

Overview

The 2011-12 Budget is an accrual output-based budget prepared in accordance with the Territory's fiscal management legislation and framework.

Budget Paper No. 3 provides detailed information on the budgets of Northern Territory Government agencies and business divisions, and focuses on the services and outputs delivered across Government. The information provided in *Budget Paper No. 3* for 2010-11 and 2011-12 encompasses:

- agency expenses and appropriation amounts;
- agency profiles, strategic issues and budget highlights;
- description of variations between years;
- output statements for agencies and business line statements for government business divisions, including key deliverables and estimates;
- accrual financial statements (Operating Statement, Balance Sheet and Cash Flow Statement);
- community service obligation payments to government business divisions and government owned corporations; and
- a summary of revenue received by the Central Holding Authority, agencies and government business divisions.

For the 2011-12 Budget, a review of the agency budget presentation (Part 1) of *Budget Paper No. 3* was undertaken to align with contemporary practice and the Territory's 2030 strategic plan. This chapter includes details of the changes resulting from the review.

The legislative basis for the 2011-12 Budget and the Territory's financial management framework is explained below.

Legislative Basis

Two principal Acts combine to form the framework for the management of the Territory's financial resources and ensure that the range of accountability requirements are satisfied:

- *Fiscal Integrity and Transparency Act* – whole of government reporting requirements; and
- *Financial Management Act* – agency and government business division accountability requirements.

These Acts are supplemented by the annual *Appropriation Act*, which provides legal authority for the Government's funding decisions.

Fiscal Integrity and Transparency Act

The *Fiscal Integrity and Transparency Act* (FITA) requires the reporting of the budget and forward estimates on the basis of external reporting standards. The reporting standard used in the Northern Territory is the Uniform Presentation Framework as agreed by states, territories and the Commonwealth. This is based on AASB 1049 Whole of Government and General Government Sector Financial Reporting. The 2011-12 Budget is presented in accordance with the FITA.

Financial Management Act

The *Financial Management Act* (FMA) provides a financial framework within which the Territory Government as a whole, agencies and government business divisions operate and

manage resources. *Budget Paper No. 3* covers agencies and government business divisions that are subject to the FMA and included in the Territory's budget sector.

The FMA provides the rules that govern the monitoring and management of the budgets for each agency and government business division during the year. In this regard, the FMA specifies accountability and approval requirements for budget variations in situations where unforeseen circumstances arise during the year, or where Government functions are redistributed between agencies.

The FMA also specifies agency and government business division internal control requirements, asset safeguarding, financial transaction and bank account rules, and financial reporting obligations.

The Power and Water Corporation is not included in *Budget Paper No. 3*. It is a government owned corporation and is subject to the financial provisions of the *Government Owned Corporations Act*, not the FMA.

For reference, a list of Northern Territory Government Ministers and their respective Ministerial portfolios, as they apply from 1 January 2011, is provided at the end of this overview.

Financial Management Framework

The Territory's financial management framework is based on outputs and the accrual methodology for budgeting, accounting and reporting, with performance management as a central tenet. The use of an accrual output-based framework ensures the Territory's financial management systems are contemporary and consistent with the frameworks of other jurisdictions across Australia.

Agencies – Outputs and Key Deliverables

The framework provides a uniform approach for the 2011-12 Budget and reflects agency output structures and key deliverables, including modifications made to align changes in functions and activities as a result of administrative rearrangements during 2010-11. The main change was the restructure of the Department of Health and Families into two new agencies, the Department of Health and the Department of Children and Families. For those agencies where changes have been made, the 2010-11 Budget and Estimate have been backcast to 1 July 2010 to enable comparisons with the 2011-12 Budget.

Each output includes a series of key deliverables, with measures established to enable an assessment of performance. Agency annual reports will record actual performance against the estimates published in *Budget Paper No. 3* and will provide explanations of significant variations.

Government Businesses – Business Lines and Performance

Although government business divisions (GBDs) are expected to operate on a commercial basis, they remain subject to the financial framework and accountabilities contained in the FMA, with the chief executive officer of a GBD accountable to the responsible Minister for financial performance.

Commercial practices that have been implemented for GBDs are:

- the requirement to fully attribute costs and to be subject to similar government taxes (including tax equivalents), fees and charges as privately owned businesses;
- adoption of efficient pricing methods which account for costs;

- identification and budget funding of community service obligation payments to compensate GBDs for undertaking non-commercial activities at the direction of Government; and
- performance monitoring.

GBDs are required, where appropriate, to disaggregate income and expense information by business line. An operating surplus/deficit before income tax is also provided by business line.

A statement is provided concerning the GBDs' expected performance in the Budget year, relative to the current year, along with performance measures for each business line. As with agencies, GBDs will report on actual outcomes against their business lines and performance measures in their annual reports.

Government owned business activities are required to comply with competitive neutrality principles to ensure that privately owned businesses can compete effectively and to minimise any commercial advantages accruing as a result of Government ownership.

The Territory Government has established a formal mechanism to allow private sector businesses to make competitive neutrality complaints against GBDs. Northern Territory Treasury is responsible for managing competitive neutrality complaints. If a complaint is upheld, appropriate action to ensure compliance with competitive neutrality principles is determined on a case by case basis.

Accruals

Under an accrual framework, income (revenue and gains) and expenses are recorded in the period in which they occur, even though no cash may have been received or paid. Accrual accounting includes transactions where no cash is exchanged, such as transactions involving the creation of obligations to pay or rights to receive cash in the future. Accrual accounting also records transactions relating to the cost of using assets in the production of outputs, which is known as depreciation expense and is a non-cash cost.

Appropriation Arrangements

The Northern Territory has a cash Appropriation framework. Appropriation is provided to fund agencies and this is their main income and cash source. Three types of appropriation for agencies are recognised – output appropriation, capital appropriation and Commonwealth appropriation. All three appropriation types are designated in the *Appropriation Act* as 'Purposes' as they reflect a purpose for providing funds, and are shown separately on agency financial statements.

2010-11 Estimate

The estimates information presented in this Budget Paper for 2010-11 reflects the approved revised 2010-11 Budget. This is determined from the original 2010-11 Budget, as tabled in May 2010, adjusted for the Government's new policy decisions and changes in response to demand that have occurred during the year. The budget variations are approved in accordance with the requirements of the FMA, with formal variation instruments then tabled in the Territory Parliament.

2011-12 Budget

The 2011-12 Budget has been developed from the forward estimates model, with inflator and deflator factors applied and additional funding incorporated for initiatives approved in the budget development process.

Specifically in relation to the 2011-12 Budget, the parameters applied are:

- CPI – 2.8 per cent, being Darwin CPI growth in 2010;
- wages – 3 per cent; and
- efficiency dividend – 3 per cent for most agencies. For key service delivery agencies with high fixed staff costs, one-quarter of the dividend is applied. These agencies include the Department of Health, the Department of Education and Training, Northern Territory Police, Fire and Emergency Services and the Correctional Services component of the Department of Justice.

In addition, the budget improvement strategy implemented in the 2010-11 Budget has also been adopted in 2011-12, requiring agencies to identify and redirect 2 per cent of output appropriation towards funding new initiatives and offsetting demand growth and emerging cost pressures. These amounts and initiatives for each agency are presented in Chapter 4 of *Budget Paper No. 2*.

Agency Budget Presentation

Agencies and government business divisions are presented in the order set out in the Administrative Arrangements Order as it applies from 1 January 2011. The following information describes each element within the agency and government business division sections, and includes narrative on the formatting changes made since the 2010-11 Budget.

Expenses and Appropriation Summary

This summary table depicts expenses for each output group and output (or business line for government business divisions) that equate to total expenses as recorded in the Operating Statement. For the 2011-12 Budget, output level information is now included in the table as a result of the review of *Budget Paper No. 3*. Output appropriation, capital appropriation and appropriation of Commonwealth revenue, as specified in the 2011-12 *Appropriation Act*, are also identified as well as the 2011-12 full-time equivalent staffing cap.

Agency and Business Division Profile

A narrative overview of the agency's or business division's key responsibilities is provided. As key functional responsibilities are reflected in output descriptions, for conciseness, this level of information has been removed from the agency profile section for the 2011-12 Budget.

Strategic Issues for 2011-12

Major emerging or strategic management issues for 2011-12 are now presented in a separate section for each agency (or business division). The issues are organised to align with the Government's Territory 2030 Strategic Plan action areas.

Budget Highlights for 2011-12

The Budget Highlights sub-section provides a snapshot of the significant policy initiatives, main features of the agency's budget and important capital projects funded in the Budget.

The focus is on identifying important resource issues relating to the agency's key functional responsibilities and strategic issues, as well as recording additional funding for initiatives in 2011-12, and significant initiatives approved since the 2010-11 Budget. For 2011-12, budget highlights are now aligned to the Government's Territory 2030 Strategic Plan action areas.

Outputs, Business Lines and Performance

This section is structured so that detailed information on each output group is provided in the form of output statements (business line statements for government business divisions). These statements describe outcomes, outputs and key variations in output costs between the published 2010-11 Budget figures, the revised 2010-11 Estimate, and the 2011-12 Budget. For government business divisions, this section describes financial performance that focuses on key variations between the years.

Key deliverables are listed for the outputs, with estimates identified for each measure. For comparative purposes, where available, updated measures for the 2010-11 year are provided, including for the final estimate and the original estimate as included in the 2010-11 Budget Papers.

To enable meaningful comparisons where measures have changed, agencies and business divisions have recast key deliverables and estimates to be on a basis consistent with information presented for 2011-12. Where measures have been modified and 2010-11 data is not available, no estimate is provided.

As a result of the review of *Budget Paper No. 3*, a number of changes to the presentation of this section have been implemented. These changes include:

- output group expense figures and key variations are now presented within each output group statement, to provide ease of reference for the reader. Previously this information was provided separately to the description of output groups and outputs; and
- performance measures have been renamed key deliverables, and focus on those measures most relevant to assessing the achievement of the output. In addition, a number of new measures are included that focus on key deliverables associated with national agreements. The transition from performance measures to key deliverables will be further developed during 2011-12, with a focus on presenting key deliverable measures that are both meaningful and nationally consistent.

Financial Statements

A set of financial statements – Operating Statement, Balance Sheet and Cash Flow Statement – is presented on an accrual basis for each agency and government business division for both 2010-11 and 2011-12.

Operating Statement – presents an agency's expenses, revenues, gains and net result. It excludes payments and receipts of a capital nature, as these only impact the Balance Sheet and Cash Flow Statement. With appropriation covering only cash costs, most agencies will show a deficit due to their depreciation and amortisation expenses being unfunded. Agencies may also show a surplus or deficit in relation to the transfer of expenditure between years due to the treatment of these timing differences in the Accounting Standards. Therefore, where a receipt is received in one year but not spent until the following financial year, a surplus will be shown in the first year and a deficit in the second. This surplus or deficit is either offset or increased by the depreciation expense.

Balance Sheet – presents an agency's expected assets and liabilities and records the net assets, or equity, of the agency at the end of the year. Deficits (as recorded in the Operating Statement) will reduce the equity position over time, while surplus results will increase equity.

Cash Flow Statement – presents the movement of cash into and out of an agency during the financial year and includes capital receipts and payments. The statement also reconciles to the agency's cash account at the end of the year, which is reported in the Balance Sheet.

Community Service Obligations

The Community Service Obligations (CSO) section of the Budget paper details the CSO payments made to GBDs or government owned corporation (GOCs). These payments reflect activities undertaken by GBDs and GOCs to enable the Territory Government to achieve identifiable community or social objectives, not otherwise achievable if left to economic or market forces.

The requirement for CSOs is reviewed on an annual basis.

Revenue

The Revenue section of this Budget paper provides a detailed breakdown of the revenue for Territory Government agencies, business divisions and the Central Holding Authority (CHA). Each revenue category is described and key variations summarised.

Revenue is also reported in *Budget Paper No. 2* where the whole of government financial performance is presented. Unlike the presentation in *Budget Paper No. 3* which provides total revenue by entity, the *Budget Paper No. 2* presentation consolidates transactions between Territory Government entities. As an example of the impact of the different presentation, all agencies pay payroll tax to the CHA and this would be reported as CHA income in *Budget Paper No. 3*, but the payment by agencies and receipt by the CHA would offset each other in the *Budget Paper No. 2* presentation.

All estimates for revenue from the Commonwealth reflect best estimates as at the time of publication. With the Commonwealth Budget to be tabled after the Territory Budget, any new or changed payments subsequently announced will be incorporated as part of the 2011-12 Mid-Year Report. Details of Commonwealth revenue provided to the Territory are recorded in the Revenue section of this Budget Paper with a comprehensive discussion on the main Commonwealth revenue sources provided in *Budget Paper No. 2*.

Ministerial Portfolios

The Hon. P. R. Henderson, MLA

Chief Minister

Minister for Police, Fire and Emergency Services

Minister for Major Projects and Economic Development

Minister for Multicultural Affairs

Minister for Defence Liaison

The Hon. D. P. Lawrie, MLA

Treasurer

Minister for Justice and Attorney-General

Minister for Racing, Gaming and Licensing

Minister for Alcohol Policy

Dr C. B. Burns, MLA

Minister for Education and Training

Minister for Public and Affordable Housing

Minister for Public Employment

The Hon. K. Vatskalis, MLA

Minister for Health

Minister for Children and Families

Minister for Child Protection

Minister for Primary Industry, Fisheries and Resources

The Hon. D. R. Knight, MLA

Minister for Business and Employment

Minister for Trade

Minister for Asian Relations

Minister for Essential Services

Minister for Defence Support

Minister for Senior Territorians

Minister for Young Territorians

The Hon. M. B. A. McCarthy, MLA

Minister for Local Government
Minister for Regional Development
Minister for Indigenous Development
Minister for Tourism
Minister for Women's Policy
Minister for Statehood

Mr K. R. Hampton, MLA

Minister for Natural Resources, Environment and Heritage
Minister for Parks and Wildlife
Minister for Climate Change
Minister for Sport and Recreation
Minister for Information, Communications and Technology Policy
Minister for Central Australia

The Hon. G. F. McCarthy, MLA

Minister for Lands and Planning
Minister for Transport
Minister for Construction
Minister for Correctional Services
Minister for Arts and Museums