

Fiscal Position and Outlook

This chapter presents information on the financial statements for the 2004-05 Estimate, the 2005-06 Budget and three forward estimate years. It also provides a discussion of the movement between estimates and between years and possible risks to the Territory Budget.

The discussion on the cash targets and operating statement focuses on the general government sector as this is the sector supported by tax revenues and provides the core services of government.

The majority of Territory assets and liabilities are located in the general government sector because of the comparative stage of Territory development. However, in most states, a significant level of assets and liabilities are held within their public non financial corporation sector, making comparative analysis of either sector's balance sheet difficult.

Therefore, the discussion on the balance sheet focuses on the non financial public sector (includes both the general government and non financial public corporation sectors), as it provides a better basis for comparative analysis of the Territory's financial position with other states.

Fiscal Outlook

Table 3.1 presents the key fiscal aggregates, by the appropriate sector.

Table 3.1: Key Fiscal Aggregates

	2004-05 Estimate	2005-06 Budget	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
	\$M	\$M	\$M	\$M	\$M
GENERAL GOVERNMENT					
Revenue	2 677	2 752	2 820	2 904	2 979
Expenses	2 654	2 718	2 769	2 893	2 973
Net Operating Balance	23	34	51	11	6
Net Acquisition of Non Financial Assets	34	119	121	26	12
Net Lending/Borrowing (Fiscal Balance)	- 11	- 85	- 71	- 16	- 6
Operating Receipts	2 688	2 750	2 818	2 896	2 978
Operating Payments	2 469	2 563	2 610	2 746	2 817
Net Cash Flows from Investments in Non Financial Assets	- 169	- 230	- 203	- 156	- 159
Finance Leases and Similar Arrangements	- 3	- 25	- 58	- 15	- 1
Cash Surplus (+) / Deficit (-)	46	- 68	- 53	- 21	0
NON FINANCIAL PUBLIC SECTOR					
Total Assets	6 485	6 625	6 799	6 859	6 922
Total Liabilities	4 308	4 369	4 452	4 465	4 488
Net Worth (Assets - Liabilities)	2 176	2 255	2 347	2 394	2 434
Net Debt	1 653	1 718	1 761	1 787	1 781
Net Debt + Employee Liabilities	3 478	3 557	3 612	3 646	3 647

The net operating balance for 2004-05 and forward years represents an improvement in all years on the estimate at the time of the 2004-05 Budget. This is largely as a result of increases in GST revenue from the Australian Government, following increased growth in the GST pool, the effect of the 2005 Update of Relativities and a significant increase in population growth estimates. There has also been an increase in own-source revenue due to increased economic activity. These revenue increases have been partially offset by the taxation and spending initiatives introduced as part of the 2005-06 Budget and

will be used for the Territory's contribution to the Darwin City Waterfront Redevelopment project. As most of these payments are for capital purposes, rather than operating, they do not affect the operating balance.

Both the fiscal balance and cash surplus provide a more comprehensive assessment of the Territory's fiscal performance as they include the effects of capital as well as operating transactions.

As explained in Chapter 2, the fiscal strategy targets were reset in 2004-05 to allow for increased service delivery and to provide economic stimulus. From 2005-06 the deficit targets through to 2007-08 have increased due to the Darwin City Waterfront Redevelopment project. Despite this, the Territory is forecasting to be in a balanced cash position and to have a small fiscal balance deficit by 2008-09.

Net debt is set to rise by \$128 million over the period 2004-05 to 2008-09 to \$1781 million, an increase of \$28 million on the level of net debt in 2001-02.

Net worth is expected to increase by \$258 million over the period 2004-05 to 2008-09 reflecting the continued significant investment in assets. Further analysis of the key fiscal aggregates and outlook is provided in Chapter 2 and the remainder of this chapter.

Operating Statement and Cash Flow Statement – General Government Sector

The key difference between the operating statement (accrual) and the cash flow statement (cash) are the non-cash costs included in the operating statement, the capital costs included in the cash flow statement and timing differences between the two.

Table 3.2 provides a comparison of revenue and expenses in the operating statement with operating receipts and payments in the cash flow statement.

Table 3.2: General Government Operating Statement and Cash Flow Statement

	Accrual		Cash		
	2004-05 Estimate	2005-06 Budget	2004-05 Estimate	2005-06 Budget	
	\$M	\$M	\$M	\$M	
Taxation Revenue	295	300	295	299	Taxes Received
Sales of Goods and Services	104	98	104	98	Sales of Goods and Services
Grants and Subsidies	2 136	2 218	2 137	2 218	Grants and Subsidies Received
Interest and Other Income	142	137	152	135	Other Receipts
Total Revenue	2 677	2 752	2 688	2 750	Total Operating Receipts
Employee/Operating Expenses	1 707	1 788	1 748	1 860	Payment for Goods and Services
Current and Capital Transfers	598	585	594	585	Grants and Subsidies Paid
Other Interest Expenses	127	118	127	118	Interest Paid
Non Cash Expenses (a)	222	227			
Total Expenses	2 654	2 718	2 469	2 563	Total Operating Payments
NET OPERATING BALANCE	23	34	218	187	NET CASHFLOWS FROM OPERATING
FISCAL BALANCE	- 11	- 85	46	- 68	SURPLUS (+) / DEFICIT (-)

(a) Depreciation and nominal superannuation interest expense.

The main difference between total revenue and total operating receipts is due to timing of receipts of dividends and tax equivalents from government businesses.

Total expenses are higher than total operating payments due to the non-cash costs of depreciation and nominal superannuation interest expense included in the operating statement.

The fiscal balance in the operating statement takes into account purchases and sales of non financial assets as does the surplus/deficit in the cash flow statement.

Table 3.3 shows the movement in both the cash outcome and operating balance since the May 2004 Budget. Variations are categorised by parameter and policy effects. Policy variations are the result of a direct decision of Government, parameter variations are due to influences outside the Government's control, such as increases in own-source revenue due to greater economic activity and timing of receipts from the Australian Government.

Table 3.3: Variations to the Cash Flow and Operating Statements since May 2004

	2004-05		2005-06	
	Cash	Accrual	Cash	Accrual
	\$M	\$M	\$M	\$M
2004-05 BUDGET	-0.4	-11.9	-15.8	-30.6
RECEIPTS/REVENUE				
Receipt/Revenue Policy Decisions				
First Home Owner Stamp Duty Concession			-2.7	-2.7
Total Policy	0.0	0.0	-2.7	-2.7
Parameter				
Taxation	30.9	30.9	35.1	35.1
General Purpose Payments – GST	46.6	46.6	79.2	79.2
Specific Purpose Payments	19.5	19.5	-2.1	-2.1
Mining Royalties	3.0	3.0	10.7	10.7
Sales of Goods and Services	13.4	11.5	4.5	2.5
Timing of Tax Equivalents Regime Payment	13.0			
Other	17.1	8.2	14.1	4.4
Total Parameter	143.4	119.6	141.5	129.8
TOTAL RECEIPTS/REVENUE	143.4	119.6	138.8	127.1
PAYMENTS/EXPENSES				
Payment/Expense Policy Decisions				
Waterfront Redevelopment Costs	15.8	6.9	57.1	6.1
Volatile Substance Abuse Programs	1.4	1.4	2.5	2.5
Strategic Asset Planning Fund	2.0	2.0	2.0	2.0
Establishment Packages for Regional Authorities	3.0	3.0		
Additional Capital Works Funding	17.7		42.0	
2004 EBA Outcomes	11.5	11.5	12.3	12.3
Additional Repairs and Maintenance Funding			7.1	7.1
Building Better Schools Initiatives	3.4	3.4	9.4	9.4
CDU – Trade School Funding			1.5	1.5
Community Service Obligation Payments	3.6	3.6	7.7	7.7
Relocation of Fuel Terminals to East Arm			3.0	3.0
Palmerston Recreation Centre – Stage 1				5.0
<i>Jobs Plan 2</i>			2.0	2.0
Additional Funding for Alice Springs Hospital	1.9	1.9	1.9	1.9
Additional Funding for Department of Employment, Education and Training	4.0	4.0	3.0	3.0
Increased Housing Allowance for Police	1.4	1.4	2.0	2.0
Upgrade of Government Payroll System	1.3	1.3	1.0	1.0
Other	3.0	5.7	8.4	9.2
Total Policy	70.1	46.1	163.0	75.7
Parameter and Treatment Changes				
Carryover from 2003-04	29.5	26.3	4.8	2.9
Carryover to 2005-06	-15.8	-8.1	15.8	8.1
Depreciation		-7.2		-7.0
Updated CPI			-1.7	-1.7
Additional Productivity Dividend			-5.3	-5.3
Specific Purpose Payments	25.0	25.3	4.6	2.1
One-off Funding for Legal Costs:				
– Department of Justice	3.0	3.0		
– Department of Infrastructure, Planning and Environment	2.9	2.9		
Treatment Changes		14.1		2.0
Increased take up of First Home Owners Grants	1.0	1.0	1.0	1.0
Remote Power Generation – Fuel Costs	3.5	3.5		
Total Parameter and Treatment Changes	49.0	60.9	19.3	2.2
Treasurer's Advance	-22.5	-22.5	-15.1	-15.0
Finance Lease Liability			23.9	
TOTAL PAYMENTS/EXPENSES	96.6	84.5	191.1	62.9
TOTAL VARIATION	46.8	35.1	-52.3	64.2
2005-06 BUDGET	46.4	23.2	-68.1	33.6

General government operating revenue (accrual) has increased from the 2004-05 Budget by \$119.6 million in 2004-05 and \$127.1 million in 2005-06. The main variations in revenue include:

- upward revision to Territory tax revenue of \$30.9 million in 2004-05 and \$35.1 million in 2005-06, due to increased economic activity resulting in higher payroll tax revenue and conveyancing duty;
- additional GST revenue of \$46.6 million in 2004-05 and \$79.2 million in 2005-06 as a result of higher population growth in the Northern Territory, an increase in the GST pool available for distribution, and the effect of the 2005 Update of Relativities;
- increased specific purpose payments of \$19.5 million in 2004-05 including \$12.8 million in health related grants, \$4 million in education grants, and the balance in a range of agencies;
- increased mining royalty revenue of \$3 million in 2004-05 and \$10.7 million in 2005-06 due to increased production and prices;
- increased sales of goods and services revenue of \$11.5 million in 2004-05 and \$2.5 million in 2005-06 due to an increase in hospital receipts of \$4.6 million and \$1 million in 2004-05 and 2005-06 respectively, one-off project revenue from the Australian Government of \$2.5 million in 2004-05, and a number of minor increases across various agencies in both years; and
- an increase in other revenue including interest, dividends and tax equivalents from government businesses.

General government operating receipts (cash) have increased from the 2004-05 Budget by \$143.4 million in 2004-05 and \$138.8 million in 2005-06. The increment in operating receipts is higher than operating revenue due to timing of dividends and tax equivalents received from government businesses.

General government expenses (accrual) have increased by \$84.5 million in 2004-05 and \$62.9 million in 2005-06, while payments (cash) have increased by \$96.6 million in 2004-05 and \$167.2 million in 2005-06 (net of finance lease liability). The main variations include:

- the net carryover of expenses of \$18.2 million into 2004-05 and \$11 million in 2005-06, largely related to timing of Australian Government funding, the carryover in the cash flow differs to the operating statement as it includes capital items;
- the cash flow statement includes a variation of \$17.7 million in 2004-05 and \$42 million in 2005-06 for additional capital works. This includes capital funding for roads, East Arm Port, and increases to a number of education, health and justice projects;
- funding of \$6.9 million in 2004-05 and \$6.1 million in 2005-06 for the Darwin City Waterfront Redevelopment project operational expenses largely related to project management, land rehabilitation costs, insurance, legal costs, marketing and fees for the Darwin Convention and Exhibition Centre, capital costs of \$8.9 million in 2004-05 and \$51 million in 2005-06 are included in the cash flow statement;
- expenses related to specific purpose payments have increased by \$25.3 million in 2004-05 and \$2.1 million in 2005-06 partially due to the increased revenue from the Australian Government, along with a transfer of expenditure commitments between years;
- additional funding of \$1.9 million for the Alice Springs Hospital to provide increased staffing and operational capacity;
- one-off funding of \$3 million in 2004-05 for the Department of Justice to meet higher than expected legal costs;

- additional funding capacity of \$4 million in 2004-05 and \$3 million in 2005-06 for the Department of Employment, Education and Training for additional short-term initiatives;
- one-off funding of \$2.9 million in 2004-05 for legal costs for the Department of Infrastructure, Planning and Environment;
- depreciation expenses have decreased by \$7.2 million in 2004-05 and \$7 million in 2005-06 consistent with lower actual valuation data in the 2003-04 financial year; this affects the operating statement but not the cash flow statement;
- treatment changes of \$14.1 million are due to revised accounting treatment where costs previously classified as capital, are now expensed from items being transferred from capital to operational;
- increased employee expenses of \$11.5 million in 2004-05 and \$12.3 million in 2005-06 as a result of renegotiated enterprise bargaining agreements; and
- additional repairs and maintenance funding of \$7.1 million in 2005-06.

In addition to the above, there have been a number of cabinet decisions since May 2004:

- funding for the Volatile Substance Abuse programs of \$1.4 million in 2004-05 and \$2.5 million in 2005-06;
- establishment of a strategic asset planning fund of \$2 million from 2004-05 to assist agencies in the development of their long-term strategic asset plans;
- provision of \$3 million towards establishment packages of three regional authorities in 2004-05;
- implementation of Building Better Schools initiatives in response to the priority education implementation of the secondary education review totalling \$3.4 million in 2004-05 and \$9.4 million in 2005-06;
- additional funding to Charles Darwin University of \$1.5 million in 2005-06 for traditional trade training;
- increased community service obligation funding of \$3.6 million in 2004-05 and \$7.7 million in 2005-06, for growth in the essential services pensioner concession scheme, security infrastructure at the city wharves and upgrades and construction of Government employee housing;
- provision of \$3 million in 2005-06 associated with the relocation of fuel terminals from Francis Bay to the East Arm Port precinct;
- capital grant of \$5 million in 2005-06 for stage 1 of the Palmerston Recreation Centre;
- additional ongoing funding of \$2 million from 2005-06 for *Jobs Plan 2: Building the Northern Territory Workforce* initiative;
- funding of \$1.4 million in 2004-05 and \$2 million in 2005-06 for an increase in housing allowance to eligible police members; and
- provision of funding of \$1.3 million in 2004-05 and \$1 million in 2005-06 to upgrade the Government's payroll system.

2005-06 Budget and 2006-07 to 2008-09 Forward Estimates

Basis of Forward Estimates

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 develop a zero based budget every year. It also provides the basis for the Government's fiscal strategy.

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 25 per cent of grants and is provided in recognition that prices will increase and agencies will generally require more operational funds in future years. For 2005-06 the applicable CPI used to develop the Budget is 1.6 per cent, being CPI growth in calendar year 2004 compared with calendar year 2003. This year-on-year growth compares a full year of CPI outcomes with the preceding year while annual growth compares one quarter with the corresponding quarter of the preceding year. The year-on-year measure is more stable, as the impact of 'shocks' that may adversely affect one quarter are spread over more observations. Although it is recognised that there will be timing differences between the CPI factor used for budget purposes and CPI in the budget year, the method adopted provides for reliability and predictability for agencies and will produce more stable outcomes over time. A CPI estimate of 2.5 per cent is used for the forward estimate period and is adjusted to the actual CPI growth as each forward estimate year becomes the Budget year.

The wage factor is applied to employee costs and 75% of grants and is based on the latest enterprise bargaining agreement, or 3 per cent if there is no applicable enterprise bargaining agreement. For 2005-06 and the forward estimates, wages growth is set at 3 per cent.

The productivity dividend is usually applied to operational and employee costs premised on agencies improving processes and delivering services more efficiently, as is the case with private sector enterprises. A dividend of 2 per cent has been applied over the Budget and forward estimates period.

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, which provide the key essential services of health, education and public safety

across Government. Each of these agencies has a reduced productivity dividend applied that is one quarter of the usual dividend.

General Government Sector Operating and Cash Forward Estimates

The following section outlines the growth in the forward estimates for the components of the operating statement and cash flow statement.

Operating Revenue / Receipts

Table 3.4 provides a breakdown of operating revenue for 2005-06 to 2008-09. A discussion of the key components and movements across years follows.

Table 3.4: General Government Sector Operating Revenues

	2005-06	2006-07	2007-08	2008-09
	Budget	Forward Estimate		
	\$M	\$M	\$M	\$M
Revenue				
Taxation Revenue	300	306	305	310
Current Grants and Subsidies	2 150	2 210	2 291	2 361
Capital Grants	67	69	70	71
Sales of Goods and Services	98	99	100	102
Interest Income	16	16	16	17
Other	121	120	121	119
Total Revenue	2 752	2 820	2 904	2 979
Year on Year Percentage Increase (%)	3	2	3	3
Receipts				
Taxes Received	299	305	305	310
Sales of Goods and Services	98	99	102	104
Grants and Subsidies	2 218	2 278	2 361	2 432
Other Receipts	135	135	129	132
Capital Receipts	34	30	34	34
Total Receipts	2 784	2 848	2 931	3 012
Year on Year Percentage Increase (%)	5	2	3	3

Operating revenue and receipts are both estimated to grow at between 2 per cent and 3 per cent over the forward estimate period. This growth is largely driven by the growth in GST revenue, a revenue source over which the Territory has no influence.

The Territory has the greatest exposure to volatility in GST revenue as this makes up almost 66 per cent of total revenue. The balance of Territory revenue consists of 14 per cent in specific purpose payments from the Australian Government and 20 per cent in Territory own-source revenue. In comparison, own-source revenue in other jurisdictions contributes around 52 per cent of total revenue.

In 2005-06, Territory taxes comprises 11 per cent of total revenue, declining to 10 per cent from 2007-08. The remaining 9 per cent consists of sales of goods and services, interest, royalties and dividends and taxes from government business.

For 2006-07, taxes are expected to rise by almost 2 per cent. This is due to an increase in payroll tax revenues of just over 2 per cent due to continuing major projects resulting in greater employment and an expected growth of 2.5 per cent for conveyancing duty, offset by the further rise in the payroll tax threshold and removal of stamp duty on leases, franchises and unquoted marketable securities.

In 2007-08, there is a decline in total taxation revenue due to the removal of stamp duty on hiring arrangements from 1 July 2007, with 2008-09 returning to moderate growth of 1.7 per cent.

Grants and subsidies are expected to grow by 3 to 4 per cent, with most of this growth attributable to GST revenue. There is minimal increase in specific purpose payments from the Australian Government, due to a number of significant agreements currently under negotiation. Once the agreements have been finalised, the associated revenue and expenses will be incorporated into the Budget and forward estimates.

Sales of goods and services is increasing at a rate between 1 and 2 per cent over the forward estimate period, reflecting moderate growth expectations.

Interest income is stable at \$16 million from 2005-06 to 2007-08, increasing to \$17 million in 2008-09. This income varies with interest rate movements and is dependent on the level of cash balances.

Other revenue includes mining royalties, dividends and tax equivalents from public financial and non financial corporations.

The cash flow statement also includes capital receipts. These are largely sale of vehicles and land. These estimates are almost static over the forward estimates period.

Operating Expenses / Payments

Table 3.5 shows general government sector operating expenses for 2005-06 and forward years.

Table 3.5: General Government Sector Operating Expenses

	2005-06	2006-07	2007-08	2008-09
	Budget	Forward Estimate		
	\$M	\$M	\$M	\$M
Expenses				
Depreciation	137	140	145	148
Employee Expenses	1 093	1 112	1 143	1 172
Other Operating Expenses	695	727	803	838
Nominal Superannuation Interest Expense	90	90	91	91
Other Interest Expense	118	115	117	123
Current Transfers	521	527	537	543
Capital Transfers	65	57	57	58
Total Expenses	2 718	2 769	2 893	2 973
Year on Year Percentage Increase (%)	2	2	4	3
Payments				
Payments for Goods and Services	1 860	1 911	2 033	2 093
Grants and Subsidies Paid	585	585	595	601
Interest Paid	118	114	119	123
Purchases of Non Financial Assets	264	233	191	194
Total Payments	2 827	2 843	2 937	3 010
Year on Year Percentage Increase (%)	6	1	3	3

Operating expenses are expected to grow by 2 per cent in both 2005-06 and 2006-07, 4 per cent in 2007-08 and 3 per cent in 2008-09. This increase is largely due to policy decisions. New initiatives starting in 2005-06 that are of a recurrent nature have a flow on effect to the forward estimates. 2005-06 includes \$11 million in carryover from previous years.

Over the forward estimates period, employee expenses are estimated to increase by around 3 per cent per annum.

Growth in operating expenses is around 5 per cent. This includes forecast increases in existing obligations as well as a contingency allowance. This approach is consistent with other jurisdictions with the contingency amount being around 1 per cent of operating expenses, ongoing from 2006-07. It recognises that once Government policy decisions are implemented, there is the potential for costs to be higher than initial expectations, and allows some capacity for minor fluctuations in revenue estimates including GST revenues, acknowledging the volatility and importance of these receipts, without necessarily affecting the fiscal targets.

Current and capital transfers, or grants and subsidies paid, tend to reflect growth in specific purpose payments from the Australian Government. As discussed above, there are a number of significant agreements under negotiation and the forward estimates will incorporate the effect of these agreements, once they are finalised.

As with receipts, the cash flow statement includes capital payments. The Budget for 2005-06 shows a 6 per cent increase on 2004-05 due to the investment in the Waterfront, with 2006-07 also high for this reason. In 2007-08 capital repayments return to a usual level of infrastructure spending.

Balance Sheet – Non Financial Public Sector

Table 3.6 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

Table 3.6: Non Financial Public Sector Balance Sheet

	2005-06	2006-07	2007-08	2008-09
	Budget	Forward Estimate		
	\$M	\$M	\$M	\$M
Total Assets	6 625	6 799	6 859	6 922
Financial Assets	941	998	1 022	1 081
Non Financial Assets	5 683	5 801	5 837	5 841
Total Liabilities	4 369	4 452	4 465	4 488
Net Worth (Assets - Liabilities)	2 255	2 347	2 394	2 434
Net Debt	1 718	1 761	1 787	1 781
Year on Year Percentage Increase (%)	4	3	1	0

Net Worth

Net worth is expected to increase over the forward years by \$179 million to \$2434 million in 2008-09. This increase largely represents the continuing significant investment in infrastructure across the Territory including the Darwin City Waterfront and expects that the stage 1 community infrastructure and Convention and Exhibition Centre will be completed during the period, 2005-06 to 2007-08.

Net Debt

The Territory is still a developing economy compared to other jurisdictions and as such has a greater call on debt financing to further enhance its infrastructure requirements. As a result the Territory's current level of debt is higher than other jurisdictions. This continuing investment in infrastructure predominantly accounts for the increase in net debt to \$1781 million by 2008-09, similar to the level in 2001-02, and takes into account the Darwin City Waterfront Redevelopment project.

Statement of Risks

The *Fiscal Integrity and Transparency Act* requires that the Fiscal Outlook Report (Budget) must contain "a statement of risks, quantified as far as practical, that could materially

affect the updated financial projections, including any contingent liabilities and any Government negotiations that have yet to be finalised.”

This statement outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities.

Revenue

GST Revenue

One of the largest risks to the Territory's 2005-06 Budget estimates is variation in GST revenue. As GST revenue represents about 66 per cent to the Territory's total revenue base, movements in GST estimates have a significant effect on the Government's funding capacity and budget outcome.

The estimation of GST revenue in any year is difficult due to the lack of historical data on total GST revenue collections, and volatility in the variables that determine the distribution of GST among the states. Each of the variables are provided below, with the risk to these components discussed.

- National GST revenue collections – The 2005-06 Budget and forward estimates of GST revenue collections are based on the most recent advice from the Australian Government, being 5.2 per cent and 5.3 per cent in 2005-06 and 2006-07 respectively. A more conservative growth in GST collections of 4.5 per cent, if realised, would reduce the Territory's GST revenue by \$10.5 million in 2005-06 and \$22.6 million in 2006-07.
- Territory's share of the national population – Population estimates over the budget and forward estimates period are based on Northern Territory Treasury projections. These remain conservative when compared to long term average growth and the Australian Government's current forecasts of between 1.1 and 1.3 per cent growth per annum. The downside-risk is that if annual population growth were 0.2 percentage points below Budget estimates, the impact on GST revenue would be \$3.7 million in 2005-06 and \$7.6 million in 2006-07.
- Territory's per capita relativity as assessed by the Commonwealth Grants Commission – The Territory's per capita relativity for 2005-06 has been assessed by the Commonwealth Grants Commission at 4.26682. A reduced relativity has been factored into the forward estimates, therefore there is minimal additional risk associated with this component.

It is important to note that while the risks associated with these factors have been identified and quantified, positive movements in any of these elements would improve the result in fiscal outcomes.

A more detailed discussion of the risks to GST estimates is presented in Chapter 5 of this Budget Paper.

Specific Purpose Payments

Specific purpose payment agreements pose risks to state budgets in several ways. The Territory's budgetary flexibility is restricted by certain features of specific purpose payment agreements, such as matching and maintenance of effort provisions, which are used by the Australian Government to leverage its own financial commitments.

Inadequate indexation of specific purpose payment grants can also cause pressure on state budgets, particularly where the injection of Australian Government specific purpose payment funding generates a rate of growth in demand for services which is more rapid than the rate of growth in Australian Government funding.

Through fixed-term specific purpose payment agreements, it is also possible for the Australian Government to seed-fund programs, leaving state governments to meet the financial burden when the original agreements expire.

The level of financial risk relating to SPP agreements cannot be quantified.

Own-Source Revenue

The amount of revenue received from Territory taxes and royalties is dependent upon the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions being made about the performance of the various economic factors and indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment and prices.

It is difficult to accurately predict revenue collections into the future, particularly for the later years of the forward estimates. The most difficult source of revenue to forecast is conveyance stamp duty, as it is linked to activity in the property market, which can be volatile. It is considered that the unusually high activity in the property market experienced since 2003-04 will continue throughout 2005-06, however, the extent and timing of any drop in activity is difficult to predict and could have a significant impact on conveyance stamp duty collections.

It is estimated that a variation of ± 1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$3 million for 2005-06.

Expenses

The forward estimates for expenses are based on known policy decisions, with adjustments for parameters.

The parameters used in the 2005-06 Budget are wages growth of 3 per cent, CPI of 1.6 per cent for 2005-06 and 2.5 per cent from 2006-07 and a productivity dividend of 2 per cent.

The most significant risk to these estimates on the expense side are increasing budget pressures due to increased cost and demand influences.

The commencement of the Darwin City Waterfront Redevelopment project presents a risk to the expense estimates in as far as interest rate fluctuations effect the payments over the life of the Public Private Partnership agreement. This risk is not expected to be significant and will be reassessed each year.

A further risk is in relation to any future enterprise bargaining agreements. A wage inflator of 3 per cent is currently factored into the forward estimates, however any agreements over this amount will affect future budget outcomes.

International Financial Reporting Standards

From 1 July 2005 all entities preparing general purpose financial reports based on Australian Accounting Standards must comply with Australian equivalents to International Financial Reporting Standards (IFRS). The harmonisation of these new standards with those under the Government Finance Statistics (GFS) framework, on which basis the Territory's Budget is presented, is continuing.

While the Territory Government is actively monitoring the proposed changes, no adjustments have been made in the 2005-06 Budget papers for any consequential effect of the adoption of the new standards, pending finalisation of the harmonisation project.

The impact of the changes cannot be quantified at this stage, however it is assessed that the most significant risks posed are the potential for increased volatility in the measurement of unfunded superannuation liabilities and certain financial instruments.

Contingent Liabilities

Contingent liabilities are costs that Government is required to meet should a particular event occur. Usually, contingent liabilities consist of guarantees and indemnities, as well as legal and contractual claims, and constitute risk to the Territory's financial position.

Details of estimated amounts, at 30 June 2004, of material contingent liabilities resulting from guarantees or indemnities include:

- Amadeus Basin to Darwin Gas Pipeline (\$261 million);
- Pine Creek/McArthur River Electricity Purchase Agreements (\$101 million); and
- Public Trustee Common Fund (\$26 million).

There are also some risks in relation to the Darwin City Waterfront Redevelopment project that may result in payments being made by the Territory. These risks relate to discriminatory changes in law, native title and environmental clean-up costs. The amount of these risks is unable to be estimated accurately but provision has been made in the forward estimates for environmental clean up costs and it is within the Territory's discretion whether to make a discriminatory change in law.

For more information on contingent liabilities, refer to Chapter 7 of this Budget Paper.