APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details and explanations of fiscal risks and contingent liabilities and assets are provided in Statement 8 of Budget Paper No. 1, *Budget Strategy and Outlook 2010-11*. The following statement updates, where necessary, those fiscal risks and contingent liabilities and assets that have arisen or materially changed since the 2010-11 Budget.

The forward estimates of revenue and expenses in the Pre-Election Economic and Fiscal Outlook 2010 (PEFO) incorporate assumptions and judgments based on information available at the time of publication.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New or revised fiscal risks and contingent liabilities or assets with a possible impact on the forward estimates greater than $20 million in any one year, or $40 million over the forward estimates period, that have arisen or changed since the 2010-11 Budget are listed below. Any revisions that have arisen as a result of exchange rate movements have been excluded from this update.

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

Since the 2010-11 Budget the risks relating to the OzCar Special Purpose Vehicle and the activation of the financial claims scheme compensation facility for a small general insurer, have been removed as they no longer exist.

FISCAL RISKS

Expenses

The Australian Government has established NBN Co to build and operate the National Broadband Network (NBN).

The Government made provision in the 2010-11 Budget of $18.3 billion over the forward estimates (including $18.1 billion in equity) for the roll-out of the NBN, based on the recommendations of the NBN Implementation Study. The NBN Co and Telstra announced on 20 June 2010 that they had entered into a Financial Heads of Agreement and that they would enter into negotiations on the Definitive Agreements.

The exact timing and quantum of Government funding for the NBN, including payments by the Government and NBN Co in relation to the agreement with Telstra on the rollout of the NBN, will be determined in the Government's response to the Implementation Study and costs could arise as part of settlement of the Definitive Agreements between NBN Co and Telstra.

The Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

Revenue

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include tax avoidance, court decisions and Australian Taxation Office rulings. 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.

The revenue forecasts reflect the latest economic outlook. To the extent that the outlook changes over time so too will the revenue forecasts. Accordingly, risks identified in the economic outlook will translate though to risks to the revenue forecasts. The current uncertainty in global financial markets means that the risks to the fiscal outlook remain elevated.

Major taxes such as company and personal tax 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. The existing Petroleum Resource Rent Tax and the recently announced Minerals Resource Rent Tax can be expected to vary with commodity prices.

There have been no other significant changes to the fiscal risks disclosed in the 2010-11 Budget.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence and Defence Materiel Organisation

Indemnities and remote contingencies

Defence carries 8,775 instances of unquantifiable remote contingent liabilities and 131 instances of quantifiable remote contingent liabilities, the value of which has remained steady at $2.9 billion since the 2010-11 Budget. The Defence Materiel Organisation carries 573 instances of contingencies (including Foreign Military Sales) that are unquantifiable and 113 contingencies that are quantifiable, to the value of $5.0 billion. This figure has declined from $5.9 billion at the 2010-11 Budget. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Education, Employment and Workplace Relations

Comcare liability for additional workers' compensation payments

Comcare has a quantifiable contingency in respect of future statutory workers' compensation claims for asbestos related diseases amounting to $45.6 million. This contingency relates to a decision in the Federal Court, Comcare v Etheridge [2006] Federal Court of Australia Full Court (FCAFC) decision number 27.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment by the Export Finance and Insurance Corporation (EFIC) of money that is, or may at any time become, payable by EFIC to any body other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 30 June 2010, the Government's total contingent liability was $2.6 billion, up from $2.3 billion at the 2010-11 Budget. This comprises EFIC's liabilities to third parties ($2.1 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.5 billion). Of the total contingent liability $0.8 billion is held on the National Interest Account.

Finance and Deregulation

Australian Industry Development Corporation

Under the Australian Industry Development Corporation Act 1970, certain obligations of the Australian Industry Development Corporation (AIDC) are guaranteed by the Australian Government. As at 30 June 2010 (the latest available estimate), the AIDC's contingent liabilities, subject to Australian Government guarantee, were approximately $47.6 million in respect of the Fairfax Paper Bond Guarantee and credit risk facilities. AIDC has been advised that the Fairfax Paper Bond will be redeemed on 30 September 2010, removing the contingent guarantee liability from that date.

Treasury

International financial institutions

Australia has had uncalled capital subscriptions in the European Bank for Reconstruction and Development (EBRD) since 1991. The Government will increase its uncalled capital subscription to the EBRD towards its recently announced general capital increase so that it totals EUR237.5 million (estimated value A$340.4 million). Paid-in shares received free of charge from this general capital increase were reported as a measure in the Government's Economic Statement in July 2010.

Reserve Bank of Australia

This contingent liability relates to the Australian Government's guarantee of the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves, the Bank's distribution to the Commonwealth and Australian Government deposits. The major component of the Bank's liabilities is notes (that is, currency) on issue. Notes on issue amount to $48.8 billion as at 7 July 2010, and the total guarantee is $59.4 billion, up from $57.9 billion at 2010-11 Budget.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Broadband and the Digital Economy

NBN Co Limited — board members indemnity

The Australian Government has indemnified the directors of NBN Co Limited in relation to claims arising out of the directors' involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Treasury

Financial Claims Scheme

The Australian Government has established a Financial Claims Scheme to provide depositors of authorised deposit-taking institutions and general insurance policyholders with timely access to their funds in the unlikely 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 general insurance policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Early Access Facility for Depositors established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in authorised deposit-taking institutions.

The Government announced that, from 12 October 2008, deposits up to $1 million at eligible authorised deposit-taking institutions would be eligible for coverage under the Financial Claims Scheme. This $1 million cap will continue until at least October 2011, when it will be reviewed.

As at 30 June 2010, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $690 billion, compared to $670 billion at 31 March 2010.

The Policyholder Compensation Facility established under the *Insurance Act 1973* provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. Amounts available to meet payments and administer this facility, in the event of activation, are capped initially at $20.1 billion under the legislation.

Any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there were a shortfall, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation.

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.

The guarantee will close to new issuance of guaranteed liabilities 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. Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant State or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government’s claim.

As at 30 June 2010, the face value of state and territory borrowings covered by the guarantee was $69.1 billion, down from $72.6 billion at 31 March 2010.

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 the closure of the Guarantee Scheme 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 for deposits under the Guarantee Scheme is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that an institution failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant institution. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 9 July 2010, total liabilities covered by the Guarantee Scheme were estimated at \$161.7 billion, down from \$169.6 billion at 5 April 2010. This is made up of \$6.6 billion (down from \$14.1 billion) of large deposits and \$155.1 billion (down from \$155.5 billion) of wholesale funding.