008/09 and 20011/12
Revenue - Investment in the Tax System and Related Business	Decrease	Increase	-

Unquantified Risks as at 14 May 2008	Operating Balance	Gross Debt	Funding Received in Budget 2008 ($ million)
Social Development - Five-Year Action Plan for Out of School Services	Decrease	-	-
Social Development - New Zealand Superannuation and Veteran's Pension	Decrease	-	-
Social Development - Energy Subsidy for SuperGold Card Holders	Decrease	-	-
Changed Risks			
Corrections - Capital Projects	Decrease	Increase	110 capital and a total of 13.5 operating for Mt Eden
Corrections - Collective Employment Contract Negotiations	Decrease	-	16.5 operating in outyears
Environment - Purchase of Kyoto Compliant Emission Units	-	Increase	-
Health - District Health Board Deficits	Decrease	Increase	-
Housing - Tamaki	-	Increase	-
Justice - Strengthening the National Court Infrastructure	Decrease	Increase	11 capital and 2 operating between 2008/09 and 2011/12
Justice - Greater Auckland Region Service Delivery Strategy	Decrease	Increase	6 operating between 2008/09 and 2011/12
Justice Sector and Other Agencies - Effective Interventions	Decrease	-	.5 capital and 6 operating between 2008/09 and 2011/12
Local Government - Response to Rates Inquiry	Decrease	Increase	41 operating over four years
Revenue - Reducing Compliance Costs for Small- and Medium-Sized Enterprises	Unclear	-	-
Transport - Regional transport projects	-	Increase	33.5 operating between 2008/09 and 2011/12
Unchanged Risks			
Economic Development - Radio Spectrum Rights	Increase	-	-
Education (Tertiary) - Tertiary Education Institutions - Capital Injection	-	Increase	-
Education (Tertiary) - Wānanga Capital Injections	-	Increase	-

Unquantified Risks as at 14 May 2008	Operating Balance	Gross Debt	Funding Received in Budget 2008 ($ million)
Finance - SOE Long-term Hold Reviews	-	Decrease	-
Finance - Crown Overseas Properties	-	Increase	-
Fisheries - Civilian Maritime Aerial Surveillance	Decrease	Increase	-
Immigration - New Immigration Service Delivery Strategy	Decrease	Increase	5 operating in 2007/08
Justice - Financial Action Taskforce Recommendations	Decrease	-	-
New Zealand Agency for International Development - Adjustment of Official Development Assistance Fund	Unknown	-	Operating: 10 in 2008/09, 15 in 2009/10, 12 in 2010/11 and outyears
Police - Wage Negotiations	Decrease	-	-
Revenue - Management of Inland Revenue's Lease Portfolio in Auckland	Decrease	-	-
Revenue - Rebuild of the Student Loan IT System	Decrease	Increase	4 operating in 2008/09
Revenue - Renegotiation of Double Tax Agreements	Decrease	-	-
Revenue - Working for Families Review of Rates	Decrease	-	-
Social Development - Working New Zealand: Work-focused Support	Decrease	-	-
Social Development - Children, Young Persons and their Families Act	Decrease	Increase	-

Risks Removed Since the 2007 *HYEFU Update*

The following risks have been removed since the 2007 *Half-Year Economic and Fiscal Update:*

Expired Risks	**Reason**	**Funding Received ($ million)**
Agriculture and Forestry - Industry Partnership for Food and Pastoral Innovation	Funded in Budget 2008	700 capital in 2008/09
Culture and Heritage - Broadcasting Initiatives	Funding provided in Budget 2008 means the remainder of the risk is below the materiality threshold	3 operating per annum ongoing
Economic Development - Shanghai Expo 2010: New Zealand Participation	Funded in Budget 2008	27 operating over three years
Education - Schools ICT Network Infrastructure Upgrade	Funded in Budget 2008	9 operating in 2008/09, 19 operating in 2009/10 and outyears
Education - Performance Based Research Fund	Funded in Budget 2008	Operating: 4 in 3007/08, 7 in 2008/09, 9 in 2009/10, 13 in 2010/11 and outyears
Education - Upskilling the Workforce Strategy	Funded in Budget 2008	Operating: 29 in 2008/09, 38 in 2009/10, 48 in 2010/11, 50 in 2011/12 and outyears
Education - Year One Class Sizes	Funded in Budget 2008	Operating: 22 in 2008/09, 53 in 2009/10, 54 in 2010/11 and outyears Capital: 2 in 2008/09, 17 in 2010/11 and 7 in 2011/12
Education - Tertiary Student Support Changes	Funded in Budget 2008	Operating: 18 in 2008/09, 34 in 2009/10, 38 in 2010/11, 40 in 2011/12 and outyears Capital: 24 over the forecast period
Finance - National Rail Access Agreement Amendments	Funded in Budget 2008	690 capital in 2007/08
Fisheries - Māori Interest in Marine Farming	Funded in Budget 2008 - liability now in financial statements	72 operating in 2007/08
Foreign Affairs and Trade - Additional Baseline Funding	Funded in Budget 2008	242 operating and 59 capital over four years. Additional funding has also been set aside in the pre-commitment
Health - National Systems Development Project Tranche 2	Project may be met from within current baselines	10 operating in 2008/09 and outyears

Expired Risks	Reason	Funding Received ($ million)
Health - Strengthening Child and Adolescent Oral Health Services	Funded in Budget 2008	Operating: 14 in 2008/09, 15 in 2009/10, 20 in 2010/11 and 30 in 2011/12 and outyears
Housing - Rural Housing	Not Funded in Budget 2008	-
Housing - Shared Equity Home Ownership	Funded in Budget 2008	18 capital in 2008/09 and 2009/10
Justice Sector Agencies - Potential Flow-on Impact of Extra Police	The risk has been partially funded, and other measures are being taken to mitigate the risk	2 per annum operating ongoing
National Library - National Library Building Redevelopment	Funded in Budget 2008	Operating: 10 in 2007/08, 6 in 2008/09, 5 in 2009/10, 8 in 2010/11 and 7 in 2011/12 and outyears Capital: 3 in 2007/08, 12 in 2008/09, 32 in 2009/10, 19 in 2010/11 and 3 in 2011/12
Prime Minister and Cabinet - Government House Wellington	Funded in Budget 2008	47 capital and 1 operating over the forecast period
Research, Science and Technology - Multi-year Funding Profile	Superseded by Economic Transformation: Innovation funding and pre-commitment	Operating: 44 in 2008/09, 40 in 2009/10, 56 in 2010/11 and 65 in 2011/12 and outyears
Revenue - Life Insurance	The Government has taken final decisions on this risk	-
Revenue - Changes to the Petroleum Mining Tax Rules	The Government has taken final decisions on changes to the rules	-
Revenue - International Tax Review	The Government has taken final decisions on the review	-
Social Development/Housing - Accommodation Supplement Review	Review process now complete	-
Transport - Cost Guarantee for State Highway Construction	Funded by transferring existing funding from 2007/08 to 2008/09	-

Statement of Fiscal Risks

Corrections - Capital Projects (changed, unquantified risk)

The Government is currently considering a range of options to address continued forecast growth in the prison population, including the asset management of current Corrections facilities, and increased prison capacity. This risk is unquantified as the quantum of the risk will vary greatly depending on the options chosen. If approved, any capital injections would increase gross debt while operating funding would decrease the operating balance.

Corrections - Collective Employment Contract Negotiations (changed, 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.

This risk is unquantified as disclosure may compromise the Crown in negotiations, however any additional funding would decrease the operating balance.

Customs - Border Management System (CusMod) Replacement (changed, quantified risk)

Customs' border management systems (CusMod) are over 10 years old. Customs received funding in Budgets 2007 and 2008 to develop a business case for replacement systems for consideration in Budget 2009. In accordance with the two-stage approval process for major IT projects, funding for CusMod replacement is dependent on approval of the two business cases. The indicative cost of the project is $105 million capital over five years and up to $15 million operating per annum. If approved, 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: 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 over the period of 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. If approved, 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 - Implementation of the New Zealand Tourism Strategy (new, unquantified risk)

The New Zealand Tourism Strategy 2015 is a joint document between the Government and industry. It includes a range of actions to progress key sector goals. Funding for these actions will come from a range of stakeholders, including Government. Ministers are yet to decide the appropriate funding mix to support high-priority actions within the Strategy, however additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

Economic Development - Review of Financial Products and Providers (new, unquantified risk)

As part of the Review of Financial Products and Providers the Government is strengthening the regulatory regimes for the non-bank financial sector. These regimes are intended to come into force from 2010. This will have resource implications for the Reserve Bank, the Securities Commission and the Ministry of Economic Development. Final costs are unknown at this time, however additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

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.)

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

Education - Schools Plus (new, unquantified risk)

The Government is considering a range of policies to increase student participation and achievement in education, skills and structured learning. This could result in increased costs for compulsory and tertiary education. The impact of any further funding would reduce the operating balance and/or increase gross debt, but the quantum is unclear as it would depend on the options chosen.

Education/Social Development - Inter-agency Plan for Conduct Disorder/Severe Antisocial Behaviour (new, unquantified risk)

The Government has approved and published a six-year Inter-agency Plan for Conduct Disorder/Severe Antisocial Behaviour (2007-2012). The Inter-agency Plan commits the Government to deliver a range of initiatives including new services for 3-7-year-olds and shared infrastructure across sectors. While amounts would depend on the policy and scaling options chosen, any additional operating funding would decrease the operating balance.

Education - Early Childhood Education Ratio Changes (unchanged, 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 be gradually introduced from July 2009. 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 2009. 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 (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 2008, funding supports participation of approximately 220,000 trainees by 2011. To achieve participation of 250,000 trainees in 2011, the Industry Training Fund would need to increase by approximately $7.5 million in 2009/10, $15 million in 2010/11 and $20 million in 2011/12 and outyears.

If approved, 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 - 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 up to $84 million in each of the next four years. In addition to capital injections, consequential operating costs are likely to increase by approximately $13 million per annum (including $7 million in capital charge). 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 2010/11 before levelling off and then declining. If approved, any capital funding would increase debt, and any operating funding would decrease the operating balance.

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

Source: Ministry of Education

Education (Tertiary) - Tertiary Education Institutions - Capital Injection (unchanged, unquantified risk)

The Government is considering 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 any capital injections would increase gross debt, but the total quantum is unclear as it would depend on progress made by institutions in managing their pressures, and on decisions taken by Government.

Education (Tertiary) - Wānanga Capital Injections (unchanged, unquantified risk)

The Government is currently negotiating with Te Wānanga o Raukawa over settlement of its Waitangi Tribunal claim. The Waitangi Tribunal has recommended that the Wānanga 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 Wānanga o Awanuiārangi in relation to an outstanding item from the original settlement.

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

Environment - Purchase of Kyoto-compliant Emission Units (changed, unquantified risk)

The government faces a potential net-exposure to the international market for Kyoto-compliant emission units. This net-exposure would come about if the emission units that are built up by government over the first commitment period as a result of the operation of the Emission Trading Scheme (ETS), are less than the size of the governments Kyoto liability.

Currently the forecasts indicate that the government may have to purchase Kyoto-compliant emission units to meet its Kyoto obligations. However, there is significant uncertainty around both the Kyoto liability and the units that may be built up as a result of the ETS (largely given the inherent uncertainty around forecasts of NZ net emissions and the assumed take-up rate of forestry into the ETS).

The risk is unquantified given the large degree of uncertainty. Any purchasing would increase gross debt.

Finance - State-Owned Enterprise Long-term Hold Reviews (unchanged, 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.

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 - Upgrade of National Rail Network (changed, quantified risk)

The Government has committed significant expenditure to upgrade and renew the national rail network, and has signalled an intention to continue investment in rail infrastructure. In particular, the government it is considering a package of renewals and upgrades to the rail network of approximately $375 million to $425 million between 2008/09 and 2012/13 (this is in addition to the $25 million for national network upgrades that was funded in Budget 2007). If approved, this funding would increase gross debt.

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

Source: The Treasury

Finance - Restructuring the Rail Industry (new, quantified risk)

Ministers are considering options around ensuring the viability of the rail industry, including medium-term capital investment. These options include the refinancing of between $80 million and $120 million of debt held by the new rail operator company with a loan from the Crown in 2008/09, and the purchase of rolling stock for the new rail operator company - the timing and scale of which is uncertain at this stage. If approved, any funding of this nature would increase gross debt and/or reduce the operating balance.

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

Source: The Treasury

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.

Health - Indicative Funding for Budgets 2009 and 2010 (changed, quantified risk)

The Government is considering indicative operating allocations of $800 million and $850 million for Budgets 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.

The Government has also agreed that the indicative allocation for Budget 2009 above may be pre-committed up to $13.736 million per annum in 2012/13 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)	2009/10	2010/11	2011/12	2012/13 and Outyears
Budget 2009	800	798	784	786
Budget 2010	-	850	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)

Draft District Annual Plans from Hawkes Bay, Auckland, Counties Manukau, Whanganui, West Coast, Southland, Otago, Tarawhiti and Capital and Coast District Health Boards (DHBs) indicate projected operating deficits in 2008/09. The Government does not view DHB deficits as acceptable and cost containment strategies are in place.

Any decision to fund such deficits would 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 *Half Year Economic and Fiscal Update* to take into account the new projections of DHB deficits.

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. The funding has been set aside in contingency, pending conclusion of negotiations with the Council about the details of the assistance. The conditional grant will 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 - Local Government and NGO Housing Projects (new, unquantified risk)

The Government is considering how best to encourage the growth of not-for-profit providers of affordable rental and owner-occupier housing. The amount and timing of costs would depend on the option chosen, however additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

Housing - Urban Development Agencies (new, unquantified risk)

The Government is considering how Urban Development Agencies could be established in New Zealand for housing developments that would provide for sustainable communities, including the supply of affordable housing. The amount and timing of costs would depend on the option chosen, however additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

Housing - Tamaki (changed, unquantified risk)

The Government is considering the redevelopment of the Tamaki area. Any capital funding would increase gross debt while operating funding would decrease the operating balance. This risk is unquantified as disclosure could compromise the Crown in negotiations.

Housing - Hobsonville Urban Development (new, unquantified risk)

The Government has agreed to the creation of an integrated urban community at Hobsonville. While funding is being provided in Budget 2008 for Precinct One, as well as any other costs that need to occur concurrently with Precinct One, capital funding will need to be provided for the remaining four precincts in future Budgets. This will increase gross debt. This risk is unquantified as disclosure could compromise the Crown in negotiations.

Immigration - New Immigration Service Delivery Strategy (unchanged, unquantified risk)

The Government is in the process of developing a stage-two business case for a new immigration service delivery strategy, which would aim to allow better management of the risk surrounding immigration decision-making and improve delivery of immigration services. Cabinet is likely to consider the stage-two business case later 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 (unchanged, unquantified risk)

In order to implement the recommendations of the Financial Action Taskforce, 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. The risk is unquantified as costs are still being finalised but would reduce the operating balance.

Justice - Strengthening the National Court Infrastructure (changed, unquantified risk)

The Government is considering options to ensure that court facilities in Gisborne, Christchurch, Nelson and Auckland are able to adequately deliver court and associated justice services to the regions. 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 - Greater Auckland Region Service Delivery Strategy (changed, unquantified risk)

The Government is developing a strategy to address courts needs in the greater Auckland region. A wide range of stakeholders are currently being consulted over a variety of service delivery options.

The risk is unquantifed as disclosure may compromise the Crown in negotiations to purchase land or enter into future construction contracts. Any impact on the operating balance or gross debt will depend on the options chosen.

Justice Sector and Other Agencies - Effective Interventions (changed, unquantified 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 will depend on the specific options chosen. This would decrease the operating balance.

This risk was quantified in HYEFU 2007, however this only reflected Phase 1 initiatives. Work has since commenced on Phase 2 initiatives, but these have not yet been developed and as such the risk is now unquantified.

Local Government - Response to Rates Inquiry (changed, unquantified risk)

The Independent Inquiry into Local Government Rates reported in August 2007. The Government has established a series of work streams to assist development of its response to issues outlined in the report. Some initiatives have already been undertaken as part of the Government's response, including $38.1 million in new funding over four years for enhancements to the rates rebate scheme. However, the total potential impact of this risk on the operating balance and/or gross debt is unknown at this stage, as this would depend on the nature and scope of any additional measures subsequently pursued.

Māori Affairs - Māori Business Aotearoa New Zealand (changed, quantified risk)

The Government has agreed to establish an independent statutory corporation for the purposes of furthering Māori economic development, to be known as Māori Business Aotearoa New Zealand (MBANZ), subject to enactment of the Māori Trustee and Māori Development Bill.

New Crown funding required is estimated to be $40 million capital in 2008/09, with an associated ongoing operating saving of approximately $4 million per annum. If approved, this would increase the operating balance and increase gross debt.

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

Source: Te Puni Kokiri

New Zealand Agency for International Development - Adjustment of Official Development Assistance Fund (unchanged, unquantified risk)

Budget 2008 includes funding to take Government Official Development Assistance to an equivalent percentage of Gross National Income (GNI) - 0.30% in 2008/09, 0.33% in 2009/10 and 0.35% in 2010/11. However, because GNI forecasts will change in subsequent years, there is a risk that further funding may be required to maintain these percentages of GNI. Any such changes will be considered in future Budgets. The net impact of this risk is unclear and thus may increase or reduce the operating balance.

New Zealand Defence Force - Capital Injection (unchanged, quantified risk)

Implementing the Government's decisions on the future structure of the New Zealand Defence Force (NZDF) will involve a series of capital acquisitions across all three armed services and for Headquarters NZDF 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 appropriated 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 - Increases to Police Staff (changed, quantified risk)

The Government will consider increases in Police staff in future Budgets with a view to achieving Police Officer ratios comparable with those of Australia by 2010. The amount of funding that could be required is unclear at this point.

The Government has funded an additional 1,000 sworn Police and 250 non-sworn Police staff over Budgets 2006-08. Additional funding for property associated with these staff will be considered in future Budgets, and may be in the order of $45 million capital. If approved, 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 (changed, 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 $20 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

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.

Revenue - Reducing Compliance Costs for Small- and Medium-sized Enterprises (changed, unquantified risk)

The Government is considering measures to simplify the tax rules for small- and medium-sized enterprises, pursuant to a Government discussion document released in December 2007. Consultation on a number of the measures proposed in this discussion document is underway. Some changes have been adopted as part of Budget 2008 while other changes may be adopted subsequently. The potential overall 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 - Management of Inland Revenue's Lease Portfolio in Auckland (unchanged, unquantified risk)

Inland Revenue is currently exploring options to consolidate its lease portfolio in Auckland. A report back that will consider options and risks is due in June 2008. This risk is unquantified as disclosure could compromise the Crown in negotiations, but any additional operating funding would decrease the operating balance.

Revenue - Investment in the Tax System and Related Business (new, unquantified risk)

Inland Revenue is investigating options around investment in the tax system and related business processes, including replacing the FIRST tax system. Part of this work includes investigating options for transforming employer information and payments. The potential impact and timing of this are unknown at this stage, as it would depend on the nature and scope of any options that are subsequently pursued. Any additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

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

The Government is considering options for redesigning the student loans IT system. The redesign aims to enable greater efficiency and enhanced student services while delivering increased integrity of the system, produce greater information to inform policy decisions and increased flexibility for future policy changes. This risk is unquantified as disclosure could compromise the Crown in negotiations. If approved, any funding would decrease the operating balance and/or increase gross debt.

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.

Revenue - Working for Families Review of Rates (unchanged, 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 review is completed.

Social Development - Children, Young Persons and Their Families Act (unchanged, 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 - 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 - Five-year Action Plan for Out of School Services (new, unquantified risk)

The Government has approved, in principle, a Five-year Action Plan for Out of School Services. The Action Plan proposes a range of initiatives that represent a number of policy options available to Government. While the amounts are unclear and would depend on the policy options chosen, any additional operating funding would decrease the operating balance.

Social Development - Youth Court Sentencing Orders (unchanged, 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 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

Social Development - New Zealand Superannuation and Veteran's Pension (changed, unquantified risk)

The Government has ensured that the net married couple rate of New Zealand Superannuation (NZS) applying for the tax year from 1 April 2008 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. Each year the Government will review the level to be set for the following tax year. Under the 2008 Budget Economic and Fiscal Update (BEFU) forecasts CPI-indexation of NZS rates is predicted to be enough to maintain the 66% wage floor next year. However, because the rates of NZS applied on 1 April 2009 will depend on the actual CPI and wage statistics that occur, there is a risk that maintaining the 66% wage floor at that time will exceed the cost of CPI-indexing. This would decrease the operating balance.

Social Development - Energy Subsidy for SuperGold Card Holders (new, unquantified risk)

The SuperGold Card is a discounts and concessions card issued free to senior citizens and veterans. When the card was introduced in 2006, it was with the intention of having a range of services gradually included. A major enhancement being considered by Government would offer SuperGold Card holders a winter heating subsidy, to mitigate the increasing cost of energy prices. The total cost of the subsidy would depend on policy and implementation decisions yet to be made.

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. In Budget 2008 the Crown provided $33.5 million of such funding over the forecast period for the Canterbury Transport Project.

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 March 2008, 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/budget/forecasts/befu2008.

Quantifiable Contingent Liabilities

Guarantees and indemnities	Status[6]	($ million)
Cook Islands – Asian Development Bank loans	Unchanged	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	10
		167
Uncalled capital		
Asian Development Bank	Changed	1,005
Bank for International Settlements	Unchanged	25
European Bank for Reconstruction and Development	Changed	14
International Bank for Reconstruction and Development	Changed	1,036
		2,080
Legal proceedings and disputes		
Health – legal claims	Changed	39
Tax in dispute	Changed	220
Other legal claims against SOEs and Crown entities	Changed	3
Other legal claims	Changed	87
		349
Other quantifiable contingent liabilities		
International finance organisations	Changed	1,647
New Zealand Export Credit Office – export guarantees	Changed	33
Reserve Bank – demonetised currency	Unchanged	23
Social Development – claim for judicial review	Changed	88
Transpower New Zealand Limited	Changed	37
Other quantifiable contingent liabilities of SOEs and Crown entities	Changed	85
Other quantifiable contingent liabilities	Changed	71
		1,984
Total quantifiable contingent liabilities		**4,580**

6 Relative to reporting in the *Half Year Economic and Fiscal Update 2007*.

Unquantifiable Contingent Liabilities

Guarantees and indemnities	**Status**
AgriQuality Limited (formerly Asure New Zealand Limited)	Unchanged
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)	Changed
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	Unchanged
Other unquantifiable contingent liabilities	
Abuse claims	Unchanged
Accident Compensation Corporation (ACC) litigations	Unchanged
Environmental liabilities	Unchanged
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