APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details of fiscal risks, contingent liabilities and contingent assets are provided in Budget Paper No. 1, *Budget Strategy and Outlook 2018-19*. The following Statement updates fiscal risks, contingent liabilities and contingent assets that have materially changed since the 2018-19 Budget.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2018-19* (MYEFO) incorporate assumptions and judgments based on the best information available at the time of publication, together with a range of economic assumptions and other forecasts and projections.

To the extent that unanticipated changes in economic circumstances occur, their impact will flow through to government expense and revenue forecasts.

Major taxes such as company and individuals' income taxes fluctuate significantly with economic activity. Capital gains tax is particularly volatile and is affected by both the level of gains in asset markets and the timing of when those gains are realised.

In addition, revenue forecasting relies heavily on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift over time as the economy changes, presenting a further risk to the estimates. Revenue forecasts also incorporate costings for new policies that typically have a margin of uncertainty.

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions and Australian Taxation Office rulings, and the outcome of compliance programs. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

DETAILS OF FISCAL RISKS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

New or revised fiscal risks, contingent liabilities and contingent assets with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, that have arisen or changed since the 2018-19 Budget are described below and summarised in Table C1.

Information on both contingent liabilities and contingent assets is also provided in the annual financial statements of departments, entities and non-budget entities.

Table C1: Summary of material changes to the Statement of Risks since the 2018-19 Budget[(a)]

Fiscal risks	
Agriculture and Water Resources	
Murray Darling Basin Reform — risk assignment	New
Murray Darling Basin Plan	Removed
Education and Training	
Recovery of inappropriately claimed VET FEE-HELP payments from VET providers, a remedy for students and interim tuition assurance arrangements	Modified
Treasury	
Australian Business Securitisation Fund	New
Significant but remote contingencies	
Communications and the Arts	
NBN Co Limited — Equity Agreement	Modified
Optus Financial Guarantee	Modified
Telstra Financial Guarantee	Modified
Defence	
Litigation cases	Modified
Remote contingencies	Modified
Finance	
Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement	New
Treasury	
Cumulative guarantee of states and territories' transitional GST payments	New
Financial Claims Scheme	Modified
Guarantee for the National Housing Finance and Investment Corporation	New
Guarantee of state and territory borrowing	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
Reserve Bank of Australia — Guarantee	Modified
Contingent liabilities — unquantifiable	
Agriculture and Water Resources	
Commonwealth liabilities in respect of matching payments to industries for research and development contributions	New
Defence	
Non-remote contingent liabilities	Modified
Environment and Energy	
Snowy Hydro Limited — water releases	Modified
Finance	
Australian Government domestic property	Modified
Home Affairs	
Disaster Recovery	Modified
Infrastructure, Regional Development and Cities	
Aviation rescue & fire fighting potential per- and poly-fluoroalkyl substances contamination	Modified
Contingent assets — unquantifiable	
Defence	
Non-remote contingent assets	Modified
Home Affairs	
Civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia	Removed

Table C1: Summary of material changes to the Statement of Risks since the 2018-19 Budget[(a)] (continued)

Contingent liabilities — quantifiable	
Defence	
Claims against the Department of Defence	Modified
Environment and Energy	
Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges	Modified
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Prime Minister and Cabinet	
Leases for public housing in remote Northern Territory	Removed
Treasury	
Australian Taxation Office — tax disputes	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Contingent assets — quantifiable	
Defence	
Claims by the Department of Defence	Removed

(a) Risks appearing in Budget Paper No. 1, *Budget Strategy and Outlook 2018-19*, Statement 9, but not listed in the table above are substantially unchanged.

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

Agriculture and Water Resources

Murray Darling Basin Reform — risk assignment

The Australian Government has committed to bridge the gap between the Baseline Diversion Limit and the Sustainable Diversion Limits in the Basin Plan through water recovery by 30 June 2019. If water recovery is insufficient to bridge the gap, the *Water Act 2007* provides a risk assignment framework whereby entitlement holders with reductions in water allocations, or changes in the reliability of water allocations, may be eligible for payment from the Commonwealth.

The total cost (if any) of the operation of the risk assignment framework will depend on water recoveries, and the status of water resource plan accreditation. While any remaining gap at 30 June 2019 is expected to be small, the total cost is not able to be quantified, and remains a fiscal risk, until the Sustainable Diversion Limits in the Basin Plan come into effect on 1 July 2019.

Education and Training

Recovery of inappropriately claimed VET FEE-HELP payments from VET providers, a remedy for students and interim tuition assurance arrangements

The Australian Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were issued inappropriately to students by providers. The Government has legislated a remedy, commencing 1 January 2019, for VET FEE–HELP students who incurred debts under the VET FEE-HELP loan scheme following inappropriate conduct by VET providers. The Government will undertake recovery activities against VET providers in cases where the student was ineligible for a VET FEE-HELP loan.

There are potential financial risks to the Commonwealth in the event that it is unable to recover payments from VET providers where they have closed or entered into administration or liquidation.

There is also a financial risk to the Commonwealth that it will be unable to recover the cost of remitting student debts following VET provider closures, either while it administers interim tuition assurance arrangements or from tuition assurance operators for provider closures which occurred prior to 1 January 2018.

Treasury

Australian Business Securitisation Fund

The Australian Government has decided to establish the Australian Business Securitisation Fund (ABSF) with the objective of improving access to funds for small businesses. The ABSF will invest up to $2 billion in the securitisation market, providing additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms. The financial impacts of the ABSF will be updated once the Investment Mandate is finalised. Further details are provided at *Appendix A: Policy decisions taken since the 2018-19 Budget*.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications and the Arts

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). Although this agreement will end in 2019, the Commonwealth retains obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 30 September 2018, NBN Co's termination liabilities were estimated at $18.5 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of the NBN Co's financial obligations to Optus Networks Pty Ltd, Optus Internet Pty Limited, Optus Vision Media Pty Limited and SingTel Optus Pty Ltd (collectively, Optus) under the Optus HFC Subscriber Agreement. The Agreement was amended on 19 September 2015. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Optus Agreement. As at 30 September 2018, NBN Co had generated liabilities covered by the Optus Agreement, which are estimated at an amount less than $100.0 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided to Telstra Corporation Limited (Telstra) a Guarantee in respect of NBN Co financial obligations under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the Definitive Agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 30 September 2018, NBN Co had generated liabilities covered by the Guarantee estimated at $8.2 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount; or
- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational.

Defence

Litigation cases

The Department of Defence (Defence) is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for personal injury and property damage. The litigation also includes active prosecutions against Defence by Comcare in relation to alleged breaches of the *Work Health and Safety Act 2011*. A number of claims have been received seeking compensation for loss, injury or damage arising from Defence use of aqueous film forming foam (AFFF) that contained man-made per- and poly-fluoroalkyl substances (PFAS). A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Remote contingencies

As at 30 June 2018, the Department of Defence carried 1,457 instances of quantifiable remote contingent liabilities valued at $5.4 billion and 24 instances of unquantifiable remote contingent liabilities.

These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security.

Finance

Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement

The Australian Government will provide sufficient funding to enable Australian Naval Infrastructure Pty Ltd (ANI) to meet the direct costs of termination that may be incurred by ANI in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and ANI.

Treasury

Cumulative guarantee of states and territories' transitional GST payments

The Australian Government has introduced changes to the GST distribution system, to be phased in over six years from 2021-22. During the transition period, between 2021-22 and 2026-27 (inclusive), the Australian Government has guaranteed that each state and territory will receive funding that is at least the cumulative better of the current distribution system or the updated distribution system over that period.

This will be achieved by providing additional financial assistance to a state or territory for a payment year if, for a particular payment year occurring during the period 2021-22 to 2026-27 (inclusive), a state's or a territory's cumulative grant entitlements under the updated distribution system, calculated from the beginning of the transition period, are less than the cumulative entitlements they would have received under the current distribution system.

There is currently no expected liability under the guarantee.

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 30 June 2018, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $895 billion, compared to an estimated $890 billion as at 31 December 2017, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

The Australian Prudential Regulation Authority (APRA) is responsible for administration of the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to account-holders with eligible protected accounts or eligible claimants would be made from APRA's Financial Claims Scheme Special Account. Under the legislation, upon activation, up to $20 billion per institution would be available to meet Financial Claims Scheme payments and up to $100 million for administration costs per institution.

Guarantee for the National Housing Finance and Investment Corporation

The Australian Government guarantees, up to a maximum of $2 billion, the due payment of money payable by the National Housing Finance and Investment Corporation (NHFIC) to anybody other than the Government.

The NHFIC Board must not allow NHFIC to enter into a transaction that would result in the total guaranteed liabilities of the NHFIC, and any outstanding amount which NHFIC has borrowed from the Government, to exceed $2 billion unless approved by the Government.

As at 31 October 2018, the Government's total contingent liability is $0, but is expected to change once the NHFIC provides lending and issues bonds.

Guarantee of state and territory borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over state and territory borrowing. The Guarantee of state and territory borrowing commenced on 24 July 2009 and closed on 31 December 2010. New South Wales and Queensland were the only States who chose to participate in the Guarantee.

Securities covered by the Guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the Guarantee is remote and unquantifiable. Australian Government expenditure would arise under the Guarantee only in the unlikely event that a state failed to meet its obligations with respect to a commitment that was subject to the Guarantee and the Guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant state at a future date. The impact on the Government's budget would depend upon the extent of the default and the state's ability to meet the Government's claim.

As at 30 September 2018, the face value of state and territory borrowings covered by the Guarantee was $3.6 billion, down from $3.7 billion at 28 February 2018.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities: $138.4 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 September 2018; and $4.5 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 September 2018.

Reserve Bank of Australia — Guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. Banknotes on issue amount to $79.5 billion as at 31 October 2018, and the total Guarantee is $114.4 billion.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Commonwealth liabilities in respect of matching payments to industries for research and development contributions

Under several Acts, the Commonwealth provides matching contributions to encourage expenditure on research and development (R&D) and to increase the competitiveness and sustainability of industries within Australia. Matching contributions on eligible R&D are subject to an annual limit that is calculated based on the determined gross value of production (GVP cap) for the industries. There will be an R&D excess, which can be claimable in future years, where the cumulative R&D expenditure is more than the GVP cap. The Commonwealth's future liability in respect of the matching contributions is contingent on the GVP cap and is therefore unquantifiable.

Defence

Non-remote contingent liabilities

The Department of Defence has eight instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Environment and Energy

Snowy Hydro Limited — water releases

On 29 June 2018, Snowy Hydro Limited became a wholly Commonwealth owned company following the Commonwealth's acquisition of the NSW and Victorian governments' shares. At the time of corporatisation of Snowy Hydro Limited, on 28 June 2002, the Australian, NSW and Victorian governments, as the then owners, indemnified the company for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the Snowy Water Licence and related regulatory arrangements agreed between the three governments, including the *Snowy Water Inquiry Outcomes Implementation Deed (SWIOID) 2002*. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

As the sole owner, the Commonwealth is now wholly liable for the indemnity. However, NSW must pay 100 per cent of the amount claimable where the liability is a result of the Snowy Water Licence being inconsistent with the SWIOID or with a direction from NSW that is inconsistent with principles for managing water releases from Jindabyne Dam, as agreed by the Australian, NSW and Victorian governments.

Finance

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 85 properties. This number has reduced from approximately 90 reported at the 2018-19 Budget due to the ongoing implementation of the measure *Smaller Government – Surplus Commonwealth Properties – divestment*. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues has had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Home Affairs

Disaster Recovery

The Australian Government provides funding to states and territories through the Australian Government Cost Sharing Arrangements (Natural Disaster Relief and

Recovery Arrangements (NDRRA) and the Disaster Recovery Funding Arrangements (DRFA) 2018) to assist with natural disaster relief and recovery costs. A state or territory may claim NDRRA/DRFA funding if a natural disaster occurs and state or territory relief and recovery expenditure for that event meets the requirements set out in the arrangements. For major disasters, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As disasters and their impacts are unpredictable, the cost relating to these payments from future disasters is unquantifiable and therefore not included in the forward estimates.

The current forward estimates for the NDRRA include preliminary estimates for past events, based on the best information available at the time of preparation. Preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change. The total cost of relief and recovery from these past events may not be completely realised for some years.

Infrastructure, Regional Development and Cities

Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination

Airservices Australia (Airservices) has identified a number of sites in Australia potentially contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams.

The identified contaminants do not naturally break down in the environment. According to the Environmental Health Standing Committee (enHealth), a joint Commonwealth-state standing committee of the Australian Health Protection Principal Committee (AHPPC), which reports to the Australian Health Ministers Advisory Council (AHMAC), there is currently no consistent evidence that exposure to PFAS causes adverse human health effects. Airservices continues to implement its national PFAS management program which included PFAS investigations at 20 airport sites. Potential long-term management option costs cannot be quantified at this time. Up to 36 airports sites are potentially contaminated with PFAS (19 federally-leased airports and 17 regional airports).

For federally-leased airports, Airport Lessee Companies are responsible for environmental management of their airport sites. Airport leases indemnify the Commonwealth in relation to damages or injury to the environment. Liability has not yet been established for costs arising from PFAS contamination.

Currently, there are two class actions against the Commonwealth seeking damages over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown and Oakey, with potential implications for the Department of Infrastructure, Regional Development and Cities, and Airservices. Brisbane Airport Corporation has also commenced legal proceedings in the Queensland Supreme Court against Airservices in relation to legacy PFAS contamination from Airservices' firefighting activities at the airport.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non-remote contingent assets

As at 30 June 2018, the Department of Defence had five instances of unquantifiable non-remote contingent assets.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has six instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.8 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by firms engaged by Defence through the Attorney-General's Legal Services Multi-Use List and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Environment and Energy

Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges

Under the *Renewable Energy (Electricity) Act 2000*, liable entities that pay a shortfall charge instead of surrendering certificates may choose to claim a refund if they subsequently surrender certificates for which they initially paid the charge.

Refunds are only allowed during the 'allowable refund period'. This period starts the day after the liable entity lodges its large-scale generation shortfall statement for the year following the year the shortfall charge was paid and ends three years after the charge was paid.

The Clean Energy Regulator has recorded $51.6 million in large-scale generation shortfall charges which are subject to this rule.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. The Government has agreed to increase EFIC's callable capital by $1.0 billion to $1.2 billion and grant it a new overseas infrastructure financing power. As at 31 October 2018, the Government's total contingent liability was $3.5 billion. The $3.5 billion contingent liability comprises EFIC's liabilities to third parties ($2.8 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $3.1 billion relates to EFIC's Commercial Account and $0.4 billion relates to the National Interest Account.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 30 September 2018, for which a provision has not been made, is $6.1 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. In 2018, the Australian Government agreed to participate in a capital increase package which will increase the uncalled capital subscription by US$0.8 billion (estimated value A$1.0 billion as at 31 October 2018). Subject to enabling legislation being passed by Parliament, Australia's uncalled capital subscription to the IBRD totals US$4.4 billion (estimated value A$6.2 billion as at 31 October 2018).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$380.2 million as at 31 October 2018).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.9 billion as at 31 October 2018).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$37.4 million as at 31 October 2018).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$4.2 billion as at 31 October 2018).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) SDR2.2 billion (estimated value A$4.3 billion at 31 October 2018). On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022.

In addition, Australia has made available a SDR4.61 billion (approximately A$9.0 billion at 31 October 2018) contingent bilateral loan to the IMF. This contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and other contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The Treasurer agreed to renew Australia's loan agreement with the IMF on 19 December 2016. The renewed agreement extends Australia's existing funding commitment to December 2019, with the possibility of an additional one-year extension with Australia's consent.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on the fiscal balance in some circumstances.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table C2 summarises Government loans estimated to exceed $200 million at 30 June 2019.

Table C2: Summary of material changes to Australian Government loans exceeding $200 million since the 2018-19 Budget[b][c]

Entity	Loan amount [a] ($m)	Borrower	Interest rate	Term	Status
Department of Communications and the Arts					
NBN Co Loan	13,435	NBN Co Limited	3.96 per cent	30 June 2024	Modified
Department of Agriculture and Water Resources					
Drought related and farm finance concessional loans – Agriculture	659	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Farm Investment Loans and Drought Loans	449	Eligible farm businesses	3.58 per cent	Up to 10 years	New
Department of Infrastructure, Regional Development and Cities					
National Water Infrastructure Loan Facility	299	state and territory governments and non-government entities	3.12 per cent	Up to 30 years	Modified
Department of Social Services					
Student Financial Supplement Scheme	287	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	Consumer Price Index (CPI)	Various	Modified
Department of the Treasury					
Affordable Housing Bond Aggregator	255	National Housing Finance and Investment Corporation	Commonwealth cost of borrowing	Various	New
Department of Social Services					
Student Start-up Loan	202	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	Consumer Price Index (CPI)	Various	Modified

(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2019 in $ million.
(b) The Government has decided to establish the Australian Infrastructure Finance Facility for the Pacific (AIFFP), a $2.0 billion infrastructure initiative to increase Australia's support for infrastructure development in Pacific countries and Timor-Leste. AIFFP will use $500 million in grant funding combined with $1.5 billion in long term loans to support high priority infrastructure development. At the time of publication, the facility has not granted any financial assistance. Further details are provided at *Appendix A: Policy decisions taken since the 2018-19 Budget*.
(c) The Government has established a Defence Export Facility on the EFIC National Interest Account. The Facility has a maximum aggregate exposure of US$3.0 billion. The Facility has no financial implications until drawn on. Two loans under the Facility have been agreed for a total maximum value of $203 million. Further details are provided at *Appendix A: Policy decisions taken since the 2018-19 Budget*.

NBN Co Loan

In December 2016, the Australian Government provided a loan to NBN Co on commercial terms of up to $19.5 billion for the period from 1 July 2017 to 30 June 2021, with drawings available on a monthly basis. The loan has a fixed interest rate of 3.96 per cent per annum, with interest calculated daily and payable monthly over the life of the facility.

In August 2018, the Australian Government agreed to extend the term of this loan by three years (to 30 June 2024). The decision will be implemented by agreement, which will be subject to the approval of the Government.

A Government loan on commercial terms continues to represent the most cost-effective way to raise necessary debt and secure funding to complete the rollout of this important national infrastructure project. A Government loan assists in ensuring NBN Co can focus on the remaining rollout as it significantly scales up toward completion in 2020.

Drought related and farm finance concessional loans – Agriculture

As at 30 June 2019, the fair value of farm business, drought and dairy farm related loans is estimated to total $659.0 million. These include:

Farm Business Concessional Loans Scheme: This scheme provided three types of concessional loans — drought assistance, dairy recovery and business improvement. This scheme was designed to cover a farmer's short-term needs when income was tight and to supplement, rather than replace, commercial finance. Loans under the scheme were first available in November 2016. Applications for loans under the scheme closed on 30 June 2018.

Drought assistance concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for debt restructuring, operating expenses, drought preparedness activities or drought-recovery activities or a combination of these purposes.

Business improvement concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for eligible Farm Household Allowance (FHA) recipients who were recovering from financial hardship and who had exhausted, or would exhaust their FHA 1,095-day income support entitlement, by 30 June 2018. These loans were for debt restructuring only.

Dairy recovery concessional loans were available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 August 2018, the interest rate is 3.09 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years.

There have been no material changes to the **Drought Concessional Loans Scheme**, **Drought Recovery and Dairy Recovery Concessional Loans Scheme(s)** or the **Farm Finance Concessional Loans Scheme** since the 2018-19 Budget.

Farm Investment Loans and Drought Loans

The Regional Investment Corporation commenced operations on 1 July 2018.

There are two loan products available – farm investment loans and drought loans. The two products provide concessional loans to eligible farm businesses that are experiencing financial difficulties and are considered financially viable in the long term (additional criteria apply for each product).

As at 1 August 2018, the variable interest rate is 3.58 per cent. Interest rates are revised on a six monthly basis in line with any material changes to the Commonwealth 10-year bond rate, where a material change is taken to be a movement of more than 10 basis points (0.1 per cent).

Loans have a maximum term of 10 years.

National Water Infrastructure Loan Facility

The National Water Infrastructure Loan Facility (the loan facility), available since 2016-17, addresses gaps in the capital market for water infrastructure projects, stimulating and accelerating state and territory government investments in water infrastructure in regional areas (including public/private partnerships). This includes, but is not limited to, the construction of dams, pipelines and managed aquifer recharge projects that are economically viable and will generate affordable water to grow regional economies.

The loan facility will make available $2 billion until 2025–26 in loans. Loans have a maximum term of 30 years. The loans include a no repayment period of up to 5 years during construction. During the construction period, interest will be capitalised, becoming payable as part of the principal after the deferred repayment period. Loan principal and interest are required to be repaid within 25 years of the completion of construction.

Loans are for a minimum amount of $10 million. Total Commonwealth funding for a water infrastructure project would not exceed 49 per cent of the total project cost (from all sources). In practice, this means eligible projects would have a minimum cost of at least $20.4 million.

The loan facility is administered by the Regional Investment Corporation.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program under which student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. Debtors are required to start repaying their SFSS loan once they earn $51,957 for 2018-19. As at 30 June 2019, the fair value of loans outstanding is estimated to total $287.0 million.

Affordable Housing Bond Aggregator

The Australian Government, through the Treasury, has made available a line of credit for the National Housing Finance and Investment Corporation's (NHFIC) Affordable Housing Bond Aggregator (AHBA). The provision of funds will be in accordance with appropriations under the *National Housing Finance and Investment Corporation Amendment Act 2018*. The line of credit is ongoing and funds borrowed will be repaid with interest. The Treasury manages the receipt of interest and principal repayments from the NHFIC.

Student Start-up Loan

The Student Start-up Loan (SSL) is a voluntary income contingent loan for student payment (Youth Allowance (student), Austudy and ABSTUDY living allowance) recipients undertaking higher education. Introduced on 1 January 2016, the SSL is paid a maximum of twice a year and each SSL payment is valued at $1,055 (in 2018). The SSL is repayable under similar arrangements to Higher Education Loan Program (HELP) debts. Students are required to start repaying their SSL once they earn $51,957 for 2018-19 and only after they have repaid their HELP debt. When it commenced, the SSL was initially for new student payment recipients undertaking higher education. From 1 July 2017, with the closure of the Student Start-up Scholarship, the SSL has become available to all eligible student payment recipients undertaking higher education. As at 30 June 2019, the fair value of the Student Start-up Loan is estimated to be $201.6 million.