

Commercial Issues

Overview

This section outlines the commercial policies affecting the way in which Territory Government businesses operate and the way in which the Territory Government deals with the private sector.

It provides an overview of:

- the Government Business Divisions and Government Owned Corporations frameworks which recognise that some activities of Government should operate on a more commercial basis than general government agencies;
- the public private partnership policy of the Territory, *Territory Partnerships*, which outlines the framework for commercial dealings between the Territory Government and the private sector; and
- the risks faced by the Territory, in particular the risks created by contingent liabilities from guarantees and indemnities that the Territory has granted in its dealings with the private sector and with other governments.

Commercial Frameworks

The Northern Territory Government has established Government Business Divisions and Government Owned Corporations frameworks to recognise that some areas of Government require a more commercial focus as:

- their operations are similar to those of private sector businesses; and/or
- they operate in a commercial environment or in competition with private sector businesses.

Government businesses that are considered to be in a position to operate commercially can be declared government business divisions by the Treasurer. These businesses do not receive direct budget appropriation for their commercial activities, as they are recognised as being capable of generating revenue themselves. This revenue could be generated either from sales of goods and services to other government agencies, the private sector or a combination of both. Budget appropriation is provided to Government agencies to enable them to pay for these goods and services on a commercial basis or for community service obligations (CSOs) where government business divisions are required to undertake non-commercial activities.

Government business divisions are subject to the Territory's financial management framework contained in the *Financial Management Act* and the chief executive officer for a government business division is accountable to the responsible Minister for the performance of the business division.

The Government Owned Corporations framework replicates as far as possible the shareholder model of corporate governance. The Power and Water Corporation (PowerWater) is the Territory's only government owned corporation.

Similar to government business divisions, PowerWater does not receive direct budget appropriation. However, through other Government agencies, it receives payments for services provided and CSO funding where it is required to undertake non-commercial activities. These CSO payments contribute to the funding of the Territory's uniform tariff policy, electricity subsidies provided to medium-sized businesses, and electricity and water subsidies provided to pensioners.

PowerWater's Board is accountable for the performance of the corporation.

Government owned corporations are not subject to the *Financial Management Act*.

PowerWater owns three subsidiary companies that operate under the *Corporations Act 2001*.

Apart from the Government Business Divisions and Government Owned Corporations frameworks which apply generally to businesses owned by Government, the Territory Insurance Office, another Government business, operates under its own legislative framework.

Government Business Divisions

Government business divisions (GBDs) are included in the Northern Territory Budget Sector. They are declared by the Treasurer under the *Financial Management Act*.

The Territory Government has been actively pursuing improvements in the efficiency and operation of GBDs since the mid 1990s. The key objective of GBD reform is to reduce Government and business costs, thereby freeing up Government resources for other expenditure priorities.

The following commercial practices have been implemented for GBDs:

- full attribution of costs (including tax equivalents);
- efficient pricing based on costs;
- commercial accounting, operation under a charter of operation and establishment of an audit committee;
- identification and budget funding of CSOs, to compensate GBDs for undertaking non-commercial activities at the direction of Government; and
- performance monitoring.

GBDs are required to comply with competitive neutrality principles which ensure a level playing field with private sector counterparts, and that resources controlled by GBDs are determined by relative efficiency rather than advantages accruing as a result of Government ownership.

GBDs that provide services in competition with private sector businesses may be the subject of competitive neutrality complaints. Northern Territory Treasury has been charged with investigating any such complaints and advising the Treasurer and the responsible Minister of the results of such investigations. If a complaint should be upheld, the Government will decide, on a case by case basis, what action should be taken to overcome any net competitive advantage identified by the report.

Reform of GBDs is continuous, with the current emphasis to build on initiatives to date by encouraging greater commercial focus, improved management practices, additional efficiency and productivity gains, ensuring value for money from expenditure on CSOs and more rigorous performance monitoring. Charters of operation are being reviewed to ensure that operational and commercial boundaries are appropriate in the light of market developments that have occurred since GBDs were established in the mid 1990s.

Government Owned Corporations

The *Government Owned Corporations Act* adopts the shareholder model of corporate governance. It replicates as far as possible the model that applies to private sector businesses which operate through a company structure incorporated under the *Corporations Act 2001*. PowerWater became the Territory's first government owned corporation (GOC) on 1 July 2002.

Key elements of the Territory model are:

- corporations established under their own legislation but governed by the overarching *Government Owned Corporations Act* which adopts the Commonwealth's *Corporations Act 2001* principles;

- a commercial Board of Directors that is responsible for the operation of the business and accountable to the shareholding Minister for the financial performance of the business;
- a shareholding Minister (usually the Treasurer) who monitors the financial performance of the corporation;
- a portfolio Minister (the Minister for Essential Services in the case of PowerWater) who monitors the service performance of the corporation and has broad industry policy responsibilities; and
- a Statement of Corporate Intent, which is essentially a performance agreement between the shareholding Minister and the Board of the corporation.

The shareholding Minister concept represents a significant change from governance arrangements for general government agencies and for GBDs under the *Financial Management Act*. Under the Act, the chief executive officer is directly accountable to Government for his or her management of activities and the performance of the Government entity. Where Boards are associated with GBDs, they generally have an advisory role to the business and to Ministers. Ministers make business decisions which may or may not be on the advice of the Board.

Under the Government Owned Corporations framework, the commercial Board of Directors is the decision-making body and is accountable for its decisions. The Board is accountable to the shareholding Minister for financial performance and to the portfolio Minister for the service quality aspects of a corporation's business.

Community Service Obligations

Where Government specifically requires a GBD or a GOC to carry out an activity which it would not elect to do on commercial grounds, or would only undertake commercially at higher prices, such functions are designated as CSOs.

CSOs are undertaken to achieve identifiable community or social benefits.

Explicit identification of CSOs through either budget funding or acceptance of a lower shareholder return has two important implications:

- it enables the GBD to manage its commercial activities without having to cross subsidise its non-commercial activities. The development of a commercial culture within GBDs is fundamental to improvements in operational efficiency; and
- it provides opportunity for an annual review of those activities funded as CSOs.

The 2004-05 Budget for CSOs is \$75.71 million, representing an increase of \$4.16 million from an estimated \$71.56 million in 2003-04.

Significant variations in CSO funding between 2003-04 and 2004-05 include:

Uniform Tariff (\$39.08 million in 2003-04 and \$40.39 million in 2004-05)

This CSO is paid to PowerWater and provides that tariffs paid by small business and household customers are the same, irrespective of where a customer lives or the cost of providing the service. The increase in the payment for 2004-05 reflects anticipated growth in usage by customers and inflation of costs, less an efficiency dividend.

The CSO is partially budget funded, with the remainder accepted through a lower rate of return from PowerWater. This means that the shareholding Minister accepts a lower rate of return on the Government's investment in the corporation. PowerWater bears some of the costs of the Government's uniform tariff policy through lower profits than would otherwise be achievable. The Utilities Commission has valued the electricity component of the CSO at \$62.39 million, of which \$35.41 million is budget funded in 2004-05.

Table 7.1: Community Service Obligation Payments

PURCHASING AGENCY/Provider/Description	2003-04 Estimate	2004-05 Budget
	\$000	\$000
NORTHERN TERRITORY TREASURY	41 189	48 939
PowerWater		
Uniform Tariffs	39 084	40 385
Tranche 4 Electricity Customers	2 105	8 554
NORTHERN TERRITORY TOURIST COMMISSION	448	448
Territory Discoveries		
Tourism Marketing	448	448
DEPARTMENT OF COMMUNITY DEVELOPMENT, SPORT AND CULTURAL AFFAIRS	13 666	13 799
Housing Business Services		
Rent Subsidies	11 507	11 507
Low Interest Home Loans	499	532
Early Start - Deposit Assistance Scheme	400	500
Fringe Benefits Tax on Employee Loans	68	68
Assist, Interest Subsidy	480	480
Stamp Duty Differential	60	60
Police Rent Forgone	652	652
DEPARTMENT OF HEALTH AND COMMUNITY SERVICES	2 488	2 488
PowerWater		
Pensioner Concession Scheme	2 488	2 488
DEPARTMENT OF INFRASTRUCTURE, PLANNING AND ENVIRONMENT	13 765	10 040
Territory Wildlife Parks	9 125	7 675
Territory Wildlife Park - Tourism	3 790	3 840
Territory Wildlife Park - Threatened Species	475	475
Territory Wildlife Park - Education	118	118
Territory Wildlife Park - Equity Arrangement	45	
Alice Springs Desert Park - Tourism	2 100	2 100
Alice Springs Desert Park - Threatened Species	222	222
Alice Springs Desert Park - Education	277	277
Alice Springs Desert Park - Botanic Gardens	643	643
Alice Springs Desert Park - Equity Arrangement	1 455	
Darwin Port Corporation	4 640	2 365
Small Craft Services (Marine Industry Support)	841	280
East Arm Port Capital and Operating Costs	1 830	
NT Express	79	56
Cruise and Defence (Wharf Precinct)	794	1 549
Tourism and Real Estate (Wharf Precinct)	431	480
Cathodic Protection (Wharf Precinct)	525	
Dredging of City Wharves	140	
TOTAL	71 556	75 714

Tranche 4 electricity customers (\$2.10 million in 2003-04 and \$8.55 million in 2004-05)

This CSO is paid to PowerWater and came into effect on 1 April 2004. The CSO represents the shortfall between cost-reflective tariffs and regulated maximum prices for medium-sized electricity customers (Tranche 4) that used between 750 megawatt hours and 2 gigawatt hours per annum when they became contestable. As Tranche 4 customers are fully contestable, this CSO is fully budget funded.

East Arm Port Capital and Operating Costs (\$1.83 million in 2003-04 and nil in 2004-05)

The CSO is to provide support to the Darwin Port Corporation (DPC) for the duplicated operating costs incurred during construction of the new East Arm Wharf until such

time as it is fully operational and essentially replaces the existing city wharves including Fort Hill Wharf and Iron Ore Wharf. The CSO ceases after 30 June 2004.

Tax Equivalent Regime

The Territory (and all states) imposes an income tax equivalents regime on GBDs in order to ensure competitive neutrality with the private sector.

PowerWater and Darwin Port Corporation pay the equivalent of local government rates liability into the Central Holding Authority.

The most significant variation relates to PowerWater. PowerWater has not had to pay income taxes prior to 2004-05 as it had significant carry forward tax losses which have offset taxes that would otherwise have been payable on profits.

Table 7.2: Tax Equivalents Paid to Government

	2003-04 Estimate	2004-05 Budget
	\$000	\$000
Income Tax Equivalents from GBDs		
NT Fleet	2 021	1 956
Data Centre Services	479	1 009
Darwin Bus Service	174	35
Treasury Corporation	7 071	6 144
Total Tax Equivalents from GBDs	9 745	9 144
Income Tax Equivalents from GOCs		
PowerWater		18 002
Local Government Rates Equivalents from GBDs		
Darwin Port Corporation	141	143
Local Government Rates Equivalents from GOCs		
PowerWater	194	197
Total Tax Equivalents Paid to Government	10 080	27 486

Note: GBDs that are not shown did not pay tax in 2003-04 and are not expected to in 2004-05.

Dividend Policy

The Territory Government provides equity capital to its GBDs and GOCs.

Under the *Financial Management Act*, the Treasurer may determine that a GBD is to pay a dividend, if the Treasurer is satisfied that it has the resources to do so. The Board of a GOC is to declare the amount of a dividend on the shares of a GOC, but the shareholding Minister may direct the Board of a GOC to declare a special dividend.

The Government has discretion to allow GBDs or GOCs to retain profits as equity capital. Generally, the Territory Government's primary benchmark is an ordinary dividend of 50 per cent of after tax profit. However, a dividend payout ratio of 50 per cent may not always be appropriate, particularly where:

- a GBD's capital structure is appropriate; and/or
- where a GBD has significant capital expenditure commitments.

Special dividends can be declared where there are sufficient resources to pay an extra amount. An example is Northern Territory Treasury Corporation. The corporation operates as the Government's Central Financing Authority. It generates its revenue from the positive margin between its borrowing and lending rates. It does not need to accumulate retained profits to meet capital depreciation and, therefore, it is more appropriate for the corporation to pay a dividend of 100 per cent of after tax profit.

Dividend receipts from GBDs in 2004-05 are budgeted at \$17.07 million compared to estimated receipts of \$17.85 million in 2003-04. The main variation relates to Data Centre Services, where a number of clients are expected to move away from mainframe systems.

PowerWater's projected dividend in 2004-05 is \$19.68 million which is 50 per cent of its net profit after tax of \$39.36 million. This profit level is reached after the payment by the Territory of the \$51 million CSO to be paid in 2004-05, and a further \$14 million provided by Government in the form of capital contributions towards construction of assets that will be owned by PowerWater. Therefore, it is only through Government contributions that PowerWater makes a profit from its operations. The 50 per cent dividend paid to Government is less than half of the assistance provided by the Government to PowerWater and recognises that the Territory has provided equity capital to the corporation. PowerWater retains the remaining 50 per cent of net profit after tax to support its investment requirements.

Table 7.3 – Dividends Payable to Government

	2003-04 Estimate	2004-05 Budget
	\$000	\$000
Dividends from GBDs		
Data Centre Services	1 177	245
NT Fleet	2 282	2 380
Darwin Bus Service	41	4
Northern Territory Treasury Corporation	14 354	14 437
Total Dividends from GBDs	17 854	17 066
Dividend from GOC		
PowerWater	18 594	19 681
Total Dividends to Government	36 448	36 747

Public Private Partnerships

Public private partnerships (PPP) is a term used to describe a method of procuring Government infrastructure and associated services. PPPs create opportunities with the private sector for increasing investment in social and economic infrastructure and defines a way in which commercial dealings between the public and private sectors could work.

Generally projects considered for PPP arrangements are those with significant whole of life costs (say greater than \$50 million in today's dollars) and which are long term in nature (20 to 30 years). Usually a PPP project will be attractive to the private sector, where it presents a viable commercial business opportunity. A commercial opportunity is more likely to be created where third party revenues are available (such as from road tolls on a roadway) or where economies of scale can be achieved in construction and ongoing maintenance (such as with a group of schools).

From the Government's perspective, value for money will be achieved where private sector experience and expertise in delivery of the project exists and there is an environment of competitive tension to deliver the best outcome to Government. To achieve this, a PPP requires a rigorous and structured project evaluation process which assists in allocation of risks to the party best able to manage them. With these elements present, the bidding process will ensure that efficient and optimal risk transfer occurs at realistic cost and that service delivery and innovation is maximised.

The Territory released its draft *Territory Partnerships* framework for public comment in March 2003 and the *Territory Partnerships* policy and guidance material is now in the process of being finalised and formally released. In line with a move by all governments in Australia towards uniform policy in this area, the policy is largely based on the policies of both the Victorian and New South Wales governments. The *Territory Partnerships* framework is premised on:

- the primary decision-making criteria as to whether to pursue a PPP being value for money and whether the project is considered to be within the public interest;
- all potential PPP projects requiring development of a public sector cost benchmark or comparator;
- projects of sufficient scale (\$50 million net present value whole of life costs would normally be the minimum size) and duration;
- projects with capacity for optimal risk allocation between the public and private sectors;
- projects which allow scope for innovative solutions from the private sector;
- projects which provide a genuine business opportunity for the private sector; and
- fostering of a competitive bidding environment.

In progressing a uniform Australia-wide approach to PPPs, the Territory is represented on a PPP inter-jurisdictional working group which meets biannually. Victoria has proposed the establishment of a National PPP Forum which will focus on fostering and promoting a national PPP market. The first forum has been held in mid May 2004.

The Territory's first project under the *Territory Partnerships* framework is a component of the Darwin City Waterfront project. This project involves the redevelopment of 25 hectares of waterfront land in Darwin. The project involves the construction and long-term operation of the Darwin Convention and Exhibition Centre, as well as residential and commercial components.

Commercial Risks in Relation to the Budget

This section outlines risk issues that relate to formulation of the Budget and the performance of the public sector against the Budget. All forecasts are subject to a degree of risk and therefore some risk attaches to the Budget and forward estimates.

The Budget and forward estimates have been developed based on a range of factors about which consensus exists at the time the Budget is framed. However, events occurring after the Budget has been tabled may affect actual budget outcomes in current and future years.

In addition to changes in economic or other parameters, such as inflation rates, interest rates and exchange rates, factors which may affect the Budget outcome result from the commercial relationships and dealings between the Territory Government and other governments or the private sector. These encompass matters such as the:

- exclusion of certain items from forecasts because of uncertainty about timing; and
- crystallisation of contingent liabilities.

In any discussion about the Budget, it is important to consider that the largest source of revenue for the Territory Government is Goods and Services Tax (GST) revenue paid by the Commonwealth. While it is expected that national GST collections will grow over time, the revenue base is subject to significant volatility. Additionally, the recommendations of the Commonwealth Grants Commission are of greater importance to the Territory than to other jurisdictions because of the Territory's

greater reliance on GST revenue, and they therefore pose greater risks to the Territory than to other jurisdictions. Further discussion on the risks to GST revenue estimates is provided in Chapter 6.

Contingent Liabilities

A contingent liability is a liability that the Government may be called on to meet at some future date if a specified event should occur. Contingent liabilities of the Territory may arise out of a range of circumstances, the most common of which are indemnities and guarantees contained in agreements executed by the Territory. Contingent liabilities may also arise as a result of undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity.

Details of estimated amounts of material contingent liabilities at 30 June 2003 resulting from guarantees or indemnities granted by the Territory are presented in Table 7.4 below.

Table 7.4: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability at 30 June 2003
	\$M
Amadeus Basin to Darwin Gas Pipeline	291
Pine Creek/McArthur River Electricity Purchase Agreements	112
Alice Springs to Darwin Railway	25
Territory Insurance Office	623
Public Trustee Common Fund	25

Material contingent liabilities of the Territory cover guarantees and indemnities of the Territory and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable contingent liabilities of the Territory are outlined briefly below.

Quantifiable Contingent Liabilities

Electricity, Gas and Water Supply

These contingent liabilities result from arrangements for the purchase and transportation of gas, and purchase and sale of electricity by and for PowerWater. Material contingent liabilities relating to these arrangements are reported below.

PowerWater has been a government owned corporation (GOC) since 1 July 2002. Under the *Government Owned Corporations Act*, a GOC is not within the shield of the Crown and the obligations of a GOC are not guaranteed by the Territory except where the Treasurer specifically agrees to this. The following Territory commitments were given prior to PowerWater becoming a GOC and will remain in place until the relevant contractual arrangements cease.

Amadeus Basin to Darwin Gas Pipeline

The Territory has indemnified the company which constructed the natural gas pipeline from the Amadeus Basin to Darwin in support of obligations of PowerWater to the company. The Territory has also supported the corporation's financing obligations to the pipeline company and its financiers. Should this facility be terminated prior to the end of the contract term, the Territory has undertaken to stand behind and, if necessary, underwrite the refinancing of the outstanding facility amount including a lease residual due to be paid at the end of the facility term.

The Territory has guaranteed gas producers in support of the obligations of a subsidiary company of PowerWater under gas purchase contracts and provided a letter in support of a loan to the corporation's subsidiary company used to meet the company's development obligations under a gas purchase agreement.

In the event that PowerWater experiences a significant decline in its sales of electricity, there is a risk that the corporation may have a lesser requirement for natural gas to be delivered through the Amadeus Basin to Darwin gas pipeline. In circumstances where the decline was severe, both gas purchase contracts and the pipeline financing arrangements could present a severe risk to the corporation and the Territory that there would be ongoing payments made despite reduced need for delivered gas. This situation is considered highly improbable, especially given that existing gas purchase and pipeline obligations will cease within the next seven years.

On the other hand, there is a risk that contracted supplies of gas will prove inadequate to meet the fuel needs for a public electricity supply. Although most installed capacity that generates electricity for public supply can use alternative liquid fuels, there is presently a very significant price differential between gas and liquid fuels at all locations where gas can be delivered through existing infrastructure.

PowerWater has advised that it expects to be able to meet its needs and those of the public electricity market at least for the next five years. Within this timeframe, the corporation is planning to contract for additional gas supplies, most likely from one of the gas fields located in waters adjacent to the Top End of the Territory. All risks related to gas supply shortfall are, of course, not associated with guarantees or indemnities in contracts, as they relate to situations where existing contracts cannot meet the market's needs.

Electricity and Gas Supply to Pine Creek and McArthur River

PowerWater has entered into agreements for the provision of gas and wholesale supply of electricity for the supply of power to the Pine Creek region and McArthur River Mine. The agreement for the supply of gas contains three indemnities relating to PowerWater supplying non-conforming gas.

The contingent liability is unquantifiable. However, a major portion of the value of the contingent liability is the cost of overhauling turbine machinery owned by the electricity producers, where damage has been caused by the provision of non-conforming gas.

In relation to the electricity purchase agreements, the Territory has provided an indemnity against possible actions of the Territory in relation to the structure or operations of PowerWater. The Territory's maximum exposure is equivalent to the net present value of lease and operating charges under the purchase agreements.

Under PowerWater's current operating practices, the contingent events relating to each of the above indemnities are within the corporation's control and are expected to be easily avoidable. Accordingly, the prospect of these undertakings being called upon is considered to be negligible.

Transport

Contingent liabilities in this category relate to indemnities and guarantees that have been provided in support of the Adelaide to Darwin Railway Project.

The AustralAsia Railway Corporation (AARC) and the Northern Territory and South Australian governments have entered into a concession arrangement for the Alice Springs to Darwin railway on a build, own, operate and transfer-back basis.

Quantifiable contingent liabilities of the Territory in relation to the project arise from commitments to provide a capped amount of equity and contingent equity of which 50 per cent has or will be provided by the Commonwealth. Under this arrangement, the Territory paid \$17.7 million in 2002-03, 50 per cent of which was funded by the Commonwealth.

A further \$25 million representing the Territory's commitment to contingent equity, 50 per cent funded by the Commonwealth, may conceivably be called commencing in 2004-05.

Unquantifiable Contingent Liabilities

Further to the quantifiable contingent liabilities listed above, unquantifiable contingent liabilities also exist which could pose a risk to the Government's financial projections.

Transport

Unquantifiable contingent liabilities of the Territory in relation to the Adelaide to Darwin Railway project relate to the following:

- joint guarantee of the obligations of the AARC;
- indemnities granted in relation to title over the railway corridor (title is secure but the indemnity continues);
- agreement to compensate in the case of early termination of the Project (where a termination event is caused by the Territory); and
- indemnities in favour of the Commonwealth for the Commonwealth's financial contribution.

The railway is now complete and interfaces with the East Arm Port. The Darwin Port Corporation has entered into agreements with Asia Pacific Transport Pty Ltd to lease new facilities at the port. There are contingent liabilities which arise out of the performance of the facilities under the agreements.

Although the majority of contingent liabilities arising from the above guarantees and indemnities are unquantifiable, AARC and the governments have comprehensive risk management procedures in place for all events that would give rise to liabilities.

Health and Community Services

The Territory has granted a series of health-related indemnities for various purposes including indemnities to specialist medical practitioners employed or undertaking work in public hospitals and indemnities provided to medical professionals requested to give expert advice on inquiries before the Medical Board. Indemnities have also previously been granted to midwives.

While the risks associated with health indemnities are potentially high, the beneficiaries of the indemnities are highly trained and qualified professionals. The indemnities generally cannot be called upon where there is wilful or gross misconduct on the part of the beneficiary.

Government Administration

Where the Territory has invited the participation of private sector persons and Government officers on Boards of Government owned or funded companies or corporations, the Territory has granted an indemnity to the Board member which covers them for any losses which may result from good faith actions. This indemnity is consistent with the cover available through directors' and officers' insurance and the policy of issuing an indemnity rather than purchasing commercial insurance is in line with the Government's policy of self insurance.

The resulting contingent liabilities are considered low risk as Board members are professionals selected on the basis of their expertise and knowledge. Further, the indemnities are restricted to good faith actions only.

Indemnities are granted to the Commonwealth Government and other entities involved in funding or sponsoring activities and programs initiated or undertaken by the Territory. Under the indemnities, the Government generally accepts liability for damage or losses occurring as a result of the activities or programs and acknowledges that, while the Commonwealth or another party has contributed financially or provided in-kind support, the Territory is ultimately liable for the consequences of the activity or program.

While the resulting contingent liability may, depending on the activity undertaken, not always be low risk, the Territory's financial exposure is no greater than would have been the case without funding or sponsorship assistance.

The Government has indemnified private sector insurers that provide workers' compensation insurance in the Territory. The indemnity covers insurers for losses which may arise as a result of acts of terrorism.

The Territory Government also generally self insures its insurable risk. The size of the Government budget, coupled with the spread of risk, the small size and high degree of centralisation of Government activities, have been considerations in determining that self insurance is appropriate. Government's primary exposure is to natural disaster risks that are outside Government control, for example, cyclones. In previous years, where catastrophic natural disasters result in major loss, the Commonwealth Government has provided assistance, even beyond the terms of the Natural Disaster Relief Arrangements.

Finance

The Territory financial management framework is underpinned by centralised banking arrangements. The sole provider of banking-related services has been granted indemnities under the whole of government banking contract.

Property and Business Services

Agreements for leases or licences of property, plant or equipment generally contain standard indemnity provisions covering the lessor or licensor for any losses suffered as a result of the lease or licence arrangement.

Statutory Contingent Liabilities

A number of statutory contingent liabilities also exist, however, the prospect of these contingent liabilities being called upon is considered to be negligible.

Territory Insurance Office Act

Section 30(1) of the *Territory Insurance Office Act* provides that the Territory guarantees every policy or contract of insurance or indemnity; and the repayment of, and the interest payable on, each deposit with the Territory Insurance Office in pursuance of a contract or other agreement.

Public Trustee Act

Under section 97 of the *Public Trustee Act*, the Treasurer indemnifies the Common Funds against any deficiencies in money available to meet claims on it. The Common Funds are a repository for all moneys received by the Public Trustee on behalf of estates, trusts or persons, and earns interest. Money to the credit of the Common Fund is invested according to the directions issued by an Investment Board.

Negotiations Not Yet Finalised

Negotiations not yet finalised have the capacity to influence the achievement of budget projections and have the potential to affect both revenue and expenses, as well as the Statement of Financial Position.

However, as indicated above, the Budget and forward estimates have been developed based on a range of factors about which consensus exists at the time the Budget is framed.

Legal Proceedings

Like negotiations not yet finalised, the outcome of legal proceedings brought by and against the Government also have the potential to affect actual Budget outcomes in current and future years. The Budget and forward estimates have been developed based on consensus existing at the time the Budget is framed.