APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details of fiscal risks and contingent liabilities are provided in Budget Paper No. 1, *Budget Strategy and Outlook 2013-14*. The following statement updates fiscal risks and contingent liabilities and assets that have materially changed since the 2013-14 Budget. Risks updated in the *Pre-Election and Fiscal Outlook 2013* (PEFO) have also been included and, where appropriate, updated in the following statement for completeness.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO) incorporate assumptions and judgments based on the best information available at the time of publication together with a range of economic assumptions and other forecasts and projections.

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

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. Consistent with Government policy, the MYEFO 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 revenues forecast for these taxes.

In addition, revenue forecasting relies heavily on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift over time as the economy changes, presenting a further risk to the estimates.

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

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New or revised fiscal risks and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, that have arisen or changed since the 2013-14 Budget are described below and summarised in Table C1.

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

Table C1: Summary of material changes to the Statement of risks since the 2013-14 Budget(a)

Fiscal risks	
Defence	
Major overseas operations of the Australian Defence Force in Afghanistan and the Middle East	Modified
Treasury	
Standby loan facility for the Government of Indonesia	Modified
Contingent liabilities — quantifiable	
Communications	
NBN Co Limited — Equity Agreement	Modified
Telstra Financial Guarantee	Modified
Defence	
Indemnities and remote contingencies	Modified
Environment	
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	New
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Social Services	
Accommodation Bond Guarantee Scheme	Modified
Treasury	
Australian Taxation Office — tax disputes	Modified
Contingent liability for the payment of unclaimed monies under the *Banking Act 1959, Life Insurance Act 1995* and the *Corporations Act 2001*	Removed
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
International Financial Institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Reserve Bank of Australia — guarantee	Modified
Contingent liabilities — unquantifiable	
Agriculture	
Compensation claims arising from equine influenza outbreak	Modified
Attorney-General's	
Australian Victims of Terrorism Overseas Payment	Modified
Communications	
Termination of the funding agreement with OPEL	Modified
Defence	
Indemnities and remote contingencies	Modified
Litigation cases	Modified
Environment	
End of lease at the former National Halon Bank site, Braybrook, Victoria	Modified
Murray-Darling Basin Reform — additional net costs	Modified

Table C1: Summary of material changes to the Statement of risks since the 2013-14 Budget (continued)(a)

Contingent liabilities — unquantifiable (continued)	
Finance	
Australian Government Domestic Property	New
Comcover — insurance claims and reinsurance recoveries	Modified
Contractual Leasing Agreement	Removed
Litigation — Davis Samuel case	Modified
Immigration and Border protection	
Immigration detention services by State and Territory governments liability limit	Modified
Industry	
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified
Snowy Hydro Limited — Directors' indemnity	Removed
Infrastructure and Regional Development	
Moorebank Intermodal Company Limited (MIC) — Board Members' Indemnity	New
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	New
Social Services	
Business Services Wage Assessment Tool (BSWAT)	New
National Disability Insurance Scheme (NDIS)	New
Treasury	
Financial Claims Scheme	Modified
Guarantee of State and Territory Borrowing	Modified
Guarantee Scheme for Large Deposits and Wholesale Funding	Modified
Contingent assets — unquantifiable	
Industry	
Wireless Local Area Network	Modified

(a) Risks appearing in Budget Paper No. 1, Budget Strategy and Outlook 2013-14, Statement 8, but not listed in the table above are substantially unchanged.

FISCAL RISKS

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

DEFENCE

Major overseas operations of the Australian Defence Force in Afghanistan and the Middle East

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 throughout 2013-14. Current estimates do not provide for extensions of currently approved operations beyond 2013-14. Such funding is considered on a year-by-year basis and is subject to future decisions of the Government. This is consistent with past practice.

TREASURY

Standby loan facility for the Government of Indonesia

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.

CONTINGENT LIABILITIES — QUANTIFIABLE

Communications

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co. The Agreement formalises the Commonwealth'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 Commonwealth, 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 31 October 2013, NBN Co's termination liabilities were estimated at $5.3 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 31 October 2013, NBN Co had generated liabilities covered by the guarantee estimated at $2.5 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.

Defence

Indemnities and remote contingencies

As at 6 November 2013, Defence carried 1,755 instances of quantifiable significant remote contingent liabilities with a nominal value of $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. While these contingencies are considered remote, they have been reported in aggregate for completeness. The increase in the nominal value since the 2012-13 Defence financial statements has predominantly resulted from indemnities relating to classified military exercises.

As at 31 October 2013, the Defence Materiel Organisation carried 78 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. While these contingencies are considered remote, they have been reported in aggregate for completeness.

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 the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 October 2013, the Government's total contingent liability was $3.3 billion. The $3.3 billion contingent liability comprises EFIC's liabilities to third parties ($2.5 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($833 million). Of the total contingent liability, $2.6 billion relates to EFIC's Commercial Account and $725 million relates to the National Interest Account.

Social Services

Accommodation Bond Guarantee Scheme

The Accommodation Bond Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of residents' accommodation bond and entry contribution balances if their 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 Commonwealth 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 2012, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately $13.1 billion.

Amendments were recently made to the Guarantee Scheme through the *Aged Care (Bond Security) Amendment Act 2013* and the *Aged Care (Bond Security) Levy Amendment Act 2013.* These amendments extend the current guarantee for bonds paid by aged care residents, to also cover future lump sum accommodation payments paid by aged care residents. Under these amendments, bonds paid by aged care residents (before 1 July 2014), and refundable accommodation deposits and refundable accommodation contributions made by aged care residents (after 1 July 2014) are guaranteed by the Government if an aged care provider becomes insolvent or bankrupt.

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 at some future date. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 October 2013, for which a provision has not been made, is $7.0 billion.

Outcomes of dispute resolution processes, including objections, settlements and court and tribunal decisions, as well as amounts owed by taxpayers that are subject to dispute, including objections and appeals, are set out in the Commissioner of Taxation's Annual Report each year.

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; $751 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 June 2013, and $4.2 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 June 2013.

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$3.8 billion as at 14 November 2013).

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$342.3 million as at 14 November 2013).

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$7.5 billion as at 14 November 2013).

Australia has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$28.3 million as at 14 November 2013). None of these international financial institutions have ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. 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$7.2 billion at 30 September 2013). 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 the increase in IMF quotas come into effect. This was anticipated to occur in 2012-13; however, due to a delay in the implementation of the above agreement by the United States it is now anticipated to occur in 2013-14.

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has committed to provide a US$7.0 billion (calculated as SDR 4.6 billion, approximately A$7.6 billion at 30 September 2013) 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.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia. It is 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 $59 billion, as at 31 October 2013, and the total guarantee is $65 billion.

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 applicants (586) 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.

Attorney-General's

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.

Communications

Termination of the funding agreement with OPEL

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect program, the Commonwealth 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

Indemnities and remote contingencies

As at the 31 October 2013, the Defence Materiel Organisation carried 444 instances of contingencies (including Foreign Military Sales) that are unquantifiable. 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 that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including injury from alleged exposure to hazardous substances in the workplace. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is also the potential for a number of claims to arise out of reviews into Australian Defence Force and Defence culture.

Environment

End of lease at the former National Halon Bank site, Braybrook, Victoria

The Department of Environment exited a lease at the former National Halon Bank site in Victoria on 28 June 2013. Some environmental contamination has been detected and investigations have been conducted on the cause, source and timing of the contamination. The Commonwealth is now engaged in negotiations with the relevant parties on potential soil and groundwater remediation options and costs. The site owner has engaged an independent site auditor through Environment Protection Authority Victoria to conduct an environmental audit of the entire site, of which the former National Halon Bank site was a small portion. The Department will be limited in progressing the negotiations with all parties until the entire site audit is complete, which is expected in 2014.

Murray-Darling Basin Reform — additional net costs

Under the 2013 *Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin*, signatory Basin States have agreed that the capped financial support provided through the associated National Partnership for state implementation payments replaces the 'No Net Additional Costs' provision under the 2008 *Intergovernmental Agreement on Murray-Darling Basin Reform*.

As at 7 November 2013, Victoria, South Australia and the ACT had signed the 2013 Intergovernmental Agreement, whilst NSW and Queensland were considering the matter further and are thus still covered under the provisions of the 2008 Intergovernmental Agreement. The 2008 Intergovernmental Agreement specified that the Basin States will not bear additional net costs as a consequence of the reforms agreed between the parties and implementation of the *Water Act 2007*. This undertaking ceases on 30 June 2015.

Finance

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 have 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.

Comcover — insurance claims and reinsurance recoveries

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

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 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.

Immigration and Border Protection

Immigration detention services by State and Territory governments — liability limit

The Department of Immigration and Border Protection (DIBP) is negotiating 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 Commonwealth for the provision of those services.

In June 2012, the then Minister for Immigration and Citizenship wrote to the Minister for Finance and Deregulation 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 September 2012, the then Minister for Finance and Deregulation agreed that DIBP could consider entering arrangements which include the relevant indemnities, as per the indemnity parameters listed in the table below.

DIBP is now seeking to standardise indemnity arrangements across all State and Territories for police and education service streams.

DIBP summary of indemnity arrangements with States and Territories

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

N/A — Not Applicable
*To be formally agreed by Minister for Finance

Industry

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

The Australian and Western Australian governments have agreed 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 2013-14.

Infrastructure and Regional Development

Moorebank Intermodal Company Limited (MIC) — 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.

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 Commonwealth to provide an uncapped indemnity whereby the Commonwealth 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 Commonwealth has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

Social Services

Business Services Wage Assessment Tool (BSWAT)

The Australian Government may potentially potentially become liable for a range of costs following a 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 (NDIS)

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 Government's budget is not expected to occur before 2016-17.

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and policyholders of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

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 policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Financial Claims Scheme established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 30 June 2013, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $692.3 billion, compared to $688.2 billion at 31 March 2013, reflecting overall deposit growth in the financial system.

The Financial Claims Scheme established under the *Insurance Act 1973* 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 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 ADIs 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, the payments 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.

In the very unlikely event of a GI failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. In the event that there was a shortfall in the amount recovered, a levy would be applied to GIs to recover the difference between the amount expended and the amount recovered in the liquidation.

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 October 2013, the face value of State and Territory borrowings covered by the guarantee was $21.0 billion, down from $25.4 billion at 30 June 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 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. 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 25 October 2013 total liabilities covered by the Guarantee Scheme were estimated at $40.7 billion, down from $48.3 billion at 30 June 2013. This is made up of $2.3 billion of large deposits and $38.4 billion (down from $46.0 billion at 30 June 2013) of long-term wholesale funding. All guaranteed short-term wholesale funding matured in March 2011.

As at 30 September 2013, institutions participating in the Guarantee Scheme had paid fees of $4.3 billion since its inception.

CONTINGENT ASSETS — UNQUANTIFIABLE

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.