Appendix C: Australian Accounting Standard *Financial Reporting by Government* Statements

Table C1: Statement of Revenue and Expenses for the Commonwealth General Government Sector

		1999-00	2000-01	2001-02	2002-03
		$m	$m	$m	$m
	Note	Estimates		Projections	
Revenues					
Taxation					
Income tax	3	109359	112016	115220	122932
Indirect tax	4	31618	24187	24376	25679
Other taxes fees and fines		5054	5280	5602	5763
Total taxation revenue		**146031**	**141483**	**145198**	**154374**
Non-taxation					
Sales of goods and services		3251	3262	3274	3242
Interest and dividends	5	9482	6148	6706	8069
Net foreign exchange gains		0	0	2	1
Net gains from sales of assets		2	1	1	7
Other sources of non-tax revenue	6	3693	3004	2935	2887
Total non-tax revenue		**16428**	**12416**	**12917**	**14206**
Total revenue		**162459**	**153899**	**158115**	**168580**
Expenses					
Goods and services					
Employees	7	16127	15975	16081	15837
Suppliers	8	13343	13308	13060	12438
Depreciation and amortisation	9	2575	2875	3216	3497
Net write down of assets		938	888	923	927
Net foreign exchange losses		21	-11	0	0
Net losses from the sale of assets		29	3	11	1
Other goods and services expenses		5340	5710	6009	6232
Total goods and services		**38371**	**38747**	**39300**	**38933**
Subsidies benefits and grants					
Personal benefits		61924	69236	71622	76160
Subsidies		3782	4230	4572	4757
Grants	10	44247	28847	31283	30272
Total subsidies benefits and grants		**109954**	**102313**	**107477**	**111189**
Interest and other					
Interest and other financing costs		8389	8612	8161	8318
Total interest and other		**8389**	**8612**	**8161**	**8318**
Total expenses		**156714**	**149673**	**154939**	**158441**
Operating result		**5745**	**4226**	**3176**	**10140**
Abnormal and extraordinary items		11889	0	14731	14731
Operating result after abnormal items		**17635**	**4226**	**17907**	**24871**

Table C2: Balance Sheet for the Commonwealth General Government Sector

	Note	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
		Estimates		Projections	
Assets					
Financial assets					
Cash		985	512	349	244
Receivables		27647	25041	28749	26960
Investments	14	27610	27781	26260	24836
Accrued revenue		480	483	548	649
Other financial assets		124	117	117	116
Total financial assets		**56846**	**53934**	**56024**	**52805**
Non-financial assets					
Land and buildings		15283	14811	14218	14095
Infrastructure		35004	36035	36800	37511
Intangibles		827	804	807	703
Inventories		2812	2702	2753	2648
Other non-financial assets	11	1414	1392	1393	1389
Total non-financial assets		**55341**	**55743**	**55971**	**56346**
Total assets		**112187**	**109678**	**111994**	**109151**
Liabilities					
Debt					
Government securities	14	73450	66805	51431	24036
Loans		5929	5859	5789	5717
Leases		320	268	183	156
Deposits		637	710	783	856
Overdrafts		2	2	2	2
Other debt		2871	2746	2336	2138
Total debt		**83209**	**76390**	**60524**	**32905**
Provisions and payables					
Employees	12	75711	75959	76016	75785
Suppliers		1509	1557	1563	1574
Personal benefits payable		2410	2625	2806	3100
Subsidies payable		74	72	71	70
Grants payable	13	6697	6851	7055	7005
Other provisions and payables		3721	3316	3233	3261
Total provisions and payables		**90123**	**90380**	**90745**	**90795**
Total liabilities		**173332**	**166770**	**151268**	**123700**
Net assets		**-61145**	**-57092**	**-39274**	**-14549**
Equity					
Accumulated results		-79659	-75528	-56076	-29684
Reserves		18514	18436	16802	15135
Capital		0	0	0	0
Total equity		**-61145**	**-57092**	**-39274**	**-14549**

Table C3: Statement of Cash Flows for the Commonwealth General Government Sector

	Note	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
		Estimates		Projections	
Operating activities					
Cash received					
Taxes fees and fines	15	144642	136325	146347	155338
Sales of goods and services		3535	3331	3315	3247
Interest		2753	3222	3819	5300
Dividends		6028	3553	2787	2635
Other		3790	2947	2799	2602
Total operating cash received		**160748**	**149378**	**159068**	**169123**
Cash used					
Payments to employees		16102	15726	16024	16068
Payments to suppliers		13352	12871	12625	12066
Subsidies paid		3798	4232	4573	4758
Personal benefits		61226	69022	71442	75866
Grant payments		43906	28801	31195	30448
Interest and other financing costs		8693	8955	8190	8315
Other		5884	5754	6063	6207
Total operating cash used		**152961**	**145361**	**150112**	**153728**
Net cash from operating activities		**7787**	**4017**	**8956**	**15395**
Investing activities					
Cash received					
Proceeds from asset sales program		10041	6292	9800	16600
Proceeds from sales of property, plant and equipment and intangibles		744	976	943	696
Net loans, advances and HECS		-589	-4	1325	62
Total investing cash received		**10195**	**7263**	**12068**	**17358**
Cash used					
Purchase of property, plant and equipment and intangibles		4427	4753	4934	4786
Other	14	547	181	387	462
Total investing cash used		**4974**	**4934**	**5321**	**5248**
Net cash from investing activities		**5221**	**2329**	**6747**	**12110**
Financing activities					
Cash received					
Other		489	-177	-495	-218
Net cash received from currency issues		0	0	0	0
Total financing cash received		**489**	**-177**	**-495**	**-218**
Cash used					
Net repayments of borrowings	14	15902	6642	15371	27394
Other		0	0	0	0
Total financing cash used		**15902**	**6642**	**15371**	**27394**
Net cash from financing activities		**-15413**	**-6819**	**-15866**	**-27612**
Net increase/decrease in cash held		**-2405**	**-473**	**-163**	**-106**

Statistics, Concepts and Notes to the Financial Statements

Note 1: External Reporting Standards

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

The 1999-2000 Budget financial statements have been prepared on an accrual basis in accordance with applicable Australian accounting standards, including Australian Accounting Standard No.31 *Financial Reporting by Governments* (AAS31). AAS31 is the relevant accounting standard for financial reporting by governments.

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

The accounting policies in this budget document are consistent with Australian accounting standards except for the following:

- While the scope for financial reporting required in AAS31 is the whole-of-government (that is, the Commonwealth public sector), the 1999-2000 MYEFO financial estimates cover the general government sector only. However, a whole-of-government approach for reporting financial outcomes is adopted in the Commonwealth's Consolidated Financial Statements.

- In relation to revenue, AAS31 suggests revenue be recognised at the time the income (or economic activity) giving rise to a tax liability occurs, where this can be measured *reliably*. The Commonwealth does not consider its revenues can be reliably forecast on this basis. Revenue is therefore recognised at the time the relevant tax law indicates the existence of a requirement to pay an amount in tax or when a tax assessment is raised by the Australian Taxation Office (ATO) and the Australian Customs Service (ACS). That is, revenue is only recognised when the taxpayer makes a self-assessment or the ATO/ACS issues an assessment.

Note 2: Reconciliation of Cash

	1999-00	2000-01	2001-02	2002-03
	$m	$m	$m	$m
	Estimates		Projections	
Operating result (revenues less expenses)	**5745**	**4226**	**3176**	**10140**
less **Revenues not providing cash**				
Foreign exchange gains	0	0	2	1
Gains from asset sales programme	0	0	0	0
Gains from sale of assets	2	1	1	7
Other	207	141	175	164
Total revenues not providing cash	**209**	**142**	**178**	**171**
plus **Expenses not requiring cash**				
Increase/(Decrease) in employee entitlements	232	249	57	-231
Depreciation/amortisation expense	2575	2875	3216	3497
Provision for bad and doubtful debts	302	312	320	307
Provision for dimunition in value of assets	0	0	0	0
Losses from asset sales programme	0	0	0	0
Losses from sale of assets	29	3	11	1
Foreign exchange losses	21	-11	0	0
Other	2	2	2	2
Total expenses not requiring cash	**3161**	**3429**	**3606**	**3576**
plus **Cash provided by working capital items**				
Decrease in inventories	-171	109	0	0
Decrease in receivables	0	0	1794	1434
Decrease in other financial assets	28	21	0	3
Decrease in other non-financial assets	0	3	0	0
Increase in benefits subsidies and grants payable	861	367	384	243
Increase in suppliers' liabilities	0	47	7	10
Increase in other provisions and payables	0	0	284	158
Total cash provided by working capital items	**718**	**548**	**2469**	**1847**
less **Cash used by working capital items**				
Increase in inventories	0	0	50	-105
Increase in receivables	952	3810	2	0
Increase in other financial assets	-20	0	65	100
Decrease in other provisions and payables	713	233	0	0
Decrease in suppliers' liabilities	-17	0	0	0
Total cash used by working capital items	**1628**	**4043**	**117**	**-4**
equals *Net cash from/(to) operating activities*	7787	4017	8956	15396
Net cash from/(to) investing activities	5221	2329	6747	12110
net cash from operating activities and investment	**13008**	**6346**	**15703**	**27507**
Net cash from/(to) financing activities	-15413	-6819	-15866	-27612
equals Net (decrease)/increase in cash	**-2405**	**-473**	**-163**	**-106**

Note 3: Income Tax

	1999-00	2000-01	2001-02	2002-03
	$m	$m	$m	$m
	Estimates		Projections	
Income tax				
Individuals -				
PAYE	76727	72744	77289	83400
Other individuals	13033	11060	12692	12518
Prescribed payments system	3026	2803	3131	3329
Refunds	11282	12395	11741	12358
Total individuals	81504	74212	81371	86888
Companies	21740	30802	26687	28451
Superannuation funds	3995	4872	4862	5243
Withholding tax	1320	1320	1370	1400
Petroleum resource rent tax	800	810	930	950
Total income tax	**109359**	**112016**	**115220**	**122932**

Note 4: Indirect Tax

	1999-00	2000-01	2001-02	2002-03
	$m	$m	$m	$m
	Estimates		Projections	
Sales tax	16308	2107	841	877
Of which revenue replacement	*1073*	*92*	*0*	*0*
Less transfers to States and Territories in relation to revenue replacement	1070	92	0	0
Sales tax revenue	**15238**	**2015**	**841**	**877**
Excise duty	18422	18563	19301	20133
Of which revenue replacement	*5699*	*234*	*0*	*0*
Less transfer to States and Territories in relation to revenue replacement	5694	233	0	0
Excise duty revenue	**12728**	**18330**	**19301**	**20133**
Customs duty	3840	3846	4234	4668
Of which revenue replacement	*188*	*4*	*0*	*0*
Less transfer to States and Territories in relation to revenue replacement	187	4	0	0
Customs duty revenue	**3653**	**3842**	**4234**	**4668**
GST Revenue	0	24144	28494	29191
Less transfers to States and Territories in relation to GST revenue	0	24144	28494	29191
GST revenue	**0**	**0**	**0**	**0**
Mirror taxes	127	134	137	144
Less transfers to States and Territories in relation to mirror revenue	127	134	137	144
Mirror tax revenue	**0**	**0**	**0**	**0**
Indirect tax revenue	**31618**	**24187**	**24376**	**25679**

Note 5: Interest and Dividends

	1999-00	2000-01	2001-02	2002-03
	$m	$m	$m	$m
	Estimates		Projections	
Interest				
Interest from other governments	-	-	-	-
State and Territory debt	193	113	75	68
housing agreements	175	172	169	166
Total interest from other governments	**368**	**286**	**244**	**234**
Interest from other sources				
Swap interest	1971	2392	2659	2891
Advances	39	44	49	53
Deposits	20	23	26	28
Bills receivable	6	6	6	6
Bank deposits	78	82	92	101
Other	295	437	842	2120
Total interest from other sources	**2409**	**2985**	**3674**	**5200**
Total interest	**2777**	**3271**	**3918**	**5434**
Dividends				
Dividends from associated entities	6675	2858	2743	2572
Other dividends	29	19	44	64
Total dividends	**6704**	**2877**	**2787**	**2635**
Total interest and dividends	**9482**	**6148**	**6706**	**8069**

Note 6: Other Sources of Non-taxation Revenues

	1999-00	2000-01	2001-02	2002-03
	$m	$m	$m	$m
	Estimates		Projections	
Industry contributions	138	124	122	118
Indexation of HECS receivable and AUSTUDY loans	144	143	175	166
International Monetary Fund related revenue	72	72	72	72
Other	3339	2665	2565	2531
Total other sources of non-taxation revenue	**3693**	**3004**	**2935**	**2887**

Note 7: Employee Expenses[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Salaries and wages	10135	10222	10367	10357
Leave and other entitlements	171	167	171	171
Separations and redundancies	54	18	13	15
Workers compensation premiums	28	28	29	29
Other	5738	5540	5501	5265
Total employees	**16127**	**15975**	**16081**	**15837**

(a) Refer to Table D2 for components of general government superannuation expenses.

Note 8: Suppliers Expenses

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Supply of goods and services	10446	10438	10240	9741
Operating lease rental expenses	835	807	820	827
Other	2061	2063	2000	1871
Total suppliers	**13343**	**13308**	**13060**	**12438**

Note 9: Depreciation and Amortisation

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Depreciation				
Specialist military equipment	1184	1419	1706	1943
Buildings	476	467	460	461
Other infrastructure, plant and equipment	788	823	859	881
Total depreciation	**2448**	**2708**	**3026**	**3285**
Total amortisation	**127**	**166**	**189**	**212**
Total depreciation and amortisation	**2575**	**2875**	**3216**	**3497**

Note 10: Grants

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
State and Territory governments	35148	19652	21911	21458
Non-profit organisations	1134	1134	1148	1174
Overseas	243	451	497	224
Private sector	-70	271	253	99
Local governments	240	245	252	260
Other	7553	7094	7221	7056
Total grants	**44247**	**28847**	**31283**	**30272**

Note 11: Other Non-financial Assets

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Prepayments	1337	1337	1341	1339
Other	77	54	52	50
Total other non-financial assets	**1414**	**1392**	**1393**	**1389**

Note 12: Employee Liabilities

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Superannuation	69640	69868	69875	69578
Leave and other entitlements	4182	4214	4282	4369
Accrued salaries and wages	549	563	576	596
Workers compensation claims	1085	1033	987	942
Separations and redundancies	23	22	21	21
Workers compensation premiums	0	0	0	0
Other	231	259	276	280
Total employee entitlements	**75711**	**75959**	**76016**	**75785**

Note 13: Grants Payable

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
State and Territory governments	2241	2306	2407	2480
Non-profit organisations	8	6	5	5
Private sector	4	3	3	0
Overseas	1113	1093	1114	868
Local governments	6	6	7	7
Other	3325	3436	3520	3644
Total grants payable	**6697**	**6851**	**7055**	**7005**

Note 14: Government Securities

Transactions relating to government securities and financial assets acquired for debt management purposes have been netted in the statements of financial position and cash flows. In the statement of financial position, the financial assets — investments category excludes financial assets acquired for debt management purposes, while the debt — government securities category is shown net of financial assets acquired for debt management purposes. Likewise, in the statement of cash flows, the investing activities — cash used — other category excludes cash used to acquire financial assets for debt management purposes while the financing activities — cash used — net repayment of borrowings category includes cash used to acquire financial assets for debt management purposes.

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

Note 15: Taxes

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
	Estimates		Projections	
Total taxes	151721	160932	174978	184673
Less payments to States and Territories in relation to revenue replacement	6952	329	0	0
Less payments to States and Territories in relation to GST revenue	0	24144	28494	29191
Less payments to States and Territories in relation to mirror tax revenue	127	134	137	144
Taxes	**144642**	**136325**	**146347**	**155338**

Statement of Risks

OVERVIEW

Full details of fiscal risks and contingent liabilities are provided in Statement 4 of *Budget Paper No. 1 Budget Strategy and Outlook 1999-2000.* The Statement of Risks presented in the MYEFO provides an update of that material, presenting changes to fiscal risks and quantifiable and unquantifiable contingent liabilities.

The forward estimates of revenues and expenses at the 1999-2000 MYEFO incorporate assumptions and judgements based on information at the time of publication. A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires that these be disclosed in each Economic and Fiscal Outlook Report. This disclosure brings greater transparency to the fiscal projections.

Events that could affect fiscal outcomes include:

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

Economic and Other Parameters

Some degree of uncertainty is attached to estimates of both revenues and expenses. While MYEFO estimates are prepared with the benefit of some revenue outcomes for the early months of the Budget year — which in general tend to reduce forecast errors — substantial uncertainties nevertheless remain. Moreover, the difficulties associated with such estimation will generally increase in accordance with extension of the forecast horizon over the forward estimates period. The sensitivity of the estimates to major economic parameters (but not other parameters) is discussed in Appendix B.

Fiscal Risks

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

Contingent Liabilities

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

Contingent liabilities are defined as costs the Government will have to face if a particular event occurs. They include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort. The Commonwealth's major exposure to contingent liabilities arises out of legislation providing guarantees over certain liabilities of Commonwealth controlled financial institutions (ie the Reserve Bank of Australia (RBA) and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. Other substantial non-loan guarantees include guaranteed payments from Telstra Corporation Ltd to the Telstra Superannuation Scheme.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

Fiscal Risks — Revenue

Tax Reform

Indirect Tax Changes

Legislation has been passed to introduce a GST from 1 July 2000 and thereby to abolish WST and a series of State and Territory taxes. Some fiscal risk may remain with regard to possible amendments to the tax reform legislation.

Review of Business Taxation

The *Review of Business Taxation* reported to the Government on 30 July 1999. On 21 September 1999, the Government announced that it would respond to the Review in two stages. The Government announced a package of measures on 21 September 1999 that will take effect from a range of dates. Rejection of, or significant amendments to, the legislation implementing these announced measures could significantly influence the fiscal impact of the announced package of reforms.

On 11 November 1999 the Government made a further response to the recommendations. In conjunction with its 21 September statement, measures announced by the Government will achieve overall revenue neutrality for business tax reform. See Appendix A, relating to revenue measures, for further details of measures announced in *The New Business Tax System*.

If the Government’s response is not adopted as set out in the two press releases, there could be a significant risk to revenue.

Specific Risks

There are also a number of specific risks to revenue that are currently the subject of ongoing analysis and evaluation by the Treasury and the ATO. Such risks include, for example, specific tax minimisation and avoidance schemes. Early detection and government response to such risks is desirable. It would be inappropriate to explicitly identify such current specific risks until the Government is in a position to respond to the risks. To do so may compromise the Government's policy response and magnify the downside risks to the forward estimates of revenue.

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

Sale of Telstra

Revenue from further sales of Telstra could be placed at risk if the necessary amendments to the *Telstra Corporation Act 1991* are not enacted by Parliament.

Fiscal Risks — Expenses

The following items appeared in *Budget Paper No. 1 1999-2000 Budget Strategy and Outlook*. At MYEFO these items no longer represent risks to forward estimates of revenues and expenses.

- New South Wales University superannuation (Education, Training and Youth Affairs).

- Temporary safe haven for displaced Kosovars (Immigration and Multicultural Affairs).

The fiscal risks presented below are either reported for the first time at the 1999-2000 MYEFO, or have changed since their presentation at the Budget.

Communications, Information Technology and the Arts

Digitisation strategy of the Australian Broadcasting Corporation

The Government has agreed to cover, at the end of the five-year conversion period (ie until 2002-03), outstanding debt in relation to Phase 1 of the Australian Broadcasting Corporation's plans for the conversion to digital broadcasting. That debt is currently estimated to be $32 million, increasing by $1 million since the 1999-2000 Budget.

Defence

Litigation cases in train — Department of Defence

The Department of Defence is involved in several cases covering a wide range of litigation where either the cases have not been heard, or damages and costs have yet to be awarded. The litigation involves Common Law liability and claims before the Human Rights and Equal Opportunity Commission, claims relating to HMAS Stalwart, HMAS Voyager, HMAS Melbourne, asbestos litigation, and alleged defective administration by the Department. In total there are now some 545 claims with a value of $104 million, increasing from 513 claims with a value of $92 million reported at the 1999-2000 Budget.

Peace operations in East Timor

The financial implications of this package will depend on a number of factors including: the unfolding security situation in East Timor; the timing of the transition from INTERFET to the UNTAET peacekeeping operation; the length of the UN peacekeeping operation and Government decisions in the context of the Defence White Paper regarding longer term force requirements.

Collins Class Submarines

Consequent to the Government's acceptance of the McIntosh / Prescott Report, further remedial work to the Collins Class submarines is to be undertaken. The Government is considering options to achieve an agreed level of capability for the submarines.

Health and Aged Care

Australian Health Care Agreements

The Commonwealth and all the States and Territories have signed five-year Australian Health Care Agreements (AHCA) commencing 1 July 1998. The signed Agreements incorporate a risk sharing arrangement for changes in the private health insurance participation rate. Under this formula, a nationally consistent rise of one percentage point in the participation rate above a point midway between the March 1998 and June 1995 levels will reduce Commonwealth grants to the States and Territories by approximately $82 million a year from 1999-2000. Commonwealth grants will be increased by a similar amount from 1999-2000 if the participation rate falls by one percentage point below the December 1998 level (based on current estimates of movements in population, the hospital output cost index, and assuming that those leaving private health insurance have the same age / sex profile as those remaining).

In response to concerns relating to the impact of increased participation rates on the grants to the States and Territories, the Commonwealth has recently agreed to vary this risk sharing arrangement to guarantee that the States and Territories can not be worse off as a result of any increase in private health insurance participation rates. The details of this variation to the AHCAs are yet to be agreed.

The AHCA indexation arrangements also include provision for a default index of 0.5 per cent in the absence of agreement between the Commonwealth and the States and Territories on a suitable index for measuring changes in hospital output costs.

In accordance with the Agreements, this matter was referred to an independent arbiter. The final report from the arbiter was received on 28 October 1999 and recommended additional grant payments to the States and Territories. The Commonwealth is currently considering its response. For every one percentage point change (relative to the budget assumption of a 0.5 per cent increase), grants to the States and Territories will change in aggregate by approximately $60 million a year.

Major new listings—Pharmaceutical Benefits Scheme and Medicare Benefits Scheme

From time to time new items are added to the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme schedules. Major new developments in medicines or medical procedures could result in increases in expenses that exceed the provision in the forward estimates.

Similarly, significant shifts in usage patterns, which may occur for particular drugs or groups of drugs from time to time, could result in increases in expenses that exceed the provision in the forward estimates. It is not possible to quantify the fiscal risk arising from such potential developments.

Immigration and Multicultural Affairs

Increased unauthorised arrivals

The recent surge in unauthorised arrivals by boat and the high risk of further arrivals in the short-term, presents a substantial resource risk arising from increased detention, processing and repatriation costs. The recent and prospective arrivals imply a detention requirement in excess of the current capacity of immigration detention infrastructure. This has necessitated the implementation of a range of temporary measures pending the development of plans for more permanent facilities to deal with ongoing requirements.

The Government has initiated a range of measures to limit its exposure to this risk, including a range of initiatives to combat people smuggling through greater cooperation with overseas Governments, increased penalties, deployment of additional compliance staff overseas, and increased coastal surveillance to detect unauthorised arrivals. More recently, the introduction of a Temporary Protection Visa for unauthorised arrivals found to have genuine protection needs, and legislative amendments to stop people who have effective protection overseas from gaining onshore protection in Australia, including through the development of proposals to enhance fingerprinting and other biometric identification tests, will also deter unauthorised entry to Australia. Given some of these initiatives are likely to take time to implement and be fully effective, the impact on unauthorised arrival numbers in the short-term is uncertain.

Transport and Regional Services

Maritime industry reform

On 18 August 1998 the Commonwealth provided a guarantee to cover borrowings made by the Maritime Industry Finance Company (MIFCo) to finance redundancy related payments in the stevedoring and maritime industries. MIFCo's borrowing facility, negotiated with its bankers, is presently $220 million (up from $155 million reported at the Budget). The *Stevedoring Levy (Collection) Act 1998* has been amended to increase the expenditure cap in the legislation from $250 million to $300 million (reported as $350 million in the 1999-2000 Budget).

Treasury

Australia's involvement in the IMF assistance to Thailand, Indonesia and the Republic of Korea

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

Australia also offered to provide supplementary financing or ‘second tier’ financing of up to $US1 billion for each of Indonesia and Korea. This financing would be provided via loans on a non-concessional basis. With the subsequent improvement in economic conditions in Korea, activation of its loan is not expected to be required. No money has been disbursed to Indonesia.

Financial Assistance to the Government of Papua New Guinea

The Commonwealth Government has offered financial assistance to Papua New Guinea (PNG) in support of its efforts to re-engage with the International Monetary Fund (IMF) and the World Bank. In the first instance, this assistance would take the form of a 90-day currency swap between the Reserve Bank of Australia (RBA) and the Bank of Papua New Guinea for the $A equivalent of $US80 million. This swap will provide short-term bridging finance until agreement can be reached between the PNG Government and the IMF on a Stand—by Programme (expected in early 2000). In the event of default, the ability of the RBA to maintain the dividend stream projected in the forward estimates may be affected.

The Government has indicated to PNG that it will consider providing a longer-term government-to-government loan (under the *International Monetary Agreements Amendment Act* — IMAA) once an IMF Stand-by Program is in place (expected in early 2000). This loan would help meet PNG’s external financing needs in 2000 and would be provided on a non-concessional basis, with a first call on the proceeds used to repay the short-term bridging facility.

Contingent Liabilities — Quantifiable

At the 1999-2000 MYEFO the following quantifiable contingent liabilities (reported at the 1999-2000 Budget) do not represent risks to the forward estimates:

- Commonwealth Loan Guarantees for the Abstudy financial supplement loan scheme (Education, Training and Youth Affairs); and

- Loans by the Australian Broadcasting Corporation and the Special Broadcasting Service, and indemnities relating to Art Indemnity Australia (Communications, Information Technology and the Arts).

The quantifiable contingent liabilities presented below are either reported for the first time at the 1999-2000 MYEFO, or have changed since their presentation at the Budget.

Agriculture, Fisheries and Forestry

Queensland Fisheries Management Authority

The Commonwealth guaranteed a loan of up to a maximum of $40.9 million to encourage the restructuring of the Northern Prawn Fishery. As at 29 July 1999, the amount outstanding on the loan was $1.6 million, which is to be finalised in January 2000. The loan was taken out by the Queensland Fisheries Management Authority on behalf of the Commonwealth to buy back surplus boat units from the fishery with repayment to be made by the industry through levies.

Communications, Information Technology and the Arts

Telstra Corporation Ltd — Superannuation Guarantee

Telstra Corporation Ltd has agreed to make additional employer contributions to the Telstra Superannuation Scheme. The Commonwealth has guaranteed that it will cover any outstanding additional employer contributions in the event that Telstra becomes insolvent. The net present value of the contingent liability in respect of the guaranteed stream of payments for the Telstra Superannuation Scheme as at 30 June 1999 was $1.0 billion.

Finance and Administration

ComLand Limited

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

Foreign Affairs and Trade

Export Finance and Insurance Corporation (EFIC)

The Commonwealth guarantees the due payments by EFIC of money that is, or may at any time become, payable by EFIC to any person other than the Commonwealth. As at 30 September 1999, the Commonwealth's total contingent liability was $7,612 million, comprising EFIC's balance sheet liabilities ($1,183 million), contingent liabilities ($3,361 million) and national interest account liabilities ($3,068 million).

Industry, Science and Resources

Australian Industry Development Corporation (AIDC)

As at 30 June 1999, the Corporation's contingent liabilities were $173.3 million in respect of guarantees and credit risk facilities. The Corporation's other guaranteed borrowings totalled $1.6 billion as at 30 June 1999. These have been offset by holdings in Commonwealth Government securities and certain hedging instruments, all of which are fully guaranteed by Warburg Dillon Read (formerly known as UBS Australia Ltd.)

Australian Industry Development Corporation (AIDC) in relation to the Australian Submarine Corporation

The Commonwealth through the Australian Industry Development Corporation (AIDC) holds a 48.45 per cent interest in the Australia Submarine Corporation Pty Ltd (ASC). ASC is building 6 Collins Class Submarines for the Department of Defence (Defence). On 16 December 1998, at the request of the Corporation, the Commonwealth issued a guarantee for $26.6 million to back AIDC's pro-rata shareholder obligations regarding the timely delivery of the Collins Class Submarines by ASC to Defence. A similar pro-rata guarantee was arranged by the other major shareholder, issued by its bank. The AIDC guarantee reduced to $13.3 million on 30 April 1999 and will terminate in full on 31 December 2001, subject to delivery of the final submarine.

Snowy Mountains Hydro-electric Authority (SMHEA)

The Snowy Mountains Hydro-electric Power Act 1949 provides that borrowings by SMHEA may be guaranteed by the Commonwealth. The Authority has issued inscribed stock at a discount to finance capital works of the Scheme. The borrowings are subject to explicit Commonwealth guarantees. As at 24 September 1999, the face value of guaranteed borrowings was $181.5 million with the net amount guaranteed (excluding the unamortised discount on the issue of inscribed stock) being $102.7 million.

Treasury

Guarantees under the Commonwealth Bank Sale Act 1995

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

The guarantee for the Commonwealth Bank of Australia relates to both on and off-balance sheet liabilities. Of the existing contingent liability, 34 per cent involves off-balance sheet liabilities. As at 30 June 1999, the balance of the guarantee was $94,124.9 million, a reduction of $5,621 million on the previous year.

The guarantee for CBOSC covers the due payments of any amount that is payable to or from the Fund, by CBOSC or by the Bank, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. Total accrued benefits at 30 June 1999 have been valued at $3,752.9 million following an actuarial review. The outstanding value subject to the guarantee is estimated to be $3,721.6 million.

As of 1 July 1996, the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The existing contingent liability will gradually decline with the retirement of existing loans and exposures. The revised estimate for the balance of this guarantee was $272.6 million as at June 1999.

Reserve Bank of Australia (RBA) guarantee

This contingent liability relates to the Commonwealth's guarantee of the liabilities of the RBA. The major component of RBA liabilities relates to Notes (ie currency) on Issue. This treatment of Notes largely relates to the historical convention of the convertibility of Notes to gold — coins are not treated as a liability in the Commonwealth's accounts. At 5 November 1999, Notes on Issue totalled $24,266 million.

In total, the guarantee for the Reserve Bank was $41,416 million as at 5 November 1999.

Uncalled Capital Subscriptions — international financial institutions

The liability relates to the value of the uncalled portion of the Commonwealth's shares in the International Bank for Reconstruction and Development ($US2,769.5 million — estimated value $A4,198.7 million at 30 June 1999), the Asian Development Bank ($US2,413.5 million — estimated value $A3,656.82 million as at 30 June 1999), and the European Bank for Reconstruction and Development ($US81.7 million — estimated value $A123.8 million as at 30 June 1999).

Contingent Liabilities — Unquantifiable

Since the 1999-2000 Budget the Australian Federal Police (AFP) Adjustment Scheme (Attorney-General's) has ceased to represent an unquantifiable contingent liability. The Government has decided to provide an equity injection to extinguish this liability. For further information refer to paragraph two of the expense measure in Appendix A (*Revised Funding arrangements for the AFP Reform Programme and AFP Adjustments Scheme*) in the Attorney-General's portfolio.

Defence

HMAS Melbourne compensation

The decision in the *Mewett v Commonwealth* case may be used as a precedent by up to 954 crewmen of HMAS Melbourne, in relation to the Voyager incident, to lodge claims against the Commonwealth. Some 121 claims have been lodged to date, of which 107 are current claims. There are 6 identified dependant claims currently active and there is a possibility of further potential dependant claims, however there is no basis for quantifying further claims.

Finance and Administration

ComLand Limited — board members' indemnity

Indemnities for directors of the ComLand group have been provided to protect against civil claims relating to employment and conduct as directors of ComLand Limited and its subsidiaries, St Marys Land Limited and Footscray Limited.

Transport and Regional Services

Tripartite Deed relating to the sale of Core Regulated Airports

Tripartite Deeds apply to the 12 Core Regulated Airports (Sydney, Melbourne, Brisbane, Perth, Canberra, Coolangatta, Townsville, Adelaide, Hobart, Launceston, Darwin and Alice Springs). The Tripartite Deeds between the Commonwealth of Australia, airport lessees and lessees' financiers provide for the Commonwealth to 'step-in' as airport operator in defined circumstances. The Deeds also provide protection to secured financiers where a lease termination event occurs. The potential liability of the Commonwealth would vary considerably with the specific factors leading to a lease termination. If the Commonwealth entered into possession of an airport site it could seek to recover its costs from a number of sources, including airport revenues, the Airport lessee company and potentially, from the financiers themselves.

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

Civil Aviation Safety Authority (CASA) — indemnity in relation to the Authority's safety regulatory functions

Under a Deed of Agreement, CASA was indemnified against the claims incurred in carrying out its responsibilities for aviation safety regulation. This indemnity was subject to an annual renewal on payment of an annual premium by CASA to the Commonwealth. This indemnity expired on 5 July 1998 and CASA has replaced this arrangement with commercial insurance. The Commonwealth is obliged to continue to indemnify CASA in relation to liabilities associated with acts or omissions that occurred before the date of expiry of the Deed of Agreement.

Australian National Railways Commission (AN) — transfer of legal actions and contingent liabilities to the Commonwealth

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

Australian Maritime Safety Authority (AMSA) — insurance claims

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

The insurer has indemnified AMSA although AMSA will be liable for any policy excess.

Australian Maritime Safety Authority (AMSA) — incident costs

In the normal course of operations, AMSA is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution. The Commonwealth has agreed that AMSA's responsibility should be limited to a maximum outlay of $10 million. AMSA has arranged a standby loan facility for this purpose.

In the event costs exceed that limit, funds will be provided by the Commonwealth. In all circumstances, the Authority is responsible for making appropriate efforts to recover the costs of any such incidents.

National Capital Authority (NCA)

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

Treasury

Housing Loans Insurance Corporation (HLIC)

Indemnities were issued to certain directors of HLIC to indemnify them against all claims and losses, including legal costs incurred by the director in relation to his or her capacity as a member of HLIC. The indemnities are ongoing.

HLIC Limited

An adviser to the sale of HLIC Limited was appointed as an agent of the Commonwealth on 4 December 1996 and, as a result, was extended ongoing protection against all losses and liabilities sustained in lawfully carrying out the Commonwealth's instructions.

On 14 December 1997, a number of indemnities were issued to GE Capital Australia indemnifying GE Capital from claims made in relation to and/or losses arising from: redundancy by terminated transferred employees; pre and post sale superannuation entitlements by transferred employees; breach of warranties, pre-closing liabilities and/or breach of Agreement; pre-transfer date insurance contracts; pre-transfer date tax liabilities; and audit costs regarding pre-closing financial affairs of HLIC Limited. Any claims are subject to a cap of the sale price.