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Specific Fiscal Risks

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 specific fiscal risks involving amounts of $10 million or more in any one year are separately disclosed. Contingent liabilities below $10 million are included in the "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 they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability was 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 have been stated as at 30 June 1999, being the last set of published Contingent liabilities. Since 30 June 1999, IBM Limited has issued its Statement of Defence and Counterclaim in response to the Crown's original damages claim against IBM. IBM is claiming $75 million plus additional unspecified damages in relation to the Police INCIS project. This contingent liability is not included in the quantified contingent liabilities table below.

Quantifiable Contingent Liabilities Table

Guarantees and indemnities	Status[1]	($ million)
Cook Islands - Asian Development Bank (ADB) Loans	Changed	22
Huntly East mine subsidence	Unchanged	25
Indemnification of touring exhibitions	Unchanged	64
Irrigation schemes	Unchanged	11
Post Office Bank (PostBank) - guaranteed deposits	Changed	23
Rural Banking and Finance Corporation of New Zealand Limited (the Rural Bank)	Changed	110
Guarantees and indemnities of State-owned enterprises and Crown entities	Changed	257
Other guarantees and indemnities	Changed	29
		541
Uncalled capital		
Asian Development Bank	Changed	1,271
European Bank for Reconstruction and Development	Unchanged	14
International Bank for Reconstruction and Development	Changed	1,535
		2,820
Legal proceedings and disputes		
Agriculture and Forestry - legal claims	Changed	24
Health - Lake Alice claims	Unchanged	132
New Zealand Defence Force - legal claims	Changed	15
Police - legal claims	Changed	82
Social Welfare - legal claims	Changed	25
Tax in dispute	Changed	111
Legal claims against State-owned enterprises and Crown entities	Changed	30
Other legal claims	Changed	45
		464
Other quantifiable contingent liabilities		
Health - other contingent liabilities	Changed	81
International finance organisations	Changed	1,414
Reserve Bank – demonetised currency	Unchanged	23
Other quantifiable contingent liabilities	Changed	92
		1,610
Total quantifiable contingent liabilities		**5,435**

1 Relative to reporting in the 1999 Budget Update.

Non-Quantifiable Contingent Liabilities Table

Institutional guarantees	Status
Commerce Commission - indemnity for damages	Unchanged
District Court Judges and Justices of the Peace	Unchanged
Earthquake Commission	Unchanged
Fletcher Challenge Limited (FCL)	Unchanged
Māori Trustee	Unchanged
National Provident Fund	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust Office	Unchanged
Reserve Bank of New Zealand (the Reserve Bank)	Unchanged
Other non-quantifiable contingent liabilities	
Alkylammonium compound compensation	Unchanged
Bank of New Zealand (BNZ)	Unchanged
Contact Energy Limited (Contact)	Unchanged
Contaminated sites	Unchanged
Crown Research Institutes (CRIs)	Unchanged
DFC New Zealand Limited (under statutory management) (DFC)	Unchanged
Electricity Corporation of New Zealand (ECNZ)	Unchanged
Hospital and Health Services (HHS)	Unchanged
Housing Corporation of New Zealand (HCNZ)	Unchanged
Housing New Zealand Limited (HNZ)	Unchanged
Pharmaceutical Management Agency Limited (Pharmac) - indemnity	Unchanged
Purchasers of Crown operations	Unchanged
Sale of Crown assets	Unchanged
Solid Energy New Zealand Limited (Solid Energy)	Unchanged
Southland Electric Power Supply Consumer Trust	Unchanged
Tax liabilities	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims - settlement relativity payments	Unchanged
Works Civil Construction	Unchanged
Works Consultancy Services	Unchanged

Quantifiable Contingent Liabilities

Guarantees and indemnities

Cook Islands - Asian Development Bank (ADB) Loans

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

$22 million at 30 June 1999 ($23 million at 31 March 1999).

Huntly East mine subsidence

For claims from private landowners concerning property damage or loss of value.

$25 million at 30 June 1999 ($25 million at 31 March 1999).

Indemnification of touring exhibitions

The Crown has a contingent liability for damages or losses under the scheme for indemnifying touring exhibitions. The contingent liability took effect in February 1999 and expires in October 1999.

$64 million at 30 June 1999 ($64 million at 31 March 1999).

Irrigation schemes

The Crown has given an indemnity through sale and purchase agreements, involving nine dams and six irrigation schemes, that if legislation concerning safety of dams has an adverse effect on the ability to maintain irrigation water supply then the purchaser is entitled to transfer the scheme back to the Crown.

$11 million at 30 June 1999 ($11 million at 31 March 1999).

Post Office Bank (PostBank) - guaranteed deposits

In the sale of PostBank to ANZ Banking Group Limited (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. The amount guaranteed will reduce as deposits mature.

$23 million at 30 June 1999 ($24 million at 31 March 1999).

Rural Banking and Finance Corporation of New Zealand Limited (the Rural Bank)

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 Limited, as a condition of sale, agreed to indemnify the Crown against default by the Rural Bank on the Crown-guaranteed debt.

$110 million at 30 June 1999 ($114 million at 31 March 1999).

Guarantees and indemnities of State-owned enterprises and Crown entities

$257 million at 30 June 1999 ($111 million at 31 March 1999).

Other guarantees and indemnities

$29 million at 30 June 1999 ($30 million at 31 March 1999).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	**Uncalled Capital at 30 June 1999 $m**	**Uncalled Capital at 31 March 1999 $m**
Asian Development Bank	1,271	1,264
European Bank for Reconstruction and Development	14	14
International Bank for Reconstruction and Development	1,535	1,543

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Agriculture and Forestry - legal claims

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

$24 million at 30 June 1999 ($26 million at 31 March 1999).

Health - Lake Alice claims

For claims against the Crown in respect of patients at Lake Alice Hospital in the early to mid-1970s.

$132 million at 30 June 1999 ($132 million at 31 March 1999).

New Zealand Defence Force – legal claims

Claims against the New Zealand Defence Force for alleged legal or administrative faults.

$15 million at 30 June 1999 ($16 million at 31 March 1999).

Police - legal claims

Claims against the Police for alleged legal or administrative faults.

$82 million at 30 June 1999 ($80 million at 31 March 1999).

Social Welfare - legal claims

Claims against the Department of Social Welfare for alleged legal or administrative faults.

$25 million as at 30 June 1999 ($22 million at 31 March 1999).

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.

$111 million at 30 June 1999 ($104 million at 31 March 1999).

Legal claims against State-owned enterprises and Crown entities

$30 million at 30 June 1999 ($38 million at 31 March 1999).

Other legal claims

$45 million at 30 June 1999 $112 million at 31 March 1999).

Other quantifiable contingent liabilities

Health - other contingent liabilities

For claims against the Crown in respect of people allegedly contracting Hepatitis C through contaminated blood and blood products, and other personal injury claims.

$81 million at 30 June 1999 ($87 million at 31 March 1999).

Reserve Bank - demonetised currency

The Crown has a contingent liability for the face value of the demonetised $1 and $2 notes issued which have yet to be repatriated.

$23 million at 30 June 1999 ($23 million at 31 March 1999).

International finance organisations

The Crown has lodged promissory notes with the following international finance organisations:

	30 June 1999 $m	**31 March 1999 $m**
International Bank for Reconstruction and Development	66	70
International Monetary Fund	1,348	1,498

Payment of the notes depends upon the operation of the rules of the individual organisations.

Other quantifiable contingent liabilities

$92 million at 30 June 1999 ($57 million at 31 March 1999).

Non-Quantifiable Contingent Liabilities

This part of the Statement provides details of those contingent liabilities of the Crown, which cannot be quantified.

Institutional guarantees

The following institutional guarantees have been provided through legislation.

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

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

Fletcher Challenge Limited (FCL)

Under the sale and purchase agreement for the sale of Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the cost 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.

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

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

A provision has been made in these Financial Statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 14).

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 (the Reserve Bank)

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 non-quantifiable contingent liabilities

Alkylammonium compound compensation

The Crown is liable, under an agreement with Carter Holt Harvey Limited, Thames Sawmilling Limited, Dashwood Treated Timber & Post Limited and McAlpines Limited, to meet 50% of 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 Limited.

Bank of New Zealand (BNZ)

A deed, entered into by the Crown, Fay Richwhite and Company Limited and National Australia Group Limited (the purchaser of BNZ), provides for the sharing of 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.

Contact Energy Limited (Contact)

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 provides for compensation for any net costs to Contact arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988. The Deed also provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact.

Contaminated sites

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.

Crown research institutes (CRIs)

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

DFC New Zealand Ltd (under statutory management) (DFC)

DFC and the National Provident Fund have been indemnified for certain potential tax liabilities.

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, royalty or impost imposed on ECNZ for the 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 Limited (Trans Power) 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.

In addition, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations;
- hedge contracts and obligations; and
- any liabilities that arise out of the split itself.

Hospital and health services (HHSs)

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

Housing Corporation of New Zealand (HCNZ)

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 Limited (HNZ)

The Crown has provided a warranty in respect of title to the assets transferred to HNZ and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third party claims that are as a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of the company against any liability consequent upon the assets not complying with statutory requirements, provided they are taking steps to rectify any non-compliance.

Pharmaceutical Management Agency Limited (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 owned by the Health Funding Authority (HFA) 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.

A number of legal claims have been lodged against Pharmac. If these claims are successful, the Crown's financial position may be adversely affected by any damages arising either directly through the indemnity, or indirectly through its ownership of the HFA and Pharmac.

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 State-owned enterprises and Crown entities, the Crown has generally provided a warranty that the Crown was the rightful owner of the assets transferred, and that the assets were free of encumbrances.

Solid Energy New Zealand Limited (Solid Energy)

The Crown has indemnified Solid Energy 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 Solid Energy against illegal action, or action without the requisite right, if this is a continuation of State Coal Mines activity.

Southland Electric Power Supply Consumer Trust

The Crown has indemnified the Southland Electric Power Supply Consumer Trust for any gift duty arising from the vesting of the Crown's shares in The Power Company Limited with the Trust.

Tax liabilities

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

Treaty of Waitangi 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.

Treaty of Waitangi claims – settlement relativity payments

As part of the Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu, the Crown agreed that if the value of their respective settlements (in December 1994 dollars) is less than the agreed relativity percentage of the total settlement redress of all historical Treaty claims (17% for Waikato-Tainui), the Crown will be liable for additional payments to the extent required to maintain the relative value of each settlement. The non-quantifiable contingent liability relates to the risk that total settlement redress, including binding resumptions from the Waitangi Tribunal, will trigger these relativity payments.

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.

To ensure a practicable and consistent disclosure approach, risks have been reported which:

- have an expected cost or saving of over $10 million; and either
- reflect Government decisions or legislative commitments with uncertain fiscal consequences or timing; or
- are generally under active consideration by Cabinet committees or Treasury Ministers.

The forecasts incorporate operating and capital provisions to accommodate policy initiatives on which decisions have yet to be made. Many risks outlined in this chapter, if they crystallise, would be covered by these provisions and therefore have no impact on the forecasts. These risks have still been disclosed to provide an indication of the pressure the risks place upon the provisions.

There are a number of other “pressures” on the fiscal position which have not been included as risks. These “pressures” comprise proposals largely generated within individual departments and not yet considered beyond that department and its Minister. Such items are expected to be managed within the provisions noted above.

From time to time, circumstances arise where proposals are not being actively considered, yet any decision to proceed is largely dependent upon an external trigger. Such circumstances are included as risks. These include decisions being considered by Crown entities and State-owned Enterprises, for which the respective Board of Directors is responsible.

Specific fiscal risks do not include:

- normal forecasting risks, such as uncertainty around welfare benefits, State-owned enterprise/Crown entity surpluses or finance costs
- possible changes to the interpretation of accounting policies such as the changes to revenue recognition rules and recognition of liabilities
- discussion documents containing proposals that Cabinet committees or Cabinet will not actively consider until the consultation process has been completed.

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 or defence of New Zealand or international relations of the Government
- 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 11 October 1999.

Quantified Risks Table[2]

Risks as at 11 October 1999	Operating Balance	Net Debt	Net Worth	($ million)
Child, Youth and Family Services - Services to Children, Young Persons and their Families	Decrease	Increase	Decrease	Up to -25 in 2000/01
Commerce and Māori affairs- Māori broadcasting	Decrease	Increase	Decrease	-15 in 2000/01
Conservation – biodiversity strategy	Decrease	Increase	Decrease	Not exceeding -45 in each of 2000/01, 2001/02, and 2002/03.
Corrections - construction of new facilities, associated operating expenses and deferred maintenance	Decrease	Increase	Decrease	Up to -344 of capital and -47 operating over four years
Defence - capital injections	N/A	Increase	N/A	Up to -210 in 2000/01, -224 in 2001/02, and -148 in 2002/03.
Education – school property	N/A	Increase	N/A	Up to -30 in 1999/2000, up to -250 in each of 2000/01, 2001/02, and 2002/03.

2 In the summary tables listing specific risks:
- negative numbers indicate a deterioration in the Crown's financial position
- "N/A" means no effect
- "Unclear" means insufficient information is available to determine the risk's effect.

Risks as at 11 October 1999	Operating Balance	Net Debt	Net Worth	($ million)
Education – wananga capital injections	N/A	Increase	N/A	Up to -30 in 1999/2000.
Hospital and Health Services (HHS) - hospital projects in Auckland and Wellington	N/A	Increase	N/A	-90 in 2000/01, -100 in each of 2001/02, and 2002/03.
Inland Revenue – tax rate reductions	Increase	Decrease	Increase	+100 for each three months of delay.
International finance organisations – contributions	Unclear	Unclear	Unclear	-18 in 1999/2000.
Māori Trustee - payment of services	Decrease	N/A	Decrease	-26
Treaty Settlements - Treaty heads of agreement	N/A	N/A	N/A	-112 in 1999/2000

Unquantified Risks Table

Risks as at 11 October 1999	Operating Balance	Net Debt	Net Worth
Agriculture and Forestry - South Island Landless Māori forest	Unclear	Unclear	Unclear
At Work - workplace insurer	N/A	Increase	N/A
Civil Defence - Disaster Recovery Plan	Decrease	Increase	Decrease
Commerce – climate change policy	Unclear	Unclear	Unclear
Commerce – sale of spectrum licences	Increase	Decrease	Increase
Courts – information technology	Decrease	Increase	Decrease
Culture and Heritage – public broadcasting fee	Decrease	Increase	Decrease
Defence – East Timor	Decrease	Increase	Decrease
Defence - operating increases	Decrease	Increase	Decrease
Defence – real estate rationalisation	N/A	Increase	N/A
Education - annual review of principals' pay	Decrease	Increase	Decrease
Electricity - sale of small hydro stations	Increase	Decrease	Increase
Fisheries - allocation of fishing quota	Decrease	Increase	Decrease
Hospital and Health Services (HHS) – loan covenant	Unclear	Unclear	Unclear
Inland Revenue - restrictive covenants and lease inducements	Increase	Decrease	Increase
Inland Revenue - superannuation funds	Increase	Decrease	Increase
Police – computer system	Decrease	Increase	Decrease
Police - cost pressures	Decrease	Increase	Decrease
Public Trust Office - corporatisation	N/A	Decrease	N/A
TVNZ – digital TV proposal	Decrease	Increase	Decrease
Work and Income - Australian social security agreement	Decrease	Increase	Decrease

Risks Removed since the *1999 Budget Update*

Risk	In Forecasts	Comment
Education – national assessment	Yes	
Education – teacher collective employment contracts	Yes	
Education – special education	Yes	
Health – sustainable funding path		2000/01 in forecasts. 2001/02, and 2002/03 not under active consideration
Inland Revenue – company relocations	No	Expired – remaining risk not material
Land Information New Zealand (LINZ) – Survey and Land Titles Register automation project	No	Expired - remaining risk not under active consideration
Sale of Crown-owned assets	Yes	Remaining risk not under active consideration.
Solid Energy New Zealand Limited – carrying value of the Crown's investment	Yes	Remaining risk not material

Quantified Fiscal Risks

Child, Youth and Family Services (formerly under Department of Social Welfare) - Services to Children, Young Persons and their Families (unchanged risk)

The Government approved funding for a number of programmes relating largely to the Youth Services strategy, additional social workers, and a neglect prevention campaign as part of the 1998 Budget process. It agreed to consider further funding if these programmes were successful. As a result, the level of expenditure in this area could be increased by up to $25 million in 2000/01 as part of the 2000/01 Budget process.

Source: Department of Child, Youth and Family Services

Commerce and Māori Affairs - Māori broadcasting (new risk)

The Crown is considering additional funding for the promotion of Māori Language and Training in IT and Telecommunications. An advisory board involving Te Puni Kokiri would provide advice on how the funding might best be allocated. This additional funding is estimated as being up to $15 million in 2000/01, however it is unclear at this stage whether the funding will be operating or capital.

Source: The Treasury

Conservation - biodiversity strategy (new risk)

The Department of Conservation and Ministry for the Environment have prepared a national Biodiversity Strategy aimed at halting the current decline in New Zealand's biodiversity over the next 20 years. A draft has already been out for public consultation and the final strategy is being considered by Ministers.

The Department of Conservation and Ministry for the Environment have jointly presented a preliminary costing for the priority actions in the strategy. The costing ranges from $45 million to $55 million per annum over the next 20 years. Not all of these actions will be funded by Central Government and not all will be undertaken immediately. It is anticipated that the costs will be lower from 2000/01 to 2002/03, however, the Government has not yet made a commitment to any level of expenditure. This will be assessed as part of the 2000/01 Budget process.

Source: Department of Conservation

Corrections – construction of new facilities, associated operating expenses and deferred maintenance (changed risk)

To cope with expected increases in the prison population the Department will need to construct new prisons over the next four years. In addition, significant expenditure is required to address deferred maintenance and to bring the Department's buildings up to required standards.

The Department has estimated that up to $344 million in capital costs and $47 million in operating costs will be required over the next four years. This risk will be assessed as part of the 2000/01 Budget process.

The *1999 Budget Update* reported capital and operating costs of $311 million and $36 million respectively. This risk has changed since the *1999 Budget Update* to reflect a change in the timing of the new prisons and the inclusion of 2002/03 in the forecast period.

Source: Department of Corrections

Defence – capital injections (changed risk)

The 1997 Defence Assessment recognised that capital injections would be required to implement the Defence Capital Plan in order to meet the Government's Defence Policy Objectives.

The capital injections required are now estimated to be zero in 1999/2000, $210 million in 2000/01, $224 million in 2001/02, and $148 million in 2002/03.

These amounts were reported in the *1999 Budget Update* as $36 million in 1999/2000, $79 million in 2000/01 and $174 million in 2001/02.

The increases since the *1999 Budget Update* are primarily due to updated project costings, and project timing changes.

Source: NZDF

Education - school property (unchanged risk)

Additional capital contributions for school accommodation are likely to be required in 1999/2000, 2000/01, 2001/02 and 2002/03 to meet roll growth. Capital contributions are estimated to be up to an additional $30 million in 1999/2000 and up to $250 million in each year for 2000/01, 2001/02 and 2002/03.

Source: Ministry of Education

Education - wananga capital injections (new risk)

Business cases seeking capital injections totalling around $30 million have been received from the three wananga (Māori Tertiary Education Institutions). These are currently being considered by Ministers.

Source: Ministry of Education

Hospital and Health Services (HHS) - hospital projects in Auckland and Wellington (changed risk)

The Government is committed to providing new hospitals in Wellington and Auckland. Since the *1999 Budget Update*, there has been a revision of the timing of the capital requirements. As both projects are currently at the planning stage, the capital cost is estimated to be insignificant in 1999/2000, $90 million in 2000/01, $100 million in 2001/02 and $100 million in 2002/03.

It is expected that any Crown financing necessary for these projects until after June 2001 can be funded within existing baselines and from a carry forward of the underspent 1998/99 equity appropriation. The Crown could finance its contribution to the remaining costs by way of an advance or a capital injection. If a capital injection were made, net Crown debt would increase.

Source: The Treasury

Inland Revenue – tax rate reductions (new risk)

Tax rate reductions for the middle income bracket starting from 1 April 2000 have been included in the forecasts at a cost of $70 million in 1999/2000, $395 million in 2000/01, $415 million in 2001/02 and $435 million in 2002/03. Legislation may not be implemented in time to give effect to these reductions. For each three months that these tax rate reductions are delayed the cost of the tax rate reductions will decrease by about $100 million.

Source: The Treasury

International finance organisations – contributions (new risk)

New Zealand has been invited to contribute to debt relief for the world's poorest countries through participation in the enhanced International Monetary Fund (IMF)/ World Bank Heavily Indebted Poor Countries Initiative. A New Zealand contribution to the IMF share of the Initiative could range from $3 million to $24 million - the IMF's most recent estimate being $18 million. No information is yet available on any New Zealand contribution to the World Bank portion of the initiative. If Ministers agree that New Zealand will contribute, the form of the funding will determine the impact on the Crown's fiscal position.

Source: The Treasury

Māori Trustee – payment of services (changed risk)

The fiscal forecasts make no allowance by way of a doubtful debts provision for the non-payment of $26 million owed by the Māori Trust Office for services provided by the Ministry of Māori Development. Since the *1999 Budget Update* the fiscal risk has increased from $25 million.

Source: Te Puni Kokiri

Treaty Settlements - Treaty heads of agreement (new risk)

Heads of agreement have been signed for Ngati Awa, Ngati Ruanui, Ngati Mutunga, and Ngati Tama for the settlement of historic Treaty claims totalling around $112 million. These agreements may be reflected in the Crown's accounts in 1999/2000 pending the signing of a Deed of Settlement between the Crown and each iwi.

These agreements will not affect the forecast operating balance, which includes a provision of $134 million in each year for Treaty settlement costs (reflecting the remaining amount of the multi year appropriation).

Source: The Treasury

Unquantified Fiscal Risks

Agriculture and Forestry - South Island Landless Māori forest (unchanged risk)

Forests granted to Māori under the South Island Landless Natives 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 forest owners. Government has determined that it wishes to extend sustainable management provisions to SILNA forests. The Crown has continued consultations with potentially affected landowners on policy options. This risk is unquantified as disclosure could compromise the Crown in negotiations.

At Work - workplace insurer (changed risk)

The Government has opened the provision of workplace insurance compensation to competitive pressures, commencing on 1 July 1999. The Government established a State-owned enterprise, At Work Insurance Limited (At Work) in March 1999 to compete in the workplace insurance compensation market.

At Work received a capital injection of $149 million on 1 July 1999. These forecasts assume that At Work will return $50 million of this capital in 1999/2000. The final amount returned will depend on a range of factors including confirmation of the Company's proposed business strategy and capital structure.

Civil Defence - 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 is beyond the capability of local agencies
- restoring those government facilities directly owned by the Government if necessary
- 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 recovery for measures associated with reducing future risk, where certain criteria are met
- 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 an emergency event.

Commerce – climate change policy (new risk)

As part of New Zealand's response to the Kyoto Protocol, Cabinet has agreed to consider forward trading of international emission permits, a carbon tax, and a "pilot" emission trading scheme. At this stage it is unclear what impact any system, if introduced, would have upon the forecasts.

Commerce – sale of spectrum licences (new risk)

The Government has agreed that the Ministry of Commerce would conduct an auction of spectrum licences suitable for digital terrestrial television (DTT), and is also considering auctioning the 2GHz spectrum. The proceeds from the spectrum auctions would increase the operating balance and net worth, and decrease net debt. This risk is unquantified as disclosing any estimate of sales proceeds may compromise the auction process.

Courts - information technology (new risk)

The Department for Courts (the “Department”) has decided not to proceed with the implementation of the INSLAW computer system. The timing and cost of alternative IT systems may create capital and operating expenditure pressures. The fiscal impact of these risks is unquantified at this stage.

Culture and Heritage – public broadcasting fee (new risk)

The Crown is abolishing the public broadcasting fee (PBF) from 1 July 2000, with fees collected on a pro-rata basis until that date. There is a risk that the collection rate for outstanding PBF debt may be lower than historically obtained. If this occurs the Government may provide additional funding in 1999/2000 to fulfil a commitment to NZ On Air to maintain funding at 1998/99 levels.

Defence – East Timor (changed risk)

The New Zealand Government has decided to contribute up to an Army battalion, along with various Navy and Air Force elements, to a peacekeeping force in East Timor, and has increased allowances for NZDF personnel deployed to East Timor.

Since the *1999 Budget Update*, $43 million has been included in the forecasts for 1999/2000 and $33 million for 2000/01 for East Timor operations.

While there is a risk that these costs may be higher, the United Nations may reimburse a portion of the overall costs. There is also a potential risk associated with equipment damage and loss, and injuries to personnel if any. These risks cannot be quantified at this stage.

Defence - operating increases (changed risk)

The Defence Assessment in 1997 estimated that baseline increases might be required in 2000/01, 2001/02 and 2002/03 in order to meet the Government’s defence policy objectives. These increases are to be considered at a later date and the fiscal impact of any change is unquantified at this stage.

In addition, the NZ dollar has significantly depreciated since NZDF operating baselines were set. It is unclear whether Defence can absorb these increased costs within existing baselines. This risk is estimated to be $20 million in each of 2000/01, 2001/02 and 2002/03.

Defence - real estate rationalisation (new risk)

The Defence Assessment in 1997 forecast savings arising from the consolidation of the New Zealand Defence Force real estate portfolio. It was anticipated that these capital receipts could be $6 million in 1999/2000, and $52 million in 2000/01. The forecast capital funding for Defence took these anticipated receipts into account. Some of these savings may not be realised, mainly through delays in implementation. The impact of these delays are unquantifiable at this stage, but may result in additional amounts for capital requirements being necessary.

Education - annual review of principals' pay (unchanged risk)

The review of principals' pay aims to establish a new mechanism for adjusting principals' pay each year using labour market and job evaluation data. The risk is not quantified, as disclosing any estimate of costs could compromise the Crown in negotiations.

Electricity - sale of small hydro stations (changed risk)

In 1995, the Government and ECNZ agreed that eight of ECNZ's small hydro stations would be sold by ECNZ, subject to appropriate consultations with Mäori about Treaty of Waitangi issues. Any sales receipts returned to the Crown would be used to repay public debt.

Since the *1999 Budget Update*, the sale of Cobb station has been completed. The remaining stations are the Waikaremoana stations (Tuai, Kaitawa and Piripaua). Genesis Power (one of the three SOEs established on 1 April 1999 as a result of the split of ECNZ) has agreed to sell the Waikaremoana stations by 30 June 2000.

This risk is unquantified, as disclosing any estimate of sales proceeds would be likely to compromise negotiations and commercial activity.

Fisheries - allocation of fishing quota (unchanged risk)

The Fisheries Act 1996 provides for 20% of the new species quota entering the Quota Management System to be allocated to Maori, to give effect to the Crown's obligation under the Treaty of Waitangi Fisheries Settlement. Eight of these new species are considered to be fully fished already, and the Crown may choose to purchase the quota to be allocated to Maori. This risk is unquantified because its disclosure could compromise the Crown in negotiations.

Hospital and health services (HHS) - loan covenant (unchanged risk)

Several HHS holding private debt have had poor financial performance. Financial ratio covenants in the loan or bond agreements may 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. This risk is unquantified as full disclosure of the specific financial information could compromise the Crown in negotiations.

Inland Revenue – restrictive covenants and lease inducements (unchanged risk)

Inducements to enter into leases or restrictive covenants may in some cases be classified as non-taxable receipts of capital. In its recent report on tax compliance, the Committee of Experts recommended that payments for restrictive covenants involving services, inducements payments, certain capital contribution payments, and other similar payments should be taxable. Policy to ensure these amounts are treated as taxable income is being developed. The revenue at this stage is unquantified but would be positive.

Inland Revenue – superannuation funds (unchanged risk)

Superannuation funds that are subject to tax on profits from the sale of shares have found a way of reducing that tax. This involves the use of investments in other superannuation funds. The method is to interpose a "passive investment" superannuation fund between the superannuation fund and its shares. The Government is considering an appropriate legislative response. The fiscal impact of any change is unquantified at this stage.

Police – computer system (new risk)

Development of the Police INCIS computer project has ceased, following IBM's decision to withdraw from the contract.

This may result in the write-off of certain components of computer hardware and software and development costs associated with the incomplete portion of INCIS. However, the cost of any write-off may be offset by damages awarded to the Crown in legal action against IBM.

Further, the need to develop a replacement system for the incomplete portion of INCIS may create capital and operating expenditure pressures.

No decision has yet been made on a replacement system, which will also influence the extent of the write-off of INCIS costs. The capital and operating cost implications of this risk are therefore unquantified at this stage.

Police - cost pressures (new risk)

There are operating cost pressures in Police relating to a number of areas including information technology, maintenance, staff salaries, special events, and the Police Review. Current funding levels may not be sufficient to cover these pressures. This risk cannot be quantified at this stage.

Police face further capital expenditure pressures of approximately $30 million over the forecast period. These relate principally to capital expenditure on new and upgraded Police stations.

Public Trust Office – corporatisation (changed risk)

In December 1998, the Government announced that it intends to corporatise the Public Trust Office (PTO). Since the *1999 Budget Update*, a gain of $86 million has been recognised for 1998/99 as a result of bringing the PTO reserves onto the Crown's books.

Some of these reserves may be paid to the Crown depending upon the new commercial entity's capital requirements. This would allow the Crown's net debt to be reduced. Legislation is required to corporatise the PTO and enable any excess reserves to be distributed.

TVNZ – digital TV proposal (new risk)

Television New Zealand (TVNZ) is proposing to introduce Digital Television (DTV). DTV, if introduced, will reduce TVNZ's profit and dividends for the forecast period. At this stage the extent of this impact is unclear.

Work and Income - Australian social security agreement (new risk)

An interim arrangement has been approved for reimbursement by New Zealand of social security costs incurred by Australia in respect of New Zealanders. The interim agreement is based on a formula driven approach. This arrangement finishes in 2000/01 and the agreement is likely to be renegotiated. However, if the agreement is not renegotiated in time, the formula in the interim agreement will be carried over into 2001/02 and 2002/03.

The additional operating costs in these outyears arising from either a carry over of the interim agreement or a renegotiated agreement are unclear at this stage.