
Specific Fiscal Risks

Key Features

- **Changes in contingent liabilities since the *December Update* include new risks such as the tax indemnities for Waikato-Tainui and Whakatohea on the redress transferred under Deeds of Settlement.**
- **The Government has allocated \$5 billion for policy initiatives for the three years 1997/98 to 1999/2000 and included contingencies in the forecasts to accommodate these initiatives. Therefore, many risks outlined in this chapter, if they crystallise, would be covered by these provisions.**
- **Several new and changed risks relate to matters in the Coalition Agreement. However, not all proposals discussed in the Agreement are included as specific fiscal risks as some are not material in size of impact and others do not currently meet the test for a specific fiscal risk.**
- **Several specific fiscal risks included in the *December Update*, such as those relating to Crown health enterprise capital injections and Health sector incentives, settings and funding are now included in the forecasts. Others are no longer considered to be material or have otherwise expired.**

Introduction

This chapter describes the specific fiscal risks of the Crown, including contingent liabilities and other specific fiscal risks. The risks are disclosed as either quantifiable or unquantifiable, depending on their characteristics. Only contingent liabilities and other fiscal risks involving amounts of \$10 million or more in any one year are separately disclosed. Contingent liabilities below \$10 million are included in an “other quantifiable contingent liabilities” total.

Contingent Liabilities

Contingent liabilities are costs which 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 vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability were realised it would have a negative impact on the operating balance, net Crown debt and net worth. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to net Crown debt.

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

Contingent liabilities included in the Statement of Specific Fiscal Risks were finalised at 30 April 1997.

Quantifiable Contingent Liabilities Table

Guarantees and Indemnities	Status	(\$ million)
Cook Islands - Asian Development Bank Loans	Unchanged	18
DFC New Zealand - tax liabilities	Changed	-
Huntly East mine subsidence	Changed	36
Masterpieces from the Guggenheim Museum	Reclassified	191
Post Office Bank (PostBank) - guaranteed deposits	Changed	34
Rural Bank - guaranteed borrowings	Changed	133
Waikato-Tainui tax indemnity	New	21
Whakatohea tax indemnity	New	18
Guarantees and indemnities of SOEs and CEs	Changed	96
Other guarantees and indemnities	Changed	26
Uncalled Capital		
Asian Development Bank	Changed	1,046
European Bank for Reconstruction and Development	Changed	11
International Bank for Reconstruction and Development	Changed	1,184
Legal Proceedings and Disputes		
Agriculture - legal claims	Changed	23
Asbestosis claims	Unchanged	20
Commerce Ministry - legal claims	New	16
Fisheries - cost recovery regime	New	11
Fisheries - management plans	Unchanged	10
Fisheries - quota allocation	Unchanged	20
Fisheries - other claims	Changed	32
GST on rest homes	Unchanged	18
Land Information New Zealand - legal proceedings	Changed	17
Parliamentary Building claim	Unchanged	15
Police - legal claims	Changed	94
Social Welfare - legal claims	New	22
Surplus railway land	Resolved	-
Synfuels contract dispute	Unchanged	98
Tax in dispute	Changed	69
West Coast Accord claim	Unchanged	423
Legal claims against SOEs/CEs	Changed	53

Legal Proceedings and Disputes (continued)		
Other legal proceedings and disputes	Changed	36
Other Quantifiable Contingent Liabilities		
Commerce Ministry - other contingent liabilities	New	13
International financial organisations	Changed	1,074
Other quantifiable contingent liabilities	Changed	67

Unquantifiable Contingent Liabilities Table

Institutional Guarantees	Status
Commerce Commission - indemnity for damages	Unchanged
District Court judges and Justices of the Peace	Unchanged
Earthquake Commission	Unchanged
Māori Trustee	Unchanged
National Provident Fund (NPF)	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust Office	Unchanged
Reserve Bank of New Zealand	Unchanged
Other Unquantifiable Contingent Liabilities	
Alkylammonium compound compensation	Unchanged
ARCIC - attendant care	New
Bank of New Zealand (BNZ) - tax and litigation	Unchanged
Coal Corporation of New Zealand - indemnity	Unchanged
Contact Energy - indemnity	Unchanged
Crown health enterprises - transitional indemnities	Unchanged
Crown research institutes - indemnities	Unchanged
DFC New Zealand Ltd and National Provident Fund - tax indemnities	Unchanged
Electricity Corporation of New Zealand - indemnity	Unchanged
Fletcher Challenge - Partial indemnity for environmental contamination	Unchanged
GPO Holdings	Unchanged
Housing Corporation of New Zealand - indemnities	Unchanged
Housing New Zealand - indemnity	Unchanged
Maui Developments Ltd	Unchanged
Pharmaceutical Management Agency (Pharmac) - indemnity	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Tax liabilities	Unchanged

Waitangi Tribunal claims	Unchanged
Works Civil Construction	Unchanged
Works Consultancy Services	Unchanged

Quantifiable Contingent Liabilities

Guarantees and Indemnities

Cook Islands - Asian Development Bank Loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the Asian Development Bank. These guarantees have first call on New Zealand's Official Development Assistance to the Cook Islands.

\$18 million at 30 April 1997 (unchanged from 30 September 1996).

DFC New Zealand - Tax Liabilities

As the amount of this contingent liability (\$3 million) has reduced to below the threshold of materiality (\$10 million), this item is now included in "Other guarantees and indemnities".

(\$11 million at 30 September 1996).

Huntly East Mine Subsidence

The Huntly East mine subsidence contingent liability relates to claims from private landowners for property damage or loss of value.

\$36 million at 30 April 1997 (\$22 million at 30 September 1996).

Masterpieces from the Guggenheim Museum

The exhibition "Masterpieces from the Guggenheim Museum" at the Dunedin Public Art Gallery was indemnified against losses of up to \$191 million from mid-February to mid-June 1997. This contingent liability was recorded as a risk in the *December Update* because it had not been finally approved at that time.

\$191 million at 30 April 1997.

Post Office Bank (PostBank) - Guaranteed Deposits

In the sale of PostBank to ANZ Banking Group Ltd (ANZ), the Crown agreed to continue its guarantee, under the Post Office Bank Act 1987, for certain PostBank deposits lodged with the Bank before 1 July 1988. ANZ agreed to indemnify the Crown for the cost of any liability that may arise from the Crown guarantee for so long as the Crown guarantee remained in force. The amount guaranteed reduces as deposits mature.

\$34 million at 30 April 1997 (\$38 million at 30 September 1996).

Rural Bank - Guaranteed Borrowings

At the time of the sale of the Rural Bank to the Fletcher Challenge Group in 1989, the Government agreed that the existing guarantee over the Rural Bank's borrowings at the date of sale would continue. Fletcher Challenge Ltd, as a condition of sale, agreed to indemnify the Crown against default by the Rural Bank on the Crown-guaranteed debt.

\$133 million at 30 April 1997 (\$145 million at 30 September 1996).

Waikato-Tainui Tax Indemnity

As part of their Deed of Settlement, Waikato-Tainui have received a GST indemnity for any GST that IRD might deem to be payable in relation to the financial redress transferred from the Crown to Waikato-Tainui under the Deed of Settlement. The indemnity would not cover any subsequent transfer or use of the financial redress.

\$21 million at 30 April 1997.

Whakatohea Tax Indemnity

As part of their Deed of Settlement, Whakatohea have received an income tax and GST indemnity for any taxes that IRD might deem to be payable in relation to the financial redress transferred from the Crown to Whakatohea under the Deed of Settlement. The indemnity would not cover any subsequent transfer or use of the financial redress.

\$18 million at 30 April 1997.

Guarantees and Indemnities of State-Owned Enterprises (SOEs) and Crown Entities (CEs)

\$96 million at 30 April 1997 (\$123 million at 30 September 1996).

Other Guarantees and Indemnities

\$26 million at 30 April 1997 (\$36 million at 30 September 1996).

Uncalled Capital

The Crown's uncalled capital subscriptions are as follows:

Institution	Uncalled Capital at 30/4/97 (\$ million)	Uncalled Capital at 30/9/96 (\$ million)
Asian Development Bank	1,046	1,043
European Bank for Reconstruction and Development	11	13
International Bank for Reconstruction and Development	1,184	1,174

*Legal Proceedings and Disputes**Agriculture - Legal Claims*

For claims against the Ministry of Agriculture for alleged legal or administrative faults.

\$23 million at 30 April 1997 (\$27 million at 30 September 1996).

Asbestosis Claims

For damages against the Crown in respect of asbestos-related diseases.

\$20 million at 30 April 1997 (unchanged from 30 September 1996).

Commerce Ministry - Legal Claims

Miscellaneous legal claims against the Crown relating to matters administered by the Ministry of Commerce, including motor vehicle import licences and a UHF tender contract. Such claims were included in "Other legal proceedings and disputes" in previous statements of contingent liabilities but the total now exceeds the threshold of materiality.

\$16 million at 30 April 1997.

Fisheries - Cost Recovery Regime

The New Zealand Fishing Industry Association has issued proceedings requesting a judicial review of the cost recovery process and seeking a declaration that 1996/97 fishing year levies are invalid and unenforceable. The Select Committee on Primary Production has now agreed to review the cost recovery regime.

\$11 million at 30 April 1997.

Fisheries - Management Plans

Prior to October 1995, the Fisheries Act 1983 contained provisions for implementing fishery management plans. A claim has been lodged that, had such a plan been implemented in the Auckland Fishery, the total allowable commercial catch for stocks could have been higher.

\$10 million at 30 April 1997 (unchanged from 30 September 1996).

Fisheries - Quota Allocation

For claims of alleged inconsistent application of a policy for allocating deepwater species.

\$20 million at 30 April 1997 (unchanged from 30 September 1996).

Fisheries - Other Claims

For damages claimed against the Crown, mainly in respect of alleged personal grievances, alleged breach of contract to lease quotas, and non-issuance of permit or quota and the extent to which the Ministry of Fisheries discharged its obligations in relation to forfeit property.

\$32 million at 30 April 1997 (\$26 million at 30 September 1996).

GST on Rest Homes

For backdated payments to rest home providers with contracts prior to the July 1989 GST increase, to compensate for the additional costs.

\$18 million at 30 April 1997 (unchanged from 30 September 1996).

Land Information New Zealand - Legal Proceedings

Claims against Land Information New Zealand arising from actions of the former Ministry of Works and Department of Lands and Survey.

\$17 million at 30 April 1997 (\$30 million at 30 September 1996).

Parliamentary Building Claim

A contractor's claim for extension of time and other unspecified costs over the refurbishment of Parliament buildings.

\$15 million at 30 April 1997 (unchanged from 30 September 1996).

Police - Legal Claims

Claims against the Police for alleged legal or administrative faults.

\$94 million at 30 April 1997 (\$48 million at 30 September 1996).

Social Welfare - Legal Claims

Claims against the Department of Social Welfare for alleged legal or administrative faults. This contingent liability was included in previous statements of contingent liabilities as part of "Other legal proceedings and disputes" but the amount is now such as to require separate listing.

\$22 million at 30 April 1997 (\$13 million at 30 September 1996).

Surplus Railway Land

This claim has now been settled.

Synfuels Contract Dispute

For damages claimed against the Crown for termination of contract.

\$98 million at 30 April 1997 (unchanged since 30 September 1996).

Tax in Dispute

Represents 50% of the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding.

\$69 million at 30 April 1997 (\$74 million at 30 September 1996).

West Coast Accord Claim

For damages against the Crown for the alleged failure by the Crown to comply with the terms of the Accord. While the Courts have found in favour of the Crown, the claimants have lodged an appeal.

\$423 million at 30 April 1997 (unchanged from 30 September 1996).

Court of Appeal Decision

The Court of Appeal has determined the West Coast Accord Case in favour of the Crown in a decision released on 10 June 1997. At this stage it is not known whether the claimants will be seeking any further appeals or other action.

Legal Claims Against State-Owned Enterprises (SOEs) and Crown Entities (CEs)

\$53 million at 30 April 1997 (\$46 million at 30 September 1996).

Other Legal Proceedings and Disputes

\$36 million at 30 April 1997 (\$38 million at 30 September 1996).

Other Quantifiable Contingent Liabilities

Commerce Ministry - Other Contingent Liabilities

Miscellaneous contingent liabilities relating to matters administered by the Ministry of Commerce, mainly relating to fulfilment of conditions for payment of enterprise assistance grants and compensation for changes to mining licence conditions. These contingent liabilities were included in “Other quantifiable contingent liabilities” in previous statements of contingent liabilities but the Ministry’s total now exceeds the \$10 million threshold of materiality.

\$13 million at 30 April 1997.

International Financial Institutions

The Crown has lodged promissory notes with the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). Each institution can cash the notes in accordance with its rules. The New Zealand dollar value of these notes fluctuates with exchange rate movements.

Institution	30 April 1997 (\$ million)	30 September 1996 (\$ million)
International Bank for Reconstruction and Development	53	53
International Monetary Fund	1,021	1,095

Other Quantifiable Contingent Liabilities

\$67 million at 30 April 1997 (\$82 million at 30 September 1996).

Unquantifiable Contingent Liabilities*Institutional Guarantees**Commerce Commission - Indemnity for Damages*

The Crown has indemnified the Commerce Commission under section 59 of the Public Finance Act 1989 for up to \$40 million per case for damages awarded against it by the courts in certain circumstances.

District Court Judges and Justices of the Peace

Section 119 of the District Courts Act 1947 indemnifies District Court judges acting in their civil jurisdiction. Section 196A of the Summary Proceedings Act 1957 also indemnifies District Court judges for any liabilities arising as a result of an act done by a judge in excess of, or without, jurisdiction. Under section 197 of the Summary Proceedings Act 1957, Justices of the Peace are similarly indemnified as long as a High Court judge certifies that they have acted in good faith and ought to be excused.

Earthquake Commission (EQC)

The Crown is liable to meet any deficiency in the EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993).

Māori Trustee

The Crown is liable to meet any deficiency in the Māori Trustee's Common Fund (section 27(1) of the Māori Trustee Act 1953).

National Provident Fund (NPF)

The Crown guarantees the benefits payable by all NPF Board schemes (section 60 of the National Provident Fund Restructuring Act 1990). The Crown also guarantees investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61 of the same Act).

A provision of \$456 million has been made in the fiscal forecasts in respect of the actuarially assessed deficit in the NPF's guaranteed Defined Benefit Plan (Annuitants) Scheme (refer to Note 12 of the Forecast Financial Statements).

Persons Exercising Investigating Powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Public Trust Office

The Crown is liable to meet any deficiency in the Public Trust Office's Common Fund (section 36 of the Public Trust Office Act 1957).

Reserve Bank of New Zealand

Under section 146 of the Reserve Bank of New Zealand Act 1989, every statutory manager of a registered bank, every person appointed under section 99 or section 101 of the Act and every member of an advisory committee, shall be indemnified by the Crown in respect of any liability arising from the exercise, purported exercise or omission to exercise of any power conferred by Part V of the Act, unless that power has been exercised in bad faith.

The Government pays to the Bank any exchange losses incurred by the Bank as a result of dealing in foreign exchange under sections 17, 18 and 21(2) of the Act.

Other Unquantifiable Contingent Liabilities

Alkylammonium Compound Compensation

The Crown is liable, under an agreement with Carter Holt Harvey, Thames Sawmilling, Dashwood Treated Timber and Post and McAlpines, to meet 50% of the settlement of claims relating to alkylammonium compound preservation of timber. The Crown is also liable for 50% of the costs of private claimants who cannot identify the timber treater and 100% of negotiated settlements of Prolog Industries.

Accident Compensation and Rehabilitation Insurance Corporation (ARCIC) - Attendant Care

A recent court decision found that ARCIC underpaid attendant care entitlements for a number of seriously injured claimants under the Accident Compensation Corporation Act 1982. ARCIC is currently assessing the extent of the liability resulting from this judgment. This contingent liability has not been quantified at this stage because all qualifying claimants have not yet been identified.

Bank of New Zealand (BNZ) - Tax and Litigation

A deed, entered into by the Crown, Fay Richwhite and Company and National Australia Group (the purchaser of the BNZ), provides for sharing certain costs arising from defined risks that pre-date the sale of the BNZ. These risks are associated with New Zealand taxation and specified litigation.

Coal Corporation of New Zealand - Indemnity

The Crown has indemnified Coalcorp for any liability, damages, claims, costs and expenses arising from coal mining operations carried out by State Coal Mines prior to 1 April 1987. In addition, the Crown has indemnified Coalcorp against illegal action, or action without the requisite right, if this is a continuation of State Coal Mines activity.

Contact Energy - Indemnity

The Deed of Assumption and Release between ECNZ, Contact and the Crown provides for compensation to Contact for any tax, levy, royalty or impost imposed on the company's use of water or geothermal energy for plants in existence or under construction at the date of the ECNZ Sale and Purchase Agreement (and which are not reflected in the increased prices of energy generally). It also provides for compensation for any net costs to Contact arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

Crown Health Enterprises - Transitional Indemnities

The Crown has provided transitional indemnities to directors and officers of some Crown health enterprises, for liabilities arising from inherited assets and business practices under the Building Act 1991 and the Health and Safety in Employment Act 1992.

Crown Research Institutes - Indemnities

The Crown has indemnified the Crown research institutes for any costs arising from certain third-party claims that are the result of acts or omissions prior to the transfer date, for the costs of complying with statutes, ordinances and by-laws which relate to or affect certain buildings, and (subject to certain limitations) for the costs of obtaining title to land.

The Crown has also indemnified the National Institute of Water and Atmospheric Research (NIWA) against certain potential redundancy costs. This latter indemnity expires on 30 June 1997.

DFC New Zealand Ltd and National Provident Fund - Tax Indemnities

DFC New Zealand Ltd (under statutory management) and the NPF have been indemnified for certain potential tax liabilities. Provision has been made in the fiscal forecasts to indemnify the NPF for tax liabilities up to \$96 million (see Note 12 of the Forecast Financial Statements).

Electricity Corporation of New Zealand - Indemnity

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, royalty or impost imposed on ECNZ for use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to the Corporation arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

Under the Trans Power New Zealand Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Trans Power separation process.

Fletcher Challenge - Partial Indemnity for Environmental Contamination

As part of the Sale and Purchase Agreement for Forestry Corporation of New Zealand (FCNZ), the Crown has indemnified Fletcher Challenge Ltd (FCL) for the costs of cleaning up on-site environmental contamination incurred up to settlement date (27 September 1996). The Crown is to pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020. The Crown has also indemnified FCL in respect of off-site environmental costs and losses incurred up until settlement date. The off-site indemnity is unlimited as to amount and time.

GPO Holdings

The Crown has agreed that GPO Holdings will not be liable for any loss or damage that results from errors, omissions or other faults in the presentation and wording of the copy in respect of the Notes on Parliamentary Law and Procedure, except where such loss or damage is caused by the negligence of GPO Holdings, its employees or sub-contractors.

Housing Corporation of New Zealand (HCNZ) - Indemnities

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HCNZ mortgages: ANZ Banking Group Ltd, Mortgage Corporation, Countrywide Bank, TSB Bank, and Westpac Banking Corporation.

The Crown has indemnified the directors and officers of HCNZ against any liabilities in respect of the sale of mortgages to ANZ Bank and Mortgage Corporation.

Under the sale of mortgages to Westpac, HCNZ has insured the purchaser against certain credit losses with the Crown standing behind this obligation.

Legal proceedings have been initiated against a number of defendants, including the Crown, alleging breach of fiduciary duties in respect of the transfer of Agreement for Sale and Purchase and mortgage agreements to HCNZ under the Housing Assets Transfer Act 1993.

Housing New Zealand (HNZ) - Indemnity

The Crown has indemnified the directors and officers of HNZ against any liability consequent upon the assets transferred to HNZ not complying with statutory requirements, provided that it is taking steps to rectify any non-compliance.

Maui Developments Limited

In 1973 the Crown contracted with Maui Developments Ltd that it would meet the cost of overruns on the construction of the Maui A and Maui B oil and gas platforms and associated pipeline projects. Discussions are currently being held between the parties to the contract about possible liabilities. These cannot be quantified at this stage.

Pharmaceutical Management Agency (Pharmac) - Indemnity

Section 99 of the Social Security Act 1964 provided for the fixing of prices for pharmaceutical products by way of a list specified by the Minister of Health (“the Drug Tariff”). This list was superseded by a list (“the Pharmaceutical Schedule”) developed and issued by Pharmac, a company established by the regional health authorities and having various powers under the Health Reforms (Transitional Provisions) Act 1993.

Under the Transfer Agreement between Pharmac and the Crown, the Crown has indemnified Pharmac against any liability in respect of operations, activities, decisions and policies relating to the Drug Tariff and the Pharmaceutical Schedule.

Purchasers of Crown Operations

The Crown has indemnified the purchasers of various Crown operations for losses owing to changes in legislation which uniquely and adversely affect those purchasers.

Sale of Crown Assets

On the sale of Crown assets and the corporatisation of Crown assets into SOEs and CEs, the Crown has generally provided a warranty that it was the rightful owner of the assets transferred, and that the assets were free of encumbrances.

Tax Liabilities

The Crown has granted to the purchasers of the Shipping Corporation, Telecom Corporation, State Insurance Office and the Rural Bank, an indemnity for certain potential tax liabilities.

Waitangi Tribunal Claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forests Assets Act 1989.

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works prior to 1 April 1989. In addition an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

The Crown has provided an indemnity to the purchasers of Works Consultancy Services in relation to the activities of the Ministry of Works prior to 1 April 1989.

Specific Fiscal Risks

Specific fiscal risks (excluding contingent liabilities) are a category of Government decisions or circumstances which may have a material impact on the fiscal position. The risks have not been included in the main forecasts because: their fiscal impact cannot be reasonably quantified; the likelihood of realisation is uncertain; and/or the timing is uncertain.

The Government has decided to allocate \$5 billion for policy initiatives for the three years 1997/98 to 1999/2000. Operating and capital contingencies are included in the forecasts to accommodate these policy initiatives. Therefore, many risks outlined in this chapter, if they crystallise, would be covered by these provisions.

Not all policy proposals discussed in the Coalition Agreement are included as specific fiscal risks. Some are not material in size of impact. Others do not currently meet the tests set out below to be regarded as specific fiscal risks.

Specific fiscal risks can include:

- Government decisions or legislative commitments with uncertain fiscal consequences
- undecided policy under active consideration by Cabinet or Cabinet committees
- incomplete negotiations which have fiscal implications.

The Fiscal Responsibility Act 1994 requires that all specific fiscal risks be disclosed, except where it is determined by the responsible Ministers that disclosing a risk is likely to:

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

In addition, the responsible Ministers have 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 fiscal risks included in the Statement of Specific Fiscal Risks were finalised as at 10 June 1997, the date of finalisation of the fiscal forecasts.

Quantified Risks¹

Risks as at 10 June 1997	Operating Balance	Net Debt	Net Worth	(\$ million)
Agriculture - Quality Management review	Unclear	Unclear	Unclear	0 to -35
ARCIC - acute and elective health services for earners	Increase	Decrease	Increase	up to +20 in 1997/98, +85 in 1998/99, +95 in 1999/2000
ARCIC - employers' account premium review	Decrease	N/A	Decrease	-50 in 1997/98, -250 in 1998/99 and -435 in 1999/2000
ARCIC - return to work initiatives	Mixed	Mixed	Mixed	-30 in 1997/98, -28 in 1998/99 and +75 in 1999/2000
Border and quarantine charges	Decrease	Increase	Decrease	-22
Carbon tax	Increase	Decrease	Increase	+70 per year from 1998/99
CHE equity carryforward	N/A	Increase	N/A	between -25 and -30 in 1997/98
Child support collection mechanism	Increase	Decrease	Increase	+10 to +11 from 1988/99
Courts - construction of new facilities	N/A	Increase	N/A	up to -40 over 1998/99 and 1999/2000
Driver licensing review	Decrease	Increase	Decrease	-12 to -14 capital. Also operating expenses
Education - school property	N/A	Increase	N/A	-250 1998/99, -250 1999/2000
Education - Special Education 2000	Decrease	Increase	Decrease	-150 to -200 over three years
Equiticorp	Unclear	Unclear	Unclear	negative (unquantified) to +328
Fisheries - incorrectly maintained quota registers	Decrease	Increase	Decrease	-10
Foreign Affairs - commitments reclassified	Decrease	N/A	Decrease	approximately -100
General election	Decrease	Increase	Decrease	-15
Health - THA risk reserve lending facility	N/A	N/A	N/A	up to -30
Justice - citizens' initiated referenda	Decrease	Increase	Decrease	up to -10 per referendum

¹ In the summary tables listing specific risks:

- positive numbers indicate an improvement in the Crown's financial position
- "N/A" means no effect
- "Mixed" means the risk may have a positive effect in some years, and a negative in others
- "Unclear" means insufficient information is available to determine the risk's effect

Risks as at 10 June 1997	Operating Balance	Net Debt	Net Worth	(\$ million)
LINZ - Survey and Land Titles Register automation	Mixed	Mixed	Mixed	approximately -80, offset in the outyears
Māori Reserved Land lease reform	Decrease	Increase	Decrease	between -48 and -63
Māori Trustee - payment for services	Decrease	N/A	Decrease	approximately -16
Ngai Tahu tax indemnity	N/A	N/A	N/A	-60, no net impact
Retirement Savings Scheme	Decrease	Increase	Decrease	-12 to -20 per year in 1998/99 and 1999/2000
Social Welfare Reform Bill	Decrease	Increase	Decrease	up to -15
Taxation - trading stock	Increase	Decrease	Increase	+10 or more per year from 1998/99
Taxation of life insurance and superannuation	Decrease	Increase	Decrease	up to -60 per year from April 1998
The Power Company - divestment	Decrease	N/A	Decrease	-35 if divested
Triangular Imputation Credits	Decrease	Increase	Decrease	up to -14 per year from 1998/99

Unquantified Risks

Risks as at 10 June 1997	Operating Balance	Net Debt	Net Worth
ARCIC - review of four week entitlements	Unclear	Unclear	Unclear
Auckland Airport capital structure review	Unclear	Unclear	Unclear
CHE loan covenants	Unclear	Unclear	Unclear
CHEs - proposals for changes	Unclear	Unclear	Unclear
Commerce - Māori broadcasting	Decrease	Increase	Decrease
Contaminated sites	Decrease	Increase	Decrease
Corrections - construction of new facilities and associated operating expenses	Decrease	Increase	Decrease
Crown lease forests - sale of the Crown's interest	Unclear	Decrease	Unclear
Defence - operating costs	Decrease	Increase	Decrease
Disaster Recovery Plan	Decrease	Increase	Decrease
ECNZ - sale of small hydro stations	Unclear	Unclear	Unclear
Education - integrated teaching service/unified pay system	Decrease	Increase	Decrease
Education - review of the Private Schools Integration Act	Unclear	Unclear	Unclear

Risks as at 10 June 1997	Operating Balance	Net Debt	Net Worth
Education - teacher workloads	Decrease	Increase	Decrease
Employment initiatives	Unclear	Unclear	Unclear
Fisheries - allocation of fishing quota	Decrease	Increase	Decrease
Group Investment Funds	Increase	Decrease	Increase
GST on travel vouchers	Increase	Decrease	Increase
HCNZ - future strategic direction	Unclear	Unclear	Unclear
HCNZ - sale of residual portfolio	Unclear	Decrease	Unclear
Housing Agencies	Unclear	Unclear	Unclear
Human Rights Act	Unclear	Unclear	Unclear
Land Transport Pricing Study	Unclear	Unclear	Unclear
Police - future requirements	Unclear	Unclear	Unclear
Scoping of asset sales	Unclear	Decrease	Unclear
Social Welfare - capital injection	N/A	Unclear	N/A
South Island Landless Māori forests	Unclear	Unclear	Unclear
Tax reductions	Decrease	Increase	Decrease
Tax treatment - restrictive covenants and lease inducements	Increase	Decrease	Increase
Treaty of Waitangi Settlements	Unclear	Unclear	Unclear
Vehicle tariffs	Decrease	Increase	Decrease
Year 2000 celebrations	Decrease	Increase	Decrease
Youth income support	Unclear	Unclear	Unclear

Risks Removed Since the *December Update*

Risk	In Forecasts	Comment
Accident health services - cost review	Yes	
Alcohol excise	No	Review discontinued
Commerce - petroleum mining licences	No	Not a material risk
Courts - capital expenditure	Yes	
Courts and Corrections - operating costs	Yes	
Defence assessment	No	Merged with another risk
Earthquake Commission - dividends and tax	No	Not under active consideration
Education - teacher supply	Yes	
Health - CHE capital injections	Yes	

Risk	In Forecasts	Comment
Health - CHE tax and dividends	No	Not a material risk
Health sector incentives, settings and funding	Yes	
New Zealand Superannuation - surcharge avoidance	No	Surcharge to be abolished
Parliamentary Service - new ministerial building	Yes	Expense now capped
Police - review of output pricing	No	Merged with another risk
Science expenses	Yes	Planning levels established
Second year of the 1996 Budget package	Yes	Tax cut deferred to 1998/99
Social Welfare - assignment of benefit	No	Not under active consideration
Social Welfare - child support review	No	Not under active consideration
Taxation and asset classification regime	No	Not a material risk
Taxation of UK Unit Trusts	No	Not a material risk
THA/CHE contracts	No	Not a material risk

Quantified Fiscal Risks

Agriculture - Quality Management Review (Changed Risk)

Since the *December Update*, the Government has completed a review of the organisational structure for, and location of, services delivered by the Ministry of Agriculture Quality Management. The Government will consider recommendations shortly. There is a range of possible options available ranging in impact on the financial forecasts from nil to around \$35 million negative.

Source: The Treasury

Accident Rehabilitation and Compensation Insurance Corporation (ARCIC) - Acute and Elective Health Services for Earners (New Risk)

The Government now requires ARCIC to pay for elective health services for earners and to compensate the Crown for acute health services for earners.

There will be a positive impact on the Crown reporting entity if and when the expenditure is offset by increases in earner premiums. The quantum of this premium impact depends on decisions yet to be made but is expected to be in the range of nil to \$20 million in 1997/98, \$20 million to \$85 million in 1998/99 and \$60 million to \$95 million in 1999/2000.

Source: ARCIC

Accident Rehabilitation and Compensation Insurance Corporation (ARCIC) - Employers' Account Premium Review (Changed Risk)

The forecasts of operating deficits and accumulated funds for ARCIC included in the Forecast Financial Statements are based on current premiums. The current reserves policy, as gazetted under the terms of the Accident Rehabilitation and Compensation Insurance Act 1992, is to move towards six months' estimated expenditure.

On the basis of current forecasts, the reserves target for the Employers' Account will be met earlier than anticipated when the premiums were last reviewed. The Corporation will be reviewing reserves and premiums over July to October 1997. Any reductions in premiums to allow reserves to be more closely aligned with target levels would decrease the Crown's operating balance. While the three-year impact is yet to be fully assessed, it is expected to be approximately \$50 million in 1997/98, \$250 million in 1998/99 and \$435 million in 1999/2000.

Source: ARCIC

Since the *December Update*, the impact of this risk has been more clearly quantified.

Accident Rehabilitation and Compensation Insurance Corporation (ARCIC) - Return To Work Initiatives (Changed Risk)

The impacts of return to work initiatives are an estimated increase in ARCIC expenditure of \$30 million in 1997/98 and reductions in expenditure of \$2 million in 1998/99, \$130 million in 1999/2000 and \$320 million in 2000/01; and increased costs to the Crown, for social welfare benefits, estimated at \$30 million in 1998/99, \$55 million in 1999/2000 and \$60 million in 2000/01.

Over the next few months, the Minister for ARCI is to work through with ARCIC issues surrounding the re-targeting of the work capacity assessment process. It is unclear at this stage what the implications of such re-targeting will be in terms of the magnitude and timing of net savings, and the distribution of costs and savings amongst agencies. For this reason, the estimated fiscal impact has not been included in the forecasts.

Source: ARCIC

This risk was included as an unquantified risk in the *December Update*. It is still only partly quantified but there is more clarity about the costings included.

Border and Quarantine Charges (Unchanged Risk)

The Ministry of Agriculture increased charges for border and quarantine activities pursuant to the 1993 Biosecurity (Costs) Regulations which came into effect on 26 November 1993. Process errors in the adoption of the Regulations mean that they could be declared invalid and the Crown faces potential legal claims of up to \$22 million.

The Subordinate Legislation (Validation) Bill 1996, which is awaiting a third reading, will retrospectively validate the Regulations.

Source: Ministry of Agriculture

The Subordinate Legislation (Validation) Bill was read for the third time on 12 June and assented to on 17 June 1997. With the passage of the Bill into law, this risk expires.

Carbon Tax (Changed Risk)

A low-level carbon charge is one option the Government is considering as part of its response to climate change. A charge of \$10 per tonne of carbon would generate net revenue of about \$70 million annually. This risk has been changed to reflect the Government's decision to defer its decision on this issue until early 1998.

Source: Ministry of Commerce

Crown Health Enterprise (CHE) Equity Carryforward (New Risk)

The Government has agreed to carry forward any unspent balance of the CHE equity appropriation in 1996/97 to 1997/98. This amount is expected to be about \$25 million to \$30 million.

Source: The Treasury

Child Support Collection Mechanism (New Risk)

The Government is discussing a possible mechanism with Australia for collecting child support. If a system were implemented it is estimated that the Government would raise around an additional \$10 million to \$11 million per year from 1998.

Source: IRD, The Treasury

Courts - Construction of New Facilities (New Risk)

The Department for Courts is developing property management plans for its portfolio of courthouses, for consideration by the Government later in the year. Capital investment of up to \$40 million over the two years 1998/99 and 1999/2000 could result.

Source: Department for Courts

Driver Licensing Review (New Risk)

A major review of driver licensing is currently under way which, when completed, is likely to require a capital contribution of \$12 million to \$14 million plus operating costs. The final outcome will not be known until the review is completed and the Government passes the necessary amending legislation.

Source : Ministry of Transport

Education - School Property (Changed Risk)

Since the *December Update*, this risk has been changed by the decision taken on funding in 1997/98 and by increases in the capital costs estimated for the 1998/99 and 1999/2000 financial years. Provision has been made in the baseline for 1997/98 for a capital contribution for additional school accommodation for growth in school rolls and modernisation of the school property portfolio. Further contributions are likely in 1998/99 and 1999/2000. Capital costs are estimated to be around \$250 million in each of those years.

Source: Ministry of Education.

Education - Special Education 2000 (Changed Risk)

The Special Education 2000 policy will significantly increase expenditure on special education over the next five years. Since the *December Update*, Cabinet has agreed to a trial of the criteria intended to support the Ongoing Resourcing Scheme for pupils with high and very high ongoing special education needs in 1997/98. Options are under consideration that could cost \$150 million to \$200 million over the next three years.

Source: Ministry of Education

Equiticorp (Changed Risk)

The High Court has found that the Crown should pay to Ararimu Investments Four Ltd, a plaintiff in the Equiticorp proceedings, the sum of \$328 million, which includes interest to the final day of judgment and costs. Provision for payment of the judgment sum of \$328 million, including interest to the date of judgment, was included in the actual results for 1995/96 to cover this expense.

The Crown is appealing the decision. This represents both a negative and positive fiscal risk. If the Crown were to lose on any cross-appeal which might be brought by the plaintiffs, or appeal by Equiticorp Australia Ltd, the amount of final judgment could be larger.

Interest is payable on the judgment sum of \$328 million at 11%, non-compounding, until the judgment sum is paid. In comparison with the *December Update*, the fiscal forecasts now include provision for \$33 million in accrued interest to the end of 1996/97 and up to \$37 million in 1997/98.

If the Crown were to win the appeal, the original judgment of up to \$328 million could be reversed. Also, the Crown itself could be awarded costs and would avoid the requirement to pay 11% interest on the final judgment.

Source: The Treasury

Fisheries - Incorrectly Maintained Quota Registers (New Risk)

The Ministry of Fisheries is required to maintain a register of fishing quotas recording quota allocations, transfers and leases. The register was found to be deficient in the recording of sales of leased quota with effects detrimental to fishers. The Minister of Fisheries has commenced discussions with the fishing industry on the appropriate allocation method for a proposed \$10 million compensation package.

Source: Ministry of Fisheries

Foreign Affairs - Commitments Reclassified (Unchanged Risk)

Audit New Zealand and the Treasury are considering whether some of the Vote Foreign Affairs and Trade “Official Development Assistance” and “Subscriptions” future commitments should be reclassified as liabilities. If they were reclassified, an additional appropriation of approximately \$100 million could be required in the year of the decision.

Source: The Treasury

General Election (New Risk)

A general election must be held by late 1999. Provision exists in current baselines for some of the anticipated costs but it is not possible to fully allocate expected costs between the 1998/99 and 1999/2000 financial years until the date of the election is determined. Additional expenses for which provision has not been made are estimated to be about \$15 million.

Source: Ministry of Justice

Health - THA Risk Reserve Lending Facility (Unchanged Risk)

The Transitional Health Authority (THA) has created risk reserves to help manage the demand for health services within agreed funding levels. The Crown has provided a lending facility of up to \$30 million for use if the reserves which the THA holds prove insufficient. If the facility is utilised, there may be some lending risk. This facility was shown in the *December Update* as being available to the regional health authorities (RHAs), to which the THA is the successor organisation.

Source: Ministry of Health

Justice - Citizens' Initiated Referenda (Unchanged Risk)

This risk measures the estimated expense of referenda held in accordance with the Citizens' Initiated Referenda Act 1993. Indications are that each referendum could cost up to \$10 million. The number of referenda to be held each year is uncertain.

Source: Ministry of Justice

Land Information New Zealand (LINZ) - Survey and Land Titles Register Automation (unchanged risk)

The paper- and counter-based services operated by Land Information New Zealand are the subject of a computerisation proposal. This includes the capability to automate land title and survey records. Further refinement of costs and benefits will be undertaken prior to approval being sought. Costs are currently estimated to be in the order of \$80 million. These costs should be broadly offset by reduced operating and compliance costs over the life of the project.

Source: Land Information New Zealand.

Māori Reserved Land Lease Reform (Changed Risk)

The Māori Reserved Land Act 1955 is to be amended to allow market rental rates to be phased in over a period of three to seven years post-enactment. The proposed Amendment Bill provides for compensation to lessees for the move to market rents and shorter rent review periods. Compensation will also be provided to lessors for the delay in introducing market rental rates. The compensation to be provided by the Bill is currently \$48 million. An independent review has recommended increasing the compensation to \$63 million. These figures are net of both income tax and GST

Source: The Treasury

Māori Trustee - Payment For Services (Changed Risk)

The fiscal forecasts make no allowance by way of a doubtful debts provision for the non-payment of \$16 million (increased from \$14 million at the time of the *December Update*) owed by the Māori Trust Office for services provided by the Ministry of Māori Development.

Source: The Treasury

Ngai Tahu Tax Indemnity (Unchanged Risk)

It is proposed that Ngai Tahu receive an income tax and GST indemnity for any taxes that IRD might deem to be payable in relation to the financial redress transferred from the Crown to the claimants as part of the Treaty of Waitangi claim settlement. The indemnity would not cover any subsequent transfer or use of the financial redress. This risk will become a contingent liability once a Deed of Settlement is signed with the claimants. While an amount of up to \$60 million could be involved, it would have no net fiscal impact as any expenses incurred would be for the purpose of offsetting tax revenue.

Source: The Treasury

Retirement Savings Scheme (New Risk)

The costs associated with the introduction of a retirement savings scheme for the forecast period would mainly be the administrative expenses of collecting contributions and regulating investment funds during the initial years of operation. Expenses would rise when payments to retirees begin. The preliminary assessment of the impact on the fiscal forecasts is estimated to be \$12 million to \$20 million in each of the years 1998/99 and 1999/2000.

Source: The Treasury

Social Welfare Reform Bill (New Risk)

The Social Welfare Reform Bill currently before the House will repeal provisions of the Disabled People Community Welfare (DPCW) Act that entitle disabled people to funding from Income Support. This validates the decision, effective from 1 July 1996, to transfer purchasing responsibility for disability support services from Income Support to RHAs. Until the new legislation takes effect, eligible people may be entitled under the DPCW Act to funding from Income Support despite the transfer of responsibility and whether or not they have received services through the RHAs. Claims could amount to \$15 million.

Source: Department of Social Welfare

Taxation - Trading Stock (Unchanged Risk)

In a recent Discussion Document, the Government outlined a number of possible changes to the trading stock regime. If implemented, these changes could have a positive fiscal impact of \$10 million or more per year from 1998/99

Source: The Treasury

Taxation of Life Insurance and Superannuation (Changed Risk)

The Government has now received and is considering the report from the working party that was established to investigate possible options for taxing income earned by life insurance companies and superannuation funds on behalf of life insurance policyholders and superannuation scheme members. This could cost up to \$60 million.

Source: IRD, The Treasury

The Power Company - Divestment (Unchanged Risk)

The Government has been considering options for the divestment of The Power Company Ltd. This may involve a return to local ownership through the use of a trust. In the event of divestment, there would be an expense of approximately \$35 million for the difference between the value of the Company and the likely sum to be received by the Crown.

Source: The Treasury

Triangular Imputation Credits (New Risk)

New Zealand shareholders in Australian companies are currently double-taxed on the income those companies earn in New Zealand, and vice versa. The New Zealand and Australian Governments are considering removing this anomaly. A revenue loss of up to \$14 million annually from 1998/99 could result from this change.

Source: IRD, The Treasury

Unquantified Fiscal Risks***Accident Rehabilitation and Compensation Insurance Corporation (ARCIC) - Review of Four Week Entitlements (New Risk)***

The Government has instituted a review of the entitlements available to claimants in the first four weeks of qualifying for ARCIC assistance. The options are intended to reduce the number of claimants entering the scheme and increase ARCIC focus on the seriously injured. Until policy options are developed it is not possible to quantify the fiscal impact.

Auckland Airport Capital Structure Review (New Risk)

The Crown and the Auckland City Council have commenced a project to review the capital structure and scope of the airport. The consequences of this review could have an impact on the forecast financial statements but it is not clear at this stage what that impact might be.

CHE Loan Covenants (New Risk)

Several CHEs holding private debt have had poor financial performance over the 1996/97 year. Financial ratio covenants in their loan or bond agreements may therefore be breached, triggering events of review, which may lead to events of technical default. This debt is not guaranteed by the Crown, although an event of technical default may necessitate the Crown's involvement in balance sheet or organisational restructuring of these entities.

CHEs - Proposals for Changes (New Risk)

The fiscal impact of the Coalition Agreement on CHE performance is still unclear. The Coalition Agreement proposes CHEs become Regional Hospital and Community Services by July 1998. These changes may have major implications for the operating performance and capital structures of CHEs, and in turn for the Crown's fiscal aggregates. The exact nature and timing of these changes and how they will be implemented are still uncertain.

Commerce - Māori Broadcasting (Unchanged Risk)

The Crown has an obligation under the Treaty of Waitangi to protect the Māori language. The Crown, in consultation with Māori, is reviewing the place of Māori broadcasting in meeting Māori language objectives, including the appropriate level of funding. This risk is unquantifiable at this stage.

Contaminated Sites (Unchanged Risk)

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities. The "Discussion Document on Contaminated Sites Management" discusses the possibility of the Crown contributing to funding the clean-up of "orphan" contaminated sites. The extent of any Crown liability is unknown at this stage.

Corrections - Construction of New Facilities and Associated Operating Expenses (New Risk)

The Department of Corrections is developing a long-term property plan in conjunction with forecasts of prison musters. This plan, which will be completed by the end of the year, will make recommendations for additional funding for the upgrading of existing facilities and the construction of new prison buildings, and any associated changes in operating expenses. This risk is unquantified as the financial implications are uncertain at this stage.

Crown Lease Forests - Sale of the Crown's Interest (Unchanged Risk)

The Crown is a lessee of 20 forest leases covering 51,000 hectares of forest on Māori land. The Crown has indicated a willingness to sell its interest in the leases back to the Māori lessors on commercial terms, and will dispose of these interests if satisfactory terms are agreed with individual lessors. At this stage it is not possible to quantify the fiscal implications because they depend on the outcome of the sales process. This risk is unquantified as disclosing any estimate of revenue would be likely to compromise negotiations.

Defence - Operating Costs (Changed Risk)

New Zealand Defence Force (NZDF) anticipates higher operating costs for 1997/98 and beyond. There is a fiscal risk in respect of current capabilities and NZDF operating expenses. Increased operating costs are estimated to be up to \$89 million in 1998/99 and \$136 million in 1999/2000. The increases in operating costs are largely owing to higher depreciation and other operating expenses arising from the acquisition of new equipment, and a component for increased personnel costs in 1998/99 to address salary levels for military personnel.

In response to the fiscal risks in Defence, the Government initiated a Defence Assessment in 1996 to examine force structure options. The objective is to achieve a balance between New Zealand's defence effort and available resources over the longer term. In tandem with the Defence Assessment 96, the NZDF is proposing a comprehensive defence management review to reduce the future cost of defence. The savings will be incorporated in the Defence Assessment. Until the Assessment has been completed and its conclusions examined by Government, the fiscal cost of the future defence force is unquantifiable.

This risk includes the risk identified separately in the *December Update* as "Defence Assessment".

Source: New Zealand Defence Force

Disaster Recovery Plan (Unchanged Risk)

In the event of a natural disaster or emergency, the National Civil Defence Plan for Disaster Recovery provides that while local authorities or enterprises take first-line responsibility for dealing with the impact of a disaster in their own areas, central government will provide assistance in certain situations. These situations include:

- providing assistance to ensure physical safety where this cannot be provided by local agencies
- restoring those government facilities directly owned by the Government
- if the cost of repair or recovery of certain local authority assets is greater than certain specified amounts, meeting 60% of the cost of the additional amount

- providing assistance in restoration of individually owned assets or trading utilities where the risk of damage was uninsurable and hardship is demonstrated
- providing extra social welfare assistance if there is a requirement to provide an enhanced welfare base for the area affected for a period of time.

The fiscal implications of this risk are unquantifiable because they depend on the circumstances of a natural disaster.

ECNZ - Sale of Small Hydro Stations (Unchanged Risk)

The Government and ECNZ have agreed that eight of ECNZ's small hydro stations are to be sold by ECNZ, subject to appropriate consultations with Māori about any Treaty of Waitangi issues. Any sales receipts returned to the Crown would be used to repay Crown debt. This risk is unquantified as disclosing any estimate of costs would be likely to compromise negotiations.

Education - Integrated Teaching Service/Unified Pay System (Unchanged Risk)

The Government is engaged in discussions with the teachers' unions and other interested parties on an integrated Teaching Service and Unified Pay System. This could eventuate in increases in teachers' pay and changes to working conditions. This risk is unquantified because disclosure of estimates of cost could compromise negotiations.

Education - Review of the Private Schools Integration Act (Unchanged Risk)

This review aims to improve current integration arrangements and facilitate choice in the school sector. The Association of Proprietors of Integrated Schools (APIS) has sought \$373 million in funding over 10 years and the Government is considering policy options that are as yet unquantified.

Education - Teacher Workloads (New Risk)

The Minister of Education has been chairing a consultative group on teacher workloads. Many of the concerns raised through the workload group are likely to be met by 1997 Budget initiatives. If some concerns are not met through these initiatives, additional expenditure may be incurred in meeting these concerns. This risk is unquantified because quantification could compromise negotiations.

Employment Initiatives (New Risk)

The Coalition Agreement provides for a number of employment-related initiatives including:

- a requirement for unemployment beneficiaries to be in work or training
- the integration of employment-related agencies into an integrated employment service
- the establishment of Regional Employment Commissioners and Regional Employment Committees.

An Employment Strategy Steering Group is currently overseeing policy development on these issues. It is not clear at this stage what the fiscal impact of these changes will be.

Fisheries - Allocation of Fishing Quota (Unchanged Risk)

The Fisheries Act 1996 provides for 20% of the new species quota entering the Quota Management System (QMS) system to be allocated to Māori to give effect to the Crown's obligation under the Deed of Settlement for the Treaty of Waitangi Fisheries claim.

Of the new species to be introduced to the QMS, nine fish species are considered to be fully fished already and are listed on a separate schedule to the Act. To fulfil its obligations, the Crown may choose to purchase the quota to be allocated to Māori. This risk is unquantified because disclosure of estimates of compensation could compromise negotiations

Group Investment Funds (New Risk)

Superannuation funds that are subject to tax on profits from the sale of shares have found a way of avoiding that tax. This involves the use of Group Investment Funds and other trust structures. The method is to interpose a "passive" investment fund between the superannuation fund and its shares. The Government is considering an appropriate legislative response and therefore the fiscal impact is unquantified.

GST on Travel Vouchers (New Risk)

The Government has identified mechanisms being used to avoid GST by the issuance of vouchers overseas that can be redeemed in New Zealand for goods or services. If a solution is found to the problem, then as yet unquantified additional revenue may be collected from 1999.

HCNZ - future strategic direction (changed risk)

The Government is reviewing the strategic direction of HCNZ and its subsidiary Community Housing Limited (CHL). This review is likely to impact on the capital structure and operating requirements of HCNZ and CHL. Proposals will be formulated for consideration by Ministers later in the year. The outcome of this review may be affected by Government decisions on the housing policies included in the Coalition Agreement. The fiscal implications of this risk are not yet clear.

HCNZ - Sale of Residual Portfolio (Unchanged Risk)

HCNZ intends to complete further sales of mortgages. The effect on the Crown's operating balance and net worth depends on the extent to which the final sale value differs from book value. Any sale receipts would be used to repay Crown debt. This risk is unquantifiable until negotiations are further advanced.

Housing Agencies (New Risk)

An Advisory Board has been established to advise on the financial, operational and public policy issues of the Coalition Agreement statements to bring HNZ, HCNZ, and Community Housing under a single structure and to replace HNZ's profit focus with a new brief to meet the Crown's social objectives in a businesslike manner. The Advisory Board's report has not yet been received by Ministers. The fiscal impact is unclear at this stage.

Human Rights Act (Unchanged Risk)

Section 151 of the Human Rights Act 1993, which generally excludes the Government from the Act's application, expires on 31 December 1999. The Government may then be held liable for any breaches of the Act. The Government is reviewing all legislation, policies and practices to address any lack of compliance with the Act before that date.

Land Transport Pricing Study (Unchanged Risk)

The Land Transport Pricing Study (LTPS) has been released for public discussion. The document outlines five possible directions for managing roading, from retaining the status quo to a fully commercial model. These options have different regulatory and funding consequences. The fiscal impact is unclear at this stage.

Police - Future Requirements (Changed Risk)

A review of police output prices was identified as a risk in the *December Update*. Work is continuing on this review to determine the need for adjustments in the light of cost and demand pressures facing Police. In addition to this risk there is a fiscal risk of an increase in Police numbers and a risk that additional capital injections may be required for the implementation of information technology projects. It is not clear at this stage what the fiscal impacts of these risks will be.

Scoping of Asset Sales (New Risk)

The Government has announced that it intends to scope for possible sales Government Property Services Ltd and Vehicle Testing New Zealand Ltd. If they proceed, these sales would have a positive impact on net Crown debt. The possible impact is unquantified as any indication of possible returns could compromise the Crown's negotiating position in any commercial sales process.

Social Welfare - Capital Injection (New Risk)

The completion of the Department of Social Welfare's Information Systems Strategic Plan (ISSP), approved by the Government in 1995 and estimated at that time to cost \$108 million, may require a further capital injection. The Department is currently negotiating with the preferred supplier and may reassess its capital requirements in the light of these negotiations.

South Island Landless Māori Forests (Unchanged Risk)

Forests granted to Māori under the South Island Landless Māori Act 1906 are exempt from the requirement that indigenous forests be sustainably harvested and managed, as established under the Forests Amendment Act 1993. Consequently, these forests can be clear-felled at the discretion of the forest owners. The extension of the requirement for sustainable management may be sought for some "South Island Landless Māori" forests. The Government has yet to consider its options and preferred approach for addressing this issue.

Tax Reductions (New Risk)

If fiscal and economic conditions permit, the Government will consider further tax reductions in 1999/2000 and later years. If the referendum on the compulsory savings scheme is approved, the design of the scheme will influence the design of the tax reductions.

Tax Treatment - Restrictive Covenants and Lease Inducements (Changed Risk)

Inducements to enter into leases or restrictive covenants may in some cases be classified as non-taxable receipts of capital. Policy to ensure these amounts are treated as taxable income is being considered. The revenue at this stage is unquantified but would be positive. Since the *December Update*, this risk has been extended to include lease inducements.

Treaty of Waitangi Settlements (Changed Risk)

Since the *December Update*, the multi-year appropriation for historical Treaty of Waitangi settlements has been updated. It now totals \$583 million for the five-year period from 1 July 1996 to 30 June 2001. The actual amount expended in any one year may be greater or less than the amount forecast as actual expenses depend on the settlements reached within that year.

Vehicle Tariffs (Unchanged Risk)

The Government is reviewing the alternative specific tariffs applicable to imported used motor vehicles. If tariffs are lowered, it is expected that the reduction in revenue resulting from lower per-unit tariffs would be partially offset by higher volumes of imports. The extent of the overall revenue change is not quantifiable at this stage.

This review is separate from the review of all vehicle tariffs after 2000 that was announced in the Budget speech and is not expected to have any fiscal impact during the forecast period.

Year 2000 Celebrations (New Risk)

The New Zealand Millennium Board has been directed to report back to the Government by 30 November 1997 with funding options for Millennium celebrations for the period 1997 to 2001, within a range of \$10 million to \$25 million, including Lottery Grants Board funding. The extent of any Government contribution to this total proposed planning level has yet to be considered, so the risk to the fiscal forecasts is unquantified at this time.

Youth Income Support (New Risk)

Ministers are currently considering proposals for the implementation of the Coalition Agreement proposition for a comprehensive system of youth income support that gives comparability between unemployed job seekers and students. The fiscal impact of these proposals is unquantified at this stage.

