STATEMENT 8: STATEMENT OF RISKS

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

STATEMENT 8: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2014-15 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this statement increases the transparency of the fiscal projections. For the first time, additional disclosures on loans over $200 million have been included.

Events that could affect fiscal outcomes include:

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

RISKS TO THE BUDGET — OVERVIEW

The revenue and expense estimates and projections published in the 2014-15 Budget Papers are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in the Budget, the revenue and expense estimates and projections would also change. The sensitivity of Budget estimates to changes in economic assumptions is discussed in Appendix A of Statement 3.

The Australian economy is forecast to grow a little below its trend rate over the forecast period. Global risks remain weighted to the downside while domestic risks are evenly balanced. Moreover, the effects of the earlier economic downturn continue to weigh on tax collections.

To the extent that unanticipated changes in economic circumstances occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year weaker than expected growth in wages has been reflected in weaker than expected tax revenue.

In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates. For example, losses incurred during the global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Revenue forecasts also incorporate costings for new policies which also typically have a margin of uncertainty.

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

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

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

There have been several changes to both the quantifiable and unquantifiable risks since the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO). General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Some new risk items have also arisen since the MYEFO.

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

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget. The 2014-15 Budget increases disclosure around loans.

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

Category	Type[(a)]	Disclosure
Fiscal Risks	Fiscal Risks	Statement of Risks
Contingent assets and contingent liabilities	Significant contingent assets and liabilities considered remote[(b)]	Statement of Risks
	Unquantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Quantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Contingent assets and liabilities excluded on the basis of immateriality[(c)]	None
Assets and liabilities	Assets and liabilities that are probable and can be reliably measured (Additional disclosure to increase transparency on loans over $200 million has been included in the Statement of Risks for the first time in the 2014-15 Budget)	Balance sheet[(d)]
	Assets and liabilities that are probable but have an uncertain timing or amount (provisions)	Balance sheet

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.
(b) Significant contingent assets and liabilities considered remote, whilst previously reported in the Statement of Risks, are separately identified under a new heading for the first time. This is consistent with reporting in the financial statements of departments and the consolidated financial statements.
(c) Only risks with a possible impact on the forward estimates greater than $20 million in any one-year, or $50 million over the forward estimates period, are considered material and disclosed in this Statement.
(d) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. The realisation of any of the domestic or internationally based risks discussed in Statement 2 could potentially affect the Budget estimates. Appendix A of Statement 3 examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

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.

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. Similarly, superannuation fund income tax is affected by investment market returns. Consistent with Government policy, the Budget estimates include the impact of the repeal of the carbon tax and the minerals resource rent tax from 1 July 2014. The timing of the passage of the repeal bills beyond 1 July 2014 could cause variations in the revenue forecast for these taxes.

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general risks include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions, Australian Taxation Office rulings and the outcome of compliance programmes. 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.

There are also a number of fiscal risks that may affect the expense estimates and projections. In particular, demand driven programmes, which form the bulk of the Government's expenses, can fluctuate significantly with economic and social conditions. If changes to these conditions are not anticipated this can have major effects on expense levels. For example, an expected increase in the number of persons unemployed in the population could lead to additional welfare related expenses. Fiscal risks also include emergency foreign aid and potential natural disasters. Such occurrences have in the past resulted in unexpected increases in expenses and may do so again. Specific fiscal risks to the budget and forward estimates are detailed below.

The estimates for the Department of Defence include the cost of major overseas operations of the Australian Defence Force in Afghanistan and the Middle East in 2014-15. Funding is considered on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2014-15. This is consistent with past practice. In the case of Operation Slipper and its supporting operation, Operation Accordion, funding has been agreed to 31 December 2014. The Department of Defence will likely have additional funding requirements for Afghanistan operations after 2014.

Effective 19 July 2013, Australia has made up to A$1 billion available to the Government of Indonesia in the form of a standby loan facility, to be drawn down should Indonesia be unable to raise sufficient funds at reasonable interest rates on global capital markets due to the impact of financial market volatility. Contributions to the standby loan facility will also be provided by the World Bank, the Asian Development Bank and the Government of Japan. This facility is available to Indonesia up to 30 June 2014. A drawdown from the facility will be dependent on a request from the Indonesian Government and subject to certain criteria being met. Any funds provided will be repaid in full with interest.

The Australian Government has supported the Gold Coast's bid to host the 2018 Commonwealth Games through the provision of commitments in areas such as immigration, customs, work permits, taxation, security, protection of commercial rights, and communications and information technology. Not all costs associated with delivery of the commitments are available at this time.

The introduction of a 1500 gigalitre (GL) cap on Australian Government water buybacks 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 buybacks will 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 operates in 2016.

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

CONTINGENT LIABILITIES AND ASSETS

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

Contingencies reported in this statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in Statement 9.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 31 March 2014. In some cases, other dates are used and those are noted in the relevant section.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)]

Significant remote contingencies[(b)]	Status	Category[(c)(d)(e)]
Agriculture		
Compensation claims arising from suspension of livestock exports to Indonesia	Modified	Other
Communications		
NBN Co Limited — Equity Agreement	Modified	Guarantee
Telstra Financial Guarantee	Modified	Guarantee
Optus Financial Guarantee	Removed	-
Termination of the funding agreement with OPEL Network Pty Ltd	Modified	Other
Defence		
ADI Limited — Officers' and Directors' indemnities	Modified	Indemnity
Defence indemnities and remote contingencies	Modified	Indemnity
Litigation cases	Modified	Other
Industry		
Liability for damages caused by space activities	Modified	Other
Infrastructure and Regional Development		
Maritime Industry Finance Company Limited — Board Members' Indemnity	Modified	Indemnity
Moorebank Intermodal Company Limited — Board Members' Indemnity	Modified	Indemnity
Tripartite deeds relating to the sale of federal leased airports	Modified	Other
Treasury		
Financial Claims Scheme	Modified	Guarantee
Guarantee of State and Territory borrowing	Modified	Guarantee
Guarantee Scheme for Large Deposits and Wholesale funding	Modified	Guarantee
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified	Guarantee
Reserve Bank of Australia — guarantee	Modified	Guarantee
Contingent liabilities — unquantifiable		
Agriculture		
Compensation claims arising from equine influenza outbreak	Modified	Other
Emergency pest and disease response arrangements	Unchanged	Other
Attorney-General's		
Native Title agreements — access to geospatial data	Unchanged	Indemnity
Australian Victims of Terrorism Overseas Payment	Unchanged	Other
Disaster Recovery	New	Other
Native Title costs	Unchanged	Other
Communications		
NBN Co Limited — Board Members' Insolvency Indemnity	Unchanged	Indemnity
Defence		
Cockatoo Island Dockyard	Modified	Indemnity
Land decontamination, site restoration and decommissioning of Defence assets	Modified	Other
Defence non-remote contingent liabilities	Modified	Other
Employment		
Job Services Australia — Employment Pathway Fund	Unchanged	Other
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Removed	-

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)		
Environment		
Kyoto Protocol Emissions Target	Removed	-
End of lease at the former National Halon Bank site, Braybook, Victoria	Removed	-
The Murray-Darling Basin Authority reform — additional net costs	Removed	-
Finance		
ASC Pty Ltd — Directors' indemnities	Unchanged	Indemnity
Commonwealth Superannuation Corporation — immunity and indemnity	Unchanged	Indemnity
Future Fund Management Agency and Future Fund Board of Guardians — indemnity	Unchanged	Indemnity
Googong Dam	Unchanged	Indemnity
Indemnities for the Reserve Bank of Australia and private sector banks	Unchanged	Indemnity
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Unchanged	Indemnity
Australian Government general insurance fund — Comcover	Modified	Other
Australian Government domestic property	Unchanged	Other
Litigation — Davis Samuel case	Unchanged	Other
Foreign Affairs and Trade		
Export Finance and Insurance Corporation — board member and senior management indemnities	Unchanged	Indemnity
Health		
Australian Medical Association	Unchanged	Indemnity
Australian Red Cross Society — indemnities	Unchanged	Indemnity
Blood and blood products liability cover	Unchanged	Indemnity
CSL Ltd	Unchanged	Indemnity
Indemnities relating to vaccines	Unchanged	Indemnity
Medical Indemnity Exceptional Claims Scheme	Unchanged	Indemnity
New South Wales Health Administration Council — indemnity	New	Indemnity
Tobacco plain packaging litigation	New	Other
Immigration and Border Protection		
Northern Patrol and Response — Triton	Modified	Indemnity
Southern Ocean Maritime Patrol and Response Programme	Modified	Indemnity
Immigration Detention Services by state and territory governments — liability limit	Modified	Indemnity
Immigration and Detention operations — liability limit	Removed	-
Regional Processing Centres — liability limit	Removed	-
Industry		
Australian Nuclear Science and Technology Organisation — indemnity	Unchanged	Indemnity
British atomic test site at Maralinga	Modified	Indemnity
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified	Indemnity
Snowy Hydro Limited — water releases	Unchanged	Indemnity
Liability for costs incurred in a national liquid fuel emergency	Modified	Other
Infrastructure and Regional Development		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Unchanged	Indemnity

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)		
Infrastructure and Regional Development (continued)		
Australian Maritime Safety Authority incident costs	Unchanged	Other
Social Services		
Business Services Wage Assessment Tool	Unchanged	Other
National Disability Insurance Scheme	Unchanged	Other
Treasury		
Terrorism insurance — commercial cover	Unchanged	Guarantee
Australian Taxation Office — constitutional challenge to the minerals resource rent tax	Removed	-
Contingent assets — unquantifiable		
Defence		
Defence non-remote contingent assets	Modified	Other
Health and Ageing		
Legal action seeking compensation from Sanofi	Unchanged	Other
Legal action seeking compensation from Wyeth	Unchanged	Other
Industry		
Wireless Local Area Network	Unchanged	Other
Contingent liabilities — quantifiable		
Defence		
Claims against the Department of Defence	Modified	Other
Environment		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Modified	Indemnity
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Modified	Guarantee
Immigration and Border Protection		
Northern Maritime Patrol and Response — Ashmore Guardian	Removed	-
Social Services		
Accommodation Bond Guarantee Scheme	Modified	Guarantee
Treasury		
Australian Taxation Office — tax disputes	Modified	Other
International financial institutions — uncalled capital subscriptions	Modified	Other
International Monetary Fund	Modified	Other

(a) Detailed descriptions of these items are in the following text.
(b) All risks now categorised under the new heading 'Significant Remote Contingencies' have been classified as modified, even though the risk itself may not have materially changed.
(c) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.
(d) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.
(e) Other — contingent liabilities and assets which are not guarantees or indemnities.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Agriculture

Compensation claims arising from suspension of livestock exports to Indonesia

The Australian Government has received correspondence that indicates there are a number of potential claimants who are alleging losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011.

The Australian Government is not currently a party to any litigated claims where legal liability for financial compensation is being claimed in relation to this suspension. No final quantum of damages has been calculated. The Department of Finance, which has responsibility for Comcover (the Australian Government's general insurance fund) is managing these matters on behalf of, and in cooperation with, the Department of Agriculture.

Communications

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with 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 direct costs arising from that termination. The NBN Co Equity Agreement terminates in 2021. As at 28 February 2014, NBN Co's termination liabilities were estimated at $5.7 billion.

Telstra Financial Guarantee

The Australian Government has provided a guarantee to Telstra in respect of NBN Co's financial obligations to Telstra under the Definitive Agreements. The Definitive Agreements are long-term contracts and, in the case of the infrastructure component, involve terms of at least 35 years. The liabilities under the Definitive Agreements arise progressively during the roll out of the network as infrastructure is accessed and subscribers to Telstra's existing network are disconnected. As at 28 February 2014, NBN Co had generated liabilities covered by the guarantee estimated at $2.9 billion. The guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is fully capitalised; 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.

Termination of the funding agreement with OPEL Network Pty Ltd

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect programme, the Australian Government made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on 13 March 2009. Proceedings were commenced in the NSW Federal Court by the OPEL Liquidators and Optus on 5 September 2013 in respect of the termination of the funding agreement (including a claim relating to the costs for the preparation of the Implementation Plan).

Defence

ADI Limited — Officers' and Directors' indemnities

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

Defence indemnities and remote contingencies

As at 31 March 2014, the Department of Defence carried 1,609 instances of quantifiable remote contingent liabilities valued at $3.8 billion. 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. In addition, the Department of Defence carries 14 contingent liabilities and one contingent asset that are unquantifiable and are considered remote.

As at 31 March 2014, the Defence Materiel Organisation carried 75 contingencies that are quantifiable, to the value of $2.8 billion. 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. In addition, the Defence Materiel Organisation carries 433 instances of contingencies (including Foreign Military Sales) that are unquantifiable and are considered remote. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Litigation cases

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including alleged injuries from workplace systems, practices and conduct. These include claims arising out of reviews into Australian Defence Force and Defence culture. A number of claims have also been received for damage caused by the use of a Defence Practice Area.

Industry

Liability for damages caused by space activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia. The Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* (the Act) to insure against liability for damage to third parties for an amount not less than the maximum probable loss, up to a maximum of $750 million indexed for inflation. Under the Act, the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above the insured level.

Infrastructure and Regional Development

Maritime Industry Finance Company Limited — Board Members' Indemnity

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

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the board members of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct as directors. The indemnities apply to the period of appointment as board members of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Tripartite deeds relating to the sale of federal leased airports

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

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and claimants of general insurers (GIs) 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 31 December 2013, deposits eligible for coverage under the Scheme were estimated to be approximately $722.8 billion, compared to $692.3 billion at 30 June 2013, 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.

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.

From 2016, subject to the outcomes of the Financial System Inquiry, any payment under the Financial Claims Scheme relating to ADIs would initially be met from the Financial Stability Fund announced in the 2013 Economic Statement. In this case, a levy could be applied to ADIs to recover the difference between the amount expended and the amount recovered in the liquidation and from the Financial Stability Fund.

The Australian Prudential Regulation Authority (APRA) is responsible for the administration of the Financial Claims Scheme. Under the Financial Claims Scheme any payments to eligible depositors or claimants will be made out of APRA's Financial Claims Scheme Special Account. Under the legislation, initial amounts available to meet payments and administer the Financial Claims Scheme, in the event of activation are $20.1 billion 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 31 March 2014, the face value of State and Territory borrowings covered by the guarantee was $19.0 billion, down from $21.0 billion at 31 October 2013.

Guarantee Scheme for Large Deposits and Wholesale Funding

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

On 7 February 2010, the then government announced that the Guarantee Scheme would close to new liabilities on 31 March 2010. Since 31 March 2010, Australian authorised deposit taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above $1 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above $1 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability under the Guarantee Scheme is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that an institution 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 institution. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 28 March 2014, total liabilities covered by the Guarantee Scheme were estimated at $25.3 billion, down from $40.7 billion at 25 October 2013. This is made up of $2.3 billion of large deposits and $22.9 billion (down from $38.4 billion at 25 October 2013) of long-term wholesale funding. All guaranteed short-term wholesale funding matured in March 2011.

As at 28 February 2014, institutions participating in the Guarantee Scheme had paid fees of $4.4 billion since its inception.

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: $748.3 million is attributable to liabilities of the Commonwealth Bank of Australia, as at

31 December 2013, and $4.2 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 December 2013.

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 notes (that is, currency) on issue. Notes on issue amount to $60.4 billion, as at 2 April 2014, and the total guarantee is $91.7 billion ($65 billion at the *Mid-Year Economic and Fiscal Outlook 2013-14)*.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture

Compensation claims arising from equine influenza outbreak

The Australian Government may become liable for compensation should it be found negligent in relation to the outbreak of equine influenza in 2007.

Proceedings have commenced in the Federal Court of Australia by Maurice Blackburn Lawyers with Attwood Marshall Lawyers who represent a closed class of 586 applicants claiming damages as a result of the 2007 equine influenza outbreak. No final quantum of damages sought can be calculated. The Department of Finance which has responsibility for Comcover (the Australian Government's general insurance fund) has assumed responsibility for the potential claims under its insurance arrangements with the Department of Agriculture.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease outbreaks are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the agreements, the Australian Government is typically liable for 50 per cent of total government funding to respond to a disease or pest outbreak. Limited funding is provided in the forward estimates for the Australian Government's contribution under emergency response agreements with States and Territories. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major outbreak or large scale emergency response exercise.

The Australian Government may be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the relevant industry body is not party to an agreement. The Australian Government may also provide financial assistance to an industry party by funding its initial share of the response. These contributions may subsequently be recovered from the industry over a 10-year period, usually by a levy.

Attorney-General's

Native Title agreements — access to geospatial data

The Australian Government has entered into agreements with State and Territory government bodies and/or their agents to access their geospatial land tenure data, which is essential to support the National Native Title Tribunal in achieving its outcomes. Under these agreements, the Australian Government provides indemnities against third-party claims arising from errors in the data.

Australian Victims of Terrorism Overseas Payment

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

Disaster Recovery

The Australian Government provides funding to States and Territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to help pay for natural disaster relief and recovery costs. A State or Territory may claim NDRRA funding if a natural disaster occurs and State or Territory relief and recovery expenditure for that event meets the requirements set out in the NDRRA Determination. For major natural disasters, payments to individuals may be approved under the *Social Security Act 1991*. These include the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. As natural disasters and their impacts are unpredictable, the cost of future disasters is unquantifiable and not included in the forward estimates.

Further, while the current forward estimates for the programme are based on the best information available at the time of preparation, preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change and the total cost of relief and recovery from these events may not be completely realised for some years. Estimates of all natural disasters are regularly reviewed and revised by the States and Territories as new information becomes available, and this, or the occurrence of future natural disasters, can in turn significantly affect the Australian Government's estimated NDRRA liability and payments.

Severe tropical cyclone Ita recently struck Far North Queensland. There is a risk that a preliminary estimate of the Government's NDRRA liability as a result of tropical cyclone Ita will not be available for some time, as Queensland continues to assess the cost of recovery from the event. The total cost of relief and recovery from this event is unlikely to be completely realised for some years.

Native Title costs

The Australian Government can assist State and Territory governments in meeting certain Native Title costs pursuant to *the Native Title Act 1993* (the NTA), including compensation costs. A National Partnership Agreement was executed in 2010 between the Australian Government and Victoria, under which the Australian Government provided a contribution towards the settlement of two native title claims. No other agreement has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA (and potentially also the Constitution) in respect of compensable acts for which the Australian Government is responsible. The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Communications

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided each Director of NBN Co with an indemnity against liability as a result of the Government failing to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be the same as those covered by the NBN Co Equity Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity. Directors are also indemnified in relation to claims arising out of their involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Defence

Cockatoo Island Dockyard

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

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence (Defence) has made financial provision for the future estimates involved in land decontamination, site restoration and decommissioning of Defence assets where a legal or constructive obligation has arisen in relation to those underlying assets. For those decontamination, restoration and decommissioning activities for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable. Where there is a possible legal or constructive obligation and potential costs are unquantifiable, these have been disclosed as a note to Defence's financial statements.

Defence non-remote contingent liabilities

The Department of Defence has 15 instances of contingencies that are unquantifiable.

Employment

Job Services Australia — Employment Pathway Fund

The estimates for the Department of Employment Job Services Australia (JSA) programme include anticipated expenditure for the Employment Pathway Fund (EPF). The EPF provides a flexible pool of funding available to JSA providers to deliver assistance to job seekers to help them find and keep a job. Amounts are credited to the EPF based on a job seeker's assessed level of disadvantage. Experience with the EPF suggests that all credits will not be used during the life of the JSA contracts. The forward estimates do not include the value of residual credits from the EPF that are not expected to be spent during the current contract period.

Finance

ASC Pty Ltd — Directors' indemnities

The Australian Government has provided former Directors of the Australian Submarine Corporation Pty Ltd (ASC) with indemnities in relation to three matters: for any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; for any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and for any claims and legal costs arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

Commonwealth Superannuation Corporation — immunity and indemnity

The Governance of *Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions. These immunities do not prevent CSC from being subject to any action, liability, claim or demand. Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Future Fund Management Agency and Future Fund Board of Guardians — indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (FFMA) and the members of the Future Fund Board of Guardians (Board members) with Deeds of Indemnity. The indemnities are intended to cover liabilities in excess of the insurance policies of the Future Fund Board and its subsidiary entities and the Agency. Board members are indemnified in relation to the exercise of their powers and performance of their functions as members of the Future Fund Board of Guardians. Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a Director or officer of Future Fund Board of Guardians investee companies and/or subsidiaries. Both staff members of the FFMA and Board members are indemnified, to the maximum extent permitted by law.

Agency staff members are not indemnified to the extent they are indemnified by an investee company or a subsidiary or they are paid under a Directors and Officers policy of the investee company or subsidiary or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions. Both Board members and Agency staff members are not indemnified for conduct they engage in other than in good faith; or in respect of any liability owed to the Board or the Australian Government; or in respect of any act or omission that contravenes one of the civil penalty provisions of the *Future Fund Act 2006* (the Future Fund Act). Board members and Agency staff are not indemnified for legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings, or proceedings against a declaration that they have breached a civil penalty provision of the Future Fund Act. The indemnity is financially limited, in broad terms, to the value of the funds under management by the Future Fund Board of Guardians.

Googong Dam

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

Indemnities for the Reserve Bank of Australia and private sector banks

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

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

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

Indemnities (including the year they were raised) are still current for: ADI Ltd (1998), Australian Airlines (1991), Australian Industry Development Corporation (1996), Australian Multimedia Enterprise (1997), Australian National Rail Commission and National Rail Corporation Ltd (1997 and 2000), Australian River Co Ltd (1999), Australian Submarine Corporation Pty Ltd (2000), ComLand Ltd (2004), Bankstown Airport Limited (2002), Camden Airport Ltd (2002), Commonwealth Accommodation and Catering Services (1988), Commonwealth Bank of Australia (1993 to 1996), Commonwealth Funds Management and Total Risk Management (1996 to 1997), Employment National Ltd (2003), Essendon Airport Ltd (2001), Federal Airports Corporation's Airports (1995 to 1997), Housing Loans Insurance Corporation Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Limited (2002), National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996, 1999 and 2006), and Wool International (1999). Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) through Comcover, the Australian Government's general insurance fund, provides insurance and risk management services to the Australian Government general government sector. Finance's liability for outstanding claims, which includes the expected future cost of claims notified and claims incurred but not reported, is subject to inherent uncertainty in the estimation process.

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 100 properties. A small number of these have had potential remediation issues identified, which are currently the subject of further investigation. Except for one property at Lucas Heights NSW, none of the remaining properties with potential remediation issues has had a provision recognised as the conditions for neither legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Litigation — Davis Samuel case

The Australian Government was subject to a counter-claim for damages in legal action before the Australian Capital Territory Supreme Court. The Australian Government is seeking to recover funds which were misappropriated from the former Department of Finance and Deregulation during 1998. The judgment, handed down on 1 August 2013, dismissed the counter claim against the Australian Government and found in favour of the Australian Government in its claims against the defendants. Final orders are yet to be made. The Court extended the time for appeals to 28 days after final orders are made.

Foreign Affairs and Trade

Export Finance and Insurance Corporation — board member and senior management indemnities

The Australian Government has provided indemnities to Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business.

Health

Australian Medical Association

An agreement is held between the Australian Medical Association, the Australian Government, the Australian Private Hospitals Association Ltd, the Australian Health Insurance Association and Beyond Blue Ltd for participation in, and support of, the Private Mental Health Alliance and for the collection and analysis of a national minimum data set from private, hospital-based psychiatric services. Each party to the agreement has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of confidential information, or breach of the *Privacy Act 1988*. Each party's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage. The indemnity survives the expiration or termination of the agreement.

Australian Red Cross Society — indemnities

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

Blood and blood products liability cover

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

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

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

Indemnities relating to vaccines

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

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (currently $20 million). These arrangements would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contracts-based cover since 1 January 2003.

New South Wales Health Administration Council — indemnity

The National Health Funding Body (NHFB) provided an indemnity to the New South Wales government through the New South Wales Health Administration Council (NSW HAC), in relation to a state funding pool account with the Reserve Bank of Australia. The indemnity includes liabilities or claims arising in relation to the NHFB in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of pool account information; and

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

NSW HAC has provided a reciprocal indemnity for the actions of staff of the NHFB to the Reserve Bank of Australia.

Tobacco plain packaging litigation

In 2014-15, the Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

Immigration and Border Protection

Northern Maritime Patrol and Response — Triton

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 31 December 2014 for the provision of a vessel to strengthen enforcement activities in Australia's northern waters. The contract with Gardline Australia contains unquantifiable indemnities relating to the use, or other operations, of armaments and the presence of armaments on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessel.

Southern Ocean Maritime Patrol and Response Programme

The Australian Government has entered into a contract to provide a Civil Charter Vessel to conduct patrols in the Southern Ocean and northern waters to undertake law enforcement activities in relation to illegal, unregulated and unreported fishing as well as counter people smuggling activities. This contract will remain in force until 31 December 2014. The Australian Government's contract contains unquantifiable indemnities relating to the use or other operations of armaments and ammunition and the presence of armaments and ammunition on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

Immigration detention services by state and territory governments — liability limit

The Department of Immigration and Border Protection (DIBP) has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education, corrections and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions are seeking indemnification by the Australian Government for the provision of those services.

In December 2013, the Minister for Immigration and Border Protection wrote to the Minister for Finance seeking agreement under regulation 10 of the Financial Management and Accountability Regulations 1997 (FMA Regulations) for expenditure that may become payable under those arrangements.

In February 2014, the Minister for Finance agreed that DIBP may consider entering arrangements which include the proposed indemnities, based on the framework parameters. The Minister for Finance also proposed that the framework agreed by DIBP and the Department of Finance be varied to include all states and territories for the police and support services stream.

Jurisdictions	Service Streams			
	Health	Education	Corrections	Police
New South Wales	N/A	$5 million per claim or event	Uncapped liability	$5 million per claim or event
Victoria/Western Australia	Uncapped liability	Uncapped liability	N/A	$5 million per claim or event
Queensland/Tasmania/ Australian Capital Territory/Northern Territory	N/A	$5 million per claim or event	N/A	$5 million per claim or event
South Australia	$5 million per claim or event	$5 million per claim or event	N/A	$5 million per claim or event

Industry

Australian Nuclear Science and Technology Organisation — indemnity

The Australian Government has indemnified the Australian Nuclear Science and Technology Organisation and its officers from any liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is in addition to commercial insurance cover obtained from the Comcover Insurance Pool and other insurers.

British atomic test site at Maralinga

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

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

The Australian and Western Australian governments have agreed in principle to provide an indemnity to the Gorgon Joint Venture Partners (GJV) to indemnify the GJV against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project, and subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. It is proposed that the Western Australian Government will indemnify the GJV, and that the Australian Government will indemnify the Western Australian Government for 80 per cent of any amount determined to be payable under that indemnity. The formal agreement between the Australian and Western Australian governments in relation to the indemnity is expected to be signed in 2014-15.

Snowy Hydro Limited — water releases

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

Liability for costs incurred in a national liquid fuel emergency

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

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

Infrastructure and Regional Development

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

The Department of Infrastructure and Regional Development is required to engage the NSW Rural Fire Service (NSW RFS) to provide fire management support for the volunteer brigade located in the Jervis Bay Territory (JBT). To provide this service, the NSW RFS requires the Australian Government to provide an uncapped indemnity whereby the Australian Government would be liable for any damage caused as a result of the actions of the NSW RFS in the JBT while fighting a fire. The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. The Australian Maritime Safety Authority has established a pollution response reserve of $10 million supported by a commercial line of credit of $40 million to provide funding should the overall clean-up costs exceed the liability limit of the ship owner.

Social Services

Business Services Wage Assessment Tool

The Australian Government may potentially become liable for a significant range of costs following the Full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool (BSWAT) to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*.

The Australian Government's potential liability cannot be quantified at this time.

National Disability Insurance Scheme

In bilateral negotiations, the Australian Government has committed to provide temporary, untied financial assistance to some jurisdictions that expect to have their GST entitlements adversely affected during the transition to the National Disability Insurance Scheme (NDIS).

Under this commitment, the expected liability will depend on a range of factors including when all jurisdictions reach full scheme and any impact resulting from the Commonwealth Grants Commission's 2015 Methodology Review, scheduled to be completed in February 2015. The Review will consider the most appropriate treatment of disability services for GST distribution purposes, both during the transition to the NDIS and once the full scheme is operating nationally. Any impact on the Australian Government is not expected to occur before 2016-17.

Treasury

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed $10 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Defence non-remote contingent assets

The Department of Defence has four instances of contingent assets that are unquantifiable.

Health

Legal action seeking compensation from Sanofi

The Department of Health has initiated legal action to seek compensation from Sanofi, the original patent owner of clopidogrel (Plavix®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of clopidogrel. Listing a generic form of clopidogrel on the Australian market in 2008 would have triggered an automatic reduction to the price paid by the Government for clopidogrel through the PBS and is likely to have resulted in a Price Disclosure reduction in 2010. The first generic version of this medicine was listed in 2010 and the first Price Disclosure reduction occurred in 2012.

Legal action seeking compensation from Wyeth

The Department of Health has initiated legal action to seek compensation from Wyeth, the original patent owner of venlafaxine (Efexor®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of venlafaxine. Listing a generic form of venlafaxine on the Australian market in 2009 would have triggered an automatic reduction to the price paid by the Government for venlafaxine through the PBS. The first generic version of this medicine was listed in 2012.

Industry

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has ongoing patent infringement proceedings in the United States of America and Europe against multiple defendants. The patents cover CSIRO's invention of a wireless local area network (WLAN). CSIRO expects to receive additional revenue which would exceed the associated legal costs.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 28 instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at $63.1 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by the members of Defence's Legal Services Panel and those being handled in-house by Defence Legal Division. However, as an estimate, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Environment

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds have been executed. Each indemnity covers liability incurred by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of $100 million to cover all claims has been established, and the indemnities will operate for seven years from execution.

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 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 31 March 2014, the Government's total contingent liability was $3.4 billion, representing an increase of $0.1 billion from that reported at the *Mid-Year Economic and Fiscal Outlook 2013-14*. The $3.4 billion contingent liability comprises EFIC's liabilities to third parties ($2.3 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($1.0 billion). Of the total contingent liability, $2.7 billion relates to EFIC's Commercial Account and $0.7 billion relates to the National Interest Account.

Social Services

Accommodation Bond Guarantee Scheme

The Accommodation Bond Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' accommodation bond, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions 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 to meet any shortfall. On 30 June 2013, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately $14.2 billion.

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 March 2014, for which a provision has not been made, is $4.6 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. The Government is contributing additional resources to the IBRD as part of the general capital increase agreed in 2010. As part of this process, Australia will increase its uncalled capital subscription so that it totals US$3.6 billion (estimated value A$3.9 billion as at 31 March 2014).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia increased its uncalled capital subscription (effective 20 April 2011) to the EBRD as part of its 2010 general capital increase, so that it totals EUR237.5 million (estimated value A$354.2 million as at 31 March 2014).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia increased its uncalled capital subscription (effective 11 January 2010) to the ADB as part of its 2010 general capital increase, so that it totals US$7.0 billion (estimated value A$7.6 billion as at 31 March 2014).

Australia has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$28.7 million as at 31 March 2014).

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

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.3 billion at 31 March 2014). 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. As agreed by G20 Finance Ministers and IMF Governors in late 2010, the credit arrangements of all NAB participants, including Australia, will be reduced when a proposed increase in IMF quotas comes into effect. The quota increase has not yet occurred, due to a delay in implementing the above agreement by the United States.

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 SDR 4.6 billion, (approximately A$7.7 billion at 31 March 2014) contingent bilateral loan to the IMF. This loan entered into force following passage of enabling legislation in June 2013. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements to be concluded 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.

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 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 3 summarises Government loans estimated to exceed $200 million at 30 June 2014.

Table 3: Summary of Australian Government loans exceeding $200 million(a)(b)

Agency	Loan amount(c) ($m)	Borrower	Interest rate	Term
Department of Education				
Higher Education Loan Program	25,183	Eligible tertiary education students	Consumer Price Index (CPI)(d)	8.4 years*

Table 3: Summary of Australian Government loans exceeding $200 million[(a)(b)] (continued)

Agency	Loan amount[(c)] ($m)	Borrower	Interest rate	Term
Australian Office of Financial Management				
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	2,098	State and Northern Territory Governments	3.5-6 per cent	Up to 30 June 2042
Department of the Treasury				
International Monetary Fund New Arrangements to Borrow	950	International Monetary Fund	0.13 per cent at 31 March 2014	10 years
Clean Energy Finance Corporation				
Clean Energy Finance Corporation	865	Eligible entities undertaking clean energy technology projects	7 per cent	5-10 years
Department of Social Services				
Student Financial Supplement Scheme (SFSS)	624	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	CPI	Various
Indigenous Business Australia				
Indigenous Home Ownership	584	Eligible Indigenous persons	4.7 per cent*	29.4 years*
Export Finance and Insurance Corporation				
Papua New Guinea Liquefied Natural Gas	269	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial — In-Confidence	Until 2026
Development Import Finance Facility	222	The Republic of Indonesia acting through its Ministry of Finance	Various	Various
Indigenous Land Corporation				
Voyages Indigenous Tourism Australia Pty Ltd	291	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months
Department of Social Services				
Zero Real Interest Loans	230	Residential aged care providers establishing new residential aged care facilities	CPI	12-22 years
Department of Agriculture				
Farm Finance Concessional Loans	210	State Governments	4.5 per cent	5 years

* Average

(a) The Government has decided to provide a concessional loan of up $2 billion to accelerate the delivery of the WestConnex Stage 2 project in Sydney. The loan would first be available for drawdown on 1 July 2015. Further details are provided in Budget Paper No. 2, *Budget Measures 2014-15*.

(b) The Government will provide income contingent concessional loans of $1.9 billion over four years from 2014-15 as part of its election commitment to establish the Trade Support Loans programme. Under the programme, eligible apprentices will be eligible to receive financial assistance of up to $20,000 over a four year apprenticeship. Apprentices will be required to commence repaying the loans when their income exceeds a minimum repayment threshold, consistent with arrangements applying to university students under the Higher Education Loan Program (HELP), and apprentices who successfully complete their training will receive a

20 per cent discount on the amount to be repaid. Further information on this measure is provided in Budget Paper 2, *Budget Measures 2014-15*.

(c) Loan amount is the estimated loan programme amounts outstanding as at 30 June 2014 in $ million.

(d) From 1 June 2016, debts will be indexed by a rate equivalent to the yields on 10 year Australian Government bonds, capped at 6.0 per cent per annum.

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income contingent loan programme that assists eligible tertiary education students with the cost of their fees and overseas study expenses. As at 30 June 2014, the fair value of loans outstanding is estimated to be $25.2 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 currently indexed annually by the Consumer Price Index. From 1 June 2016, debts will be indexed by a rate equivalent to the yields on 10 year Australian Government bonds, capped at 6 per cent per annum. Further details on this decision can be found in Budget Paper No. 2, *Budget Measures 2014-15.*

The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 1,823,288 HELP debtors as at 30 June 2013. The term of a HELP loan can only be determined for people who have fully repaid their debt. As at the end of June 2013, the average duration of HELP loans was 8.4 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 2014, the estimated amortised value of the advances is $2.1 billion.

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

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. In line with G20 Leaders' commitments, Australia has joined with other countries to increase its credit line under an expanded NAB. 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. As at 30 June 2014, loans outstanding are estimated to total $950 million.

The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.3 billion at 31 March 2014).

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 that in aggregate has an acceptable but not excessive level of risk relative to the sector as required under the *Clean Energy Finance Corporation Investment Mandate Directions 2012* (Investment Mandate). As at 30 June 2014, loans outstanding are estimated to total $865 million.

The CEFC's portfolio consists of predominantly senior ranking, secured loans, typically secured against assets such as buildings or council rates, or against energy generating assets such as wind or solar farms or biogas facilities.

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with an average expected return of approximately 7 per cent. Loans have various maturity dates, typically in the range of 5-10 years.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a programme whereby student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The programme closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2014, loans outstanding are estimated to total $624 million.

Indigenous Home Ownership

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. As at 30 June 2014, loans outstanding are estimated to total $584 million.

Export Finance and Insurance Corporation

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 2014, the loan amount outstanding is estimated to total $269 million.

The Development Import Finance Facility (DIFF), administered by the Export Finance and Insurance Corporation (EFIC) 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 2014, loans outstanding are estimated to total $222 million.

Indigenous Land Corporation

The Indigenous Land Corporation (ILC) purchased Ayers Rock Resort for $292 million in May 2011 and immediately on-sold it to its wholly owned subsidiary Voyages Indigenous Tourism Australia Pty Ltd (VITA) 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 2014, the loan amount outstanding is estimated to total $291 million.

Zero Real Interest Loans

The Zero Real Interest Loans programme provided loans with a zero real interest rate to residential aged care providers to build or expand facilities in areas of high need where investment was otherwise unlikely. Applications for these loans are now closed. As at 30 June 2014, loans outstanding are estimated to total $230 million.

Farm Finance Concessional Loans

The Farm Finance Concessional Loans Scheme provides up to $420 million over two years for the provision of concessional loans to eligible primary production businesses experiencing financial difficulties resulting from acute levels of debt. Loans will be issued for the purpose of productivity enhancements and debt refinancing. As at 30 June 2014, loans outstanding are estimated to total $210 million.

Loans are made to State governments who, through regional delivery agents, on-lend to primary production businesses. Currently the interest rate is at 4.5 per cent, but is reviewed on a six monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans will be given for a term of five years, with an exceptional circumstances clause in some jurisdictions, which allows a maximum two year extension to the loan at commercial rates.