

STATEMENT 4: FINANCIAL OUTLOOK

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STATEMENT 4: FINANCIAL OUTLOOK

Part I: Overview

The budget financial statements included in this statement have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards, including Australian Accounting Standard No. 31 *Financial Reporting by Governments* (AAS31) except as identified in Note 1 to Budget Statement 4.

OPERATING RESULT

The Commonwealth's operating result before extraordinary items is expected to remain in surplus in 2000-01. The estimated operating result for 2000-01 is a surplus of \$5.0 billion.

Table 1: Commonwealth General Government Operating Result

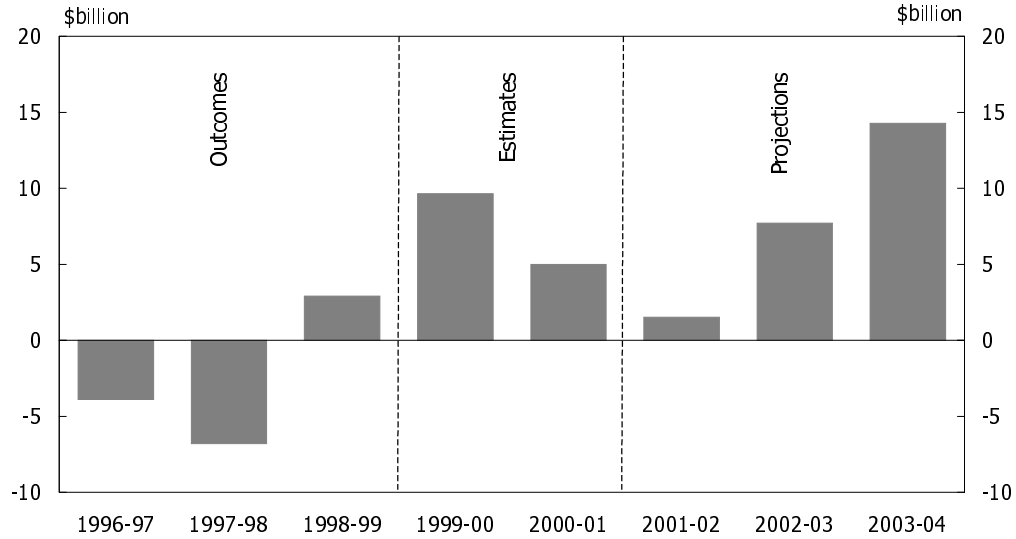
	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Revenue					
Total taxation	151284	144255	148487	157205	168531
Total non-taxation	16748	14462	12758	13926	14813
Total revenue	168032	158718	161246	171131	183344
Expenses	158392	153732	159728	163424	169061
Operating result	9640	4985	1517	7707	14283
Extraordinary items	11999	0	14731	14731	0
Operating result after extraordinary items(a)	21639	4985	16249	22438	14283

(a) Consistent with Australian Accounting Standard AAS 1 *Statement of Financial Performance*. Only disclosure of operating results after extraordinary items is provided. The notion of 'abnormals' no longer exists.

The change in operating result from 1999-2000 to 2000-01 is mainly driven by changes resulting from the implementation of *The New Tax System*, dividends, interest and asset sales. Total revenue will decrease in 2000-01 by around \$9.3 billion. Overall, expenses will decrease in 2000-01 by \$4.7 billion.

Further details on revenues and expenses are provided in Statement 5 and Statement 6 respectively.

Chart 1: Commonwealth General Government Operating Result



The Operating Surplus and Sustainable Commonwealth Finances

The expected operating surplus of the general government sector in each of the forward years improves the net assets position in the balance sheet.

The operating result excludes extraordinary items. The major extraordinary items over the forward estimates period relate to the Government's asset sales programme, particularly the planned sell-down of its investment in Telstra. This contributes significantly to the operating result after extraordinary items and further improves the net assets position of the general government sector.

NET ASSETS

The consolidated financial position of the General Government Sector is expected to improve markedly over the Budget and forward years.

Table 2: Summary of Commonwealth General Government Balance Sheet

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Assets					
Financial assets	68075	56364	58004	55642	48822
Non-financial assets	55227	55432	56091	56651	57504
Total assets	123302	111796	114095	112293	106326
Liabilities					
Debt	88210	70999	56679	32193	11451
Provisions and payables	90623	91452	91736	91763	92082
Liabilities	178833	162451	148415	123955	103533
Net assets	-55532	-50655	-34319	-11663	2793
Total equity	-55532	-50655	-34319	-11663	2793

In 2000-01, the Government is budgeting for an increase in net assets of \$4.9 billion or 8.8 per cent relative to the expected outcome for 1999-2000. This improvement will reduce the excess of liabilities over assets to \$50.7 billion by 30 June 2001.

The Commonwealth is budgeting for a further significant improvement in its net assets position over the forward years. By 30 June 2004, it is expected that net assets will significantly improve, moving by \$58.3 billion to a positive net asset position of \$2.8 billion.

The main drivers of the expected improvement in the net asset position are continued strong operating surpluses and the asset sales programme.

Assets

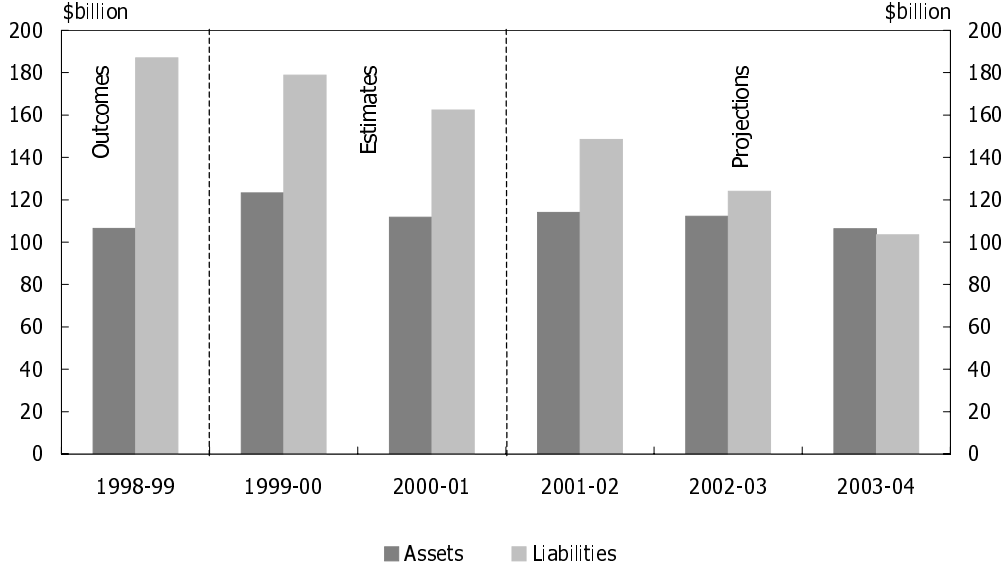
The Commonwealth's total asset position is expected to decrease in 2000-01¹. A forecast modest growth in non-financial assets (0.4 per cent) will be more than offset by a 7.2 per cent reduction in receivables. This fall in receivables predominately reflects the collection of Telstra sale proceeds in early 1999-2000, which is partially offset by an

¹ For 2000-01 and the forward years, transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the government securities category in the balance sheet. This netting treatment has not been applied in 1999-2000. This causes an apparent fall in Commonwealth financial assets between 1999-2000 and 2000-01.

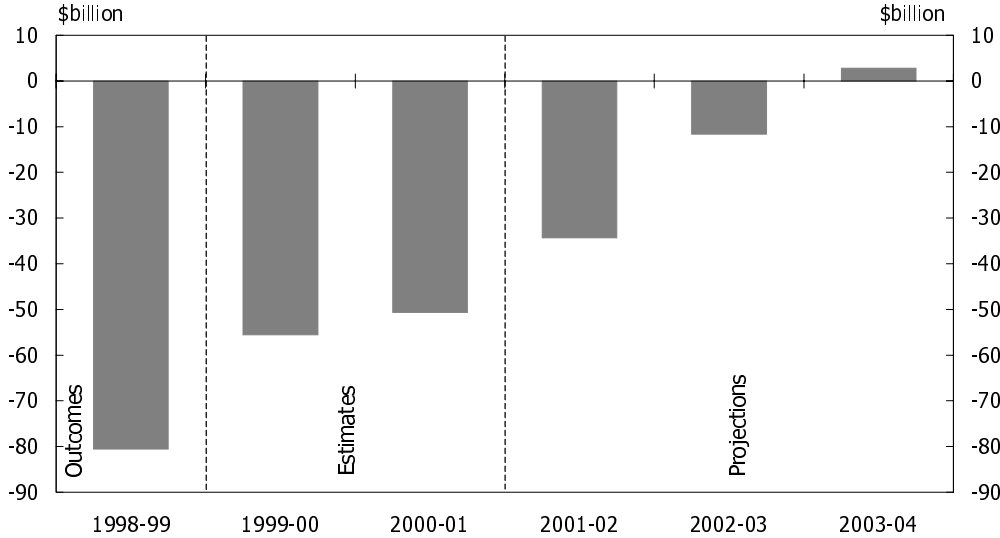
increase in taxation receivables associated with the introduction of the new Pay As You Go (PAYG) tax system.

Chart 2: Summary of Commonwealth General Government Balance Sheet Aggregates

Panel A: Assets and Liabilities



Panel B: Net Assets



Liabilities

The main components of the Commonwealth's liabilities are government securities and employee provisions, predominantly superannuation.

CASH FLOWS

The Summary of Commonwealth General Government Cash Flows in Table 3 shows that net cash from operating activities generates positive cash flows in the Budget and the forward years. After applying cash toward investing activities (including acquisition of property, plant and equipment), there will be an overall positive cash inflow of \$20.7 billion in 2003-04. This is predominantly applied to debt reduction.

Table 3: Summary of Commonwealth General Government Cash Flows

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Total operating cash received	163367	151726	161902	171504	182353
Total operating cash used	153277	148781	154956	158675	163886
Net cash from operating activities	10091	2945	6945	12829	18467
Total investing cash received	12274	19933	11781	17352	7311
Total investing cash used	15259	5773	5115	5518	5103
Net cash from investing activities	-2984	14160	6666	11834	2209
Total financing cash received	203	0	0	0	0
Total financing cash used	8002	17214	14332	24512	20751
Net cash to/from financing activities	-7798	-17214	-14332	-24512	-20751
Net increase/decrease in cash held	-692	-109	-720	152	-76

Note: Net increase/decrease in cash held represents movements in cash and bank overdraft.

Part II: Primary Financial Statements

Table 4: Statement of Revenues and Expenses for the Commonwealth General Government Sector

	Note	Estimates		Projections		
		1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Revenues						
Taxation						
Income tax	3	112617	112781	116471	123753	133594
Indirect tax	4	33468	26168	26462	27786	29121
Fringe Benefits tax		3340	3650	3860	3990	4120
Other taxes		1859	1656	1694	1677	1696
Total taxation revenue		151284	144255	148487	157205	168531
Non-taxation						
Sales of goods and services		2748	2681	2823	2821	2852
Interest and dividends	5	9624	5642	6962	8166	9092
Net foreign exchange gains		0	0	0	0	0
Net gains from sales of assets		1333	2805	53	69	41
Other sources of non-tax revenue	6	3043	3335	2920	2870	2828
Total non-tax revenue		16748	14462	12758	13926	14813
Total revenue		168032	158718	161246	171131	183344
Expenses						
Goods and services						
Employees	7	16121	15856	15591	15638	15879
Suppliers	8	13335	14095	13597	13159	13330
Depreciation and amortisation	9	2533	2823	3160	3475	3654
Net write down of assets		1056	1008	1035	1078	1129
Net foreign exchange losses		397	3	0	0	0
Net losses from the sale of assets		51	4	1	1	1
Other goods and services expenses		4759	5005	5243	5530	5895
Total goods and services		38253	38795	38628	38880	39888
Subsidies benefits and grants						
Personal benefits		60942	69313	71830	76304	80678
Subsidies		5382	7000	7614	8001	8247
Grants	10	45212	29713	33421	31836	32056
Total subsidies benefits and grants		111536	106026	112866	116141	120981
Interest and other financing costs		8604	8911	8234	8404	8192
Total interest and other		8604	8911	8234	8404	8192
Total expenses		158392	153732	159728	163424	169061
Operating result		9640	4985	1517	7707	14283
Extraordinary Items		11999	0	14731	14731	0
Operating result after extraordinary items(a)		21639	4985	16249	22438	14283

(a) Consistent with Australian Accounting Standard AAS 1 *Statement of Financial Performance* only disclosure of operating results after extraordinary items is provided. The notion of 'abnormals' no longer exists.

**Table 5: Balance Sheet for the Commonwealth
General Government Sector**

	Note	Estimates		Projections		
		1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Assets						
Financial assets						
Cash		885	775	67	244	202
Receivables		29327	27226	31021	29814	22787
Investments	14	37203	27816	26296	24863	25028
Accrued revenue		526	408	472	551	636
Other financial assets		134	139	148	169	169
Total financial assets		68075	56364	58004	55642	48822
Non-financial assets						
Land and buildings	11	15914	14927	14516	14332	14419
Infrastructure		34258	35319	35955	36566	36704
Intangibles		831	942	1009	908	841
Inventories		2818	2818	3023	3169	3574
Other non-financial assets		1407	1426	1588	1677	1967
Total non-financial assets		55227	55432	56091	56651	57504
Total assets		123302	111796	114095	112293	106326
Liabilities						
Debt						
Government securities	14	78947	61902	48152	24042	3778
Loans		5966	6076	6104	6000	5912
Leases		340	231	144	121	106
Deposits		9	9	9	9	9
Overdrafts		2	2	13	39	72
Other debt		2946	2779	2256	1981	1573
Total debt		88210	70999	56679	32193	11451
Provisions and payables						
Employees	12	76781	77322	77386	77242	77298
Suppliers		1256	1230	1179	1169	1216
Personal benefits payable		1999	2212	2376	2507	2646
Subsidies payable		257	225	193	159	124
Grants payable	13	6771	7074	7354	7425	7468
Other provisions and payables		3559	3389	3249	3260	3330
Total provisions and payables		90623	91452	91736	91763	92082
Total liabilities		178833	162451	148415	123955	103533
Net assets		-55532	-50655	-34319	-11663	2793
Equity						
Accumulated results		-86385	-81375	-63189	-39080	-24787
Reserves		30854	30720	28869	27418	27580
Capital		0	0	0	0	0
Total equity		-55532	-50655	-34319	-11663	2793

**Table 6: Statement of Cash Flows for the Commonwealth
General Government Sector**

	Note	Estimates		Projections		
		1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Operating activities						
Cash received						
Taxes	15	149023	139593	149649	158253	168183
Sales of goods and services		2933	2769	2903	2854	2876
Interest		2957	3454	3992	5367	6774
Dividends		5920	2939	2867	2680	2194
Other		2535	2971	2491	2350	2326
Total operating cash received		163367	151726	161902	171504	182353
Cash used						
Payments to employees		15595	15315	15528	15781	15823
Payments to suppliers		13310	13858	13352	13006	13218
Subsidies paid		5238	7032	7647	8035	8282
Personal benefits		60473	69119	71671	76166	80534
Grant payments		45008	29410	33141	31765	32012
Interest and other financing costs		9125	8979	8255	8404	8134
Other		4528	5068	5363	5518	5883
Total operating cash used		153277	148781	154956	158675	163886
Net cash from operating activities		10091	2945	6945	12829	18467
Investing activities						
Cash received						
Proceeds from asset sales program		10051	6292	9800	16600	6800
Proceeds from sales of property, plant and equipment and intangibles		2223	4321	785	752	511
Net loans, advances and HECS		0	0	1196	0	0
Other net investing cash received		0	9320	0	0	0
Total investing cash received		12274	19933	11781	17352	7311
Cash used						
Purchase of property, plant and equipment and intangibles		4393	4884	4592	4567	4596
Net loans, advances and HECS		441	889	0	417	63
Other net investing cash paid	14	10424	0	523	534	443
Total investing cash used		15259	5773	5115	5518	5103
Net cash from investing activities		-2984	14160	6666	11834	2209
Financing activities						
Cash received						
Other		203	0	0	0	0
Net cash received from currency issues		0	0	0	0	0
Total financing cash received		203	0	0	0	0
Cash used						
Net repayments of borrowings	14	8002	16935	13722	24214	20353
Other		0	280	610	298	399
Total financing cash used		8002	17214	14332	24512	20751
Net cash from financing activities		-7798	-17214	-14332	-24512	-20751
Net increase/decrease in cash held		-692	-109	-720	152	-76

Note: Net increase/decrease in cash held represents movements in cash and bank overdraft.

Appendix A: Statistics, Concepts and Notes to the Financial Statements

Note 1: External reporting standards

The *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards and that departures from applicable external reporting standards be identified.

The financial statements included in this budget statement have been prepared on an accrual basis in accordance with applicable Australian accounting standards, including Australian Accounting Standard 31 *Financial Reporting by Governments* (AAS31). AAS31 is the relevant accounting standard for financial reporting by governments.

AAS31 requires adoption of the full accrual basis of accounting. This means that assets, liabilities, revenues and expenses are recorded in financial statements when they have their economic impact on the government, rather than when the cash flow associated with these transactions occur. Consistent with AAS31, a statement of revenue and expenses, a balance sheet and a statement of cash flows have been prepared using estimates for the current year, budget year and the three forward years.

The accounting policies in this budget document are generally consistent with the accounting policies in AAS31. While the scope for financial reporting recommended in AAS31 is the whole of government (that is, the Commonwealth public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the budget presentation of financial estimates covers the General Government Sector only.

In relation to taxation revenue, AAS31 suggests revenue be recognised at the time the income (or economic activity) giving rise to a tax liability occurs, where this can be measured *reliably*. At this stage, the Commonwealth does not consider its taxation revenues can be reliably measured on this basis for budget reporting purposes. Taxation revenue in the budget is therefore recognised at the time a taxpayer makes a self-assessment or when a tax assessment is raised by the Australian Taxation Office (ATO) or the Australian Customs Service (ACS).

The Commonwealth collects a number of taxes on an agency basis for the States and Territories, principally 'safety net' surcharge collections until 1 July 2000 (which replaced business franchise fees), mirror taxes on Commonwealth places and, from 1 July 2000, the goods and services tax. The revenue from these taxes is passed to State and Territory Governments (with an adjustment for administration costs in the case of safety net revenue and mirror taxes). Estimates of taxes collected by the Commonwealth and passed to State and Territory Governments are provided in Note 4.

In regard to GST revenue, AAS31 and other relevant accounting standards would suggest the gross amount of GST be included in the Commonwealth's Financial Statements. However, the clear policy intent of the *Intergovernmental Agreement on the*

Reform of Commonwealth-State Financial Relations (the IGA) is that the GST is a State tax collected by the Commonwealth in an agency capacity. Therefore, accrued GST revenues and associated payments to the States and Territories are not recorded in the Budget financial statements.

In addition, non-accounting standard classifications have been used in different sections of the Budget. 'Outcomes' is a Commonwealth classification framework that indicates the results, impacts or consequences of agencies activities. Functional classifications used in some tables are based on standards maintained by the ABS, but have been extended in some cases to provide greater detail.

Note 2: Reconciliation of Cash

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Operating result (revenues less expenses)	9640	4985	1517	7707	14283
<i>less</i> Revenues not providing cash					
Foreign exchange gains	0	0	0	0	0
Gains from asset sales programme	0	0	0	0	0
Gains from sale of assets	1333	2804	52	68	40
Other	116	324	206	241	274
Total revenues not providing cash	1449	3128	258	309	315
<i>plus</i> Expenses not requiring cash					
Increase/(Decrease) in employee entitlements	1507	541	63	-144	56
Depreciation/amortisation expense	2533	2823	3160	3475	3654
Provision for bad and doubtful debts	103	160	137	135	128
Provision for diminution in value of assets	0	0	0	0	0
Losses from asset sales programme	0	0	0	0	0
Losses from sale of assets	45	4	1	1	1
Foreign exchange losses	397	3	0	0	0
Other	14	2	2	2	3
Total expenses not requiring cash	4599	3532	3363	3468	3842
<i>plus</i> Cash provided by working capital items					
Decrease in inventories	0	0	0	0	0
Decrease in receivables	0	0	1880	1702	336
Decrease in other financial assets	0	113	0	0	0
Decrease in other non-financial assets	79	36	0	10	8
Increase in benefits subsidies and grants payable	697	484	411	169	147
Increase in suppliers' liabilities	0	0	0	0	47
Increase in other provisions and payables	0	91	363	338	608
Total cash provided by working capital items	775	724	2655	2219	1146
<i>less</i> Cash used by working capital items					
Increase in inventories	184	1	205	145	405
Increase in receivables	2152	3143	0	0	0
Increase in other financial assets	38	0	74	100	84
Decrease in other non-financial assets	0	0	2	0	0
Decrease in other provisions and payables	992	0	0	0	0
Decrease in suppliers' liabilities	108	26	51	10	0
Total cash used by working capital items	3475	3169	332	256	490
<i>equals</i> Net cash from/(to) operating activities	10091	2945	6945	12829	18467
<i>Net cash from/(to) investing activities</i>	-2984	14160	6666	11834	2209
Net cash from operating activities and investment	7106	17105	13612	24663	20676
<i>Net cash from/(to) financing activities</i>	-7798	-17214	-14332	-24512	-20751
equals Net (decrease)/increase in cash	-692	-109	-720	152	-76

Note: Net (decrease)/increase in cash held represents movements in cash and bank overdraft.

Note 3: Income Tax

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Income tax					
Individuals -					
Gross PAYG withholding	79884	72504	77702	83909	90234
Gross Other individuals	13518	12789	15343	15287	18050
<i>less</i> : Refunds	10890	11170	10840	11563	12512
Total individuals	82512	74123	82205	87633	95772
Companies	23666	30857	27660	29445	30978
Superannuation funds	3893	5175	4010	4279	4553
Other withholding tax	1411	1346	1386	1446	1481
Petroleum resource rent tax	1135	1280	1210	950	810
Total income tax	112617	112781	116471	123753	133594

Note 4: Indirect Tax

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Excise duty	19946	20057	20807	21595	22372
<i>Of which revenue replacement</i>	5749	278	0	0	0
<i>Less</i> transfer to States and Territories in relation to revenue replacement	5744	278	0	0	0
Excise duty revenue	14202	19779	20807	21595	22372
Customs duty	3939	4417	4822	5313	5846
<i>Of which revenue replacement</i>	170	4	0	0	0
<i>Less</i> transfer to States and Territories in relation to revenue replacement	169	4	0	0	0
Customs duty revenue	3770	4413	4822	5313	5846
Other indirect taxes	16551	2058	833	877	903
<i>Of which revenue replacement</i>	1057	82	0	0	0
<i>Less</i> transfers to States and Territories in relation to revenue replacement	1054	82	0	0	0
Other indirect tax revenue	15497	1976	833	877	903
GST revenue	0	24053	28029	29083	30737
<i>Less</i> transfers to States and Territories in relation to GST revenue	0	24053	28029	29083	30737
GST revenue	0	0	0	0	0
Mirror taxes	171	169	174	181	190
<i>Less</i> transfers to States and Territories in relation to mirror revenue	171	169	174	181	190
Mirror tax revenue	0	0	0	0	0
Indirect tax revenue	33468	26168	26462	27786	29121

Note 5: Interest and Dividends

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Interest					
Interest from other governments					
State and Territory debt	177	97	59	51	45
Housing agreements	191	188	185	181	178
Total interest from other governments	368	285	244	232	222
Interest from other sources					
Swap interest	1943	2348	2530	2692	2738
Advances	39	44	49	53	53
Deposits	11	1	2	3	0
Bills receivable	5	6	6	6	6
Bank deposits	242	225	234	245	239
Other	418	470	1033	2255	3640
Total interest from other sources	2660	3094	3852	5254	6676
Total interest	3028	3378	4096	5486	6898
Dividends					
Dividends from associated entities	6571	2197	2810	2610	2143
Other dividends	25	66	56	69	51
Total dividends	6596	2263	2867	2680	2194
Total interest and dividends	9624	5642	6962	8166	9092

Note 6: Other Sources of Non-taxation Revenue

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Industry contributions	73	53	53	47	49
Indexation of HECS receivable and AUSTUDY loans	103	325	208	212	198
International Monetary Fund related revenue	78	83	83	83	83
Other	2789	2875	2576	2528	2498
Total other sources of non-taxation revenue	3043	3335	2920	2870	2828

Note 7: Employee Expenses

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Salaries and wages(a)	8875	8871	8784	8822	9002
Leave and other entitlements	265	308	318	316	321
Separations and redundancies	85	61	19	19	18
Workers compensation premiums	162	178	191	203	203
Other including Superannuation	6734	6438	6279	6279	6335
Total employee expenses	16121	15856	15591	15638	15879

(a) Salaries and wages do not include superannuation.

Note 8: Suppliers' Expenses

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Supply of goods and services	10459	11084	10715	10272	10462
Operating lease rental expenses	829	803	841	838	841
Other	2046	2208	2041	2049	2027
Total suppliers	13335	14095	13597	13159	13330

Note 9: Depreciation and Amortisation

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Depreciation					
Specialist military equipment	1172	1511	1776	2010	2133
Buildings	443	393	378	376	376
Other infrastructure, plant and equipment	733	707	766	825	890
Total depreciation	2347	2611	2919	3211	3399
Total amortisation	186	212	241	263	255
Total depreciation and amortisation	2533	2823	3160	3475	3654

Note 10: Grants

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
State and Territory governments	35443	19919	23173	22250	22423
Non-profit organisations	1015	1031	1064	1085	1111
Overseas	241	492	553	242	230
Private sector	577	537	704	412	416
Local governments	231	125	122	128	133
Other	7706	7609	7805	7718	7743
Total grants	45212	29713	33421	31836	32056

Note 11: Other Non-financial Assets

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Land and Buildings					
Land	3926	3633	3440	3335	3354
Buildings	11989	11294	11076	10997	11065
Total Land and Buildings	15914	14927	14516	14332	14419
Infrastructure					
Specialist Military Equipment	25752	26736	27211	27691	27782
Other	8506	8583	8745	8875	8922
Total Infrastructure	34258	35319	35955	36566	36704
Intangibles					
Computer software	600	667	639	562	530
Other	230	275	370	346	311
Total Intangibles	831	942	1009	908	841
Inventories	2818	2818	3023	3169	3574
Total Inventories	2818	2818	3023	3169	3574
Other non-financial assets					
Prepayments	1335	1302	1305	1296	1288
Other	71	124	283	381	679
Total other non-financial assets	1407	1426	1588	1677	1967
Total non-financial assets	55227	55432	56091	56651	57504

Note 12: Employee Liabilities

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Superannuation	71350	71929	71970	71804	71822
Leave and other entitlements	2986	2965	2989	3013	3025
Accrued salaries and wages	224	219	235	254	260
Workers compensation claims	1085	1033	987	942	905
Separations and redundancies	41	44	41	42	42
Workers compensation premiums	0	0	0	0	0
Other	1094	1133	1163	1187	1246
Total employee entitlements	76781	77322	77386	77242	77298

Note 13: Grants Payable

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
State and Territory governments	2265	2407	2595	2782	2958
Non-profit organisations	28	28	5	5	5
Private sector	4	3	3	0	0
Overseas	1112	1121	1172	926	696
Local governments	1	1	1	2	2
Other	3361	3514	3578	3711	3808
Total grants payable	6771	7074	7354	7425	7468

Note 14: Government Securities

For 2000-01 and the forward years transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the balance sheet and cash flows. In the balance sheet, the financial assets — investments category excludes financial assets acquired for debt management purposes, while the debt — government securities category is shown net of financial assets acquired for debt management purposes. Likewise, in the statement of cash flows, the investing activities — cash used — other category excludes cash used to acquire financial assets for debt management purposes while the financing activities — cash used — net repayment of borrowings category includes cash used to acquire financial assets for debt management purposes.

This netting treatment has been applied because of the considerable uncertainty associated with the split between government securities and financial assets acquired for debt management purposes. Debt management strategies in respect of government securities and financial assets are highly dependent on prevailing market conditions and other factors. The balance to be struck between gross debt retirement and financial asset acquisition cannot be accurately estimated in advance.

This netting treatment has not been applied in 1999-2000.

Note 15: Taxes

	Estimates		Projections		
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Total taxes	156403	164178	177852	187518	199110
<i>Less</i> payments to States and Territories in relation to revenue replacement	6968	363	0	0	0
<i>Less</i> payments to States and Territories in relation to GST revenue	0	24053	28029	29083	30737
<i>Less</i> payments to States and Territories in relation to mirror tax revenue	412	169	174	181	190
Taxes	149023	139593	149649	158253	168183

Appendix B: Sensitivity of Financial Aggregates to Economic Developments

Table B1 provides a guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 2000-01. It is important to recognise that such guides provide only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters.

Table B1: Sensitivity of Financial Aggregates to Changes in Economic Parameters

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Expenses				
Prices	240	600	600	600
Wages	60	290	330	345
Unemployment benefit recipients	270	260	250	240
Safety net adjustment	90	190	290	380
Revenue				
Prices	100	220	230	230
Wages	1070	1140	1220	1310
Employment	700	750	800	860
Private final demand	270	280	300	310

EXPENSES

On the expenses side, the sensitivity analysis of the estimates considers the following changes to four broad groups of parameters:

- prices — all price deflators are assumed to change by one percentage point at the start of the September quarter 2000, with wage deflators left unchanged;
- wages — all wage and salary rates are assumed to change by one percentage point from the beginning of the September quarter 2000, with price deflators left unchanged;
- unemployment benefit recipients (includes Newstart Allowance and unemployed Youth Allowance recipients) — the total number of recipients is assumed to change by 5 per cent from the beginning of the September quarter 2000; and
- Safety Net Adjustment — the Safety Net Adjustment (SNA) determined by the Australian Industrial Relations Commission (AIRC) is assumed to change by \$2 per week in each of the budget and forward years from the beginning of the financial year. The SNA is used in the calculation of Wage Costs Indexes used in the indexation of a range of Commonwealth expenses.

For expenses, an increase in any of the above parameters will lead to an increase in expenses, and similarly, a decrease in any of the parameters will lead to a reduction in expenses.

Projected expenses respond to changes in economic parameters through a variety of mechanisms. For example, the Government's decision to maintain pensions at 25 per cent of Male Total Average Weekly Earnings (MTAWE) means that projected spending on pensions will depend not just on changes to the CPI, by which pensions have been indexed for some time, but also on expected changes in the level of MTAWE.

In addition, about \$40 billion of expenses, comprising agency departmental expenses, other Commonwealth Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in inflation and the Safety Net Adjustment (SNA) determined by the AIRC.

The number of unemployment benefit recipients, and therefore the total spending on benefits, are affected by economic growth and employment growth. However, the relationship between GDP growth and unemployment benefit recipients is highly variable and difficult to quantify. For this reason, Table B1 only includes the impact of changes in the number of unemployment benefit recipients (that is, Newstart Allowance and unemployed Youth Allowance recipients) on the estimates.

The profile of the prices sensitivity has changed when compared to previous years' analysis due to an increase in the scope of the analysis. This year, a greater number of expense items have been included in the analysis, with the affect of increasing the total reported sensitivity of a change in the price deflators.

REVENUE

The assumptions underlying the sensitivity of the revenue estimates to changes in prices and wages are similar to those used for expenses. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

The revenue effects of changes in employment and private final demand show the effect of the following assumptions:

- employment — the level of employment is assumed to change by one percentage point from the beginning of the September quarter 2000, with no change in the composition of demand; and
- private final demand (consumption plus investment) — the level of private final demand is assumed to change by one percentage point from the beginning of the September quarter 2000, with no change in the composition of demand.

For the purposes of this analysis:

- changes in prices affect revenue primarily through changes in excise revenue;
- changes in wages and employment feed through into tax revenue largely through increases in PAYG Withholding tax collections; and
- changes in private final demand affect revenue predominantly through changes in excise and customs collections.

An increase in any of the parameters considered will lead to an increase in revenue, and a decrease in any of the parameters will lead to a reduction in revenue.

Appendix C: Statement of Risks

INTRODUCTION

The forward estimates of revenue and expenses in the 2000-01 Budget incorporate assumptions and judgements based on information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these to be disclosed in a Statement of Risks in each Economic and Fiscal Outlook Report. The purpose of this disclosure is to increase the transparency of the fiscal projections.

Events which could affect fiscal outcomes include:

- changes in economic and other parameters;
- matters which have not been included in the fiscal forecasts because of uncertainty about their timing, magnitude or whether they will eventuate; and
- the realisation of contingent liabilities.

Economic and Other Parameters

Some degree of uncertainty is attached to budget time and forward estimates for both revenues and expenses. For example, past experience indicates that the actual revenue outcome could vary from the initial estimate by about 2¼ per cent on average for the budget year.

The major factor influencing expected expenses and revenues in any year is typically changes in forecasts of economic and non-economic parameters. Over time, differences between the economic parameter forecasts and outcomes have not caused any clear bias toward understatement or overstatement of expenses and revenue — and therefore the budget balance. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix B.

Differences in non-economic (programme-specific) parameter forecasts and outcomes have been biased towards an understatement of expenses in recent years. This year, considerable effort has been made to reduce the extent of this bias. Programme specific parameters are assumptions underpinning some particular programme estimates, for example client numbers and/or average rates payable on family payments, family tax payments and disability support pension programmes. The Contingency Reserve contains an allowance for conservative bias.

Fiscal Risks

Fiscal risks are general developments or specific events which may have an effect on the fiscal outlook. In some cases, the events will simply raise the possibility of some fiscal impact. In other cases, some fiscal impact will be reasonably certain, but it will not be included in the forward estimates because the timing or magnitude is not known. Fiscal risks may affect expenses and/or revenue and may be positive or negative.

Specific sources of fiscal risk include:

- litigation currently before the courts; and
- possible Senate rejection or amendment of budget measures or other legislation before the Parliament.

Some fiscal risks are reflected in the Contingency Reserve and are therefore included in the aggregate expenses figuring. The Contingency Reserve is an allowance included in aggregate expenses to reflect anticipated events, which cannot be assigned to individual programmes at budget time. These items are also not included in the Statement of Risks.

Matters that are not currently under active consideration by Government, or pressure from interests outside the Government for changes in spending levels, are not treated as fiscal risks.

Contingent Liabilities

Contingent liabilities differ from fiscal risks in that they are generally more readily quantifiable and clearly defined.

Contingent liabilities are defined as costs the Government will have to face if a particular event occurs. They include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort.

The Commonwealth's major exposure to contingent liabilities arises out of legislation providing guarantees over certain liabilities of Commonwealth controlled financial institutions (that is, the Reserve Bank of Australia (RBA) and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. Other substantial non-loan guarantees include guaranteed payments from Telstra Corporation Ltd to the Telstra Superannuation Scheme.

The strategies for managing these exposures are aimed at ensuring the underlying strength and viability of the entities, so that the guarantees are not triggered. Similar strategies apply to entities not subject to explicit guarantees.

Other arrangements are in place to govern the entering into, and monitoring of, contingent liabilities such as indemnities and uncalled capital. Uncalled capital is

primarily associated with international financial institutions such as the International Bank for Reconstruction and Development, the Asian Development Bank and the European Bank for Reconstruction and Development. Arrangements for capital contributions, including contingent liabilities, are approved by Parliament and reports on the institutions are provided annually by the Government to Parliament.

Consistent with Australian Bureau of Statistics (ABS) standards, transactions concerned with the management of international reserves and the monetary system are classified as financing transactions (and do not impact on the fiscal or operating balance). Therefore, contingent liabilities (and assets) with the International Monetary Fund (IMF) are not shown below.

Details of Fiscal Risks and Contingent Liabilities

Fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period, are listed below. Information on fiscal risks takes account of decisions of Parliament and other developments up to the close of parliamentary business on 30 April 2000. In general, information on contingent liabilities is based on information provided by departments and agencies and is current to 31 March 2000 (or a later date as indicated where that information is available). However in some cases, earlier dates are used and noted in the relevant section.

Information on contingent liabilities is provided in annual financial statements of departments and non-budget entities.

FISCAL RISKS — REVENUE

Revenue forecasts, like all forecasts, are subject to a margin of error. Over the previous ten years, the average absolute error in the forecast of revenue in the budget year has been in the order of 2¼ per cent.

The average forecast error, measured relative to the tax base being forecast, is higher for some components of the tax base. This is particularly evident for the 'Company' and 'Other Individuals' tax bases, partly reflecting the reaction of these payers to tax changes, and the way capital losses or gains are realised so as to minimise tax payments.

An implication of the degree of uncertainty surrounding the revenue forecasts is that, while many of the forecasts are reported to the nearest million dollars for budget accounting purposes, they should not be interpreted as implying an equivalent level of forecast precision.

The various risks influencing the accuracy of the revenue forecasts are outlined below.

Tax Reform

The New Business Tax System

The Government announced in September and November 1999 its response to the *Review of Business Taxation* (RBT). A number of measures have been passed through the Parliament. Others are currently before the Parliament, and the balance of the Government's package will be introduced in coming months. The revenue consequences of the measures have been incorporated into the Budget. There will be some risk to the Budget should remaining legislation not be passed.

General risks

The forward estimates of revenue are subject to a number of general pressures that can result in risks to revenue collections. These general pressures include: tax minimisation and avoidance, including the exploitation of tax expenditures; financial innovation; developments in communications technology and workplace arrangements; and court decisions. These pressures may result in a shift in the composition of revenue collected from the various tax bases and/or a change in the size of the tax base. The revenue forecasts make what is believed to be an appropriate allowance for these factors, given the data available.

Tax minimisation and avoidance involves the use of provisions and 'loopholes' in the tax law which were not intended by policymakers. In the absence of closing these off, the revenue base will shrink relative to that projected in the forward estimates. The Government is committed to addressing these problems by way of a fundamental tax reform programme that has, as one of its aims, the formation of a simpler and fairer tax system. At the same time, the Government will continue to take legislative action to close off such schemes as they are identified. In addition, the Australian Taxation Office (ATO) will continue to undertake extensive compliance enforcement work, including pursuing matters through the courts, to maintain the integrity of the tax system.

Financial innovation has increased dramatically during the past two decades. Consequently, uncertainty has arisen over the application of existing laws to new and often complex financial arrangements. Also, the scope for tax minimisation and avoidance through the application of financial engineering has expanded. An Issues Paper on the taxation of financial arrangements was released by Treasury and the ATO in December 1996 and the subject was also considered by the RBT. Consultations have continued between officials and taxpayers.

Developments in **communications technology**, such as the Internet, also raise a general risk to the forward estimates of revenue. Such developments may allow the purchase or sale of an increasing number of goods and services, including the provision of labour services, in a way which could render traditional tax collection mechanisms unworkable, posing a major challenge for tax system design. The Organisation for Economic Cooperation and Development (OECD) is developing a taxation framework to apply to electronic commerce which will include 'place of taxation' rules for consumption taxes and measures to strengthen international

cooperation in tax administration and collection. Australia is contributing actively to this work. The ATO has sought to raise awareness of the issue in its publication *Tax and the Internet*.

Developments in workplace arrangements may also affect taxation collections. Australia's tax system is characterised by a progressive system of personal income tax rates, combined with a flat company tax rate. Typically, the top marginal tax rate has been higher than the company tax rate. The divergence between the rates of personal and company tax provides an opportunity for some individual taxpayers, who would otherwise be subject to higher rates of personal income tax, to derive income through a corporate structure to take advantage of features of the corporate tax regime (for example, the lower company tax rate). The Government has introduced legislation to ensure that income earned through the provision of personal services is treated as the income of the individual who provided the personal services for taxation purposes.

Court decisions also increase the risk that revenue will be lower or higher than anticipated. Court decisions can affect the interpretation of tax legislation and, in the absence of Government action, can significantly change the level of revenue collected under that legislation.

Tax expenditures are often at risk of being exploited in an unexpected manner, which can also have a significant effect on the forward estimates of revenue. The Government receives a steady stream of calls for new tax expenditures to be granted. As a general proposition, the granting of further tax expenditures will lead to the downward adjustment of the forward estimates of revenue. Equally, the winding back of existing tax expenditures will generally require the upward adjustment of the forward estimates of revenue. Following a review of existing tax expenditures, first announced in the 1996-97 Budget, the Government has decided to undertake periodic monitoring and evaluation of all tax expenditures through normal budget processes to ensure they deliver Government assistance in an effective manner.

Apart from the general risks mentioned above, which could have a cumulative impact over time, there are general risks to the forward estimates which could have a significant effect in any one year, but not necessarily a cumulative effect over time. In any one year, revenue will be influenced by a number of factors, including for example, the degree to which companies and individuals realise losses and capital gains, the valuation of stocks, the utilisation of specific tax expenditures and taxpayer behavioural responses to revenue measures. Such factors can have a particularly significant effect on company tax collections and the revenue forgone through tax expenditures. Generally, such factors are not, by their nature, able to be forecast with a high degree of certainty.

Specific risks

There are also a number of specific risks to revenue that are currently the subject of ongoing analysis and evaluation by the Treasury and the ATO. Such risks include, for example, specific tax minimisation and avoidance schemes. Early detection and government response to such risks is desirable. It would be inappropriate to explicitly

identify such current specific risks until the Government is in a position to respond to the risks. To do so may compromise the Government's policy response and magnify the downside risks to the forward estimates of revenue.

The Government has announced a number of measures to date that have already been factored into the forward estimates of revenue but are yet to be passed by Parliament. Should the passage of legislation relating to these measures be delayed, amended or rejected, the forward estimates would need to be adjusted.

Review of the general tariff rate

Under the 1994 Bogor Declaration, Asia-Pacific Economic Cooperation members committed to 'free and open' trade and investment in the region by 2010 for developed economies and 2020 for industrialising economies. As part of Australia's Individual Action Plan the general tariff rate (currently at five per cent) is being reviewed by the Productivity Commission, which is scheduled to hand down its report in July 2000.

Sale of telecommunications spectrum licences

The Commonwealth has announced the release of telecommunications spectrum licences for sale. The estimates of the proceeds from the sale of spectrum licences are based on current market information and the expected schedule of auctions. However, the actual amount realised will depend on market conditions and competitive dynamics at the time of each sale. In addition, the timing of receipt of auction proceeds is dependent on procedural requirements being met.

FISCAL RISKS — EXPENSES

Attorney-General's

Native title costs

The Commonwealth has offered to assist the States and Territories in meeting compensation costs associated with native title. The amounts that might be paid by the Commonwealth will depend on the terms of financial assistance agreements currently being negotiated with the States and the level of compensation liabilities arising from actions by the States. Those liabilities cannot be quantified due to uncertainty about the number and effect of compensable acts, both in the past and in the future, and the valuation of native title affected by those acts. Similarly, liabilities cannot be quantified in relation to acts by the Commonwealth for which it may be directly liable. The Commonwealth has also offered to assist the States with the costs of bodies performing native title functions under State legislation. The extent of this assistance will depend on the existence of such bodies, the timing of their recognition and the extent of their use.

Defence

Litigation cases in train

The Department of Defence is involved in several cases covering a wide range of litigation where either the cases have not been heard or damages and costs have not been awarded. The litigation involves Common Law liability and claims before the Human Rights and Equal Opportunity Commission. Litigation also involves claims relating to HMAS Stalwart, HMAS Voyager, HMAS Melbourne, asbestos litigation, and alleged defective administration by the Department. In total, there are about 574 claims with a value of around \$99 million.

Finance and Administration

Member Choice and Commonwealth Superannuation Arrangements

New superannuation arrangements for Commonwealth employees have been provided for in the budget and forward estimates although the arrangements are subject to the passage of legislation currently before the Parliament. These new arrangements provided for, from 1 July 1999, the closure of the Public Sector Superannuation Scheme (PSS) to new employees and would have allowed new employees, from that date, to join a complying superannuation fund or retirement savings account (RSA) offered by their employer. The arrangements also provide for existing Commonwealth Superannuation Scheme (CSS) and PSS members to choose to join another fund or RSA on or after 1 July 2000. On 9 June 1999, the Minister for Finance and Administration announced the deferral of the start date for the new arrangements. Subject to the Government's decision for a new start date, Budget estimates have assumed a start date of 1 July 2001 for both new and existing employees.

Department of Finance and Administration Litigation

The Department of Finance and Administration is involved in litigation where two counter-claims for damages have been lodged against the Commonwealth. The counter-claim by one group of defendants claims damages of \$4.3 billion against the Commonwealth although the basis for this amount is yet to be provided. The other counter-claim has not specified any particular amount of damages.

Telstra Corporation Limited — notional account surplus

The employer payments made by Telstra for its past and present employees who are members of the Commonwealth Superannuation Scheme are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Telstra's notional account. A review of Telstra's notional account was completed in 1998-99. The total surplus was determined at \$1,428 million as at the valuation date of 30 June 1997. This surplus will be paid to the Telstra Superannuation Scheme either in instalments or as a lump sum. An actuarial 'desk top' estimate of the movement in the notional account surplus since

the valuation date of the last review indicates an increase in the surplus of \$400 million.

Australia Post — notional account surplus

The employer payments made by Australia Post for its past and present employees who are members of the Commonwealth Superannuation Scheme are in excess of the payments required to fund past and future liabilities for these members. The adequacy of these payments is tracked through an actuarial assessment of Australia Post's notional account. A review of Australia Post's notional account was completed earlier this financial year. The total surplus was determined at \$1,166 million as at the valuation date of 30 June 1998. This surplus will be paid to the Australia Post Superannuation Scheme either in instalments or as a lump sum. An actuarial 'desk top' estimate of the movement in the notional account surplus since the valuation date of the last review indicates an increase in the surplus of \$300 million.

Asset Sales — Telstra

The Budget estimates include the effect of the sale of the Commonwealth's 50.1 per cent shareholding in Telstra, noting that the level of proceeds will depend, inter alia, on the prevailing levels of world equity markets at the time of the sale. Revenue from the sale could be placed at risk if legislation authorising the sale is not passed by the Parliament. The Government has committed to retaining its shareholding in Telstra unless and until the independent telecommunications service inquiry certifies that service levels are adequate.

National Disaster Relief Arrangements

Payments are made to State Governments under specific criteria relating to costs incurred by the State Governments following natural disasters. An amount has been included in the estimates for future payments. However, the actual level of payments under this scheme would depend on the incidence and severity of natural disasters.

Health and Aged Care

Australian Health Care Agreements

The Commonwealth and all States and Territories have signed Australian Health Care Agreements (AHCAs) for the five years to 2002-03 that incorporate a risk-sharing arrangement in case of changes in the private health insurance participation rate. Under this formula, Commonwealth grants to the States and Territories will be increased by \$82 million a year from 1999-2000 for each percentage point decrease below the December 1998 level. This is based on current estimates of movements in population, price indexation, and assuming that those leaving private health insurance have the same age/sex profile as those remaining. While the Agreements provide for grants to be decreased in the event of increases in the participation rate above a certain point, the Government has made a commitment to the States to negotiate a variation to

the Agreements, to ensure that none of the States will be worse off as the result of a rise in the private health insurance participation rate.

Major new listings — Pharmaceutical Benefits Scheme and Medicare Benefits Scheme

From time to time new items are added to or removed from the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme schedules following independent assessments of cost-effectiveness. Major new developments in medicines or medical procedures could result in increases in expenses that exceed the provision in the forward estimates. Similarly, significant shifts in usage patterns, which may occur for particular drugs or groups of drugs from time to time, could result in increases in expenses that exceed the provision in the forward estimates. It is not possible to quantify the fiscal risk arising from such potential developments.

Litigation cases in train

The Department of Health and Aged Care is presently involved in about 40 cases that could result in a financial liability for the Commonwealth. These cases cover a wide range of litigation, where either the cases have not been heard or damages have yet to be awarded. The litigation now involves Creutzfeldt-Jacob disease, Acquired Immune Deficiency Syndrome (AIDS), Hepatitis C, defective products, personal injuries, the Department as an employer, and a variety of other claims against the Commonwealth. It is not possible to quantify the fiscal risk arising from potential developments.

Immunisation funding mechanism

Future vaccine technology will result in new vaccines substituting for ones already in use (multivalent vaccines which combine several vaccines into one, for example) and, as a consequence, could result in higher unit costs of vaccine within the routine schedule. Given the nature of current vaccine technology and the possible introduction of new vaccines, specific costs cannot be precisely quantified at this stage. The inclusion of new vaccines within the routine schedule has the potential to increase Commonwealth expenses by up to \$120 million over the next four years.

Industry, Science and Resources

Repayment of Snowy Mountains Hydro-Electric Scheme debt

The expected corporatisation of the Scheme in 2000 will involve the refinancing and early repayment of debt to the Commonwealth. The estimated market value of the debt is in the order of \$900 million. Detailed arrangements are to be finalised between the Commonwealth, New South Wales and Victorian Governments as shareholders in the new company. Electricity prices and the financial markets will influence the timing and amount of payments at the time of corporatisation.

Prime Minister and Cabinet

Hindmarsh Island Bridge damages claim

Developers of a marina associated with the proposed Hindmarsh Island Bridge have brought a substantial damages claim against the Commonwealth and other parties who were involved in the decision to ban construction of the bridge. The plaintiffs are claiming damages of \$20 million.

Transport and Regional Services

Maritime industry reform

On 18 August 1998 the Commonwealth provided a guarantee to cover borrowings made by the Maritime Industry Finance Company (MIFCo) to finance redundancy related payments in the stevedoring and maritime industries. MIFCo's borrowing facility, negotiated with its bankers, was \$220 million, of which approximately \$193 million has been drawn down as at 31 March 2000. The *Stevedoring Levy (Collection) Act 1998* has been amended to increase the expenditure cap in the legislation from \$250 million to \$300 million.

Treasury

General revenue assistance to the States and Territories

Under the terms of the *Inter-governmental Agreement on the Reform of Commonwealth-State Financial Relations* all Goods and Services Tax (GST) revenue is to be paid to the States and Territories. The inter-governmental agreement also requires the Commonwealth to provide transitional assistance to the States to offset any revenue shortfalls resulting from the implementation of the reforms to the taxation system. This transitional assistance will ensure that no State budget will be worse off as a result of the reforms to Commonwealth-State financial arrangements and will take the form of both one-year interest-free loans and grants to the States in 2000-01 and quarterly grants in subsequent years. As a consequence of these arrangements, a shortfall in estimated GST revenue over the forward estimates period may result in increased expenses in the form of increased grants to the States and Territories.

International Monetary Fund (IMF) assistance to Thailand, Indonesia and the Republic of Korea

In response to instability in regional financial markets and economies, Australia offered in 1997-98 to provide bilateral financing in support of IMF programmes in Thailand, Indonesia and the Republic of Korea. In the case of Thailand, this has taken the form of a currency swap between the Reserve Bank of Australia (RBA) and the Bank of Thailand for \$US1 billion, which is available to be drawn down over a three-year period. In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

Financial assistance to Papua New Guinea (PNG)

The Commonwealth has offered financial assistance to PNG in support of its efforts to reengage with the International Monetary Fund (IMF) and the World Bank. On 22 December 1999, Australia provided a 90 day currency swap between the RBA and the Bank of Papua New Guinea (BPNG) for the Australian dollar equivalent of \$US80 million, subject to one roll-over effected on 21 March 2000. This swap provides short-term bridging finance until longer-term finance becomes available in support of an IMF Stand-By Arrangement (SBA). In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected. The IMF Board approved a SBA on 29 March 2000 and the Government has indicated to PNG that it will consider providing a longer-term government-to-government loan (under the International Monetary Agreements Act — IMAA). This loan would help meet PNG's external financing needs and would be provided in tranches, over 1999-2000 and 2000-01, on terms that more than cover the Commonwealth's cost of funding, with a first call on the proceeds used to repay the swap between the RBA and BPNG.

CONTINGENT LIABILITIES — QUANTIFIABLE

Communications, Information Technology and the Arts

Australian Broadcasting Corporation (ABC)

The Commonwealth has guaranteed loans by the ABC. The principal amount covered by the guarantee as at 31 March 2000 was \$143 million. From 1 July 2000, the Commonwealth is to provide loan funds to the ABC which will enable the Corporation to finance its planned building works in Ultimo, NSW, as well as refinance existing market debt over the forward estimates period. By 30 June 2001, it is expected that the quantum of debt guaranteed by the Commonwealth will decrease to \$43 million. (See Budget Paper 2 *Loan Facility to the Australian Broadcasting Corporation* in the Communication, Information Technology and the Arts portfolio.)

Special Broadcasting Service Corporation (SBS)

The Commonwealth has guaranteed loans taken out by the SBS. The principal amount covered by the guarantee as at 31 March 2000 was \$39 million. These loans were used to pay for the refurbishment and enhancement of the Service's premises at Artarmon in Sydney.

Telstra Corporation Limited — superannuation guarantee

Telstra Corporation Limited has agreed to make additional employer contributions to the Telstra Superannuation Scheme. The Commonwealth has guaranteed any outstanding additional employer contributions in the event that Telstra becomes insolvent. The net present value of the contingent liability in respect of the guaranteed stream of payments for the Scheme as at 30 June 1999 was \$1 billion.

Art Indemnity Australia

The amount indemnified for artworks on loan to galleries participating in exhibitions under the Scheme is \$143 million as at 31 March 2000. This figure will vary as participating exhibitions commence and cease, and as exchange rates fluctuate (as indemnities are often fixed in terms of foreign currency amounts).

Defence

Military Compensation

Contingent liabilities exist in relation to military compensation claims to the value of some \$28 million. This amount relates to outstanding claims for non-economic loss as a consequence of the Federal Court decision in *Schlenert v the Australian and Overseas Telephone Corporation 1995*.

Education, Training and Youth Affairs

Commonwealth loan guarantees — Group Training

The Minister for Education, Training and Youth Affairs is authorised to issue Commonwealth guarantees on a limited number of loans made to Commonwealth-endorsed Group Training companies. These loans provide access to additional working capital required to expand the number of apprentices and trainees that may be employed through Group Training companies. The maximum guarantee of each loan is \$175,000, with the total value of all guarantees capped at \$30 million. As at 6 March 2000, one Commonwealth Loan Guarantee was issued by the Commonwealth for \$175,000.

Finance and Administration

Australian Defence Industries Limited (ADI) — warranty of sale

On completion of the sale of ADI Limited on 29 November 1999 the Commonwealth provided warranties relating to the accuracy of representations to the purchaser regarding a number of matters. Breaches of Commonwealth warranties are subject to limit of liability of \$25 million for warranty claims arising from the Sale Agreement, except in relation to breaches of warranty relating solely to Commonwealth contracts or claims where the limit is \$50 million. The time limit for the warranty claims is 12 months from sale completion.

ComLand Limited

Bank borrowings by ComLand Limited are explicitly guaranteed by the Commonwealth up to a limit of \$60 million, comprising \$50 million for principal and \$10 million for accrued interest and other costs.

Sale of Australian River Company Limited (formerly ANL Limited)

Australian River Company Limited (ARCo) and the Commonwealth completed the sale of the business units of the former ANL Limited. The Liner Shipping business was sold to ANL Container Line Pty Ltd, a subsidiary of Compagnie Generale Maritime SA. The sale terms provide for contingent liabilities related to warranties and indemnities that are limited by the terms of the contract. The terms of the Sale Deed limit the Commonwealth's liabilities. Warranty claims are limited according to a minimum and aggregate claim, a time frame for claims within 21 months from December 1998 and with claims capped at purchase price.

Sale of Australian River Company Limited — indemnities for pre-sale tax liabilities and workers' compensation

The sale of ARCo's subsidiary Quality Container Management to the Owens Group was completed on 21 December 1998. The sale contract contains Commonwealth indemnities for pre-sale tax liabilities and workers' compensation claims. Maximum liability is limited to purchase price. The warranties expire 18 months after the sale completion date of 21 December 1998.

Sale of Australian River Company Limited — indemnities relating to sale of Bulk Trades division

The core business assets of the Bulk Trades division were sold to Auscan Self Unloaders Pty Ltd, a subsidiary of Canadian Steamship Lines Inc, on 3 May 1999. The Sale Deed provided for certain contingent liabilities that relate to warranties and indemnities. The warranties were limited by amount (maximum of \$340,000 and minimum of \$100,000) with an expiry period of 24 months after sale. The sale terms included an indemnity in relation to a possible change in tax treatment of the River Yarra ship lease. The Commonwealth guarantee for the River Yarra ship also continues and was partly offset by a guarantee from the parent company of the purchaser.

Foreign Affairs and Trade

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payments by EFIC of money that is, or may at any time become, payable by EFIC to any body other than the Commonwealth. As at 31 March 2000, the Commonwealth's total contingent liability was \$7,577 million, comprising EFIC's balance sheet liabilities (\$1,092 million), contracts of insurance and guarantees (\$3,305 million) and national interest account liabilities (\$3,180 million).

Industry Science and Resources

Australian Industry Development Corporation (AIDC)

As at 31 March 2000, the Corporation's contingent liabilities were \$175 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings totalled \$1.75 billion as at 31 March 2000. These have been offset by holdings in Commonwealth Government securities and certain hedging instruments, all of which are fully guaranteed by Warburg Dillon Read (formerly known as UBS Australia Ltd).

Australian Industry Development Corporation (AIDC) – Australian Submarine Corporation

The Commonwealth, through the Australian Industry Development Corporation (AIDC), holds a 48 per cent interest in the Australia Submarine Corporation Pty. Ltd. (ASC). ASC is building six Collins Class Submarines for the Department of Defence. On 16 December 1998, at the request of the Corporation, the Commonwealth issued a guarantee for \$27 million to back AIDC's pro rata shareholder obligations. The guarantee regarded the timely delivery of the Collins Class Submarines by ASC to Defence. A similar pro rata guarantee was arranged by the other major shareholder, issued by its bank. The AIDC guarantee was \$13 million as at 31 March 2000 and will terminate in full on 31 December 2001, subject to delivery of the final submarine.

Snowy Mountains Hydro-Electric Authority (SMHEA)

The *Snowy Mountains Hydro-Electric Power Act 1949* provides that borrowings by SMHEA may be guaranteed by the Commonwealth. The Authority has issued inscribed stock at a discount to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. As at 31 March 2000, the face value of guaranteed borrowings was \$182 million with the net amount the unamortised discount on the issue of inscribed stock being \$109 million.

Department of Industry, Science and Resources – Loan to Australian Leather Holdings and Howe and Co

The Commonwealth has agreed to a deed whereby the Commonwealth's right to recover loans totalling \$39 million to Australian Leather Holdings Limited and Howe and Co Pty Ltd takes second priority to a first mortgage financier.

Treasury

Guarantees under the Commonwealth Bank Sale Act 1995

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Commonwealth has guaranteed various liabilities of the Commonwealth Bank of Australia (CBA), the Commonwealth Bank Officers' Superannuation Corporation (CBOSC) and the

Commonwealth Development Bank. The guarantee for the CBA relates to both on and off-balance sheet liabilities. Of the existing contingent liability, 34 per cent involves off-balance sheet liabilities. As at 30 June 1999 (the latest available figures), the balance of the guarantee was \$94,125 million, a reduction of \$5,621 million on the previous year.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the Fund, by CBOSC or by the Bank, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. Total accrued benefits at 30 June 1999 have been valued at \$3,753 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be \$3,722 million.

As of 1 July 1996, the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The existing contingent liability will gradually decline with the retirement of existing loans and exposures. The revised estimate for the balance of this guarantee was \$273 million as at 30 June 1999.

Reserve Bank of Australia guarantee

This contingent liability relates to the Commonwealth's guarantee of the liabilities of the RBA. The major component of RBA liabilities relates to Notes (currency) on Issue. This treatment of Notes largely relates to the historical convention of the convertibility of Notes to gold (coins are not treated as a liability in the Commonwealth's accounts). At 8 March 2000, Notes on Issue totalled \$24,756 million. In total, the guarantee for the Reserve Bank was \$42,376 million as at 8 March 2000.

Uncalled capital subscriptions — international financial institutions

The liability relates to the value of the uncalled portion of the Commonwealth's shares at 31 December 1999 in the International Bank for Reconstruction and Development (\$US2,770 million — estimated value \$A4,236 million using 31 December 1999 exchange rates), the Asian Development Bank (\$US2,615 million — estimated value \$A4,000 million), the European Bank for Reconstruction and Development (EBRD) (\$US82 million — estimated value \$A125 million), and the Multilateral Investment Guarantee Agency (MIGA) (\$US15 million — estimated value \$A23 million). Australia will subscribe to General Capital Increases for both the EBRD and MIGA in 2000-01. When this occurs, the uncalled capital portion of the subscriptions will increase by \$US98 million for the EBRD and by \$US12 million for MIGA (with estimated values of \$A150 million and \$A18 million respectively using the 31 December 1999 exchange rate). This would not affect the fiscal balance or the underlying cash balance as the transactions involved are considered to be financing transactions.

International Monetary Fund (IMF) allocation of Special Drawing Rights (SDRs)

IMF Members are currently considering a special one-time allocation of SDRs under the proposed Fourth Amendment to the IMF's Articles of Agreement. The proposed amendment will be in force for all IMF members as at the date at which the IMF

certifies that three-fifths of IMF members (109 members), having eighty-five per cent of the total votes, have accepted the proposed Fourth Amendment. The Joint Standing Committee on Treaties has recommended that Australia take binding treaty action to approve the proposed amendment. If the proposed amendment is approved by the required majority of IMF members and Australia accepts the SDR allocation, the Commonwealth would receive approximately SDR213 million or \$A448 million, based on the \$A/SDR exchange rate on 31 December 1999. This would not affect the fiscal balance or the underlying cash balance as the transactions involved are considered to be financing transactions.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Defence

HMAS Melbourne compensation

The decision in the *Mewett v Commonwealth* case may set a precedent for up to 954 crewmen of HMAS Melbourne, in relation to the Voyager incident. About 121 claims have been lodged to date, of which 113 are current claims. There are six identified dependent claims still active and there is a possibility of further potential dependent claims, although there is no basis for quantifying further claims.

Finance and Administration

Superannuation Act 1976 and the Public Sector Superannuation Scheme (PSS)

Under the *Superannuation Act 1976* (for the CSS) and the PSS Trust Deed and Rules and determinations made under them, the Commonwealth guarantees payment of the amounts of members' contributions and productivity contributions with interest allocated to those amounts by respective Boards of trustees. The CSS and the PSS guarantee the accrued contributions and interest so there cannot be a negative interest rate on invested funds. Thus far, the Commonwealth has not had to make a payment in relation to this guarantee.

Commonwealth civilian superannuation liability

Every three years an actuarial review for the Commonwealth's unfunded liability in respect of the PSS and the CSS is undertaken. The next review, due by 30 June 2000, will be based on data as at 30 June 1999. The review revalues the unfunded liability to take account of demographic and financial changes since the previous review. It is not possible at this time to quantify the net change in the unfunded liabilities.

ComLand Limited — land remediation

The Commonwealth has indemnified the ComLand Group in the event that the Group incurs certain land remediation expenses where the need for such remediation was not identified when the land was transferred to ComLand.

Employment National Limited (EN) — board members' indemnity

Indemnities by the Commonwealth have been provided to EN board members to protect against civil claims relating to their employment and conduct as directors. These indemnities are unquantifiable and no expiry date has been set.

Employment National Limited (EN) — letter of comfort arrangements

To protect the Government's investment in EN during the company's current restructuring, a letter of comfort has been provided to the company by the Commonwealth indicating continuing financial support for the company. The Commonwealth's exposure under this letter of comfort arrangements is unquantifiable.

Indemnities for the Reserve Bank of Australia (RBA) and private sector banks

Under contractual arrangements for transactional banking services entered into by agencies covered by the *Financial Management and Accountability Act 1997*, the Commonwealth has indemnified the RBA and private sector banks against loss and damage arising out of acts or omissions by the Commonwealth, including by error, fraud, negligence or transactions made without the authority of the Commonwealth.

Australian River Company Limited — guarantee of banking facilities

The Commonwealth guarantees ARCo's banking facilities, including overdraft facilities and bulk vessel financing transactions. This will continue until the finalisation of residual issues associated with the sale of the company's businesses.

Australian River Company Limited — directors' indemnities

The Commonwealth has indemnified ARCo Board members and management, in the event ARCo ceased to exist, against civil claims relating to employment and conduct as directors and management of ARCo and subsidiary companies. Liability is subject to the terms of the indemnities.

Australian Defence Industries Limited — officers and directors' indemnities

Under the sale agreements for ADI, the Commonwealth has indemnified the directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Commonwealth's shares in the company. The Commonwealth has also

agreed to be responsible for the payment of the amount of any excess in respect of any claim under the policy where ADI Limited is unable to pay the excess post-sale.

Australian Defence Industries Limited — indemnities relating to unregistered documents

On completion of the sale of ADI Limited on 29 November 1999 the Commonwealth provided indemnities to the purchaser and ADI for any loss or damage arising from certain documents not being registered, granted, and consented.

Partial sale of Telstra Corporation — second tranche

Certain indemnities have been provided to Telstra, its directors, certain Telstra executives, employees and other parties connected with the sale. Telstra directors are indemnified against liabilities arising by reason of acts or omissions in connection with the offer.

Indemnities relating to other asset sales

Indemnities have been given in respect of a range of other asset sales. Details of these indemnities have been provided in previous Budget and *Mid-year Economic and Fiscal Outlook* (MYEFO) papers, for example see pages 4-38 to 4-40 in the 1999-2000 Budget Paper No. 1.

Health and Aged Care

Commonwealth Serum Laboratories (CSL) Limited

CSL Limited is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL Limited has unlimited cover for most events that occurred before the sale of CSL Limited on 1 January 1994, but has more limited cover for a specified range of events that might occur during the period of the current contract. Given the open-ended nature of some of the indemnities, damages and risk cannot be quantified.

Industry Science and Resources

Australian Industry Development Corporation (AIDC) — Australian Submarine Corporation

Following the Government's request on 5 April 2000, the AIDC issued a notice (that is, to exercise its 'pre-emptive rights') to Kockums Pacific Pty Ltd in respect of its 49 per cent shareholding in the ASC. This notice does not commit the AIDC to talking up the ownership of the shares.

Prime Minister and Cabinet

Separation of Aboriginal children from their families in the Northern Territory

Earlier laws, policies and practices led to the separation of many Aboriginal and Torres Strait Islander children from their families. About 2,100 claims for damages are underway against the Commonwealth in relation to alleged forced separations in the Northern Territory. There are two cases being considered by the Federal Court, in which damages of between \$550,000 and \$650,000 are being claimed by each of the applicants. The Commonwealth has not admitted liability in the cases and, if liability is established, the amount of damages awarded by the court will not necessarily equate with the amount claimed.

Transport

Maritime Industry Finance Company Limited — board members' indemnity

Indemnities for MIFCo board members have been provided to protect against civil claims relating to employment and conduct as directors of MIFCo. These indemnities are unquantifiable and no expiry date has been set.

Stevedoring Industry Finance Committee

The Stevedoring Industry Finance Committee (SIFC) faces an uncertain number of claims for asbestos related damage. These claims were inherited from the Australian Stevedoring Industry Authority. Costs that may arise from these claims cannot be determined and are therefore unquantifiable. The number of claims likely to be made in the future is also unknown.

Australian Maritime Safety Authority (AMSA) — insurance claims

AMSA is subject to a professional negligence claim seeking unspecified damages arising from a search and rescue incident involving the loss of one life. The flotation device manufacturer is a second defendant. The claim is being defended, although it is not possible to estimate the amounts of any eventual payments that may result. The insurer has indemnified AMSA, although AMSA will be liable for any policy excess.

Australian Maritime Safety Authority (AMSA) — incident costs

In the normal course of operations, AMSA is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution. The Commonwealth has agreed that AMSA's responsibility should be limited to a maximum expense of \$10 million, and has arranged a stand-by loan facility for this purpose. The Commonwealth will provide funds in the event that costs exceed the limit. In all circumstances the Authority is responsible for making appropriate efforts to recover the costs of any such incidents.

Australian National Railways Commission (AN) — transfer of liabilities

As a result of the wind-up of the Australian National Railways Commission, all associated contracts, assets and liabilities become the responsibility of the Commonwealth. At this stage, it is not possible to quantify liabilities as they involve uncertain legal processes and ex-employee claims.

National codes of practice for railways — Industry Advisory Committee

Under an Inter-Governmental Agreement on Rail Operational Uniformity, an advisory committee has been formed to provide advice to the Australian Rail Operations Unit on all aspects of the development and implementation of uniform operational codes for the defined interstate rail network. The Commonwealth indemnifies members of the Advisory Committee as if they were Commonwealth employees. It is not possible to quantify liability risk.

Tripartite Deed relating to the sale of Core Regulated Airports

Tripartite Deeds apply to the 12 Core Regulated Airports (Sydney, Melbourne, Brisbane, Perth, Canberra, Coolangatta, Townsville, Adelaide, Hobart, Launceston, Darwin and Alice Springs). The Tripartite Deeds between the Commonwealth, airport lessees and lessees' financiers provide for the Commonwealth to usurp control as airport operator in defined circumstances. The Deeds also provide protection to secured financiers where a lease termination event occurs.

The potential liability of the Commonwealth would vary considerably with the specific factors leading to a lease termination. If the Commonwealth entered into possession of an airport site it could seek to recover its costs from a number of sources, including airport revenues, the Airport lessee company and potentially, from the financiers themselves.

Where the Commonwealth takes action to terminate the Airport Lease, secured financiers can recover their loans from funds obtained by the Commonwealth from reselling the airport lease. If not resold, the Commonwealth and the financiers are to obtain a valuation of the airport lease that will set the basis for a repayment of financiers' loans by the Commonwealth.

Federal Airports Corporation (FAC) transfer of liabilities to the Commonwealth

On 24 September 1998 the Commonwealth assumed responsibility for all remaining assets, liabilities and contracts of the FAC on the wind-up of the Corporation. All of the known liabilities have been settled, however there is a risk that undisclosed liabilities remain.

The Commonwealth assumed responsibility on 1 July 1998 for a contingent liability of the corporation which relates to debtors of the FAC who are challenging the validity of network charges made under the *Federal Airports Corporation Act 1986*. If the network charging approach is found to be invalid, this raises the prospect of further claims

from other airport users who have previously paid network-based charges to the Corporation. There is no basis for quantifying potential claims.

National Capital Authority (NCA)

The National Capital Authority is currently exposed to several claims, the financial risk of which is unquantifiable pending their resolution. There are two personal injury claims relating to its Land Management Function, one relating to contract disputes and a defamation action.

Treasury

Changes in value of cross currency swaps and foreign currency denominated debt

Significant net foreign exchange gains or losses could be recorded in the operating statement if there is a significant change in the nominal exchange rate. This is because a change in the nominal exchange rate results in a change in the net principal value of cross currency swaps and foreign currency denominated debt. The direction of movement in the exchange rate will determine whether there is a net foreign exchange gain or a loss. A gain is a positive risk to the operating result, while a loss is a negative risk. Net foreign exchange gains or losses do not have any impact on the fiscal balance.