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 2017-18*. The following statement updates fiscal risks and contingent liabilities and assets that have materially changed since the 2017-18 Budget.

The forward estimates of revenue and expenses in the *Mid-Year Economic and Fiscal Outlook 2017-18* (MYEFO) incorporate assumptions and judgments based on the best information available at the time of publication, together with a range of economic assumptions and other forecasts and projections.

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

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

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

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

Details of fiscal risks and contingent liabilities

New or revised fiscal risks, contingent assets and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, that have arisen or changed since the 2017-18 Budget are described below and summarised in Table C1.

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

Table C1: Summary of material changes to the Statement of Risks since the 2017-18 Budget[(a)]

Fiscal risks	
Education and Training	
Recovery of inappropriately claimed VET FEE-HELP funds from providers	Modified
Environment and Energy	
Snowy Hydro Limited — Government shareholding	New
Finance	
Same-Sex Marriage Plebiscite	Removed
Home Affairs	
Regional Processing Arrangements	Modified
Infrastructure and Regional Development	
Inland Rail — Delivery	Modified
Significant but remote contingencies	
Communications and the Arts	
NBN Co Limited — Equity Agreement	Modified
Optus Financial Guarantee	Modified
Telstra Financial Guarantee	Modified
Defence	
Remote contingencies	Modified
Infrastructure and Regional Development	
WSA Co Limited – Board Members' Indemnities	New
WSA Co Limited – Termination of the Equity Subscription Agreement	New
Treasury	
Financial Claims Scheme	Modified
Guarantee of State and Territory borrowing	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
Reserve Bank of Australia — Guarantee	Modified
Contingent liabilities — unquantifiable	
Agriculture and Water Resources	
Emergency pest and disease response arrangements	Modified
Communications and the Arts	
NBN Co Limited — Board Members' Insolvency Indemnity	Modified
Defence	
Non-remote contingent liabilities	Modified
Employment	
jobactive – Employment Fund	New
Finance	
Australian Government domestic property	Modified
Health	
Tobacco plain packaging litigation	Removed
Home Affairs	
Garrison, welfare and health services at regional processing countries — liability limit	Modified
Disaster Recovery	Modified
Infrastructure and Regional Development	
Service Delivery Arrangement Indemnities — External Territories	Modified
Aviation rescue and fire fighting potential per- and poly-fluoroalkyl substances contamination	Modified

Table C1: Summary of material changes to the Statement of Risks since the 2017-18 Budget[(a)] (continued)

Contingent assets — unquantifiable	
Defence	
Non-remote contingent assets	Modified
Home Affairs	
Civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia	New
Industry, Innovation and Science	
Wireless Local Area Network	Removed
Contingent liabilities — quantifiable	
Defence	
Claims against the Department of Defence	Modified
Environment and Energy	
Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges	Removed
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Prime Minister and Cabinet	
Leases for public housing in remote Northern Territory	New
Treasury	
Australian Taxation Office — tax disputes	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Contingent assets — quantifiable	
Defence	
Claims by the Department of Defence	Modified

(a) Risks appearing in Budget Paper No. 1, *Budget Strategy and Outlook 2017-18*, Statement 9, 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.

Education and Training

Recovery of inappropriately claimed VET FEE-HELP funds from providers

The Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were inappropriately issued to students by providers. A number of VET FEE-HELP providers have entered administration or liquidation. There is a potential financial risk to the Commonwealth in the event that compliance action results in student loan debts being remitted but the Commonwealth is unable to recover the payments from providers. There is also a financial risk to the Commonwealth that it will be unable to recover the cost of remitting student debts from tuition assurance operators following provider closures.

Environment and Energy

Snowy Hydro Limited – Government Shareholding

The Australian Government is open to acquiring a larger share or outright ownership of Snowy Hydro Limited. If an agreement is reached with the NSW and Victorian Governments, the purchase and transfer of the NSW and Victorian Governments' shares in Snowy Hydro Limited to the Commonwealth will have financial implications for the fiscal position, for example by increasing assets and liabilities on the Australian Government's balance sheet, and depending on the nature of the agreement, through changed dividend distributions.

Home Affairs

Regional Processing Arrangements

The Australian Government funds services to transferees in regional processing countries to support host governments' management, removal and resettlement of these people. Any significant changes in the number of transferees, the arrangements that underpin the provision of those services, or relevant litigation, may incur a cost or generate cost reductions which are unquantifiable at this time.

Infrastructure and Regional Development

Inland Rail — Delivery

The Australian Government has committed to deliver the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane, as well as a new freight corridor between Brisbane and Perth (via Parkes).

The ARTC will deliver Inland Rail using up to a $9 billion equity investment from the Commonwealth. A Public Private Partnership will be established to design, build, finance and maintain the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until procurements, alignment and reference designs are completed. Project risks include securing jurisdictional support, construction delays, cost pressures, and revenues realised. These pressures are being mitigated through close management of the delivery program and progressing pre-construction activities.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications and the Arts

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). The Agreement formalises the Australian Government's intention to provide equity to fund the roll-out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Australian Government, in the event of a termination of the National Broadband Network roll-out, to provide sufficient funds to NBN Co to meet its costs arising from that termination. All equity under this agreement has been provided. Although the NBN Co Equity Funding Agreement will end in 2019, the Commonwealth would retain obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 30 September 2017, NBN Co's termination liabilities were estimated at $15.9 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of the NBN Co financial obligations to Optus Networks Pty Ltd, Optus Internet Pty Limited, Optus Vision Media Pty Limited and SingTel Optus Pty Ltd (collectively, Optus) under the Optus HFC Subscriber Agreement. The Agreement was amended on 19 September 2015. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Optus Agreement. As at 30 September 2017, NBN Co had generated liabilities covered by the Optus Agreement, which are estimated at an amount lower than $125 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided to Telstra Corporation Limited (Telstra) a Guarantee in respect of NBN Co financial obligations under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the Definitive Agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 30 September 2017, NBN Co had generated liabilities covered by the Guarantee estimated at $7.0 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

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

Defence

Remote contingencies

As at 31 October 2017, the Department of Defence carried 1,479 instances of quantifiable remote contingent liabilities valued at $5.1 billion and 27 instances of unquantifiable remote contingent liabilities.

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.

Infrastructure and Regional Development

WSA Co Limited – Board Members' Indemnities

The Australian Government has provided an indemnity for each of the Directors of WSA Co Limited (WSA Co) to protect them against certain claims relating to their employment as Directors. Unless the indemnity agreements are varied or brought to an end, they cease to apply from the date the Commonwealth has fully satisfied its obligations to subscribe for equity in WSA Co pursuant to the WSA Co Limited Equity Subscription Agreement.

WSA Co Limited – Termination of the Equity Subscription Agreement

The Australian Government is required to cover all costs and liabilities that may be incurred by WSA Co in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and WSA Co.

Treasury

Financial Claims Scheme

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

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 30 June 2017, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $860 billion, compared to an estimated $850 billion as at 31 December 2016, reflecting overall deposit growth in the financial system.

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

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

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

Guarantee of State and Territory borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over State and Territory borrowing. The Guarantee of State and Territory borrowing commenced on 24 July 2009 and closed on 31 December 2010. New South Wales and Queensland were the only States who chose to participate in the Guarantee.

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

As at 30 September 2017, the face value of State and Territory borrowings covered by the Guarantee was $3.8 billion, down from $6.5 billion at 31 March 2017.

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: $129.5 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 September 2017; and $4.5 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 September 2017.

Reserve Bank of Australia — Guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. Banknotes on issue amount to $74.6 billion as at 18 October 2017, and the total Guarantee is $111.9 billion ($113.5 billion at the 2017-18 Budget).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Limited funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements, which is paid to the relevant State or Territory government. This funding is unlikely to be sufficient to meet the costs of a large-scale pest or disease incursion or additional and multiple responses (noting there are currently 13 national cost-shared emergency responses and for 10 years from 2017-18, half this funding is allocated to an eradication program for red imported fire ants in Queensland).

The Australian Government may provide financial assistance to an industry party by funding its share of an emergency response. These contributions are recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also contribute bilaterally in situations where an incursion is not covered by a cost-sharing agreement or where the affected industry body/bodies are not party to an emergency response agreement, depending on the circumstances of the incursion.

Communications and the Arts

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided Directors 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 no greater than those covered by the NBN Co Equity Funding Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

Defence

Non-remote contingent liabilities

The Department of Defence has 40 instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Employment

jobactive – Employment Fund

The Department of Employment's forward estimates for jobactive includes anticipated expenditure for the Employment Fund. This flexible pool of funds is available to jobactive providers to assist job seekers to find and keep a job. The amount credited to the Employment Fund is commensurate with each job seeker's level of disadvantage. Experience suggests that jobactive providers will not necessarily spend all the credits during the life of the jobactive contracts. The forward estimates do not include the value of residual credits.

Finance

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 100 properties. This number has reduced from approximately 110 reported at the 2017-18 Budget due to the ongoing implementation of the measure *Smaller Government – Surplus Commonwealth Properties – divestment*. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues has had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Home Affairs

Garrison, welfare and health services at regional processing countries — liability limit

The Department of Home Affairs entered into a contract with Canstruct International Pty Ltd (Canstruct), which commenced on 1 November 2017, for the provision of garrison and welfare services on Nauru in relation to regional processing arrangements. The contract includes a provision that limits Canstruct's liability to the Department of Home Affairs to a maximum of $20 million for any single occurrence and $50 million in aggregate for the term of the contract (12 months). The limitation of liability does not apply to personal injury, breach of third-party IP rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

The Department of Home Affairs is also in the process of negotiating contracts for the provision of garrison, welfare and health services in Papua New Guinea in relation to regional processing arrangements, for which the potential liability for the Australian Government in the context of these services is currently unquantifiable.

Disaster Recovery

The Australian Government provides funding to States and Territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist with 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 disasters, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As disasters and their impacts are unpredictable, the cost relating to these payments from future disasters is unquantifiable and therefore not included in the forward estimates.

Further, while current forward estimates for the NDRRA 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.

Infrastructure and Regional Development

Service Delivery Arrangement Indemnities — External Territories

A range of services are delivered to the Indian Ocean Territories (Christmas Island and the Cocos (Keeling) Islands) by the Western Australian (WA) Government under Service Delivery Arrangements (SDAs) agreed with the Australian Government. There are 45 SDAs in place with WA Government agencies for services to the Indian Ocean Territories.

The Australian Government has provided certain indemnities for the WA Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

From 1 July 2016, the New South Wales (NSW) Government has provided a range of services to the Norfolk Island community through a Heads of Agreement. The Australian Government provides certain indemnities for the State of NSW and NSW authorities and officials in respect of the delivery of services to Norfolk Island.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Aviation rescue and fire fighting potential per- and poly-fluoroalkyl substances contamination

Airservices Australia (Airservices) has identified a number of sites around the country that potentially have been contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams. The firefighting foams containing PFAS were widely used internationally and were used on sites where aviation rescue and firefighting services were provided between approximately 1980 to 2010. The identified contaminants do not naturally break down in the environment. Airservices continues to implement its PFAS management program that included testing and assessment of the fire training grounds in 2008-09, with additional site assessments conducted in the years following. Costs associated with potential long term management options such as containment and remediation cannot be quantified at this time, but could be considerable given the current lack of practicable management options and the fact there are potentially 19 of the 21 federally leased airports and other regional airports involved.

For federally-leased airports, under the airport head leases, the Airport Lessee Companies are responsible for the environmental management of their airport sites. The airport leases contain an indemnity in favour of the Commonwealth specifically relating to damages, costs or injury arising out of any damage or injury to the environment on-airport, both before and after the grant time (with some exceptions applying to the latter). However, which entity is liable for costs/damages/injury arising from PFAS contamination on federally-leased airports has not yet been tested or established.

Currently, there are two class actions against the Commonwealth before the Federal Court, seeking damages over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown and Oakey. The outcomes of these class actions may have implications for the Department of Defence, the Department of Infrastructure and Regional Development and Airservices.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non-remote contingent assets

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

Home Affairs

Civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia

On 3 August 2017, AUSTRAC initiated civil penalty proceedings in the Federal Court against the Commonwealth Bank of Australia (CBA) for serious and systemic non-compliance with the *Anti-Money Laundering and Counter Terrorism Financing Act*

2006. AUSTRAC's statement of claim has been made public by the Court. The outcome of this matter is unknown, including the quantum of any penalty that may be imposed by the Court.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 14 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.2 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by Defence through the Attorney-General's Legal Services Multi-Use List and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 October 2017, the Government's total contingent liability was $3.2 billion. The $3.2 billion contingent liability comprises EFIC's liabilities to third parties ($2.5 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $2.7 billion relates to EFIC's Commercial Account and $0.5 billion relates to the National Interest Account.

Prime Minister and Cabinet

Leases for public housing in remote Northern Territory

From 2008, the Commonwealth has entered into leases for public housing lots in 51 remote Northern Territory communities for a period of 40-99 years. Under these leases, the Commonwealth is expected to enter into subleases with a third party housing provider to deliver property and tenancy management on its behalf, or to deliver these responsibilities itself. The Northern Territory Government currently has subleases for all communities where Commonwealth leases are in place. The first of these subleases expire from June 2018. If no new subleases are entered into, the Commonwealth will become responsible for delivering landlord duties under the leases. Over the forward estimates period, Northern Territory Government subleases expire in 43 communities, which encompass 1,836 housing lots.

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 30 September 2017, for which a provision has not been made, is $5.3 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. Australia's uncalled capital subscription to the IBRD totals US$3.6 billion (estimated value A$4.7 billion as at 31 October 2017).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$359.9 million as at 31 October 2017).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.2 billion as at 31 October 2017).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.5 million as at 31 October 2017).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$3.8 billion as at 31 October 2017).

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

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) SDR2.2 billion (estimated value A$4.1 billion at 31 October 2017). On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five year period to 16 November 2022.

In addition, Australia has made available a SDR4.61 billion (approximately A$8.4 billion at 31 October 2017) contingent bilateral loan to the IMF. This contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and other 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 Treasurer agreed to renew Australia's loan agreement with the IMF on 19 December 2016. The renewed agreement extends Australia's existing funding commitment to December 2019, with the possibility of an additional one-year extension with Australia's consent.

CONTINGENT ASSETS — QUANTIFIABLE

Defence

Claims by the Department of Defence

The Department of Defence has 11 instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at $23.2 million. Defence is expecting to succeed in its claims. The estimated figure is determined by conducting an objective analysis of the probable amounts owing to Defence.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on the fiscal balance in some circumstances. The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table C2 summarises Government loans estimated to exceed $200 million at 30 June 2018.

Table C2: Summary of material changes to Australian Government loans exceeding $200 million since the 2017-18 Budget

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status
Department of Education and Training					
Higher Education Loan Program	43,293	Eligible tertiary education students	Consumer Price Index (CPI)	8.9 years*	Modified
Department of Communications and Arts					
NBN Co Loan	8,843	NBN Co Limited	3.96 per cent	30 June 2021	New
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	1,992	Approved entities undertaking clean energy technology projects	4.6 per cent weighted average	5-15 years	Modified
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,793	State and Northern Territory governments	3.63-6.0 per cent	Up to 30 June 2042	Modified
Department of Infrastructure and Regional Development					
WestConnex Stage 2 Concessional Loan	1,125	WCX M5 Finco Pty Ltd	3.4 per cent	November 2015 to July 2034	Modified
Concessional loan for asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation	936	Australian Capital Territory Government	Commonwealth Government 10-year bond rate	Up to 30 June 2024	Modified
Department of Agriculture and Water Resources					
Drought related and Farm Finance Concessional Loans – Agriculture	888	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	736	Eligible Indigenous persons	4.10 per cent*	4.0-28.1 years*	Modified
Department of the Treasury					
International Monetary Fund New Arrangements to Borrow	474	International Monetary Fund	0.628 per cent	10 years	Modified

Table C2: Summary of material changes to Australian Government loans exceeding $200 million since the 2017-18 Budget (continued)

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status
Department of Education and Training					
Trade Support Loans Program	410	Eligible Australian Apprentices	Consumer Price Index (CPI)	— #	Modified
Department of Social Services					
Student Financial Supplement Scheme	310	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	Consumer Price Index (CPI)	Various	Modified
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	308	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Department of Health					
Zero Real Interest Loans	268	Residential aged care providers	All Groups Consumer Price Index (CPI)	Up to 22 years	Modified
Export Finance and Insurance Corporation					
Papua New Guinea Liquefied Natural Gas	264	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Modified
Department of Industry, Innovation and Science					
Northern Australia Infrastructure Facility Loans	201	Northern Australia jurisdictions for on-lending to project proponents	5 per cent^	30 years^	New

* Average
\# To be determined after sufficient numbers of compulsory repayments commence.
^ Estimated
(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2018 in $ million.

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income contingent loan program that assists eligible tertiary education students with the cost of their fees. As at 30 June 2018, the fair value of debt outstanding is estimated to be $43.3 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are indexed annually by the Consumer Price Index. The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 2,659,057 HELP debtors as at 30 June 2017. The repayment term of a HELP debt can only be determined for people who have fully repaid their debt. As at the end of June 2017, the average time taken to repay HELP debts was 8.9 years.

HELP comprises a number of programs, including the VET Student Loans program, which replaced VET FEE-HELP from 1 January 2017.

NBN Co Loan

The Australian Government has provided a loan to NBN Co on commercial terms of up to $19.5 billion for the period from 1 July 2017 to 30 June 2021, with drawings available on a monthly basis. The loan has a fixed interest rate of 3.96 per cent, with interest calculated daily and payable monthly over the life of the facility. The full principal amount of the loan is to be repaid by NBN Co on 30 June 2021.

A Government loan on commercial terms represents the most cost effective way to raise necessary debt and secure funding to complete the rollout of this important national infrastructure project. A government loan will assist in ensuring NBN Co can focus on the remaining rollout as it significantly scales up toward completion in 2020.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies, as required by the *Clean Energy Finance Corporation Act 2012*. This portfolio has an acceptable but not excessive level of risk relative to the sector, as required under the Clean Energy Finance Corporation Investment Mandate Direction 2016 (No.2).

The CEFC's loan portfolio consists of predominantly senior ranking, secured loans, and secured project finance facilities, typically secured against energy generating assets such as wind or solar farms or biogas facilities or energy efficiency assets. The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.6 per cent. Loans have various maturity dates, typically in the range of 5-15 years. As at 30 June 2018 loans contracted and outstanding are expected to total $2.0 billion.

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 2018, the estimated amortised value of the advances is $1.79 billion.

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

WestConnex Stage 2 Concessional Loan

The WestConnex Concessional Loan is a $2 billion loan facility provided to WCX M5 Finco Pty Ltd, a company wholly owned by the Sydney Motorway Corporation, to accelerate Stage 2 of the WestConnex project. The concessional loan assisted in ensuring finance for the New M5 thereby accelerating delivery of Stage 2 and allowing Stage 1 and Stage 2 of the project to be built concurrently. Stage 2 comprises of the King Georges Road Interchange Upgrade that is now complete and the New M5 that is now under construction.

Concessional loan for asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation

On 27 January 2015, the Australian Government provided the ACT Government with a $1.0 billion concessional loan to deliver a program to buy-back and demolish houses in the ACT affected by Mr Fluffy loose fill asbestos.

The ACT Government will make annual repayments to the Australian Government from 2017-18 to 2023-24.

Drought related and Farm Finance Concessional Loans – Agriculture

As at 30 June 2018, the fair value of farm business, drought and dairy farm related loans is estimated to total $888.1 million. These include:

Drought Concessional Loans Scheme: This scheme provided loans to drought affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014 as a loans scheme available for two years and operated in Queensland, Victoria, New South Wales, South Australia, Western Australia, Tasmania and the Northern Territory. The Government extended the application period until 31 October 2016 to cover the period until the new 10-year Drought Concessional Loans Scheme was able to commence on 1 November 2016. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017.

As at 1 August 2017, the interest rate is 3.01 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan at commercial rates.

Drought Recovery and Dairy Recovery Concessional Loans Scheme(s): The drought recovery component of this scheme provided loans to farm businesses affected by unprecedented drought or, where applicable, Queensland farm businesses directly impacted by the combined effects of drought and the mid-2011 disruption to live cattle exports to Indonesia. The loans funded planting and restocking activities and associated expenses, when seasonal conditions allow. The loans were available from January 2015 and in 2014-15 operated in Queensland and New South Wales. In 2015-16, drought recovery concessional loans were available in Queensland, New South Wales, South Australia and Tasmania.

The dairy recovery component of this scheme provided concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans became available in Victoria, New South Wales, South Australia and Tasmania from June 2016. Applications closed on 31 October 2016. A dairy recovery concessional loan product remains available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 August 2017, the interest rate is 2.69 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years with interest-only payments required for the first five years. Principal and interest repayments will be made in the remaining five years of the loan term.

Farm Business Concessional Loans Scheme: This scheme provides three types of concessional loans — drought assistance, dairy recovery and business improvement. This scheme is designed to cover a farmer's short-term needs when income is tight and to supplement, rather than replace, commercial finance.

Drought assistance concessional loans are available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans are available for debt restructuring, operating expenses, drought preparedness activities or drought recovery activities or a combination of these purposes.

Business improvement concessional loans are available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans are available for eligible Farm Household Allowance (FHA) recipients who are recovering from financial hardship and who have exhausted, or will exhaust, by 30 June 2018, their FHA 1,095-day income support entitlement. These loans are for debt restructuring only.

Dairy recovery concessional loans are available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. Loans are available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 August 2017, the interest rate is 3.09 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Commonwealth bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provided concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and were for productivity enhancements and debt restructuring. Applications for Farm Finance Concessional Loans closed on 30 June 2015.

As at 1 August 2017, the interest rate is 3.51 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan, on commercial terms.

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. Indigenous Business Australia also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth. As at 30 June 2018, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance is estimated to total $736 million.

International Monetary Fund New Arrangements to Borrow

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five year period to 16 November 2022. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. It is expected that the fair value of loans outstanding to Australia will be approximately A$474 million as at 30 June 2018.

Trade Support Loans Program

The Trade Support Loans Program is an income contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $20,420 to assist with the costs of living, learning and undertaking an apprenticeship, helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $8,168 in the first year, $6,126 in the second, $4,084 in the third and $2,042 in the fourth year of their apprenticeships. The lifetime limit of $20,000 was indexed on 1 July 2017 and will continue to be indexed annually on 1 July to maintain its real value.

As an incentive to finish their training, apprentices who successfully complete their apprenticeships are eligible for a 20 per cent discount on their loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $55,874 in 2017-18. This is a demand driven program.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program under which student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. Debtors are required to start repaying their SFSS loan once they earn more than $55,874 for 2017-18. As at 30 June 2018, the fair value of loans outstanding is estimated to total $310 million.

Indigenous Land Corporation-Voyages Indigenous Tourism Australia Pty Ltd

The Indigenous Land Corporation (ILC) purchased Ayers Rock Resort (ARR) for $292 million in May 2011 and immediately on-sold it to its wholly-owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90 day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. As at 30 June 2018, the outstanding loan is estimated to total $308 million.

Zero Real Interest Loans

The Zero Real Interest Loans program provided loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the All Groups Consumer Price Index (updated quarterly). Four funding rounds were completed, with the final round of offers finalised in 2013. No further loans will be allocated under the program. It is estimated that by 30 June 2018, the total amount owing to the Commonwealth will be $268 million.

Papua New Guinea Liquefied Natural Gas

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2018, the fair value of the loan amount outstanding is estimated to total $264 million.

Northern Australia Infrastructure Facility Loans

The Northern Australia Infrastructure Facility (NAIF) may approve loans to 30 June 2021 that aggregate to $5 billion (with loan tenors of up to the longest term of Commonwealth borrowings) under the *Northern Australia Infrastructure Facility Act 2016*. The NAIF enables economic growth in northern Australia by facilitating investment in infrastructure through the provision of concessional financing, delivered through State and Territory governments. This may include developments in airports, communications, energy, tourism, ports, rail and water. NAIF investments may support growth in sectors across the north, such as food and agribusiness, international education, medical research, tourism, energy and resources. Under its Investment Mandate, the NAIF can only lend up to 50 per cent of the total debt for a proposed project.