

Overview

Budget Paper No. 3 provides detailed information on the budgets of agencies and government business divisions in the Northern Territory budget sector. This Budget Paper enables a comprehensive disaggregation of the Territory's 2004-05 Budget and focuses on the services and outputs delivered across Government. The information provided for agencies and government business divisions in *Budget Paper No. 3* encompasses:

- appropriation amounts;
- budget highlights and narrative descriptions;
- output statements for agencies and business line statements for government business divisions, including performance measures and targets; and
- accrual financial statements (Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows).

The 2004-05 Budget is an accrual output-based Budget in accordance with the Territory's fiscal management legislation and the *Working for Outcomes* framework. Both the legislative base and the *Working for Outcomes* framework are explained below.

Progress continues to be made towards completing the transition to a full accrual model and the adoption of accrual financial management practices. The establishment of outputs and associated performance measures are still evolving and, while improvements continue to be made, as is the case in other jurisdictions, these will take some years to develop completely.

Legislative Basis

There are two principal Acts that 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* 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 the Government Finance Statistics (GFS) as determined by the Australian Bureau of Statistics. The 2004-05 Budget is presented in accordance with the *Fiscal Integrity and Transparency Act*.

Budget Paper No. 2: Economic and Fiscal Outlook is the primary document that reports the information required under the *Fiscal Integrity and Transparency Act*. *Budget Paper No. 2* includes the whole of government reporting requirements and the component sectors of the Territory's Total Public Sector, as defined in national GFS standards.

For a complete listing of all agencies included in the Territory's Total Public Sector, by sector type, see the appendix to *Budget Paper No. 2*. For reference, a list of Northern Territory Government Ministers and their respective Ministerial portfolios is provided at Appendix 1.

Financial Management Act

The main focus of the *Financial Management Act* is to provide a financial framework within which agencies manage their resources. *Budget Paper No. 3* covers agencies that are subject to the *Financial Management Act* and included in the budget sector. Thus the coverage differs from *Budget Paper No. 2*.

The *Financial Management Act* 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 *Financial Management Act* specifies accountability and approval requirements for budget variations in situations where unforeseen circumstances arise in the year, or where Government functions are redistributed between agencies.

The *Financial Management Act* also specifies agency and government business division internal control requirements, asset safeguarding, financial transactions and bank account rules, and financial reporting obligations.

PowerWater 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 *Financial Management Act*.

Working for Outcomes

Working for Outcomes commenced on 1 July 2002 and is a comprehensive financial and performance management framework based on outputs and the accrual methodology for budgeting, accounting and reporting. The adoption 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.

The principal objective of *Working for Outcomes* is to provide a better basis for resource allocation within the Territory by:

- focusing on outputs and performance;
- defining links between outcomes and outputs; and
- providing full accrual cost information for outputs.

Working for Outcomes provides agencies with the tools necessary to effectively monitor, evaluate and improve their performance in the delivery of outputs to the Territory community. In addition, under *Working for Outcomes*, the Government has comprehensive information available to facilitate informed resource allocation decisions.

Outputs

Outputs is the term used to describe the services or goods produced by agencies for the benefit of the Territory community. Under *Working for Outcomes*, resource allocation decisions are concentrated on outputs, with agencies funded to provide specified outputs. For reporting purposes, related outputs are aggregated into output groups, which are combinations of like outputs. Output groups provide summary information on related outputs and enable an overview of services provided that highlights the relationships between outputs.

Outputs and output groups must relate to outcomes, with each output group linking to at least one outcome. Outcomes represent the objectives the Government is seeking to achieve on behalf of the community through the delivery of outputs. Thus, outcomes reflect the Government's policy direction and outline why particular outputs are delivered.

Performance

The performance of agencies in the delivery of outputs assists decision makers, both within and outside the agency, to evaluate whether Territory resources are being applied efficiently and effectively to achieve Government outcomes.

For each output, performance measures are recorded in the categories of quantity, quality, timeliness and cost, with performance targets specified for each measure in *Budget Paper No. 3*. During the year, actual performance is measured and assessed against the specified targets by both the Government and agencies. Agency annual reports will record actual performance against targets published in the Budget and will provide explanations of significant variances.

The quantity measure depicts the number or amount of services provided and is a volume measurement. Some Government services, such as policy advice, are not readily quantifiable in terms of a unit of production. These types of services need to be considered in terms of the overall capacity to provide the service and are thus referred to as capacity outputs.

Quality measures relate to the calibre or excellence of an output and generally reflect service standards based on customer need. The timeliness measure relates to the time taken to produce the output and provides an indication of the service or processing speed and efficiency.

Under *Working for Outcomes*, cost measures are recorded on an accrual basis and recognise the full cost of producing the output, taking into account all resources that have been consumed. Generally, output cost measures are expressed on a per unit basis having regard to the number of units specified in the output quantity measure. However, for capacity outputs, the total cost to maintain the output capacity is recorded.

Accruals

The accrual method of accounting, budgeting and reporting facilitates the focus on agency outputs and performance assessment by providing the financial information to determine the full cost of outputs. The accrual method provides substantially more financial information than is available from the cash method of accounting and, correspondingly, requires more sophisticated systems and policies.

Under the accrual method, revenue 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.

Financial reporting under the accrual method requires, for each reporting entity, the publication of three main financial statements:

- Statement of Financial Performance – details the revenue earned and expenses incurred for the period;
- Statement of Financial Position – details assets, liabilities and equity of the entity at the end of the period; and
- Statement of Cash Flows – details all the inflows and outflows of cash for the entity for the period.

Appropriation Arrangements

Appropriation is provided to fund agencies. Under *Working for Outcomes*, two distinct types of appropriation for agencies are recognised – output appropriation and capital appropriation. These appropriation types are designated in the *Appropriation Act* as ‘Purposes’ as they reflect a purpose for providing funds.

Output Appropriation

Output appropriation represents the purchase price of outputs and is determined at the whole of agency level (that is, it incorporates the amount the Government will pay for all agency outputs into one appropriation). Output appropriation provides the Government’s funding for agency operations and is calculated as the net cost of agency outputs after taking into account funding from agency revenue, which is retained by agencies. Agency revenue is revenue earned from transactions where the client receives a service or product in exchange (as distinct from revenue received from compulsory statutory fees or taxes – this is known as Territory revenue and is provided to the Central Holding Authority). Examples of agency revenue are map sales, charges for the use of Government facilities and training course fees. Specific purpose grants from the Commonwealth are also classified as agency revenue.

Although output appropriation is based on accrual costs, it does not encompass non-cash accrual costs such as depreciation. In essence, the Government’s ‘purchase price’ for outputs reflects operational expenditure requirements expected for the output and not the complete cost to produce the output. Correspondingly, output appropriation, recorded by agencies as Output Revenue, will be less than the costs recorded by agencies, which will result in operating deficits being reported.

Government business divisions do not receive an output appropriation, rather, they fund their operations through their own revenue-raising activities. Where government business divisions provide services at the direction of Government that are not commercially viable, an agency will provide a community service obligation to the government business division, and output appropriation will be provided to the agency for this purpose.

Capital Appropriation

Capital appropriation represents an increase in the Government’s investment in an agency for asset purchases and capital works projects. A capital appropriation is also provided to agencies for capital items.

In relation to capital works, the capital appropriation for capital works is provided centrally to the Department of Infrastructure, Planning and Environment, which is the agency responsible for managing general government capital works projects on a whole of government basis. Once constructed, capital works assets are transferred to the relevant operational agency.

As assets are only recorded in the operational agencies when completed, the agency budgets and forward estimates do not reflect the level of infrastructure assets that will eventually be recorded in their actual financial statements. For the period pending construction and transfer, the value of these future assets is recorded in the budget and forward estimates of the Department of Infrastructure, Planning and Environment. This approach ensures that the whole of government budget and forward estimates data is correct.

While the framework allows for provision of capital appropriations to government business divisions, their commercial nature would mean that equity funding would not be common. As government business divisions and government owned

corporations will utilise new assets to generate additional revenue, capital funding will usually be sourced from cash balances or provided in the form of a loan from the Northern Territory Treasury Corporation.

Central Holding Authority

The Central Holding Authority is the name of the 'parent body' that represents the Government's overall financial position and records the financial transactions between the Government and its agencies and government business divisions.

The Central Holding Authority pays both output appropriation funding (purchase transactions) and capital appropriation funding (investment transactions) to agencies. Other significant expenses of the Central Holding Authority are interest on Territory borrowings, interest on cash balances of government business divisions and government owned corporations, and the centrally-managed employee costs of superannuation and long service leave.

The Central Holding Authority receives all Territory revenue, the main categories being taxation, untied grants (predominantly GST grants) and fines. The Central Holding Authority also receives interest on financial investments, dividends and tax equivalent payments from government business divisions and the government owned corporation.

The Central Holding Authority holds those Territory assets which are not assigned to agencies, or where it is impractical to do so, such as the Territory's investment portfolio. However, the Central Holding Authority does not hold physical assets such as land and buildings.

The Central Holding Authority also records liabilities where it is not practical or effective to assign the liabilities to individual agencies. The Central Holding Authority has two major liabilities – Territory borrowings and unfunded employee liabilities. Territory borrowings comprise the stock of general government debt that has accumulated since Self Government. Unfunded employee liabilities are those which have accrued but are not yet due to be paid and include both superannuation and long service leave liabilities.

Budget and Forward Estimates Model

Government makes the majority of resource decisions during the development of the Budget. At this time the Budget is collectively reviewed, new policies are set and the distribution of resources is decided. Agencies prepare submissions for Government to review based on cost drivers, such as increased demand, and new policy direction options for Government. An appropriate level of taxes is also assessed and revenue from the Commonwealth estimated in order to determine total resources available for use on additional Government programs. From the outcome of these considerations, the new Budget is formed.

Agency budgets are developed from a forward estimates model consistent with that used in other jurisdictions. These estimates are maintained and adjusted by inflator and deflator factors as necessary, forming the basis for Government resource and policy decisions during the Budget development phase. New policy decisions, and funding decisions linked to anticipated demand changes are added to each agency's base and then flow through to adjusted estimates for the forthcoming year.

The forward estimates model adopts the approach of using the current year Budget as a base and rolling the estimates into forward years. The current Budget is developed from what was previously a forward estimate. This eliminates the

necessity for agencies to build up a budget every year and increases certainty. It also provides the basis for the fiscal strategy and whole of Government and agency fiscal targets.

The forward estimates are developed on a no policy change basis. In accordance with the *Fiscal Integrity and Transparency Act* five years of estimates are maintained and used by Government, both as a planning and an operational tool. The main inflator and deflator factors used to adjust estimates are:

- Consumer Price Index (CPI) – inflator;
- wages – inflator; and
- productivity dividend – deflator.

The CPI factor is applied generally to operational items and grants and is provided in recognition that prices will increase and agencies will require more funds to purchase items in future years. The wage factor is applied to employee costs and relates to negotiated enterprise bargaining agreements. The productivity dividend is usually applied to operational and employee costs and is premised on agencies improving processes and delivering services more efficiently, as is the case with private sector enterprises.

Recognition is given to the limited capacity of certain core service agencies, whose budgets primarily comprise fixed staff costs, to achieve greater efficiencies and thus to reduce costs. These agencies are the Department of Health and Community Services, the Department of Employment, Education and Training, the Northern Territory Police, Fire and Emergency Services and the Correctional Services component of the Department of Justice. Each of these agencies has a reduced productivity dividend applied that is one quarter of the usual dividend.

2003-04 Estimates

The estimates information presented in this Budget Paper for the 2003-04 year reflects the approved revised 2003-04 Budget. This is determined from the original 2003-04 Budget, as tabled in May 2003, adjusted for the Government's new policy decisions and responses to demand changes that have occurred during the year. The Budget variations are approved in accordance with the requirements of the *Financial Management Act* with formal variation instruments then tabled in the Territory Parliament.

2004-05 Budget

As indicated above, the 2004-05 Budget has been developed from the forward estimates model with inflator and deflator factors applied and additional funding incorporated for many initiatives approved in the Budget development process.

Specifically in relation to the 2004-05 Budget, the parameters applied are:

- CPI – 2.1 per cent;
- wages – 3 per cent except where specific enterprise bargaining agreements require a different rate; and
- productivity dividend – 2 per cent for most agencies, with exceptions for the high fixed staff cost agencies listed above, which have a dividend of 0.5 per cent applied.

The CPI rate is the inflation estimate through the year to December 2003 as compared to the estimate for the year to December 2002, and is based on the Darwin CPI.

Agency Budget Presentation

Agencies and government business divisions are presented in the order set out in the Administrative Arrangements Order, with the following information provided for each.

Expenses and Appropriation Summary

This summary table depicts operating expenses for each output group (or business line for government business divisions) that equates to total operating expenses as recorded in the Statement of Financial Performance. For agencies, the table shows the calculations to move from operating expenses to output appropriation and capital appropriation as specified in the 2004-05 *Appropriation Act*. The anticipated staffing number for 2004-05, based on an estimate of full time equivalents, is also recorded.

Agency Profile

A narrative description of the agency's key functional responsibilities and major emerging or strategic management issues for 2004-05 is provided in this sub-section.

Budget Highlights

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 2004-05.

Outputs and Performance

This sub-section begins with a table showing output costs that reconcile to the output group and total operating expense figures in the summary table. An explanation of the key variations in output costs between 2003-04 and 2004-05 follows the summary table.

Detailed information on each output is then provided in the form of output statements (business line statements for government business divisions). These statements describe all output groups, related outcomes and each output within the output group. Performance measures are listed for every output, with targets identified for each measure. For comparative purposes, performance estimates for the 2003-04 year are also provided (except for some instances where measures have been modified and 2003-04 data is not available).

Agencies are continuing to develop and refine outputs and associated performance measures. While there has been little change in agency output descriptions this year, a number of the 2003-04 measures and targets are different to those published in the 2003-04 Budget Papers. This reflects that outputs and performance measures are evolving and shows updated information in the current Budget Papers. To enable meaningful comparison, where necessary, agencies have recast performance measures and targets to be on a basis consistent with the information presented for the 2004-05 year.

Financial Statements

A set of financial statements – Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows – is presented on an accrual basis for each agency and government business division for both 2003-04 and 2004-05.

2003-04 Estimate – reflects the best estimate available in the lead up to the Budget as to the expected result and financial position for each agency and government business division at the conclusion of the 2003-04 year. While the 2004-05 Budget is

not formally enacted until late in the 2003-04 year, Budget development timeframes necessarily mean estimating final outcomes based on the revised approved Budget numbers at April 2004. The revenue estimates also reflect the latest approved Budget position.

2004-05 Budget – presents the approved Budget, and aligns with appropriation amounts provided in the 2004-05 *Appropriation Act*.

Statement of Financial Performance – presents an agency's operating expenses, operating revenue and net operating result. It excludes expenditure and receipts of a capital nature, as these only impact the Statements of Financial Position and Cash Flows. With appropriation covering only cash costs, most agencies will show an operating 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/deficit is either offset or increased by the depreciation expense.

Statement of Financial Position – presents an agency's expected assets and liabilities and records the net assets, or equity, of the agency at the end of the year. Net operating deficits (as recorded in the Statement of Financial Performance) will reduce the equity position over time, while surplus results will increase equity.

Statement of Cash Flows – presents the movement of cash into and out of an agency during the financial year. The Statement also reconciles to the agency's cash account at the end of the year, which is reported in the Statement of Financial Position.

Changes in 2004-05 Budget Paper from Prior Years

Each year efforts are made to enhance disclosure, improve readability and refine *Budget Paper No. 3* and other Budget Papers. In addition, structural changes to agencies, redistributions of outputs and functions, advances to the *Working for Outcomes* framework and associated budget/accounting treatment changes, as well as emerging issues, all combine to necessitate changes in this Budget Paper from year to year.

New Agencies

Northern Territory Electoral Commission

With the passage of the *Electoral Act* through the Legislative Assembly in the first half of 2004, a new agency called the Northern Territory Electoral Commission was formally established and commences on 1 July 2004. Although not technically an agency at the time of tabling this Budget, the Electoral Commission has been included in the list of agencies. This Budget Paper is focused on the 2004-05 year and records the budgets for each agency for 2004-05. As the Electoral Commission will operate as an independent agency from 2004-05 with a discrete budget and agency accountability requirements, it is appropriate for the Commission to be included in this Budget Paper.

The Commission is only just being established and, while output statements and performance measures are reported, these may be refined for next year. Information for the Department of the Chief Minister has also been modified to reflect that this Department no longer has responsibility for electoral matters.

Land Development Corporation

At the time of the 2003-04 Budget, changes were being made to the structure of the Trade Development Zone Authority with the transition under way to replacing it with the Land Development Corporation. Last year's *Budget Paper No. 3* included the commentary in the agency section on these transitional processes and the structural arrangements being progressed. This matter has now been resolved with the Land Development Corporation being formally enacted and specified as an agency and the Trade Development Zone Authority ceased.

Accordingly, the 2004-05 *Budget Paper No. 3* records the Land Development Corporation now as an agency. The Corporation has a discrete budget which it assumed from the previous Authority. At this time the Corporation has yet to develop firm output descriptions and complete the establishment of performance measurement systems. Thus the outputs and measures currently reported may change in future years.

Treatment Issues

Corporate Support Costs

Further progression of the *Working for Outcomes* framework and the accrual accounting methodology has resulted in corporate support costs of services being undertaken on behalf of agencies by the Department of Corporate and Information Services (DCIS) being distributed to agencies. This approach facilitates agencies including corporate costs in their output costs and provides a more complete picture of the costs to deliver outputs. In jurisdictions that do not have a central corporate support agency, corporate costs are included in output costs. Thus, this move will aid comparability with other jurisdictions.

The accounting treatment to recognise DCIS corporate service charges requires each agency to record these charges as an operating expense. As DCIS is not being paid by the agencies, these transactions are being treated on a notional basis. Accounting Standards specify that for such transactions the agency is to also record a notional revenue, which is called 'services received free of charge'. Thus agencies' operating expenses and operating revenues will both increase, with no net effect on the operating result in the Statement of Financial Performance. These notional transactions are eliminated during the consolidation process to ensure there is no grossing-up effect in the whole of government financial statements.

Transactions for DCIS charges have been included in both the 2004-05 Budget numbers and the 2003-04 revised estimates in this Budget Paper, to facilitate comparison. A review against the agencies' original 2003-04 budgets will show that operating expenses and operating revenue have increased for the cost of DCIS services. In addition, agency output costs (which, in total, combine to the agency's operating expenses) will have increased and this flows through to increases in unit cost targets for performance measures (all other things being equal).

Agency Cash Balances

Agencies record cash balances in their Statement of Financial Positions. These balances reflect the net results of movements in cash (ie cash flows) during the year as well as the balance remaining from the previous year. As an asset, the balance in each agency's cash ledger account will continue across financial years. It is not necessary for agency cash balances to be brought to nil by the end of a financial year.

Agency cash balances are monitored to ensure each agency has adequate but not excessive cash levels. Where necessary, the Government can either increase or decrease cash, usually through an equity injection or withdrawal (respectively). Other methods to affect cash include providing more Output Revenue (increases cash) and allowing an agency to fund the purchase of some capital items from its cash balances, with decreased capital appropriation (reduces cash).

While cash balances are recorded in agency ledgers, physical cash holdings continue to be maintained in the Government's central bank account with centralised banking, money management and investment functions undertaken by the Northern Territory Treasury Corporation. This enables the Government to continue to maximise the return on its cash.

Specific Purpose Revenue from the Commonwealth

Estimates for specific purpose revenue from the Commonwealth reflect best estimates as at April 2004. New or changed specific purpose payments subsequently announced in the Commonwealth's 2004-05 Budget are not incorporated, as the close timing of the Commonwealth and Territory Budgets precludes adjustments being made. Details of specific Commonwealth revenue provided to the Territory are recorded in the Revenue part of this Budget Paper with a more comprehensive discussion on the main Commonwealth revenue sources provided in *Budget Paper No. 2*.

Appendix I

Ministerial Portfolios

The Hon. C. M. Martin, MLA

- Chief Minister
- Minister for Tourism
- Minister for Territory Development
- Minister for the AustralAsia Railway
- Minister for Indigenous Affairs
- Minister for Arts and Museums
- Minister for Young Territorians
- Minister for Women's Policy
- Minister for Senior Territorians

The Hon. S. J. Stirling, MLA

- Treasurer
- Minister for Employment, Education and Training
- Minister for Racing, Gaming and Licensing

The Hon. Dr P. H. Toyne, MLA

- Minister for Justice and Attorney-General
- Minister for Health
- Minister for Central Australia

The Hon. P. R. Henderson, MLA

- Minister for Business and Industry
- Minister for Police, Fire and Emergency Services
- Minister for Defence Support
- Minister for Asian Relations and Trade
- Minister for Corporate and Information Services
- Minister for Communications

Mr J. L. Ah Kit, MLA

- Minister for Community Development
- Minister for Housing
- Minister for Local Government
- Minister for Sport and Recreation
- Minister for Regional Development
- Minister assisting the Chief Minister on Indigenous Affairs

The Hon. Dr C. B. Burns, MLA

- Minister for Transport and Infrastructure
- Minister for Lands and Planning
- Minister for Parks and Wildlife
- Minister for Essential Services

The Hon. K. Vatskalis, MLA

- Minister for Mines and Energy
- Minister for Primary Industry and Fisheries
- Minister for Ethnic Affairs

Ms M.R. Scrymgour, MLA

- Minister for Family and Community Services
- Minister for the Environment and Heritage
- Minister assisting the Chief Minister on Young Territorians, Women's Policy and Senior Territorians