

APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details and explanations of fiscal risks, contingent liabilities and assets, and Government loans are provided in *2019-20 Budget Statement 8: Statement of Risks*. 2019-20 Budget Statement 8 includes all risks that meet a materiality threshold – a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period.

Consistent with the Charter, the 2019 PEFO only updates (where necessary) those fiscal risks, contingent liabilities and assets, and Government loans that have arisen or materially changed since the 2019-20 Budget, and other risks that may have an effect on the fiscal outlook.

There have been no material updates to fiscal risks, contingent liabilities and assets, or Government loans as disclosed in 2019-20 Budget Statement 8 – the disclosure of risks in the Budget papers still accurately reflects the risks to the fiscal outlook.

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.

The revenue and expense estimates and projections published in the 2019 PEFO are based on a range of economic and other parameters, consistent with the 2019-20 Budget. If the economic outlook were to differ significantly from that presented in the PEFO, the revenue and expense estimates and projections would also change.

The economic and fiscal estimates and projections are based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issue of the election writs. To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year stronger than expected commodity prices resulted in stronger forecasts for company tax revenue in the 2019-20 Budget.

Expense outcomes can also differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals for social welfare, form a large proportion of government expenditure. Forecasts of payments associated with demand-driven government programs, such as payments related to Child Care programs and the National Disability Insurance Scheme, vary depending on the number of expected participants or beneficiaries. Forecasts of payments for a number of other government programs also depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure for related social services payments, including allowances, will also be higher.

Unlegislated measures

In line with normal practice, the forward estimates in the PEFO, as was the case at the 2019-20 Budget, include the impact of all policy decisions, including those that remain unlegislated. The estimated net impact over the four years to 2022-23 of all unlegislated policy decisions, announced prior to the PEFO and after taking account of parameter changes since the original announcement, is around negative \$1.4 billion in underlying cash terms. This comprises:

- policy decisions made prior to the 2019-20 Budget that require legislation to be implemented, which have a net positive impact on the underlying cash balance of around \$5.4 billion over the four years to 2022-23; and
- new policy decisions announced in the 2019-20 Budget that require legislation to be implemented, which have a net negative impact on the underlying cash balance of around \$6.9 billion over the four years to 2022-23. This includes policy decisions with an estimated net negative impact of \$1.4 billion that require annual appropriation bills but do not require any other enabling legislation to be implemented.

Consistent with normal practice, the estimates in the PEFO assume that unlegislated policy decisions will be legislated and take effect from the next possible commencement date. Consistent with the 2019-20 Budget, the next possible commencement date is assumed to be no earlier than 1 July 2019. Where legislation is not passed in time to enable commencement at that date, is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the PEFO.

There are a number of tax measures included in the 2019-20 Budget that take effect on or before 1 July 2019. Many of these measures can be legislated at a later time within 2019-20 without materially affecting the estimates. However, the *immediate relief to low- and middle-income earners* component of the *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure requires the relevant legislation to be passed before the increase to the low and middle income tax offset (LMITO) can be provided for the 2018-19 financial year. If not legislated prior to 1 July 2019, the revenue cost of this measure would need to be reassessed.

CONTINGENT LIABILITIES AND ASSETS

There have been no material updates to the contingent liabilities and assets as disclosed in 2019-20 Budget Statement 8.

There are a range of factors that may influence the actual budget outcome in future years, including matters that are not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood, and the realisation of contingent liabilities or assets.

As outlined in the 2019-20 Budget, a large number of the contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

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

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government.

GOVERNMENT LOANS

There have been no material updates to Government loans as disclosed in 2019-20 Budget Statement 8.

Consistent with the 2019-20 Budget, the budget estimates include a number of loans, which all contain some element of credit risk that they will not be repaid in full, although in most cases this risk is small.