

## Statement 9: Statement of Risks

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a statement of risks in each Budget and Mid-Year Economic and Fiscal Outlook. This statement outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

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## Statement 9: Statement of Risks

The forward estimates of revenue and expenses in the 2020-21 Budget 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.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, particularly global economic developments and the evolution of the COVID-19 pandemic in Australia and overseas
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood
- the realisation of contingent liabilities or assets.

### Risks to the Budget — overview

The revenue and expense estimates published in the 2020-21 Budget are based on a range of economic and other parameters. These parameters have been updated to reflect the most recent information on the outlook for the domestic and international economies as detailed in *Budget Statement 2: Economic Outlook*. This outlook has been greatly affected by the course of the COVID-19 pandemic in Australia and overseas. However, the pandemic is still evolving and the outlook remains highly uncertain. The range of possible outcomes for GDP and unemployment in particular is substantially wider than normal. This translates into a higher than usual degree of uncertainty for the fiscal estimates.

A significant portion of Government expenditure is for demand driven programs. Outcomes for these programs could differ from the estimates due to changes in economic forecasts. For example, higher than forecast levels of unemployment will mean expenditure for related social services payments, including allowances, will also be higher.

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, particularly following a once-in-a-century shock, presenting a further risk to the estimates. For example, the ability of entities to utilise tax losses to offset future profits is expected to continue to pose a challenge when estimating the profile for tax receipts over the next few years. Revenue forecasts also incorporate costings for new policies that typically involve a degree of uncertainty.

*Budget Paper No. 1*

The estimates 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 estimates 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 Budget is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The Australian Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance Australia and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government has robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

The forward estimates in the Budget 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 Budget.

There have been several changes to both the quantifiable and unquantifiable risks since the *2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO)*. General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Several new risk items have also arisen since the MYEFO.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period, are listed in this Statement. Some financial information in the text may not add to totals due to rounding. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

**Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers**

| Category                                     | Type <sup>(a)</sup>  | Disclosure                      |
|--|--|---------------------------------|
| Fiscal Risks                                 | Fiscal Risks   | Statement of Risks              |
| Contingent assets and contingent liabilities | Significant contingent assets and liabilities considered remote                              | Statement of Risks              |
|  | Unquantifiable contingent assets and liabilities that are improbable but not remote          | Statement of Risks              |
|  | Quantifiable contingent assets and liabilities that are improbable but not remote            | Statement of Risks              |
|  | Contingent assets and liabilities excluded on the basis of immateriality <sup>(b)</sup>      | None                            |
| Assets and liabilities                       | Assets and liabilities that are probable and can be reliably measured                        | Balance sheet <sup>(c)(d)</sup> |
|  | Assets and liabilities that are probable but have an uncertain timing or amount (provisions) | Balance sheet                   |

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.

(b) Only risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period, are considered material and disclosed in this Statement.

(c) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.

(d) Additional disclosure to increase transparency on loans over \$200 million is included in the Statement of Risks.

## Economic and other parameters

Changes in economic parameters represent a risk to the estimates included in the Budget, particularly in the current circumstances. The key assumptions underpinning the economic forecasts and risks around these are discussed in *Budget Statement 2: Economic Outlook*. *Budget Statement 8: Forecasting Performance and Scenario Analysis* examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

## Details of fiscal risks and contingent liabilities

New, revised or unchanged fiscal risks, contingent assets and contingent liabilities with a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period, are described below and summarised in Table 2. Information on both contingent assets and contingent liabilities is also provided in the annual financial statements of departments, Corporate and Non-corporate Commonwealth entities and Commonwealth companies.

**Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and the 2019-20 MYEFO<sup>(a)</sup>**

| <b>Fiscal risks</b>   | <b>Status</b>             |               |
|---|---------------------------|---------------|
| <b>Agriculture, Water and the Environment</b>   |                           |               |
| Murray Darling Basin Reform — risk assignment   | Unchanged                 |               |
| Remediation of Jabiru Township  | New                       |               |
| <b>Attorney-General's</b>   |                           |               |
| Departure of the ACT Government from the Comcare workers' compensation scheme         | Unchanged                 |               |
| <b>Defence</b>  |                           |               |
| Major operations of the Australian Defence Force in 2020-21                           | Unchanged                 |               |
| <b>Education, Skills and Employment</b>   |                           |               |
| Recovery of inappropriately claimed VET FEE-HELP payments from VET providers          | Modified                  |               |
| <b>Foreign Affairs and Trade</b>  |                           |               |
| Export Finance Australia — National Interest Account (NIA)                            | Modified                  |               |
| <b>Health</b>   |                           |               |
| Hosting budget for the FIFA Women's World Cup 2023                                    | Removed                   |               |
| <b>Home Affairs</b>   |                           |               |
| Regional Processing Arrangements  | Unchanged                 |               |
| <b>Industry, Science, Energy and Resources</b>  |                           |               |
| Snowy Hydro Limited — Snowy 2.0   | Modified                  |               |
| Risks to External Revenue   | Removed                   |               |
| <b>Infrastructure, Transport, Regional Development and Communications</b>             |                           |               |
| Inland Rail — Delivery  | Modified                  |               |
| <b>Social Services</b>  |                           |               |
| Income Compliance Program Litigation  | New                       |               |
| COVID-19 Social Welfare Debt Pause  | New                       |               |
| <b>Veterans' Affairs</b>  |                           |               |
| Defence Service Home Insurance Scheme   | New                       |               |
| <b>Significant but remote contingencies</b>   |                           |               |
|   | <b>Category (b)(c)(d)</b> | <b>Status</b> |
| <b>Defence</b>  |                           |               |
| ADI Limited — Officers' and Directors' Indemnities                                    | Indemnity                 | Unchanged     |
| Litigation cases  | Other                     | Unchanged     |
| Remote contingencies  | Other                     | Modified      |
| <b>Finance</b>  |                           |               |
| Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement | Other                     | Unchanged     |
| <b>Foreign Affairs and Trade</b>  |                           |               |
| World Food Program — Charter Flights Indemnity  | Indemnity                 | New           |
| <b>Home Affairs</b>   |                           |               |
| Indemnities relating to the Air Security Officer program                              | Indemnity                 | Unchanged     |
| <b>Industry, Science, Energy and Resources</b>  |                           |               |
| Snowy Hydro Limited — Board Members' Indemnity  | Indemnity                 | Unchanged     |
| Snowy Hydro Limited — Termination of the Equity Subscription Agreement                | Other                     | Unchanged     |
| Liability for damages caused by space and certain high power rocket activities        | Other                     | Unchanged     |
| Operations and Maintenance of the Northern Endeavour and Associated Infrastructure    | Indemnity                 | New           |

**Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO<sup>(a)</sup> (continued)**

| Significant but remote contingencies (continued)  | Category<br>(b)(c)(d) | Status    |
|---|-----------------------|-----------|
| <b>Infrastructure, Transport, Regional Development and Communications</b>   |                       |           |
| NBN Co Limited — Equity Agreement   | Guarantee             | Modified  |
| Optus Financial Guarantee   | Guarantee             | Modified  |
| Telstra Financial Guarantee   | Guarantee             | Modified  |
| Maritime Industry Finance Company Limited — Board Members' Indemnity  | Indemnity             | Unchanged |
| Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement                                | Indemnity             | Unchanged |
| Moorebank Intermodal Project — Glenfield Waste Site Easement  | Indemnity             | Unchanged |
| WSA Co Limited — Board Members' Indemnities   | Indemnity             | Unchanged |
| Inland Rail — Termination of the Equity Financing Agreement   | Other                 | Unchanged |
| Tripartite deeds relating to the sale of federal leased airports  | Other                 | Unchanged |
| WSA Co Limited — Termination of the Equity Subscription Agreement   | Other                 | Unchanged |
| <b>Treasury</b>   |                       |           |
| Asbestos Injuries Compensation Fund   | Guarantee             | Unchanged |
| Cumulative guarantee of states and territories' transitional GST payments   | Guarantee             | Removed   |
| Financial Claims Scheme   | Guarantee             | Modified  |
| Guarantee for the National Housing Finance and Investment Corporation   | Guarantee             | Modified  |
| Guarantee of state and territory borrowing  | Guarantee             | Modified  |
| Guarantees under the <i>Commonwealth Bank Sale Act 1995</i>   | Guarantee             | Modified  |
| Reserve Bank of Australia — Guarantee   | Guarantee             | Modified  |
| <b>Contingent liabilities — unquantifiable</b>  |                       |           |
| <b>Agriculture, Water and the Environment</b>   |                       |           |
| Commonwealth liabilities in respect of matching payments to industries for research and development contributions | Other                 | Unchanged |
| Emergency pest and disease response arrangements  | Other                 | Modified  |
| <b>Attorney-General's</b>   |                       |           |
| Native Title costs  | Other                 | Unchanged |
| <b>Defence</b>  |                       |           |
| Cockatoo Island Dockyard  | Indemnity             | Unchanged |
| Land decontamination, site restoration and decommissioning of Defence assets                                      | Other                 | Unchanged |
| Non-remote contingent liabilities   | Other                 | Modified  |
| <b>Finance</b>  |                       |           |
| ASC Pty Ltd — Directors' and Executives Indemnities   | Indemnity             | Unchanged |
| ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited                           | Indemnity             | Unchanged |
| Commonwealth Superannuation Corporation — Immunity and Indemnity  | Indemnity             | Unchanged |
| Former Commonwealth Site, Fishermans Bend, Victoria   | Indemnity             | Removed   |
| Future Fund Management Agency and Future Fund Board of Guardians — Indemnity                                      | Indemnity             | Unchanged |
| Goongong Dam  | Indemnity             | Unchanged |
| Indemnities for the Reserve Bank of Australia and private sector banks  | Indemnity             | Unchanged |

**Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO<sup>(a)</sup> (continued)**

| <b>Contingent liabilities — unquantifiable (continued)</b>   | <b>Category<br/>(b)(c)(d)</b> | <b>Status</b> |
|--|-------------------------------|---------------|
| Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects | Indemnity                     | Unchanged     |
| Australian Government domestic property  | Other                         | Modified      |
| Australian Government general insurance fund — Comcover  | Other                         | Unchanged     |
| Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia                           | Guarantee                     | Unchanged     |
| <b>Foreign Affairs and Trade</b>   |                               |               |
| Commitment to assist the Pacific, Timor-Leste and Southeast Asia with accessing COVID-19 vaccines                | Other                         | New           |
| <b>Health</b>  |                               |               |
| Accommodation Payment Guarantee Scheme   | Guarantee                     | Unchanged     |
| Advanced Purchasing Agreements (APAs) for COVID-19 vaccine candidates  | Indemnity                     | New           |
| Australian Red Cross Society — Indemnities   | Indemnity                     | Modified      |
| Blood and blood products liability cover   | Indemnity                     | Modified      |
| CSL Ltd  | Indemnity                     | Unchanged     |
| Indemnities relating to vaccines   | Indemnity                     | Unchanged     |
| Medical Indemnity Exceptional Claims Scheme  | Indemnity                     | Modified      |
| New South Wales Health Administration Council — Indemnity  | Indemnity                     | Unchanged     |
| <b>Home Affairs</b>  |                               |               |
| Garrison, welfare and health services at regional processing countries — liability limit                         | Indemnity                     | Unchanged     |
| Immigration detention services by state and territory governments — liability limit                              | Indemnity                     | Unchanged     |
| Immigration detention services contract — liability limit  | Indemnity                     | Unchanged     |
| Australian Victims of Terrorism Overseas Payment   | Other                         | Unchanged     |
| Disaster Recovery  | Other                         | Modified      |
| <b>Industry, Science, Energy and Resources</b>   |                               |               |
| Snowy Hydro Limited — water releases   | Indemnity                     | Unchanged     |
| Liability for costs incurred in a national liquid fuel emergency   | Other                         | Unchanged     |
| Australian Nuclear Science and Technology Organisation — asbestos contamination                                  | Indemnity                     | Unchanged     |
| Australian Nuclear Science and Technology Organisation — Indemnity   | Indemnity                     | Unchanged     |
| Former British atomic test site at Maralinga   | Indemnity                     | Unchanged     |
| Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability                            | Indemnity                     | Unchanged     |
| Land decontamination, site restoration for CSIRO property  | Other                         | Unchanged     |
| United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions          | Indemnity                     | New           |
| <b>Infrastructure, Transport, Regional Development and Communications</b>  |                               |               |
| NBN Co Limited — Board Members' Insolvency Indemnity   | Indemnity                     | Unchanged     |
| Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory    | Indemnity                     | Unchanged     |
| Moorebank Intermodal Company Limited — Board Members' Indemnity  | Indemnity                     | Modified      |
| Moorebank Intermodal Project — Georges River rail crossing   | Indemnity                     | Unchanged     |
| Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory                         | Indemnity                     | Modified      |
| Australian Maritime Safety Authority incident costs  | Other                         | Unchanged     |
| Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination                    | Other                         | Modified      |



**Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO<sup>(a)</sup> (continued)**

| <b>Contingent liabilities — unquantifiable (continued)</b>  | <b>Category<br/>(b)(c)(d)</b> | <b>Status</b> |
|---|-------------------------------|---------------|
| <b>Social Services</b>  |                               |               |
| Welfare Integrity   | Other                         | Removed       |
| <b>Treasury</b>   |                               |               |
| Terrorism insurance — commercial cover  | Guarantee                     | Unchanged     |
| First Home Loan Deposit Scheme  | Other                         | Unchanged     |
| International Monetary Fund — Poverty Reduction and Growth Trust                                      | Other                         | New           |
| Indemnities for specialised external advisers during the COVID-19 pandemic                            | Indemnity                     | New           |
| Small and Medium Enterprise Guarantee Scheme  | Indemnity                     | New           |
| <b>Contingent assets — unquantifiable</b>   | <b>Category<br/>(b)(c)(d)</b> | <b>Status</b> |
| <b>Defence</b>  |                               |               |
| Non-remote contingent assets  | Other                         | Removed       |
| <b>Health</b>   |                               |               |
| Legal action seeking compensation   | Other                         | Unchanged     |
| <b>Home Affairs</b>   |                               |               |
| Civil penalty proceedings in the Federal Court against Westpac Banking Corporation                    | Other                         | Modified      |
| <b>Contingent liabilities — quantifiable</b>  | <b>Category<br/>(b)(c)(d)</b> | <b>Status</b> |
| <b>Agriculture, Water and the Environment</b>   |                               |               |
| Low Carbon Australia Limited — Board of Directors' and senior management indemnities                  | Indemnity                     | Removed       |
| <b>Attorney-General's</b>   |                               |               |
| Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union | Indemnity                     | Removed       |
| <b>Defence</b>  |                               |               |
| Claims against the Department of Defence  | Other                         | Modified      |
| <b>Education, Skills and Employment</b>   |                               |               |
| ParentsNext program   | Other                         | Unchanged     |
| <b>Foreign Affairs and Trade</b>  |                               |               |
| Export Finance Australia  | Guarantee                     | Modified      |
| <b>Industry, Science, Energy and Resources</b>  |                               |               |
| Underwriting of Transmission Projects   | Guarantee                     | New           |
| <b>Infrastructure, Transport, Regional Development and Communications</b>                             |                               |               |
| Australian Government contribution to the East West Link project                                      | Other                         | Unchanged     |
| Australian Government contribution to the Perth Freight Link project                                  | Other                         | Unchanged     |
| <b>Prime Minister and Cabinet</b>   |                               |               |
| Indigenous Land and Sea Corporation — Debt Guarantee  | Guarantee                     | Modified      |
| <b>Treasury</b>   |                               |               |
| Australian Taxation Office — tax disputes   | Other                         | Modified      |
| International financial institutions — uncalled capital subscriptions                                 | Other                         | Modified      |
| International Monetary Fund   | Other                         | Modified      |

(a) Detailed descriptions of these items are in the following text.

(b) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.

(c) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.

(d) Other — contingent liabilities and assets which are not guarantees or indemnities.

## **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.

There are measures which impact on the Budget aggregates that remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates of the Budget.

Many agencies dependent on external revenue have seen reduced revenue as a result of the COVID-19 pandemic restrictions (such as for activities funded through charging arrangements associated with international movement of passengers and goods). Estimates included in the Budget for these agencies reflect the best currently available information. However, the outcomes will be dependent on the timing of the recovery from the pandemic and relaxation in restrictions both within Australia and internationally. These risks cannot be readily quantified at this stage.

There is also a risk that further Government expenditure may be required to respond to the direct impacts of the pandemic. The need for, and scale of, this potential expenditure would depend on the nature of further possible outbreaks and how effectively they are contained.

There are also a number of Royal Commissions expected to report over the forward estimates period in relation to National Natural Disaster Arrangements; Violence, Abuse, Neglect and Exploitation of People with Disability; and Aged Care Quality and Safety. Additional Government funding may be required to address the recommendations of these Commissions.

Specific fiscal risks to the Budget and forward estimates are detailed below.

### **Agriculture, Water and the Environment**

#### **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.

### **Remediation of Jabiru Township**

The Director of National Parks (DNP) holds a revisionary interest under a lease for the town of Jabiru expiring in 2021. The make good and rehabilitation arrangements of Jabiru is being negotiated between the Director of National Parks, Northern Territory Government, Energy Resources of Australia and other stakeholders. Remediation work includes renewal of essential services, removal of hazardous materials and chemicals, ensuring structures are compliant to Building Codes and ecological remediation. Expenditure for the remediation work will be shared across all parties to the arrangements.

The Government agreed to provide \$35.0 million toward the remediation of contaminants in Jabiru as part of its *Securing Tourism and Jobs in Kakadu* measure in the 2019-20 Budget.

### **Attorney-General's**

#### **Departure of the ACT Government from the Comcare workers' compensation scheme**

On 1 March 2019, the ACT Government departed the Comcare premium scheme following the decision by the Safety, Rehabilitation and Compensation Commission to grant the ACT Government a licence to self-insure its workers' compensation liabilities under the *Safety, Rehabilitation and Compensation Act 1988*.

The licence conditions transfer all workers' compensation liabilities for ACT Government employees, with a date of injury on or after 1 July 1989, from the Commonwealth to the ACT Government. Funding will be transferred to the ACT Government for outstanding costs relating to claims with a date of injury before 1 March 2019 pending an exit valuation of claims liabilities. The payment will have an impact on the underlying cash balance.

The Commonwealth has made an initial payment of \$76.2 million in 2018-19, which has been included in the estimates, but the total costs of these arrangements are yet to be determined.

### **Defence**

#### **Major operations of the Australian Defence Force in 2020-21**

The 2020-21 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2020-21 in Afghanistan, Iraq, Syria, and the broader Middle East region, as well as the protection of Australia's borders and offshore maritime interests. Funding for major Defence operations is considered and provisioned on a year-by-year basis. The forward estimates at the 2020-21 Budget include additional funding for these major operations in the 2020-21 year, but do not provide for further extensions. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2021.

## **Education, Skills and Employment**

### **Recovery of inappropriately claimed VET FEE-HELP payments from VET providers**

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, which commenced 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.

The financial risk to the Commonwealth is currently unquantifiable as it depends on the receipt and assessment of applications from students, as well as outcomes from the Government's investigations into VET providers' conduct.

## **Foreign Affairs and Trade**

### **Export Finance Australia — National Interest Account (NIA)**

There are three financing facilities under the NIA:

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) became operational on 1 July 2019. The AIFFP 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 June 2020, there were no loans issued under the AIFFP.

The Defence Export Facility (DEF) was established to grow Australia's defence exports by helping overcome difficulties in accessing private sector finance. The DEF has a maximum aggregate exposure of US\$3.0 billion. As at 30 June 2020, three loans under the DEF had been agreed for a total maximum value of \$213 million, of which \$99.1 million had been drawn down. These three loans are reflected in the Budget estimates.

The COVID-19 Export Capital Facility (COVID-19 Facility) was announced on 15 April 2020 with a maximum aggregate exposure of \$500 million. As at 30 June 2020, the COVID-19 Facility has agreed to provide finance for a total maximum value of \$15.4 million, of which \$6.4 million had been drawn down. These loans are reflected in the Budget estimates.

## **Home Affairs**

### **Regional Processing Arrangements**

The Australian Government supports the Governments of Nauru and Papua New Guinea (PNG) to provide support and services to transferees residing in Nauru and PNG under regional processing arrangements. Any significant changes in the number of transferees, the arrangements that underpin the provision of those services, relevant litigation or legislative changes, may incur a cost or generate cost reductions which are unquantifiable at this time.

## **Industry, Science, Energy and Resources**

### **Snowy Hydro Limited — Snowy 2.0**

The Australian Government has committed up to \$1.38 billion in additional equity to Snowy Hydro Limited to support the delivery of the Snowy 2.0 pumped hydro project. Snowy 2.0 will improve the security and reliability of the National Electricity Market by providing reliable, dispatchable power and large-scale energy storage. Project risks include construction delays, cost pressures, and cash flow forecasts. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders.

## **Infrastructure, Transport, Regional Development and Communications**

### **Inland Rail — Delivery**

The Australian Government has committed to deliver the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane, as well as a new freight corridor between Brisbane and Perth (via Parkes).

The ARTC will finance Inland Rail with a combination of Commonwealth equity investment, private debt and internal cash flows. A Public Private Partnership will be established to design, build, finance and maintain the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until reference design, planning, environmental approvals, and procurements are completed. Project risks include securing jurisdictional support, construction delays, cost pressures, and revenues realised. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders and jurisdictions.

## **Social Services**

### **Income Compliance Program Litigation**

Aspects of the Income Compliance Program are part of a class action that is before the Federal Court. Costs associated with this litigation are not quantifiable until the matter is settled.

### **COVID-19 Social Welfare Debt Pause**

The Government announced a temporary pause on certain social welfare debt raising and recovery activities from 3 April 2020 in response to the COVID-19 pandemic. The initial six month pause has been extended until 30 October 2020 and the need for the pause will be assessed on a monthly basis.

There is a potential financial risk as the debt pause may reduce the value of debts raised and the amount of funds recovered by Services Australia in 2020-21. The financial risk is currently unquantifiable as it depends on the arrangements for lifting the debt pause.

### **Veterans' Affairs**

#### **Defence Service Homes Insurance Scheme**

The Defence Service Homes Insurance Scheme (the Scheme) was established in 1919 under the *Defence Service Homes Act 1918*. The Scheme offers personal insurance products to eligible serving Australian Defence Force members, veterans and widow(er)s. It underwrites home building insurance and offers a range of personal insurance products (such as contents and motor vehicle insurance) underwritten by QBE Insurance (Australia) Limited.

The Scheme is funded by premiums collected from policyholders, commissions from QBE and returns on investments. Due to the nature of insurance, the Scheme's financial performance can be volatile from year to year. Last year saw a significant increase in claims due to extreme weather events (including bushfires, hailstorms and floods).

The Scheme manages the volatility of the insurance cycle by holding an appropriate level of capital (i.e. reserves) consistent with the obligations placed on insurers through the relevant regulatory regime. Nevertheless, there remains a small but unquantifiable risk that additional Government contributions could be required should these reserves be insufficient to cover the liabilities of the scheme.

### **Contingent liabilities and assets**

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's control.

Contingencies reported in this Statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in *Budget Statement 10: Australian Government Budget Financial Statements*.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 30 June 2020. In some cases, other dates are used and those are noted in the relevant section.

## **Significant but remote contingencies**

### **Defence**

#### **ADI Limited — Officers' and Directors' Indemnities**

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has also provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

#### **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 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 also 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 2020, the Department of Defence carried 152 instances of quantifiable remote contingent liabilities valued at \$4.5 billion and 1,326 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.

## **Foreign Affairs and Trade**

### **World Food Program — Charter Flights Indemnity**

The Australian Government provided the World Food Program (WFP) an indemnity with regard to charter flights for the repatriation of Department of Foreign Affairs and Trade personnel at isolated international missions impacted by COVID-19.

The indemnity applies to aircraft delay costs, loss of baggage, injury to those on-board the aircraft and exposure to aircraft damage to the extent that any loss is not covered by existing insurance policies held by the WFP. The risk of the indemnity being called upon is remote but could result in a liability to the Australian Government of up to \$30 million in 2020-21.

## **Home Affairs**

### **Indemnities relating to the Air Security Officer program**

The Australian Government has indemnity agreements with Australian airlines that agree to allow Air Security Officers on board their aircraft. The indemnity agreements limit the Government's exposure to a maximum of \$2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline(s) and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer program caused a loss.

## **Industry, Science, Energy and Resources**

### **Snowy Hydro Limited — Board Members' Indemnity**

The Australian Government has provided an indemnity for each of the Directors of Snowy Hydro Limited (SHL) to protect them against certain claims relating to their employment as Directors. Until the indemnity agreements are varied or ceased, they will remain as contingent and unquantifiable liabilities.

### **Snowy Hydro Limited — Termination of the Equity Subscription Agreement**

The Australian Government will provide sufficient funding to cover costs and liabilities incurred by Snowy Hydro Limited (SHL) for delivery of Snowy 2.0, capped to the total remaining undrawn equity, in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and SHL.

### **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 Australia, or by Australian nationals overseas. 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.

### **Operations and Maintenance of the Northern Endeavour and Associated Infrastructure**

The Government has engaged Upstream Production Solutions (Upstream PS) as Operator of the Northern Endeavour Floating Production Storage and Offtake facility (FPSO). As part of the contract the Government has provided Upstream PS with indemnities against loss of or damage to property or personnel. The Government has also provided indemnity against any damage to the associated subsea and subsurface infrastructure or any oil spill related to the FPSO. This liability is unlimited.

The Government has obtained Protection and Indemnity, Facility Damage and Control of Well Insurance and also taken out membership with oil spill response agencies. These will limit the Government's risk and financial exposure.

The risk of an incident is remote as the FPSO is being maintained in 'lighthouse' mode with safety critical maintenance carried out, limited oil in storage and no further oil production taking place.

### **Infrastructure, Transport, Regional Development and Communications**

#### **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 June 2020, NBN Co's termination liabilities were estimated at \$18.0 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 June 2020, NBN Co had generated liabilities covered by the Optus Agreement which are estimated at an amount less than \$220.0 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 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 June 2020, NBN Co had generated liabilities covered by the Guarantee estimated at \$10.8 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.

### **Maritime Industry Finance Company Limited — Board Members' Indemnity**

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as Directors. MIFCO was placed into voluntary liquidation in November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

### **Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement**

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by Moorebank Intermodal Company Limited (MIC) in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and MIC.

### **Moorebank Intermodal Project — Glenfield Waste Site Easement**

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Grantor (the private sector owner of the Glenfield Waste Site) of any easement for the rail spur going across the Glenfield Waste Site, to the extent such costs or liabilities are caused or contributed to by the Commonwealth or its agents.

**WSA Co Limited — Board Members' Indemnities**

The Australian Government has provided an indemnity for each of the Directors of WSA Co Limited (WSA Co) to protect them against certain claims relating to their employment as Directors. Unless the indemnity agreements are varied or brought to an end, they cease to apply from the date the Commonwealth has fully satisfied its obligations to subscribe for equity in WSA Co pursuant to the WSA Co Equity Subscription Agreement.

**Inland Rail — Termination of the Equity Financing Agreement**

The Australian Government will provide sufficient funding to cover all costs and liabilities incurred by the Australian Rail Track Corporation (ARTC) for delivery of Inland Rail in the event that the Commonwealth terminates the Equity Financing Agreement between the Commonwealth and the ARTC.

**Tripartite deeds relating to the sale of federal leased airports**

The tripartite deeds between the Australian Government, the airport lessee company and financiers, amend airport (head) leases to provide for limited step-in rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of terminating the (head) lease, once all Australian Government costs have been recovered. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

**WSA Co Limited — Termination of the Equity Subscription Agreement**

The Australian Government is required to cover all costs and liabilities that may be incurred by WSA Co in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and WSA Co.

**Treasury**

**Asbestos Injuries Compensation Fund**

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a \$320 million New South Wales (NSW) Government loan to the Asbestos Injuries Compensation Fund (AICF), contingent on all states and territories agreeing to assume the remaining default risk. States and territories agreed to assume the remaining default risk in the period following the publication of the 2016-17 Budget.

The AICF provides compensation to Australian asbestos disease related claims against former subsidiaries of the James Hardie Group, and is funded on an ongoing basis through contributions from the James Hardie Group. NSW provided a \$320 million loan facility in 2010 to enable AICF to continue to pay compensation as lump sums, rather than on an instalment basis.

### **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 were \$1.0 trillion at 30 June 2020, compared to an estimated \$930 billion at 30 June 2019. This reflects overall deposit growth in the financial system due to fiscal policies that were implemented to support the economy during COVID-19 and consumer caution resulting in an increase in the savings rate.

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 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.

### **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 that 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 June 2020, the face value of state and territory borrowings covered by the Guarantee was \$1.3 billion, down from \$1.4 billion at 31 October 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: \$144.9 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 June 2020; and \$4.7 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 June 2020.

### **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 30 June 2020, banknotes on issue amount to \$90.1 billion, and the total Guarantee is \$169.7 billion.

## **Contingent liabilities — unquantifiable**

### **Agriculture, Water and the Environment**

#### **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.

#### **Emergency pest and disease response arrangements**

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements, which is paid to the relevant state or territory government. This funding is unlikely to be sufficient to meet the costs of a large-scale pest or disease incursion or additional and multiple responses (noting there are currently 14 national cost-shared emergency responses and, until 2026–27, more than half of this funding is allocated to an eradication program for red imported fire ants in Queensland). Governments have agreed to an Aquatic Emergency Animal Disease deed covering aquatic emergency animal diseases and exotic production weeds and will shortly begin final consultation with prospective industry signatories. When these negotiations are finalised, potential liabilities for the Australian Government will be increased.

The Australian Government may provide financial assistance to an industry party by funding its share of an emergency response. These contributions are recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also contribute bilaterally in situations where an incursion is not covered by a cost-sharing agreement or where the affected industry body/bodies are not party to an emergency response agreement, depending on the circumstances of the incursion.

## **Attorney-General's**

### **Native Title costs**

The Australian Government will likely be liable for any compensation found to be payable under *Native Title Act 1993* in respect of compensable acts for which the Australian Government is responsible. While the High Court's decision in the *Timber Creek* litigation (*Northern Territory v Griffiths et al* [2019] HCA 7) provides guidance on the principles for calculating compensation under the Native Title Act, the Australian Government's liability cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

## **Defence**

### **Cockatoo Island Dockyard**

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Department of Defence) in the New South Wales (NSW) Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent. Defence continues to manage reimbursement of claims costs incurred by CODOCK.

### **Land decontamination, site restoration and decommissioning of Defence assets**

The Department of Defence has made a financial provision for the estimated costs involved in restoring, decontaminating and decommissioning where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

### **Non-remote contingent liabilities**

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

## **Finance**

### **ASC Pty Ltd — Directors' and Executives' Indemnities**

The Australian Government has provided former Directors of the then Australian Submarine Corporation Pty Ltd (now known as ASC Pty Ltd – ASC) with indemnities in relation to any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and, any claims and legal costs

arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

The Australian Government has provided Directors and senior executives of ASC with indemnities to mitigate personal risk and provide coverage for legal costs related to any legal proceedings that may arise in relation to the transaction to separate ASC Shipbuilding Pty Limited from ASC.

**ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited**

The Australian Government has agreed to provide a guarantee of an indemnity from ASC Pty Ltd (ASC) in favour of ASC Shipbuilding Pty Limited (ASC Shipbuilding).

ASC provided an indemnity in favour of ASC Shipbuilding prior to ASC Shipbuilding being separated from ASC Pty Ltd. This indemnity is intended to cover any liabilities unknown at the time of separation which may arise after separation. The indemnity is time limited to seven years.

The guarantee will only be called on in the event that ASC is no longer owned by the Commonwealth and ASC can no longer meet its obligations under the terms of the indemnity. It is Government policy to retain ASC as a Government Business Enterprise.

**Commonwealth Superannuation Corporation — Immunity and Indemnity**

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions.

Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

**Future Fund Management Agency and Future Fund Board of Guardians — Indemnity**

The Australian Government has provided certain staff members of the Future Fund Management Agency (the Agency) and the members (Board members) of the Future Fund Board of Guardians (the FFBG) with deeds of indemnity. The indemnities are intended to cover liabilities in excess of the insurance cover (including Comcover) of the FFBG, its subsidiary entities and the Agency. Board members are indemnified for liabilities incurred arising out of an act, omission or breach of statutory duty by the Board or a Board member that relates to the performance of the FFBG's functions or the



exercise of the FFBC's powers or that relates to any act, omission or breach of statutory duty by a Board member as a director or officer of a wholly owned Australian subsidiary of the FFBC. Certain Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a director or officer of investee companies or subsidiaries of the FFBC. Subject to certain exceptions or qualifications, Board members and Agency staff members are indemnified for amounts up to the value of the relevant funds.

Board members are not indemnified in respect of any liability owed by them to the FFBC or its subsidiary, or which results from a contravention of a civil penalty provision of the *Future Fund Act 2006* or the *Corporations Act 2001*. Agency staff members are not indemnified to the extent they are indemnified by the relevant investee company or subsidiary, in respect of any liability owed to the FFBC or the Commonwealth, or to the extent that they are granted and receive financial assistance under Appendix E of the *Legal Services Directions 2017*. Both Board members and Agency staff members are not indemnified for any liability resulting from conduct they engage in other than in good faith, to the extent they recover a liability under a Directors and Officers insurance policy (including Comcover) or in respect of legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings or proceedings regarding a contravention of a civil penalty provision.

### **Googong Dam**

On 4 September 2008, a 150-year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

### **Indemnities for the Reserve Bank of Australia and private sector banks**

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by an entity, or transactions made by a bank with the authority of an entity.

### **Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects**

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset

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sales and privatisations have been provided in previous Budget and MYEFO papers, and previous annual reports of Finance and the Office of Asset Sales and Commercial Support.

Indemnities are listed below. Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

| <b>Indemnified body</b>   | <b>Year(s) raised</b> |
|---|-----------------------|
| ADI Ltd   | 1998                  |
| Albury–Wodonga Development Corporation                                | 2014                  |
| Australian Airlines   | 1991                  |
| Australian Industry Development Corporation                           | 1996                  |
| Australian Multimedia Enterprise                                      | 1997                  |
| Australian National Rail Commission and National Rail Corporation Ltd | 1997 and 2000         |
| Australian River Co Ltd   | 1999                  |
| Australian Submarine Corporation Pty Ltd                              | 2000                  |
| Bankstown Airport Limited   | 2002                  |
| Camden Airport Ltd  | 2002                  |
| ComLand Ltd   | 2004                  |
| Commonwealth Accommodation and Catering Services                      | 1988                  |
| Commonwealth Bank of Australia  | 1993 to 1996          |
| Commonwealth Funds Management and Total Risk Management               | 1996 to 1997          |
| Employment National Ltd   | 2003                  |
| Essendon Airport Ltd  | 2001                  |
| Federal Airports Corporation's Airports                               | 1995 to 1997          |
| Health Insurance Commission   | 2000                  |
| Housing Loans Insurance Corporation Ltd                               | 1996                  |
| Hoxton Park Airport Limited   | 2002                  |
| Medibank Private Limited  | 2014                  |
| National Transmission Network   | 1999                  |
| Sydney Airports Corporation Ltd                                       | 2001                  |
| Telstra   | 1996, 1999 and 2006   |
| Wool International  | 1999                  |

**Australian Government domestic property**

The Department of Finance owns and is responsible for managing a number of properties within the Australian Government's domestic non-Defence portfolio. 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 have 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 Government general insurance fund — Comcover**

The Department of Finance (Finance) provides insurance and risk management services to Australian Government general government sector entities. Insurance liabilities are subject to large potential revisions as the ultimate outcome of claims is subject to events that have not yet occurred.

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgments regularly updated based on historical experience and other factors.

**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.

**Foreign Affairs and Trade**

**Commitment to assist the Pacific, Timor-Leste and Southeast Asia with accessing COVID-19 vaccines**

The Australian Government is committed to assist in the procurement and delivery of COVID-19 vaccines to partner countries in the Pacific, Timor-Leste and Southeast Asia. Facilitating early access to safe, effective and affordable vaccines will save lives and underpin Australia's security by promoting regional stability and economic recovery. The potential costs are unquantifiable.

**Health**

**Accommodation Payment Guarantee Scheme**

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' refundable accommodation payments (including refundable deposits and accommodation bonds) if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds, entry contributions and refundable accommodation deposits to meet any shortfall.

### **Advance Purchasing Agreements for COVID-19 vaccine candidates**

The Australian Government has provided an indemnity to the suppliers of two potential COVID-19 vaccine candidates, covering certain liabilities that could result from the use of the vaccine. This includes the University of Oxford vaccine candidate, which is sponsored by AstraZeneca, and the University of Queensland vaccine candidate, which is marketed by Seqirus.

### **Australian Red Cross Society — Indemnities**

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of Australian Red Cross LifeBlood and the development of principal manufacturing sites in Sydney and Melbourne, include certain indemnities and a limitation of liability in favour of the Red Cross. These indemnities cover defined sets of potential business, product and employee risks and liabilities. Certain indemnities for specific risk events that operate within the term of the Deed of Agreement are capped, and must meet specified pre-conditions. Other indemnities and the limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement relating to the operation of the Red Cross or the cessation of funding for the principal sites, and only within a certain scope. All indemnities are also subject to appropriate limitations and conditions, including in relation to mitigation, contributory fault, and the process of handling relevant claims.

### **Blood and blood products liability cover**

The National Managed Fund (NMF) was established by a memorandum of understanding between the Australian Government, Australian Red Cross LifeBlood (LifeBlood) and state and territory governments, to cover potential future claims in relation to the supply of blood and blood products by LifeBlood. The NMF provides for liabilities incurred by LifeBlood where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the state and territory governments may jointly provide indemnity for LifeBlood through a cost-sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

### **CSL Ltd**

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from

1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL Behring (Australia) Ltd (a subsidiary of CSL), which operated from 1 January 2010 to 31 December 2017, and the National Fractionation Agreement for Australia with CSL Behring (Australia) Ltd, which has operated since 1 January 2018, both include a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd is less than a specified amount.

#### **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).

#### **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 and allied health professionals under the Allied Health High Cost Claims Scheme and Allied Health Exceptional Claims Scheme within the *Medical Indemnity Act 2002*.

#### **New South Wales Health Administration Council — Indemnity**

The New South Wales Government is indemnified by the Commonwealth against liabilities or claims arising in relation to the operation of the National Health Funding Body (NHFB) in two respects:

- (i) liabilities or claims arising from acts or omissions of NHFB staff as users of State Pool account information
- (ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

## Home Affairs

### Garrison, welfare and health services at regional processing countries — liability limit

The Department of Home Affairs (Home Affairs) entered into a contract with Canstruct International Pty Ltd (Canstruct), which commenced on 1 November 2017, for the provision of garrison and welfare services on Nauru in relation to regional processing arrangements. The contract includes a provision that limits Canstruct’s liability to Home Affairs to a maximum of \$20 million for any single occurrence and \$50 million in aggregate for the term of the contract. The limitation of liability does not apply to personal injury, breach of third-party IP rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

### Immigration detention services by state and territory governments — liability limit

Home Affairs has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions sought indemnification by the Australian Government for the provision of those services. These agreements, as listed below, contain unquantifiable indemnities relating to any damage or loss incurred by state and territory governments arising out of, or incidental to, the provision of services under the proposed agreements.

| Jurisdictions  | Service streams                |                                |                                |
|----------------|--------------------------------|--------------------------------|--------------------------------|
|                | Health                         | Education                      | Police                         |
| WA             | \$5 million per claim or event | Uncapped liability             | \$5 million per claim or event |
| NSW            | N/A                            | \$5 million per claim or event | \$5 million per claim or event |
| VIC            | Uncapped liability             | Uncapped liability             | \$5 million per claim or event |
| QLD/TAS/ACT/NT | N/A                            | \$5 million per claim or event | \$5 million per claim or event |
| SA             | \$5 million per claim or event | \$5 million per claim or event | \$5 million per claim or event |

Home Affairs negotiates arrangements as necessary for the provision of correction services. The indemnity provided to states and territory governments under these arrangements is no more than \$30 million per event.

### Immigration detention services contract — liability limit

Home Affairs entered into a contract with Serco Australia Pty Ltd (Serco), which commenced on 11 December 2014, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention facilities. The contract term limits Serco’s liability to Home Affairs to a maximum of any insurance proceeds

recovered by Serco up to a value of \$330 million for the term of the contract. Serco's liability is unlimited for specific events defined under the contract.

### **Australian Victims of Terrorism Overseas Payment**

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* to create a scheme for providing financial assistance to Australian residents who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australian residents harmed (primary victims) or whose close family members die as a direct result of a declared terrorist act (secondary victims) are eligible to claim one-off payments of up to \$75,000. As acts of terrorism are unpredictable, and the declaration of overseas terrorists acts discretionary, the cost of the scheme is unquantifiable.

### **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.

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, Science, Energy and Resources**

### **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 New South Wales (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.

### **Liability for costs incurred in a national liquid fuel emergency**

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and state and territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor General to declare a national emergency under the Act.

The IGA also contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the state and territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

### **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.

### **Australian Nuclear Science and Technology Organisation — Indemnity**

On 21 April 2016, the then Minister for Industry, Innovation and Science signed a Deed of Indemnity between the Commonwealth Government, ANSTO and ANSTO Nuclear Medicine Pty Ltd (ANM), under which the Government formally agreed to indemnify ANSTO and ANSTO Officers, and ANM and ANM Officers, from any loss or liability arising from claims caused by ionising radiation. This Deed will remain in place until April 2026.



**Former British atomic test site at Maralinga**

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site – Maralinga section 400 – to the site’s Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

**Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability**

The Australian and Western Australian (WA) Governments have provided an indemnity to the Gorgon Joint Venture Partners (GJV) against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project. The claims are subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The WA Government has indemnified the GJV, and the Australian Government has indemnified the WA Government for 80 per cent of any amount determined to be payable under that indemnity.

**Land decontamination and site restoration for CSIRO property**

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has made a financial provision for the estimated costs in restoring and decontaminating land where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

**United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions**

On 3 June 2020, the Australian Government entered into a commercial leasing agreement with the United States (US) Department of Energy (DoE). This agreement facilitates the storage of Australia’s first-ever government-owned strategic fuel reserve in the US Strategic Petroleum Reserve (SPR).

Under the lease agreement, the Australian Government indemnifies the US SPR for any liabilities incurred (subject to certain exceptions) arising from or related to: the transportation of crude oil to the SPR; third party claims made in connection with the drawdown or delivery of the oil; and customs duties, fees or other charges which may arise from the Australian Government’s non-compliance with US Customs Law.

## **Infrastructure, Transport, Regional Development and Communications**

### **NBN Co Limited — Board Members' Insolvency Indemnity**

The Australian Government has provided Directors of NBN Co with an indemnity against liability should the Government fail to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be no greater than those covered by the NBN Co Equity Funding Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

### **Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory**

The Department of Infrastructure, Transport, Regional Development and Communications engages the New South Wales Rural Fire Service (NSW RFS) to provide fire management in the Jervis Bay Territory (JBT). To provide these services, the NSW RFS requires the Australian Government to provide an uncapped indemnity against any actions or claims resulting from the actions of the NSW RFS while providing fire management services in the JBT. The indemnity covers the same period of time for which NSW RFS is engaged to provide the fire management services. The likelihood of an event occurring that may result in a liability for the Australian Government is assessed as remote. The risk of a liability is mitigated through a range of risk management measures, including NSW RFS staff training and professional qualifications.

### **Moorebank Intermodal Company Limited — Board Members' Indemnity**

The Australian Government has provided certain indemnities for the Directors and Officers of the Moorebank Intermodal Company Limited to protect them against civil claims relating to their employment and conduct. These indemnities were provided to Directors when the Board was first established, however not to subsequent Directors. The indemnities apply to the period of appointment as Directors or Officers of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

### **Moorebank Intermodal Project — Georges River rail crossing**

The Australian Government has provided an indemnity to cover costs and liabilities that may be incurred by the State of New South Wales arising under the *Native Title Act 1993* (Cth) associated with the construction of a rail bridge over the Georges River to the Moorebank Intermodal Terminal. The likelihood of costs being incurred is considered remote and potential costs are unquantifiable.

### **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 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.

#### **Australian Maritime Safety Authority incident costs**

In the normal course of operations, the Australian Maritime Safety Authority (AMSA) is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. AMSA has established a pollution response financial capability of \$50 million, backed by liquid investment funds, to provide funding should the overall clean-up costs exceed the liability limit of the ship-owner.

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

The Department of Infrastructure, Transport, Regional Development and Communications (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 and have been listed on the Stockholm Convention as persistent contaminants. Australian health and environmental agencies have set a range of standards for environmental protection and precautionary health measures.

Up to 37 airport sites are potentially contaminated with PFAS (20 federally leased airports and 17 regional airports) relating to the Commonwealth provision of fire-fighting services. 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.

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. Awaiting Court approval, the Commonwealth has recently agreed to a settlement for three class actions over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamstown, Oakey and Katherine (Tindal). The legal firm involved have announced their intentions to proceed with another action including Darwin and Townsville, joint civil/military airports. 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.

## **Treasury**

### **Terrorism insurance — commercial cover**

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability (extended in 2017 to mixed-use and high-value residential buildings). The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses, to maintain a pool of funds and to purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the responsible Minister (or delegate) must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed \$10 billion.

### **First Home Loan Deposit Scheme**

The First Home Loan Deposit Scheme began 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.

### **International Monetary Fund — Poverty Reduction and Growth Trust**

In the July 2020 Economic and Fiscal Update, the Government announced it would make a line of credit available to the International Monetary Fund (IMF) under the Poverty Reduction and Growth Trust (PRGT) through to 31 December 2029. The PRGT provides concessional financial support to low income countries to help them achieve, maintain, or restore a stable and sustainable macroeconomic position. PRGT funds are drawn upon by the IMF as needed and will be repaid in full with interest.

The Government intends to loan SDR 500 million (approximately A\$1 billion at 30 June 2020) to the IMF under the PRGT.

### **Indemnities for specialised external advisers during the COVID-19 pandemic**

The Government has provided indemnities for certain specialised external advisers engaged to provide advice on emerging markets issues related to COVID-19. Indemnities were provided to mitigate personal risk and provide coverage for costs related to any legal proceedings that may arise in relation to the provision of that advice.

The indemnities apply for the period of engagement as advisers and for claims that are notified within 12 years after cessation of the adviser's engagement. Until the indemnity agreements are varied or expire, they will remain as contingent and unquantifiable liabilities.

### **Small and Medium Enterprise Guarantee Scheme**

The Australian Government will guarantee 50 per cent of loans issued under the Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme provided by eligible lenders to SMEs.

The Australian Government will also guarantee 100 per cent of loans issued under the Arts and Entertainment Guarantee Scheme and provided by eligible lenders (up to \$90 million of loans).

The Arts and Entertainment Guarantee Scheme is being administered alongside the Coronavirus SME Guarantee Scheme. The maximum liability that the Government could be exposed to arising from both schemes combined is \$20 billion.

## **Contingent assets — unquantifiable**

### **Health**

#### **Legal action seeking compensation**

The Department of Health is engaged in legal action against certain pharmaceutical companies to recover savings denied to the Commonwealth because interim injunctions granted to these companies in unsuccessful patent litigation delayed generic versions of drugs being listed on the Pharmaceutical Benefits Scheme and thereby delaying statutory and price disclosure related price reductions for these drugs.

### **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. On 24 September 2020, AUSTRAC announced it had reached

an agreement with Westpac regarding their breaches of the AML/CTF Act, including a proposed penalty of \$1.3 billion in settlement of the matter. The Federal Court will now consider the appropriateness of the proposed penalty.

## **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 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.

### **Education, Skills and Employment**

#### **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 to anybody other than the Government. In 2019, the Government increased Export Finance Australia's callable capital by \$1.0 billion to \$1.2 billion and granted it a new overseas infrastructure financing power. The callable capital is available to Export Finance Australia, on request, to cover liabilities, losses and claims. As at 30 June 2020, the Government's total contingent liability was \$3.3 billion. The \$3.3 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 (\$0.5 billion). Of the total contingent liability, \$2.4 billion relates to Export Finance

Australia's Commercial Account and \$0.9 billion relates to the National Interest Account.

## **Industry, Science, Energy and Resources**

### **Underwriting of Transmission Projects**

The Australian Government is working with the New South Wales (NSW), South Australian and Victorian Governments to provide early works underwriting support to the HumeLink, Project EnergyConnect and Victoria to NSW Interconnector West (VNI West) projects.

The Australian Government and NSW Government will each underwrite 50 per cent of the early works of the proposed HumeLink transmission line (up to a total of \$65.7 million). The underwriting of the early works project costs for Project EnergyConnect and VNI West will be capped at a maximum amount, but the specific terms of the underwriting arrangements will not be finalised until negotiations are complete with relevant parties.

Conditions for the underwritings to be called upon are likely to relate to the projects not achieving regulatory and approval requirements, but are also dependent on the final underwriting arrangements negotiated.

## **Infrastructure, Transport, Regional Development and Communications**

### **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.

### **Australian Government contribution to the Perth Freight Link project**

The Australian Government remains committed to the construction of the Roe 8 and 9 extensions to complete the Perth Freight Link, despite the decision of the Western Australian (WA) Government not to proceed with the project.

To this end, the Australian Government will provide \$1.2 billion to the first WA Government willing to build the Perth Freight Link by constructing the Roe 8 and 9 extensions 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 was \$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 30 June 2020, for which a provision has not been made, is \$5.0 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. Australia's current uncalled capital subscription to the IBRD totals around US\$3.6 billion (estimated value A\$5.2 billion as at 30 June 2020). 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 30 June 2020), but the enabling legislation has not yet passed Parliament.

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\$388.6 million as at 30 June 2020).

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\$10.2 billion as at 30 June 2020).

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 30 June 2020).



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\$4.4 billion as at 30 June 2020).

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\$4.4 billion at 30 June 2020). 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\$9.2 billion at 30 June 2020) 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 result in an impact on fiscal balance.

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 3 summarises Government loans estimated to exceed \$200 million at 30 June 2020.

Table 3: Summary of Australian Government loans exceeding \$200 million

| Entity  | Loan amount <sup>(a)</sup><br>(\$m) | Borrower   | Interest rate                     | Term                       | Status <sup>(b)(c)</sup> |
|---|-------------------------------------|--|-----------------------------------|----------------------------|--------------------------|
| <b>Department of Education, Skills and Employment</b>                                   |                                     |  |                                   |                            |                          |
| Higher Education Loan Program and VET Student Loans Program                             | 50,633                              | Eligible tertiary education students                           | Consumer Price Index (CPI) growth | 9.4 years*                 | Modified                 |
| Trade Support Loans Program   | 741                                 | Eligible Australian Apprentices                                | CPI growth                        | -                          | Modified                 |
| <b>Department of Infrastructure, Transport, Regional Development and Communications</b> |                                     |  |                                   |                            |                          |
| NBN Co Loan   | 19,458                              | NBN Co Limited   | 3.96 per cent                     | 30 June 2024               | Unchanged                |
| WestConnex Stage 2 Concessional Loan  | 1,880                               | WCX M5 Finco Pty Ltd   | 3.36 per cent                     | November 2015 to July 2034 | Unchanged                |
| National Water Infrastructure Loan Facility   | 0                                   | State and Territory governments and non-government entities    | 1.46 per cent                     | Up to 30 Years             | Removed                  |
| <b>Clean Energy Finance Corporation</b>   |                                     |  |                                   |                            |                          |
| Clean Energy Finance Corporation  | 2,273                               | Approved entities undertaking clean energy technology projects | 4.4 per cent weighted average     | 5-15 years                 | Modified                 |
| <b>Australian Office of Financial Management</b>  |                                     |  |                                   |                            |                          |
| Commonwealth-State financing arrangements — Housing and Specific Purpose Capital        | 1,492                               | State and Northern Territory Governments                       | 4.0 per cent — 6.0 per cent       | Up to 30 June 2042         | Unchanged                |
| <b>Indigenous Business Australia</b>  |                                     |  |                                   |                            |                          |
| Indigenous Home Ownership, Business Development and Assistance                          | 995                                 | Eligible Indigenous persons                                    | 3.0 — 6.9 per cent*               | Up to 30 years             | Modified                 |

**Table 3: Summary of Australian Government loans exceeding \$200 million (continued)**

| <b>Department of Agriculture, Water and the Environment</b>       |     |   |   |                          |           |
|---|-----|---|---|--------------------------|-----------|
| Drought related and farm finance concessional loans — Agriculture | 587 | State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)        | Various   | Various                  | Modified  |
| Farm Investment Loans, Drought Loans and AgRebuild                | 349 | Eligible Australian farm businesses and related small businesses, via Regional Investment Corporation | Up to 1.92 per cent                               | Up to 10 years           | Modified  |
| <b>Export Finance Australia</b>                                   |     |   |   |                          |           |
| Short-Term Loan to the Government of Papua New Guinea             | 443 | The independent state of Papua New Guinea   | LIBOR + 0.5 per cent                              | Commercial in confidence | New       |
| Papua New Guinea Liquefied Natural Gas                            | 244 | Entities associated with the Papua New Guinea Liquefied Natural Gas project                           | Commercial in confidence                          | Until 2026               | Modified  |
| <b>Department of Social Services</b>                              |     |   |   |                          |           |
| Student Financial Supplement Scheme                               | 437 | Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY recipients                      | CPI growth  | Various                  | Modified  |
| Student Start up Loan   | 367 | Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients                   | CPI growth  | Various                  | Modified  |
| <b>Indigenous Land Corporation</b>                                |     |   |   |                          |           |
| Voyages Indigenous Tourism Australia Pty Ltd                      | 281 | Voyages Indigenous Tourism Australia Pty Ltd  | 90 Day bank bill swap reference rate + 5 per cent | 9 years, 11 months       | Unchanged |
| <b>Department of Health</b>                                       |     |   |   |                          |           |
| Zero Real Interest Loans  | 258 | Residential aged care providers   | CPI growth  | Up to 22 years           | Unchanged |

**Table 3: Summary of Australian Government loans exceeding \$200 million (continued)**

| Department of the Treasury                               |     |   |                                |          |           |
|--|-----|---|--------------------------------|----------|-----------|
| International Monetary Fund — New Arrangements to Borrow | 213 | International Monetary Fund                         | 0.1 per cent                   | 10 years | Modified  |
| Affordable Housing Bond Aggregator                       | 115 | National Housing Finance and Investment Corporation | Commonwealth cost of borrowing | Various  | Unchanged |

\* Average.

# To be determined after sufficient numbers of compulsory repayments commence.

^ Estimated.

(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2020 in \$ million.

(b) Status of loan items are considered 'unchanged' unless there are modifications to respective interest rates and/or loan terms.

### **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 2020, the fair value of debt outstanding is estimated to be \$50.6 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 9.4 years.

HELP comprises a number of programs, including HECS-HELP, FEE-HELP, OS-HELP, SA-HELP, VET FEE-HELP and VET Student Loans from 1 January 2018 to 30 June 2019.

### **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 \$21,542 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 \$718.07 per month in the first year of their apprenticeship, \$538.56 per month in the second year, \$359.04 per month in the third year and \$179.52 per month in the fourth year

The loan amounts provided are higher in the early years of training to compensate for lower wages. The lifetime limit of \$21,542 was indexed on 1 July 2020 using the Consumer Price Index and will continue to be indexed annually on 1 July to maintain its real value

As an incentive to encourage completion of 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 \$46,620 for the 2020-21 income year. This is a demand-driven program.

### **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.

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

### **Clean Energy Finance Corporation**

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies, as required by the *Clean Energy Finance Corporation Act 2012*. This portfolio has an acceptable but not excessive level of risk relative to the sector, as required under the Clean Energy Finance Corporation Investment Mandate Direction 2018.

The CEFC's loan portfolio consists of predominantly senior-ranking, secured loans, and secured project finance facilities, typically secured against energy-generating assets such as wind or solar farms or biogas facilities or energy efficiency assets. The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.4 per cent. Loans have various maturity dates, typically in the range of 5–15 years. As at 30 June 2020, loans contracted and outstanding are expected to total \$2.273 billion.

### **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 amortised value of the advances was \$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.

### **Indigenous Home Ownership, Business Development and Assistance**

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. IBA also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth. As at 30 June 2020, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance was estimated to total \$995 million.

### **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 \$586.6 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 2020, the interest rate is 1.54 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 2020, the interest rate is 1.04 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 2020, the interest rate is 1.44 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 2020, the interest rate is 2.04 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, AgBiz and AgRebuild**

The Regional Investment Corporation commenced operations on 1 July 2018.

There are four loan products currently available to farm businesses – farm investment loans, drought loans, AgRebuild loans (North Queensland flood) and AgBiz (drought loans for small businesses). The Government has agreed to commence the Agristarter loan product on 1 January 2021.

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 AgBiz is for those small businesses that provide primary production related goods and services for drought affected farm businesses. Applications for AgRebuild loans closed on 30 June 2020.

As at 1 August 2020, the variable interest rate is 1.92 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, and (from 1 January 2020) the drought loans and AgBiz.

Loans have a maximum term of 10 years.

### **Short-Term Loan to the Government of Papua New Guinea**

The Government provided a loan of US\$300 million (approximately A\$440 million) in 2019-20 to the Government of Papua New Guinea to support budget sustainability, assist in the delivery of core government services, support longer-term economic reforms and increase the availability of foreign exchange in the country. As at 30 June 2020, the full value of the loan amount was outstanding.

The Government is negotiating with PNG regarding the need to expand its loan provisions to PNG as a result of the COVID-19 pandemic and its impacts. This may result in the provision of further funding to PNG.

### **Student Financial Supplement Scheme**

The Student Financial Supplement Scheme (SFSS) commenced in January 1993 and closed on 31 December 2003. It was a voluntary income contingent loan scheme for tertiary students (primarily Austudy and ABSTUDY) to help cover their living expenses while studying. Under the scheme, eligible students were able to trade one dollar of income support entitlement for two dollars in loans. Debtors are required to start repaying their SFSS loan once they earn \$46,620 for 2020-21. As at 30 June 2020, the fair value of loans outstanding is estimated to total \$436.9 million.

### **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 \$1,094 (in 2020). 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 over \$46,620 for 2020-21 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 \$366.9 million.

### **Voyages Indigenous Tourism Australia Pty Ltd**

The Indigenous Land and Sea Corporation (ILSC) purchased Ayers Rock Resort (ARR) for \$291.2 million in May 2011 and immediately on-sold it to its wholly owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90-day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. As at 30 June 2020, the outstanding loan was estimated to total \$281 million.

### **Zero Real Interest Loans**

The Zero Real Interest Loans program provided loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the change in the All Groups Consumer Price Index (updated quarterly). Four funding rounds were completed, with the final round of offers finalised in 2013. No further loans will be allocated under the program. At 30 June 2020, the total amount owing to the Commonwealth was \$257.5 million.

### **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 was approximately A\$213 million as at 30 June 2020.

### **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 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.

### **Papua New Guinea Liquefied Natural Gas**

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2020, the fair value of the loan amount outstanding is estimated to total \$244.3 million.

