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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 where government decisions or legislative commitments have uncertain fiscal consequences or timing, such that they cannot be included in the fiscal forecasts.
- *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, SOE/CE 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.

The risks described in this chapter relate to the activities of the current Government only. Political party policies do not constitute specific fiscal risks.

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. In the 2008 *Budget Update* the Minister of Finance declared that the size of the operating allowances for spending and revenue initiatives in future Budgets had been set at $1.75 billion per annum from Budget 2009 onwards. An allowance of $900 million for capital spending over the period 2008/09 to 2012/13 was also set in the 2008 *Budget Update*. These amounts have been incorporated into the forecasts to accommodate policy initiatives on which decisions have yet to be made. Most of the 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 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 $750 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
Energy	Funding to generate reserve electricity at Whirinaki	10.000 ongoing from 2012/13
Health	Meningococcal Vaccine – Ongoing Delivery	7.000 ongoing from 2009/10
Health	Healthy Housing Programme	15.000 ongoing from 2010/11
Transport	Canterbury Transport Project	14.000 in 2012/13 and outyears

The following table shows the 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)	2008/09	2009/10	2010/11	2011/12	2012/13 and outyears
Funding to extend operating initiatives (impact on operating balance)	13.800	22.800	39.800	39.800	63.800

Specific Fiscal Risks

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 23 September 2008	Operating balance	Gross debt	Value of risk ($million)	Funding in Budget 2008 ($million)
New Risks				
Energy – ETS household assistance package	Decrease	-	1 billion over the period 2008/09 to 2023/24 and 180 million between 2009/10 and 2010/11	-
Justice – Supreme Court Construction Cost Pressures	Decrease	Increase	8 to 12 capital and 2 to 4 operating between 2008/09 and 2012/13	-
New Zealand Defence Force – Operationally Deployed Forces	Decrease	-	10 to 15 operating per annum from 2009/10	54 operating
Transport – Canterbury Transport Project	-	Increase	211 capital	34 capital between 2008/09 and 2012/13
Transport – Penlink Roading Project	-	Increase	100 to 200 capital in 2009	-
Transport – Waterview Connection	-	Increase	1.5 billion capital between 2015 and 2050	-
Transport – Waterview Connection, risk of not tolling project	Decrease	Increase	500 capital between 2015 and 2050	-
Changed risks				
Education – Early Childhood Education Ratio Changes	Decrease	-	35 per annum operating from 2011/12	-
Education – School Property	Decrease	Increase	Operating: 14 in 2009/10 rising to 89 in 2012/13 Capital: 153 in each of 2009/10 and 2010/11 and 123 per annum from 2011/12	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
Education – Schools Plus	Decrease	Increase	134 to 340 from 2011	40 in 2008/09
Education (Tertiary) – Tertiary Education Capital Investment Fund	-	Increase	123 capital between 2008/09 and 2011/12	12 in 2008/09
Education (Tertiary) – Wānanga Capital Injections	-	Increase	59 capital in 2008/09	-

Quantified risks as at 23 September 2008	**Operating balance**	**Gross debt**	**Value of risk ($million)**	**Funding in Budget 2008 ($million)**
Health – Indicative Funding for Budgets 2009 and 2010	Decrease	-	750 in 2009/10, 1,498 in 2010/11, 1,484 in 2011/12 and 1,486 in 2009/10	750 per annum from 2008/09
New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers	Increase	Decrease	90 capital in 2008/09	-
Police – Increases to Police Staff	Decrease	Increase	45 capital in 2009/10	41 per annum operating and 10 capital in 2008/09
Unchanged Risks				
Customs – Border Management System (CusMod) Replacement	Decrease	Increase	15 per annum operating and 105 capital	1 operating one-off to further develop the business case
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	-
Environment – Purchase of Kyoto Compliant Emission Units	-	Increase	500 capital	-
Justice – Financial Action Taskforce Recommendations	Decrease	-	15 per annum	-
Justice – Greater Auckland Region Service Delivery Strategy	Decrease	Increase	265, operating / capital split yet to be determined	-
Māori Affairs – Māori Business Aotearoa New Zealand	Increase	Increase	40 capital in 2008/09 and 4 per annum operating saving	-
New Zealand Defence Force – Capital Injections	-	Increase	210 over the forecast period	130 capital
Social Development – Youth Court Sentencing Orders	Decrease	Increase	12 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 23 September 2008	Operating balance	Gross debt	Funding received in Budget 2008 ($million)
New Risks			
Agriculture and Forestry – New Zealand Fast Forward Fund	Decrease	Increase	-
Economic Development – Trilateral Projects	Decrease	Increase	-
Education – Caretakers, Cleaners and Groundstaff Negotiations	Decrease	-	-
Education – Integrated Schools Property	Decrease	-	-
Housing – Affordable Home Ownership	Decrease	Increase	-
Housing – Housing Innovation Fund	-	Increase	-
Internal Affairs - Property Strategy	Decrease	Increase	-
Revenue – Paid Parental Leave Review	Decrease	-	-
Revenue – Renegotiation of Double Tax Agreements	Decrease	-	-
Social Development – Five-year Action Plan for Out of School Services	Decrease	-	-
Changed risks			
Health – District Health Board Deficits	Decrease	Increase	-
Housing – Hobsonville Urban Development	-	Increase	33 capital and 5 operating between 2008/09 and 2011/12
Housing – Sustainable Urban Development Approach	Decrease	Increase	-
Local Government – Response to Rates Inquiry	Decrease	Increase	51 operating between 2008/09 and 2012/13
Unchanged risks			
Corrections – Capital Projects	Decrease	Increase	110 capital and a total of 14 operating for Mt Eden
Economic Development – Implementation of the New Zealand Tourism Strategy	Decrease	Increase	-
Economic Development – Radio Spectrum Rights	Increase	-	-
Education/Social Development – Inter-agency Plan for Conduct Disorder/Severe Antisocial Behaviour	Decrease	-	-

Unquantified risks as at 23 September 2008	Operating balance	Gross debt	Funding received in Budget 2008 ($million)
Finance – Crown Overseas Properties	-	Increase	-
Fisheries – Civilian Maritime Aerial Surveillance	Decrease	Increase	-
Housing – Tamaki	-	Increase	-
Immigration – New Immigration Service Delivery Strategy	Decrease	Increase	-
Justice Sector and Other Agencies – Effective Interventions	Decrease	-	0.5 capital and 6 operating between 2008/09 and 2011/12
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
Revenue – Investment in the Tax System and Related Business	Decrease	Increase	-
Revenue – Rebuild of the Student Loan System	Decrease	Increase	4 operating in 2008/09
Revenue – Reducing Compliance Costs for Small- and Medium-sized Enterprises	Unclear	-	-
Social Development – Children, Young Persons and their Families Act	Decrease	Increase	-
Social Development – Energy Subsidy for SuperGold Card Holders	Decrease	-	-
Social Development – Working New Zealand: Work-focused Support	Decrease	-	-

Risks Removed Since the 2008 Budget Update

The following risks have been removed since the 2008 *Budget Update:*

Expired risks	Reason	Funding received ($million)
Corrections – Collective Employment Contract Negotiations	Funding has been provided	3 in 2008/09, and 11 per annum from 2009/10
Economic Development – Review of Financial products and Providers	Funding provided in Budget 2008 and through the Reserve Bank's Funding Agreement	Operating: 3 in 2008/09, 6 in 2009/10, 2 in 2010/11 and 1 in 2011/12 and outyears Capital: 2 in 2008/09
Finance – State-Owned Enterprise Long-term Hold Reviews	Reviews no longer active	-
Finance – Restructuring the Rail Industry	Final decisions have been taken and funding provided	220 capital between 2008/09 and 2011/12
Finance – Upgrade of National Rail Network	Superseded by Finance – Redevelopment of Rail	-
Housing – Wellington City Council Social Housing Assistance	Funding has been provided	220 capital between 2008/09 and 2017/18
Housing – Local Government and NGO Housing Projects	Superseded by Housing – Affordable Home Ownership and Housing – Housing Innovation Fund	-
Housing – Urban Development Agencies	Superseded by Housing – Sustainable Urban Development Approach	-
Justice – Strengthening the National Courts Infrastructure	Funding has been provided	10 capital in 2008/09 and 16 capital in 2009/10. 2 operating in 2008/09
Police – International Deployment Capability	Not funded in Budget 2007 and no longer under active consideration	-
Police – Wage Negotiations	Funding has been provided	33 operating in 2008/09, and 38 in 2009/10 and outyears
Revenue – Management of Inland Revenue's Lease Portfolio in Auckland	Final decisions on lease options have been taken	-
Revenue – Working for Families Review of Rates	The Government has taken final decisions on the review	-
Social Development – New Zealand Superannuation and Veteran's Pension	CPI growth is forecast to be well above the level required to trigger the risk	-
Transport – Regional Transport Projects	Superseded by several region-specific risks	-

Statement of Fiscal Risks

Agriculture and Forestry – New Zealand Fast Forward Fund (new, unquantified risk)

In March 2008, the Government announced its commitment of $700 million to the New Zealand Fast Forward initiative, promoting innovation projects in the pastoral and food sectors. The Government is now considering options to reimburse the fund for income tax and GST implications. This could decrease the operating balance or increase gross debt, depending on the method of reimbursement chosen by the Government.

Corrections – Capital Projects (unchanged, 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.

Customs – Border Management System (CusMod) Replacement (unchanged, 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 – Implementation of the New Zealand Tourism Strategy (unchanged, 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 – 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. Offers for rights of renewal to existing owners of spectrum rights are set approximately five years in advance of rights expiring with settlement being required prior to granting the new right. The rights in different frequency bands expire at different dates, with the initial expiry dates occurring in 2010. 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.

Economic Development – Trilateral Projects (new, unquantified risk)

The Government is currently considering policy initiatives to support business sectors. The proposals are currently in the early stages of consideration and the Government is considering a range of funding options. Depending on the funding involved, this could decrease the operating balance and/or increase gross debt. The risk is unquantified as disclosure may compromise the Crown in commercial negotiations.

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

Education – Caretakers, Cleaners and Groundstaff Negotiations (new, unquantified risk)

The Government has agreed to amend the bargaining parameters for the School Caretakers and Cleaners Collective Agreement and the Secondary and Area School Groundstaff Collective Agreement. Any additional funding would decrease the operating balance. The risk is unquantified as disclosure could compromise the Crown in negotiations.

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

The Government has committed to increasing teacher-to-child ratios as part of the Early Childhood Education Strategic Plan. In October 2006, the Government agreed to two stages of staffing ratio improvements to be implemented in July 2009 and 2010. The Government has also communicated that further increases in staffing ratios are being considered. Additional funding estimated as up to $35 million per annum from 2011/12 will be considered as part of Budget 2009. Any increased funding will reduce the operating balance.

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

Source: Ministry of Education

Education – Integrated Schools Property (new, unquantified risk)

The Ministry of Education is undertaking a review of integrated schools policy which is to be completed by the end of 2008. This includes consideration of the standard of integrated school property and options to bring substandard integrated school property up to the same standard as that of mainstream state schools. Any decisions on funding for integrated schools will not be considered until this review is completed. Any increased funding would reduce the operating balance.

Education – School Property (changed, quantified risk)

Capital injections for school property will be required in future years to accommodate roll growth and to establish new schools in response to regional population changes. Likely capital injections are estimated at up to $153 million in each of 2009/10 and 2010/11, and $123 million per annum from 2011/12. Capital injections result in consequential operating costs rising from approximately $13.5 million in 2009/10 (including $8.5 million in capital charge) to $89 million in 2012/13 (including $66 million in capital charge). The Ministry of Education is taking steps to reduce the level of capital funding carried forward from year to year. The carry-forward, which represents capital budgets allocated to schools but not yet expended, is currently $1.4 billion. 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 – Schools Plus (changed, quantified risk)

The Government is considering a range of policies to increase student participation and achievement in education, skills and structured learning. The Government has agreed to fund an initial $40 million in operating for the initial phase of the Schools Plus programme. The Government has also agreed that a compulsory education and training age of 17 will be introduced in 2011, and that age will increase to 18 in 2014. The Ministry of Education has estimated that the cost of all students participating until age 18 in some form of education and training would be between $134 million and $240 million. The Government is also considering other initiatives which could cost up to $100 million. 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/Social Development – Inter-agency Plan for Conduct Disorder/Severe Antisocial Behaviour (unchanged, 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 Government to deliver a range of initiatives including new services for 3 to 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 (Tertiary) – Tertiary Education Capital Investment Fund (changed, quantified risk)

The Government has established a contestable Tertiary Education Capital Investment Fund (The Capital Fund). This will fund the Crown's contribution to capital investments for public Tertiary Education Institutions that are approved by Cabinet on the recommendation of a panel administered by the Tertiary Education Commission. The value of this Fund has been set at $112 million over three years (this includes some funds transferred from unallocated 2007/08 contingencies). To date, $11.632 million has been appropriated against this Fund in 2008/09.

The Government has also approved in principle a one-off capital contribution of $11.15 million for the construction of a new building for the New Zealand School of Music. The funding has been set aside in a contingency pending the development of a business case.

The Government may also consider making loans or capital injections from the Capital Fund to Tertiary Education Institutions where ongoing educational provision or financial viability are at risk.

The provision of any capital injections will increase gross debt but the total quantum will be within the sum allocated to the Capital Fund.

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

Source: Ministry of Education and Tertiary Education Commission

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 (Tertiary) – Wānanga Capital Injections (changed, quantified risk)

The Government is currently negotiating with Te Wānanga o Raukawa over settlement of its Waitangi Tribunal claim. The Waitangi Tribunal recommended that Te Wānanga o Raukawa 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. Cabinet has agreed to fund $50.649 million in the settlement with Te Wānanga o Raukawa but this is yet to be ratified by Te Wānanga. The outstanding settlement for Te Whare Wānanga o Awanuiārangi of $8.5 million was agreed as part of its settlement with the Crown in 2003. The Crown is currently discussing with Te Whare Wānanga o Awanuiārangi the conditions required to conclude the settlement. The settlements will increase gross debt.

Source: Ministry of Education and Tertiary Education Commission

Energy – ETS household assistance package (new, quantified risk)

The Climate Change Response (Emissions Trading) Amendment Act 2008 includes provisions for a household energy efficiency fund (section 180). The Act requires $1 billion to be paid into the Fund, from money appropriated by Parliament, sometime between the Act's commencement and 1 July 2024. How the Fund will be appropriated across the 15-year period is yet to be decided, and will first require the Minister of Energy to determine the criteria for the Fund. Consequently, the Fund cannot yet be included in the forecasts. In addition, direct financial support for households of up to $180 million over 2009/10 and 2010/11 has also been agreed to be included in the 2009 Budget. This proposal would decrease the operating balance.

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

Source: The Treasury

Environment – Purchase of Kyoto Compliant Emission Units (unchanged, quantified 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 ETS are less than the size of the Government's Kyoto liability.

Currently the forecasts indicate that the Government may have to purchase Kyoto-compliant emission units to meet its Kyoto obligations. At the 30 June 2008 carbon price of $25.89 per tonne this could cost around $500 million. 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 New Zealand net-emissions and the assumed take-up rate of forestry into the ETS). Any purchasing would increase gross debt.

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

Source: The Treasury

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 – Redevelopment of Rail (new, quantified risk)

The Government has signalled an intention to continue investment in rail transport by agreeing to establish a five-year multi-year appropriation *Rail Transport Upgrade and Growth Projects* and a non-departmental output expense *New Zealand Railways Corporation Operating Support.* The Government, as a first step, has approved funding for these two new appropriations in 2008/09. Funding for 2009/10 to 2012/13 will be considered as part of Budget 2009 but is expected to total $920 million and $383 million respectively.

If approved, this funding would increase gross debt and reduce the operating balance.

Source: The Treasury

Finance – Taitokerau Forests Limited (new, unquantified risk)

The Government is considering various options regarding the restructuring of loans to Taitokerau Forests Limited, while protecting the Crown's interest as secured creditor. These options could involve a partial write-off of the Crown loan, additional funding until harvest of the forests and/or other payments to compensate shareholders for lost opportunities. Negotiations with the company are ongoing, and the outcome is not yet known. The risk is unquantified as disclosure could compromise the Crown in negotiations.

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

The Government is considering options to provide increased short- to medium-range maritime aerial surveillance for civilian agencies. 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 – District Health Board Deficits (changed, unquantified risk)

Draft District Annual Plans from 15 of the 21 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 2008 *Budget Update* to take into account the new projections of DHB deficits.

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

The Government is considering indicative operating allocations of $750 million for Budgets 2009 and 2010. 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	750	748	734	736
Budget 2010	-	750	750	750

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

Source: Ministry of Health

Housing – Affordable Home Ownership (new, unquantified risk)

The Government is considering options to provide financial assistance to households to assist them to purchase an affordable new home. The provision of additional capital funding would increase gross debt and operational funding would decrease the operating balance.

Housing – Hobsonville Urban Development (changed, unquantified risk)

The Government has agreed to the creation of an integrated urban community at Hobsonville. While funding was 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.

Housing – Housing Innovation Fund (new, unquantified risk)

The Government has agreed to consider a capital funding appropriation for the Housing Innovation Fund for 2009/10 to support community-based solutions for social housing. This is provided the Housing New Zealand Corporation is able to provide the corresponding operating funding. The provision of additional capital funding would increase gross debt.

Housing – Sustainable Urban Development Approach (changed, unquantified risk)

The Government has issued a public discussion document about how a Sustainable Urban Development Approach could be established in New Zealand, including supply of affordable housing. Submissions are due by 28 November 2008. The amount and timing of costs would depend on the option chosen. Additional funding would increase gross debt and/or decrease the operating balance.

Housing – Tamaki (unchanged, 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.

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 in early 2009. 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. This risk is unquantified as disclosure could compromise the Crown in negotiations.

Internal Affairs – Property Strategy (new, unquantified risk)

The Government is considering options around a long-term property strategy for the Department of Internal Affairs, subject to completion of a detailed business case.

This risk is unquantified as disclosure could compromise the Crown in negotiations, but any new funding would decrease the operating balance and/or increase gross debt.

Justice – Financial Action Taskforce Recommendations (unchanged, quantified 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. Costs are still being finalised but could be up to $15 million per annum and would reduce 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 (unchanged, quantified 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 total cost could be up to $265 million. The impact on the operating balance or gross debt would depend on the options chosen.

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, 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. The Government is currently considering a range of further options. The amount of any additional funding will depend on the specific options chosen.

Justice – Supreme Court Construction Cost Pressures (new, quantified risk)

The Government is part-way through the construction of permanent premises for the Supreme Court, including the restoration of the old High Court Building on the same site. Current funding appears likely to be insufficient to complete the project owing to increased costs for building materials, pressures from the Wellington construction market, higher than anticipated costs for restoring the old High Court Building and increased costs for design development. It is expected that between $8.3 million and $12.1 million of additional capital funding will be required and additional operating funding of $1.5 million to $4.1 million over the four years from 2008/09 to 2012/13. 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

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 $51.2 million in new funding from 2008/09 to 2012/13 for enhancements to the rates rebate scheme (included in forecasts). However, the total potential impact of additional actions on the operating balance and/or gross debt is unknown at this stage, as this would depend on the nature and scope of such additional measures subsequently pursued.

Māori Affairs – Māori Business Aotearoa New Zealand (unchanged, 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 related to the transfer of functions from Te Puni Kōkiri to MBANZ. 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 Kōkiri

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

Budget 2008 included 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 funding levels may need to be adjusted 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 decrease the operating balance.

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 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 up to $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 – Operationally Deployed Forces (new, quantified risk)

There are currently over 400 NZDF personnel deployed overseas on Peace Keeping and United Nations missions. Continuing to maintain deployments in Afghanistan, East Timor, the Solomon Islands and several other locations exceeds the deployment levels anticipated when the Defence Funding Package was approved in 2005. If current deployment levels are maintained, the appropriation for operationally deployed forces may need to be increased by approximately $10 to 15 million from 2009/10.

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

Source: New Zealand Defence Force

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

As a result of the Government's decisions on the future structure of the NZDF, NZDF has signed an agreement with Tactical Air Services Inc for the sale of the Skyhawks and Aermacchi trainers for US$110 million. A formal contract has yet to be signed, but the net proceeds from the sale would decrease gross debt and increase the operating balance by $NZ90 million.

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

Source: New Zealand Defence Force

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

The Government has funded an additional 1,250 Police staff over Budgets 2006 to 2008. 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

Revenue – Investment in the Tax System and Related Business (unchanged, 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 pursued. Any additional capital funding would increase gross debt and additional operating funding would decrease the operating balance.

Revenue – Paid Parental Leave Review (new, unquantified risk)

The Government is considering options for changes to the Paid Parental Leave scheme, including changes to the eligibility criteria and the duration of payments. Possible adjustments to the Parental Tax Credit are also under consideration by the Government as a component of the Paid Parental Leave Review. The final proposals could be submitted as a budget bid as part of the Budget 2009 process. Any additional funding would decrease the operating balance.

Revenue – Rebuild of the Student Loan 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, 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 – 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, 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 – 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). The Australia and US DTAs with New Zealand are being renegotiated this year. 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 – 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 – Energy Subsidy for SuperGold Card Holders (unchanged, 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 will offer SuperGold Card holders a winter heating subsidy to mitigate the increasing cost of energy prices when energy producers are brought into the ETS. The total cost of the subsidy would depend on policy and implementation decisions yet to be made.

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 – 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 – 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. 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

Transport – Canterbury Transport Project (new, quantified risk)

In Budget 2008 the Government provided $33.5 million for the first four years of the ten-year Canterbury Transport Regional Implementation Plan. The Government has indicated that its total contribution to the project will be $244 million. The possible cost to the Government of the remainder of the project is estimated at $210.5 million. If approved, this proposal would increase gross debt.

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

Source: Ministry of Transport

Transport – Penlink Roading Project (new, quantified risk)

The Government is considering the provision of $100-$200 million in 2009 to the Rodney District Council to build the Penlink roading connection. This proposal would increase gross debt, which would be serviced with regional fuel tax revenue.

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

Source: Ministry of Transport

Transport – Waterview Connection (new, quantified risk)

The Government is considering progressing the Waterview Connection roading project through a public-private partnership. The cost to the Government of this project is estimated at $1.5 billion between 2015 and 2050. If approved, this proposal would increase gross debt.

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

Source: New Zealand Transport Agency

Transport – Waterview Connection, risk of not tolling project (new, quantified risk)

The Government has indicated that it may toll the Waterview Connection to recover $500 million of the construction costs of the project. However, there is also a possibility that the Government may decide not to toll the road, thus the Government could be required to provide an additional $500 million for the project. This money would be required between 2015 and 2050. If approved, this proposal 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 Transport Agency

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 GSID. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to GSID.

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 30 June 2008, being the latest set of published contingent liabilities.

Details of each of the following contingent liabilities can be accessed from the Treasury’s website at http://www.treasury.govt.nz/government/financialstatements/yearend/jun08

Quantifiable Contingent Liabilities

Guarantees and indemnities	**Status[9]**	**($ 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	200
Ministry of Transport – funding guarantee	Unchanged	10
Guarantees and indemnities of SOEs and Crown entities	Unchanged	40
Other guarantees and indemnities	Unchanged	12
		286
Uncalled capital		
Asian Development Bank	Unchanged	1,081
European Bank for Reconstruction and Development	Unchanged	14
International Bank for Reconstruction and Development	Unchanged	1,077
Other	Unchanged	33
		2,205
Legal proceedings and disputes		
Health – legal claims	Unchanged	39
Tax disputes	Unchanged	249
Other legal claims against SOEs and Crown entities	Unchanged	-
Other legal claims	Unchanged	95
		383
Other quantifiable contingent liabilities		
International finance organisations	Unchanged	1,727
New Zealand Export Credit Office – export guarantees	Unchanged	37
Reserve Bank – demonetised currency	Unchanged	23
Social Development – claim for judicial review	Unchanged	-
Transpower New Zealand Limited	Unchanged	-
Other quantifiable contingent liabilities of SOEs and Crown entities	Unchanged	142
Other quantifiable contingent liabilities	Unchanged	66
		1,995
Total quantifiable contingent liabilities		**4,869**

9 Relative to reporting in the Financial Statements of the New Zealand Government for the year ending 30 June 2008.

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
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
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	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
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