APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details of fiscal risks and contingent liabilities are provided in Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*. The following statement updates fiscal risks and contingent liabilities and assets that have materially changed since the 2016-17 Budget. Risks updated in the *Pre-Election and Fiscal Outlook 2016* (PEFO) have also been included and, where appropriate, updated in the following statement for completeness.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2016-17* (MYEFO) incorporate assumptions and judgments based on the best information available at the time of publication, together with a range of economic assumptions and other forecasts and projections.

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

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

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

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

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New or revised 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, that have arisen or changed since the 2016-17 Budget are described below and summarised in Table C1.

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

Table C1: Summary of material changes to the Statement of Risks since the 2016-17 Budget[(a)]

Fiscal risks	
Agriculture and Water Resources	
Murray Darling Basin Plan	Modified
Finance	
Same-Sex Marriage Plebiscite	New
Industry, Innovation and Science	
Risks to External Revenue	New
Infrastructure and Regional Development	
National System for Domestic Commercial Vessels	New
Significant but remote contingencies	
Communications and the Arts	
NBN Co Limited — Equity Agreement	Modified
Optus financial guarantee	Modified
Telstra financial guarantee	Modified
Termination of funding agreement with OPEL Network Pty Ltd	Removed
Defence	
Litigation cases	Modified
Remote contingencies	Modified
Treasury	
Asbestos Injuries Compensation Fund (AICF)	Modified
Financial Claims Scheme	Modified
Guarantee of State and Territory Borrowing	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
Reserve Bank of Australia — guarantee	Modified
Contingent liabilities — unquantifiable	
Agriculture and Water Resources	
Compensation claims arising from equine influenza outbreak	Removed
Emergency pest and disease response arrangements and funding	Modified
Defence	
Non-remote contingent liabilities	Modified
Finance	
Australian Government domestic property	Modified
Health	
Accommodation Payment Guarantee	Modified
Industry, Innovation and Science	
Australian Nuclear Science and Technology Organisation — asbestos contamination	New
Australian Nuclear Science and Technology Organisation — indemnity	Modified
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified
Land decontamination, site restoration for CSIRO property	New
Infrastructure and Regional Development	
Aviation Rescue & Fire Fighting potential Per- and Poly-Fluoroalkyl Substances (PFAS) Contamination	Modified
Service Delivery Arrangement Indemnities — External Territories	Modified
Social Services	
National Disability Insurance Scheme	Removed

Table C1: Summary of material changes to the Statement of Risks since the 2016-17 Budget[(a)] (continued)

Contingent assets — unquantifiable	
Defence	
Non-remote contingent assets	Modified
Contingent liabilities — quantifiable	
Defence	
Claims against the Department of Defence	Modified
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Treasury	
Australian Taxation Office — tax disputes	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Contingent assets — quantifiable	
Defence	
Claims by the Department of Defence	Modified

(a) Risks appearing in Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*, Statement 8, but not listed in the table above are substantially unchanged.

FISCAL RISKS

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

Agriculture and Water Resources

Murray Darling Basin Plan

The introduction in the 2014-15 Budget of a 1,500 gigalitre (GL) cap on Australian Government water purchasing under the Basin Plan comes with a potential, but currently unquantifiable, fiscal risk for the Government. If there is a substantial shortfall in sustainable diversion limit (SDL) adjustments from supply measures, then the cap on water purchases may be reached and other potentially more expensive means of water recovery will need to be used to meet SDLs. It will not be possible to identify whether this risk will be realised, and what the financial implications are, until the SDL adjustment mechanism is operational.

Finance

Same-Sex Marriage Plebiscite

The Australian Government remains committed to a plebiscite in relation to same-sex marriage, despite the Senate not supporting the *Plebiscite (Same-Sex Marriage) Bill 2016*.

To this end, the Australian Government will provide $170 million to conduct a same-sex marriage plebiscite as soon as the necessary legislation is enacted by the Parliament.

Industry, Innovation and Science

Risks to External Revenue

Estimates for the Commonwealth Scientific and Industrial Research Organisation (CSIRO) include revenue from the non-government sector for research undertaken as part of CSIRO's role within the national innovation system. Changes to the economic climate, and the potential for cyber-attacks to compromise CSIRO research, could reduce the value of scientific research and Intellectual Property and lead to lower levels of external revenue.

Infrastructure and Regional Development

National System for Domestic Commercial Vessels

The Australian Maritime Safety Authority (AMSA) has been working towards assuming service delivery responsibility for the National System for Domestic Commercial Vessels from 1 July 2017 on a cost recovered basis. The Transport and Infrastructure Council decided on 4 November 2016 to delay service delivery until 1 July 2018, to allow jurisdictions and industry to better consult and prepare for the transition to the cost recovery arrangements, with no resolution on funding. The delay that limits AMSA's ability to charge on a full cost recovery basis poses a financial risk to AMSA. AMSA has to date invested significant funding to be ready for the original date of 1 July 2017. The delay in charging or limitation on full charging will result in unfunded program delivery costs of up to $25 million per annum (up to $50 million over two years) as well as unfunded transition costs estimated at $11 million in 2016-17 and $15 million in 2017-18 (up to $26 million over two years). Transition costs include establishment of AMSA as the national regulator, costs associated with establishment of a national database, safety management system and a private accreditation scheme, and assisting industry transition to the new national system.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications and the Arts

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). The Agreement formalises the Australian Government's intention to provide equity to fund the roll-out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Australian Government, in the event of a termination of the National Broadband Network roll-out, to provide sufficient funds to NBN Co to meet its costs arising from that termination. Although the NBN Co Equity Funding Agreement will end in 2019, the Commonwealth would retain obligations to meet

NBN Co's costs arising from a termination of the roll-out. As at 30 September 2016, NBN Co's termination liabilities were estimated at $11.8 billion.

Optus financial guarantee

The Australian Government has provided a guarantee in respect of the NBN Co Limited's (NBN Co) 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 (Guarantee). An amended version of that Agreement came into effect on 19 September 2015 and 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 Agreement. As at 30 September 2016 NBN Co had generated liabilities covered by the Optus Agreement, which are estimated at an amount lower than $50 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 a guarantee to Telstra Corporation Limited (Telstra) in respect of NBN Co Limited's (NBN Co) financial obligations to Telstra 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 agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 30 September 2016, NBN Co had generated liabilities covered by the guarantee estimated at $4.9 billion. The guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

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

Defence

Litigation cases

The Department of Defence 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. A number of claims have been received seeking compensation for loss, injury or damage caused by the use of a Defence Practice Area. A number of claims have been received seeking compensation for loss, injury or damage arising from the Defence use of aqueous film forming foam (AFFF) that contained man-made per- and poly-fluoroalkyl substances (PFAS). A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Remote contingencies

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.

As at 31 October 2016, the Department of Defence carried 1,449 instances of quantifiable remote contingent liabilities valued at $5.6 billion and 444 instances of unquantifiable remote contingent liabilities, of which 421 relate to Foreign Military Sales.

Treasury

Asbestos Injuries Compensation Fund

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a $320 million 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 Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 30 June 2016, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $820 billion, compared to an estimated $810 billion as at 31 December 2015, reflecting overall deposit growth in the financial system.

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

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

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

Guarantee of State and Territory Borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over State and Territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed on 31 December 2010.

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 or Territory 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 or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government's claim.

As at 30 September 2016, the face value of State and Territory borrowings covered by the guarantee was $8.2 billion, down from $9.3 billion at 31 March 2016.

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: $130 million is attributable to liabilities of the Commonwealth Bank of Australia, as at

30 September 2016; and $4.4 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 September 2016.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. Banknotes on issue amount to $72.1 billion as at 31 October 2016, and the total guarantee is $108.2billion ($110.0 billion at the 2016-17 Budget).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Emergency pest and disease response arrangements and funding

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. Limited funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements to pay the relevant state or territory government. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major pest or disease incursion, additional and multiple responses (noting there are currently 16 national cost shared emergency responses) or a large scale emergency response exercise.

The Australian Government may also provide financial assistance to an industry party by funding its share of an emergency response. These contributions may subsequently be recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also be expected to 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.

Defence

Non-remote contingent liabilities

The Department of Defence has 36 instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Finance

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 120 properties. This number has reduced from approximately 170 reported at the 2016-17 Budget due to the ongoing implementation of the measure — Smaller Government — Surplus Commonwealth Properties — divestment. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues has had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

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.

Industry, Innovation and Science

Australian Nuclear Science and Technology Organisation — asbestos contamination

The Australian Nuclear Science and Technology Organisation (ANSTO) site contains asbestos in a number of buildings and potentially in soil surrounding these buildings. 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 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 has 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.

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

The Australian and Western Australian 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 Western Australian Government has indemnified the GJV, and the Australian Government has indemnified the Western Australian 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.

Infrastructure and Regional Development

Aviation Rescue & Fire Fighting potential Per- and Poly-Fluoroalkyl Substances (PFAS) Contamination

Airservices Australia has identified a number of sites around the country that potentially have been contaminated with per- and poly-fluoroalkyl substances (PFAS) (formerly known as PFCs) previously contained in firefighting foams. The foams containing these chemicals were widely used internationally and were used by Airservices Australia's predecessors from 1980 until 1995 and then by Airservices Australia from 1995 until 2010. The identified contaminants do not breakdown in the natural environment. Testing and assessment of the fire training grounds commenced in 2008-09 with some additional site assessments conducted in the years following. The amount for potential long-term remediation costs cannot be quantified at this time, but is expected to be considerable as potentially 21 federally-leased airports and other regional airports may contain historical contamination.

Service Delivery Arrangement Indemnities — External Territories

A range of services are delivered to the Indian Ocean Territories through arrangements that are in place with the Western Australian (WA) Government (referred to as Service Delivery Arrangements or SDAs). There are 40 WA Government agencies delivering services to the Indian Ocean Territories.

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.

Commencing 1 July 2016, the New South Wales (NSW) Government will provide a range of services to the Norfolk Island community through an SDA. The Australian Government will provide certain indemnities for the NSW Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

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.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non-remote contingent assets

The Department of Defence has 6 instances of unquantifiable non-remote contingent assets.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 19 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $94.9 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by Defence through the Attorney-General's Legal Services Multi Use List and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 30 September 2016, the Government's total contingent liability was $3.4 billion. The $3.4 billion contingent liability comprises EFIC's liabilities to third parties ($2.7 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $2.8 billion relates to EFIC's Commercial Account and $0.6 billion relates to the National Interest Account.

Treasury

Australian Taxation Office — tax disputes

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

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 October 2016, for which a provision has not been made, is $3.6 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 uncalled capital subscription to the IBRD totals US$3.6 billion (estimated value A$4.7 billion as at 31 October 2016).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$342.2 million as at 31 October 2016).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.2 billion as at 31 October 2016).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.8 million as at 31 October 2016).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$3.9 billion as at 31 October 2016).

None of these international financial institutions have 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 and support recovery in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) SDR2.2 billion (estimated value A$4.0 billion at 31 October 2016).

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has made available a SDR4.6 billion (approximately A$8.0 billion at 31 October 2016) contingent bilateral loan to the IMF. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and all contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy.

CONTINGENT ASSETS — QUANTIFIABLE

Defence

Claims by the Department of Defence

The Department of Defence has 19 instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at $5.5 million. Defence is expecting to succeed in its claims. The estimated figure is determined by conducting an objective analysis of the probable amounts owing to Defence.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on the fiscal balance in some circumstances. The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table C2 summarises Government loans estimated to exceed $200 million at 30 June 2017.

Table C2: Summary of material changes to Australian Government loans exceeding $200 million since the 2016-17 Budget[(a)]

Entity	Loan amount[(b)] ($m)	Borrower	Interest rate	Term	Status
Department of Education and Training					
Higher Education Loan Programme	42,469	Eligible tertiary education students	Consumer Price Index (CPI)	8.8 years*	Modified
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,879	State and Northern Territory governments	3.5-6 per cent	Up to 30 June 2042	Modified
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	888	Eligible entities undertaking clean energy technology projects	4.1 per cent	5-10 years	Modified
Department of Agriculture and Water Resources					
Drought related and Farm Finance Concessional Loans — Agriculture	754	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	750	Eligible Indigenous persons	4.4 per cent*	4.3-28.6 years*	Modified
Department of the Treasury					
International Monetary Fund New Arrangements to Borrow	722	International Monetary Fund	0.125 per cent at 31 October 2016	10 years	Modified
Department of Social Services					
Student Financial Supplement Scheme	366	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	CPI	Various	Modified
Department of Education and Training					
Trade Support Loans Programme	323	Eligible Australian Apprentices	CPI	#	Modified

Table C2: Summary of material changes to Australian Government loans exceeding $200 million since the 2016-17 Budget[(a)] (continued)

Entity	Loan amount[(b)] ($m)	Borrower	Interest rate	Term	Status
Department of Health					
Zero Real Interest Loans	304	Residential aged care providers building or extending residential aged care facilities in areas of high need	CPI	Up to 22 years	Modified
Export Finance and Insurance Corporation					
Papua New Guinea Liquefied Natural Gas	291	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Modified
Indigenous Land Corporation					
Indigenous Land Corporation-Voyages Indigenous Tourism Australia Pty Ltd	286	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Export Finance and Insurance Corporation					
Development Import Finance Facility	208	The Republic of Indonesia acting through its Ministry of Finance	Various	Various	Modified

*Average

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

(a) Loans appearing in Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*, Statement 8, but not listed in the table above are substantially unchanged.

(b) Loan amount is the estimated loan programme amounts outstanding as at 30 June 2017 in $ million.

Note: The Government has committed $29.5 billion in equity to NBN Co Limited (NBN Co), which is expected to be fully utilised by the end of 2016-17. The Government will provide NBN Co with a loan of up to $19.5 billion on commercial terms to complete the rollout of the National Broadband Network. The loan will commence in 2017-18 and is expected to be re-financed by NBN Co on external markets in 2020-21.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) is an income contingent loan program that assists eligible tertiary education students with the cost of their fees. As at 30 June 2017, the fair value of debt outstanding is estimated to be $42.5 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are indexed annually by the Consumer Price Index. The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 2,223,041 HELP debtors as at 30 June 2015. 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 2015, the average time taken to repay HELP debts was 8.7 years.

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 are 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 by the States and the Northern Territory. As at 30 June 2017, the estimated amortised value of the advances is $1.9 billion.

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the State and Northern Territory Governments.

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 2016 (Investment Mandate). As at 30 June 2017, loans contracted and the fair value of outstanding loans are estimated to total $888 million.

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 other assets such as building or council rates.

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 4.1 per cent. Loans have various maturity dates, typically in the range of 5-10 years.

Drought related and Farm Finance Concessional Loans — Agriculture

As at 30 June 2017, the fair value of drought and dairy farm related loans is estimated to total $753.7 million. These include:

Drought Concessional Loans Scheme: This scheme provides 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 two year loans scheme 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 Drought Concessional Loans Scheme was able to commence. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017, or until state approvals are in place to open the new Farm Business Concessional Loans Scheme.

The interest rate is 3.05 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 provides 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 are for planting and restocking activities and associated expenses, when seasonal conditions allow. The loans have been in place since 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 provides concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn and Fonterra. Loans are available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans were available in Victoria, New South Wales, South Australia and Tasmania from June 2016.

The interest rate is 2.66 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years 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 provides two types of concessional loans — drought assistance and dairy recovery. This scheme is designed to cover a farmer's short-term needs when income is tight and to supplement, not replace, commercial finance. Drought assistance concessional loans have been offered in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Dairy recovery concessional loans are only available in New South Wales, Victoria, South Australia and Tasmania. The interest rate is 2.47 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provides concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and intended to assist productivity enhancements and debt refinancing. Applications for Farm Finance Concessional Loans closed on 30 June 2015. The interest rate is 3.55 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.

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. Indigenous Business Australia 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 2017, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance is estimated to total $750 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. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The 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 will be approximately $722 million as at 30 June 2017.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program whereby student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2017 the fair value of loans outstanding is estimated to total $366.6 million.

Trade Support Loans Programme

The Trade Support Loans Programme is an income contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $20,000 to assist with the costs of living, learning and completing an apprenticeship.

Eligible Australian Apprentices can access up to $8,000 in their first year, $6,000 in the second, $4,000 in the third and $2,000 in the fourth year. The lifetime limit of $20,000 will be indexed on 1 July 2017 and each year after on 1 July to maintain its real value.

Upon successful completion of an apprenticeship, Australian Apprentices will be entitled to a 20 per cent discount on the loan. The loans become repayable at the same thresholds as the Higher Education Loan Programme, which is $54,869 in 2016-17.

Zero Real Interest Loans

The Zero Real Interest Loans program provides 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 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. As at 30 June 2017, the total amount owing to the Commonwealth is estimated to be $304 million.

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 2017, the fair value of the loan amount outstanding is estimated to total $291 million.

Indigenous Land Corporation-Voyages Indigenous Tourism Australia Pty Ltd

The Indigenous Land Corporation purchased Ayers Rock Resort (ARR) for $292 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 2017, the fair value of the outstanding loan is estimated to total $286 million. Accrued interest incurred during 2016-17 was $18.5 million.

Development Import Finance Facility

The Development Import Finance Facility (DIFF), administered by the Export Finance and Insurance Corporation on behalf of the former Australian Agency for International Development (AusAID), provided concessional loans to Indonesia to deliver development benefits to that country. The DIFF was discontinued in 1996 with no further concessional loans being provided. As at 30 June 2017, the fair value of loans outstanding is estimated to total $207.9 million.