Part 6: 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 2019-20*. The 2019 Pre-election Economic and Fiscal Outlook (PEFO) noted there were no material changes to fiscal risks, contingent liabilities and assets, or Government loans in the period between the 2019-20 Budget and release of the 2019 PEFO. The following Statement updates fiscal risks, contingent liabilities and contingent assets that have materially changed since the 2019-20 Budget and 2019 PEFO.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2019-20* (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 involve a degree 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.

The forward estimates in the MYEFO include the impact of all policy decisions, including those that remain unlegislated. Where legislation is not passed in time to enable commencement of the measure at the anticipated commencement date, the legislation is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the MYEFO.

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 2019-20 Budget and 2019 PEFO are described below and summarised in Table 6.1.

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

Table 6.1: Summary of material changes to the Statement of Risks since 2019-20 Budget and 2019 PEFO[(a)]

Fiscal risks	
Agriculture	
Murray Darling Basin Reform — risk assignment	Modified
Foreign Affairs and Trade	
Export Finance Australia — National Interest Account	Modified
Significant but remote contingencies	
Communications and the Arts	
NBN Co Limited — Equity Agreement	Modified
Optus Financial Guarantee	Modified
Telstra Financial Guarantee	Modified
Defence	
Remote contingencies	Modified
Industry, Innovation and Science	
Liability for damages caused by space and certain high power rocket activities	Modified
Treasury	
Financial Claims Scheme	Modified
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	
Defence	
Non-remote contingent liabilities	Modified
Finance	
Australian Government domestic property	Modified
Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia	Modified
Health	
Medical Indemnity Exceptional Claims Scheme	Modified
Indemnities relating to vaccines	Modified
Home Affairs	
Disaster Recovery	Modified
Industry, Innovation and Science	
Australian Nuclear Science and Technology Organisation — asbestos contamination	Modified

Table 6.1: Summary of material changes to the Statement of Risks since 2019-20 Budget and 2019 PEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)	
Infrastructure, Transport, Cities and Regional Development	
Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination	Modified
Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory	Modified
Social Services	
Welfare Integrity	New
Treasury	
First Home Loan Deposit scheme	New
Contingent assets — unquantifiable	
Defence	
Non-remote contingent assets	Modified
Home Affairs	
Civil penalty proceedings in the Federal Court against the Westpac Banking Corporation	New
Contingent liabilities — quantifiable	
Defence	
Claims against the Department of Defence	Modified
Employment, Skills, Small and Family Business	
ParentsNext program	New
Foreign Affairs and Trade	
Export Finance Australia	Modified
Environment and Energy	
Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges	Removed
Health	
Hosting budget for the FIFA Women's World Cup 2023	New
Infrastructure, Transport, Cities and Regional Development	
Australian Government contribution to the East West Link project	Modified
Prime Minister and Cabinet	
Indigenous Land and Sea Corporation — Debt Guarantee	Modified
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

(a) Risks appearing in Budget Paper No. 1, Budget Strategy and Outlook 2019-20, Statement 8, 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

Murray Darling Basin Reform — risk assignment

The Australian Government has committed to bridge the gap between the Baseline Diversion Limit (BDL) and the Sustainable Diversion Limits (SDLs) in the Basin Plan through water recovery. On 1 July 2019, the SDLs took effect. 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 (where the gap has not been bridged and an accredited water resource plan is in place), may be eligible for a payment from the Commonwealth.

The total cost (if any) of the operation of the risk assignment framework is not able to be quantified at this time and remains a fiscal risk until the gap between the BDL and SDLs is fully bridged.

Foreign Affairs and Trade

Export Finance Australia — National Interest Account

The Government's Australian Infrastructure Financing Facility for the Pacific (AIFFP) became operational on 1 July 2019, which will provide up to $1.5 billion in long-term loans to support high priority infrastructure development in Pacific countries and Timor-Leste. The facility will have no financial implications until drawn on. As at 30 September 2019, there were no loans under the AIFFP.

The Government has also established a Defence Export Facility. The Facility has a maximum aggregate exposure of US$3.0 billion. The Facility has no financial implications until drawn on. As at 30 September 2019, three loans under the Facility had been agreed for a total maximum value of $213 million. These are reflected in the Budget estimates.

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). Whilst this agreement ended in June 2019, the Commonwealth retains obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 30 September 2019, NBN Co's termination liabilities were estimated at $20.1 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of 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). An amended version of the Agreement came into effect on 22 January 2019. The Guarantee continues to apply to that Agreement. 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 2019, NBN Co had generated liabilities covered by the Optus Agreement which are estimated at an amount less than $260.0 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's 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 2019, NBN Co had generated liabilities covered by the Guarantee estimated at $10.5 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 Minister for Communications 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

Remote contingencies

As at 30 June 2019, the Department of Defence carried 1,409 instances of quantifiable remote contingent liabilities valued at $5.3 billion and 134 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.

Industry, Innovation and Science

Liability for damages caused by space and certain high power rocket activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government may be liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia or Australian nationals. For activities approved under the *Space (Launches and*

Returns) Act 2018 (the Act), the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above an insured level.

To address this risk, in order to have a space or high power rocket activity approved under the Act, the responsible party is required to insure against, or take financial responsibility for, damage to third parties. The amount of insurance or financial responsibility is capped at $100 million. The Act provides for amounts lower than $100 million depending on the risk profile of the activity. A maximum probable loss methodology is also available to calculate the amount of insurance or financial responsibility.

Treasury

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 Australian Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. It is estimated that deposits eligible for coverage under the Financial Claims Scheme will be $930 billion by 31 December 2019, compared to an estimated $920 billion at 30 June 2019. This reflects 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 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 31 October 2019, the face value of state and territory borrowings covered by the Guarantee was $1.4 billion, down from $3.5 billion at 31 January 2019.

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: $148.1 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 September 2019; and $4.8 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 September 2019.

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. As at 9 October 2019, banknotes on issue amount to $81.2 billion, and the total Guarantee is $118.3 billion.

Contingent liabilities — unquantifiable

Defence

Non-remote contingent liabilities

The Department of Defence has one instance of an unquantifiable non-remote contingent liability. There is potential for claims to arise from legacy contamination at various Defence locations.

Finance

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 75 properties. This number has reduced from approximately 80 reported at the 2019-20 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.

Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia

Under the commercial arrangements in respect of the Future Submarine Program and the Submarine Construction Yard, Australian Naval Infrastructure Pty Ltd (ANI) is responsible for the construction of a purpose built Submarine Construction Yard and providing access to the yard to Naval Group Australia and Naval Group S.A. (Société Anonyme). As part of these commercial arrangements, the Australian Government has entered into a Deed of Guarantee and Indemnity with Naval Group Australia Pty Limited and Naval Group S.A., whereby the Australian Government has agreed to provide a guarantee in respect of ANI's financial obligations under the Submarine Construction Yard Access arrangements with Naval Group Australia and Naval Group S.A.

Health

Medical Indemnity Exceptional Claims Scheme

Under the Medical Indemnity Exceptional Claims Scheme, the Australian Government assumes liability for 100 per cent of any damages payable against practitioners practising in a medical profession that exceeds a specified level of cover provided by the practitioner's medical indemnity insurer (currently $20 million). In 2019, the Government agreed to expand eligibility of the Scheme through an amendment to the Midwife Professional Indemnity (Commonwealth Contribution) Scheme Rules 2010 (MPIS) to provide cover for employed private practising midwives who are not eligible for cover under the MPIS. These arrangements apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the practitioner's medical indemnity insurer, and would apply to claims notified under contract-based cover since 2003. From 1 July 2020, the Medical and Midwife Indemnity Legislation Amendment Bill 2019 provides eligibility for this cohort of midwives under the Allied Health High Cost Claims Scheme and Allied Health Exceptional Claims Scheme within the *Medical Indemnity Act 2002.*

Indemnities relating to vaccines

The Australian Government has provided an indemnity to a manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Indemnities have also been provided to a particular manufacturer of pandemic and pre-pandemic influenza vaccines for the supply or future supply of influenza vaccines under certain conditions (including H1N1 and H5N1).

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 Australian Government 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/DRFA 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. Estimates of the Commonwealth's share of the costs of restoration or replacement of essential public assets stemming from the recent bushfires, notably in northern New South Wales and southern Queensland, were not available at the time of preparation and have not been included in the MYEFO estimates.

The Government also maintains an Emergency Response Fund (ERF) to provide additional resourcing to assist with the preparation for, and response to, natural disasters. Reflecting the unpredictability of natural disasters the cost of any payments from the ERF are unquantifiable and not included in the Budget estimates.

Industry, Innovation and Science

Australian Nuclear Science and Technology Organisation — asbestos contamination

The Australian Nuclear Science and Technology Organisation (ANSTO) site contains asbestos in a number of buildings and in the soil at the Lucas Heights campus. Although there is potential for claims being made in relation to asbestos related diseases, the potential costs have not been assessed and are unquantifiable contingencies.

Infrastructure, Transport, Cities and Regional Development

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

The Department of Infrastructure, Transport, Cities and Regional Development (the Department) 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 Australia (Airservices) is implementing a national PFAS management program, which includes PFAS investigations at 20 airport sites. The costs of potential long-term management options cannot be quantified at this time. Up to 37 airport sites are potentially contaminated with PFAS (20 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 three class actions against the Commonwealth seeking damages over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown, Oakey and Katherine (Tindal), with potential implications for the Department 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.

Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory

Since 1992, the Australian Government has been entering into Service Delivery Arrangements with the Western Australian (WA) Government for the provision of services to the Indian Ocean Territories of Christmas Island and the Cocos (Keeling) Islands. The Australian Government has provided certain indemnities for the WA Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

From 1 July 2016, the New South Wales (NSW) Government has provided a range of services to the Norfolk Island community through a Heads of Agreement. The NSW Government also provides rural fire services to the Jervis Bay Territory under a Service Delivery Agreement. The Australian Government provides certain indemnities for the State of NSW and NSW authorities and officials in respect of the delivery of services to Norfolk Island and the Jervis Bay Territory.

The Australian Capital Territory (ACT) provides a number of services to the Jervis Bay Territory under Memoranda of Understanding. The Australian Government has provided certain indemnities for the ACT Government authorities and officials in respect of the delivery of services to the Jervis Bay Territory.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Social Services

Welfare Integrity

The Australian Government announced on 19 November 2019, a refinement to the Income Compliance Programme. Current and former income support recipients who have had an income compliance review (or part of a review), where a debt has been determined and this is based solely on averaging of ATO income data, are being identified. A subset of debts which have been raised to date under the Programme are in-scope for reassessment. The effect on the identified debt, total value and return or recovery will not be quantifiable until reassessments are completed.

Treasury

First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme will commence on 1 January 2020. The Australian Government guarantees the liabilities under the First Home Loan Deposit Scheme (the Scheme) as they arise. Guarantee liabilities arise under the Scheme where a lender's loss is covered by the guarantee, the lender makes a claim against the guarantee and the National Housing Finance and Investment Corporation (NHFIC) accepts the claim.

Because liabilities under the Scheme are met by a standing appropriation, the NHFIC is not required to maintain capital and reserves to meet these liabilities.

Contingent assets — unquantifiable

Defence

Non-remote contingent assets

As at 30 June 2019, the Department of Defence had two instances of unquantifiable non-remote contingent assets.

Home Affairs

Civil penalty proceedings in the Federal Court against Westpac Banking Corporation

On 20 November 2019, AUSTRAC applied to the Federal Court of Australia for civil penalty orders against Westpac Banking Corporation (Westpac) for systemic non-compliance with the *Anti-Money Laundering and Counter-Terrorism*

Financing Act 2006 (AML/CTF Act). AUSTRAC alleges Westpac contravened the AML/CTF Act on over 23 million occasions. The outcome of this matter is unknown, including the quantum of any penalty that may be imposed by the Court.

Contingent liabilities — quantifiable

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has nine instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $67.5 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 Whole of Australian Government Legal Services Panel 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.

Employment, Skills, Small and Family Business

ParentsNext program

ParentsNext supports parents to identify their education and employment related goals, to build their work readiness and plan and prepare for employment by the time their youngest child starts school.

Under the program, providers accumulate one-off credits, which accrue to their provider's Participation Fund on commencement of an intensive stream participant.

Currently providers are forecast to spend less than the value of the available credits, creating an accumulating surplus of credits that present a contingent liability.

The current outstanding credits accumulated from years prior to 2019-20 represent a contingent liability for the Budget.

Foreign Affairs and Trade

Export Finance Australia

The Australian Government guarantees the due payment of money that is, or may at any time, become payable by the Export Finance Australia (previously known as EFIC) to anybody other than the Government. This year, the Government has agreed to increase Export Finance Australia's callable capital by $1.0 billion to $1.2 billion and has granted it a new overseas infrastructure financing power. The callable capital facility is available to Export Finance Australia, on request, to cover liabilities, losses and claims. As at 30 September 2019, the Government's total contingent liability was $3.5 billion. The $3.5 billion contingent liability comprises Export Finance Australia's liabilities to third parties ($2.8 billion) and Export Finance Australia's overseas investment insurance, contracts of insurance and guarantees ($0.6 billion). Of the total contingent liability, $3.0 billion relates to Export Finance Australia's Commercial Account and $0.4 billion relates to the National Interest Account.

Health

Hosting budget for the FIFA Women's World Cup 2023

Football Federation Australia and New Zealand Football are jointly bidding to host the FIFA Women's World Cup 2023. Should the bid be successful, the Australian Government has committed direct funding to support the delivery of the event in Australia. The funding is not required if the bid is unsuccessful.

Infrastructure, Transport, Cities and Regional Development

Australian Government contribution to the East West Link project

The Australian Government remains committed to the construction of East West Link, despite the decision of the Victorian Government not to proceed with the project.

To this end, the Australian Government will provide $4 billion to the first Victorian Government willing to build the East West Link and is therefore recording this commitment as a contingent liability in the Budget.

Prime Minister and Cabinet

Indigenous Land and Sea Corporation — Debt Guarantee

The Indigenous Land and Sea Corporation (ILSC) provides a guarantee to a major bank that has provided a $120 million facility to its wholly-owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd. As at 30 June 2020, the outstanding balance of the facility is expected to be $102.5 million.

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 31 October 2019, for which a provision has not been made, is $5.5 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 around US$0.8 billion (estimated value A$1.2 billion as at 24 October 2019). Subject to enabling legislation being passed by Parliament, Australia's uncalled capital subscription to the IBRD totals around US$4.4 billion (estimated value A$6.4 billion as at 24 October 2019).

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 around EUR237.5 million (estimated value A$386.6 million as at 24 October 2019).

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 around US$7.0 billion (estimated value A$10.3 billion as at 24 October 2019).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$38.7 million as at 24 October 2019).

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 around US$3.0 billion (estimated value A$4.3 billion as at 24 October 2019).

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) of around SDR2.2 billion (estimated value A$4.5 billion at 24 October 2019). 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$9.3 billion at 24 October 2019) contingent bilateral loan to the IMF, known as a Bilateral Borrowing Agreement. This contingent bilateral loan is on terms consistent with other bilateral loans and note purchase agreements between the IMF and other contributing countries. The contingent bilateral loan will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any drawings on loans would be repaid in full with interest. On 24 July 2019, the Treasurer agreed to a one-year extension of Australia's contingent loan to the IMF through to 31 December 2020.

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 6.2 summarises Government loans estimated to exceed $200 million at 30 June 2020 and that have materially changed since the 2019-20 Budget.

Table 6.2: Summary of material changes to Australian Government loans exceeding $200 million since the 2019-20 Budget and 2019 PEFO[(a)]

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status
Department of Education					
Higher Education Loan and VET Student Loans Programs [(b)]	53,446	Eligible tertiary education students	Consumer Price Index (CPI)	9.2 years	Modified
Department of Communications and the Arts					
NBN Co Loan	19,196	NBN Co Limited	3.96 per cent p.a.	30 June 2024	Modified
Department of Infrastructure, Transport, Cities and Regional Development					
WestConnex Stage 2 Concessional Loan	1,703	WCX M5 Finco Pty Ltd	3.36 per cent	November 2015 to July 2034	Modified
Concessional Loan for Asbestos Removal in the ACT — Mr Fluffy Loose Fill Asbestos Remediation[(c)]	N/A	Australian Capital Territory Government	Australian Government 10-year bond rate	Up to 30 June 2024	Removed
Treasury					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,492	New South Wales, Queensland, South Australian, Northern Territory and Western Australian Governments	4.0 per cent – 6.0 per cent	Up to 30 June 2042	Modified
International Monetary Fund — New Arrangements to Borrow	280	International Monetary Fund	0.81 per cent	10 years	Modified
Department of Employment, Skills, Small and Family Business					
Trade Support Loans Program	763	Eligible Australian Apprentices	CPI	To be determined	Modified

Table 6.2: Summary of material changes to Australian Government loans exceeding $200 million since the 2019-20 Budget and 2019 PEFO[(a)] (continued)

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status
Department of Agriculture					
Drought related and farm finance concessional loans — Agriculture	536	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Farm Investment Loans, Drought Loans and AgRebuild	402	Eligible Australian farm businesses and related small businesses, via Regional Investment Corporation	3.11 per cent	Up to 10 years	Modified
Department of Social Services					
Student Financial Supplement Scheme	355	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY recipients	CPI	Various	Modified
Student Start up Loan	326	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	CPI	Various	Modified

(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2020 in $ million.
(b) Following Machinery of Government changes in May and August of 2019, responsibility for the VET Student Loans and VET FEE HELP elements of this loan item rest with the Department of Employment, Skills, Small and Family Business.
(c) On 1 November 2019, the ACT Government has repaid the remaining balance and interest owed to the Australian Government.

Higher Education Loan Program and VET Student Loans Program

The Higher Education Loan Program (HELP) and the VET Student Loans (VSL) program are income-contingent loan programs that assist eligible tertiary education students with the cost of their fees. As at 30 June 2019, the fair value of debt outstanding is estimated to be $50.3 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts outstanding for more than 11 months are indexed annually using the Consumer Price Index. The Australian Taxation Office collects repayment of these debts through the tax system. Repayment of debts commence when an individual debtor's income reaches the repayment threshold.

There were 2,972,032 HELP debtors as at 30 June 2019. The repayment term of a HELP debt can only be determined for people who have fully repaid their debt. As at the end of June 2019, the average time taken to repay HELP debts was 9.2 years.

HELP comprises a number of programs, including HECS-HELP, FEE-HELP, OS-HELP, SA-HELP and VET FEE-HELP. Responsibility for the VSL program and VET FEE-HELP transferred to the Department of Employment, Skills, Small and Family Business following Machinery of Government changes in May and August 2019.

NBN Co Loan

The Australian Government has provided a loan to NBN Co on commercial terms of up to $19.5 billion, with drawings available on a monthly basis. The loan was established in December 2016 and must be repaid in full by 30 June 2024. The loan has a fixed interest rate of 3.96 per cent per annum, with interest payable monthly over the life of the facility.

WestConnex Stage 2 Concessional Loan

The WestConnex concessional loan is a $2 billion loan facility provided to deliver WestConnex Stage 2. The concessional loan enabled Stage 2 to be brought forward, allowing Stages 1 and 2 to proceed in parallel. This resulted in significant time savings, compared to the original approach where these stages progressed in sequence.

WestConnex Stage 2 includes the King Georges Road Interchange Upgrade (completed in 2016) and construction of new twin tunnels from Kingsgrove to a new St Peters interchange, providing motorway connections to Alexandria and Mascot, the future Sydney Gateway and the M4-M5 Link. Stage 2 is due for completion in late May 2020.

The concessional loan agreement requires that the loan be repaid between September 2029 and July 2034.

Commonwealth-State financing arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the state and Northern Territory Governments under Commonwealth–State financing arrangements for housing and for specific purpose capital. The advances were concessional fixed-rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made to the Commonwealth Government. As at 30 June 2020, the estimated amortised value of the advances is $1.492 billion (and principal value of $1.646 billion).

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the state and Northern Territory Governments to the Commonwealth Government.

International Monetary Fund — New Arrangements to Borrow

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022. The NAB helps ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. NAB funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. It is expected that the fair value of loans outstanding to Australia will be approximately A$280.0 million as at 30 June 2020.

Trade Support Loans Program

The Trade Support Loans Program is an income-contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $21,078 to assist with the costs of living, learning and undertaking an apprenticeship, and helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $8,431 in the first year, $6,324 in the second, $4,216 in the third and $2,108 in the fourth year of their apprenticeships. The lifetime limit of $21,078 was indexed on 1 July 2019 and will continue to be indexed annually on 1 July to maintain its real value.

As an incentive to finish their training, apprentices who successfully complete their apprenticeships are eligible for a 20 per cent discount on their loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $45,880 for the 2019-20 income year. This is a demand-driven program.

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 $535.9 million. These include:

Drought Concessional Loans Scheme: This scheme provided loans to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014 as a loans scheme available for two years and operated in Queensland, Victoria, New South Wales, South Australia, Western Australia, Tasmania and the Northern Territory. The Government extended the application period until 31 October 2016 to cover the period until the new 10-year Farm Business Concessional Loans Scheme was able to commence on 1 November 2016. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017.

As at 1 August 2019, the interest rate is 2.69 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan at commercial rates.

Drought Recovery and Dairy Recovery Concessional Loans Scheme(s): The drought recovery component of this scheme provided loans to farm businesses affected by unprecedented drought or, where applicable, Queensland farm businesses directly impacted by the combined effects of drought and the mid-2011 disruption to live cattle exports to Indonesia. The loans funded planting and restocking activities and associated expenses, when seasonal conditions allowed. The loans were available from January 2015, and in 2014-15, operated in Queensland and New South Wales. In 2015-16, drought recovery concessional loans were available in Queensland, New South Wales, South Australia and Tasmania.

The dairy recovery component of this scheme provided concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans became available in Victoria, New South Wales, South Australia and Tasmania from June 2016. Applications closed on 31 October 2016. A dairy recovery concessional loan product was available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 August 2019, the interest rate is 2.23 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years with interest-only payments required for the first five years. Principal and interest repayments will be made in the remaining five years of the loan term.

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 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 2019, the interest rate is 2.63 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provided concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and were for productivity enhancements and debt restructuring. Applications for Farm Finance Concessional Loans closed on 30 June 2015.

As at 1 August 2019, the interest rate is 3.19 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan, on commercial terms.

Farm Investment Loans, Drought Loans and AgRebuild

The Regional Investment Corporation commenced operations on 1 July 2018.

There are three loan products currently available — farm investment loans, drought loans and AgRebuild loans (North Queensland flood). A further two products will become available shortly —Agristarter loans and Small Business Drought Loans.

All loan products provide concessional loans to eligible businesses that are experiencing financial difficulties and are considered financially viable in the long term (additional criteria apply for each product and terms and conditions may vary). All products are for farm businesses, with the exception of the Small Business Drought Loans which will be specifically for those small businesses that provide primary production related goods and services for drought affected farm businesses.

As at 1 August 2019, the variable interest rate is 3.11 per cent. Interest rates are revised on a six monthly basis in line with any material changes to the Australian Government 10-year bond rate, where a material change is taken to be a movement of more than 10 basis points (0.1 per cent). Interest is not payable during the first two years of the AgRebuild Loan, the Small Business Drought Loan and (from November 2019) the drought loans.

Loans have a maximum term of 10 years.

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. From 1 July 2019, the recovery of SFSS debts was modified such that:

- SFSS debt is recovered once Higher Education Contribution Scheme (HECS) and Higher Education Loan Program (HELP) debt is fully repaid. Previously, SFSS debts were recovered concurrently with HECS/HELP debt.
- The income thresholds and repayment percentages for SFSS were aligned with the HECS/HELP income thresholds.

Debtors are required to start repaying their SFSS loan once they earn $45,881 for 2019-20. As at 30 June 2020, the fair value of loans outstanding is estimated to total $355.2 million. The increase from June 2019 is due to more debtors being eligible to repay due to the lowering of the minimum income threshold and a higher repayment percentage.

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 $1,077 (in 2019). 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 $45,881 for 2019-20 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 2020, the fair value of the Student Start-up Loan is estimated to be $325.6 million.