

# Overview

*Budget Paper No. 3* provides detailed information on the budgets of agencies and government business divisions in the Northern Territory budget sector, and focuses on the services and outputs delivered across Government. The information provided in *Budget Paper No. 3* encompasses:

- agency operating expenses and appropriation amounts;
- agency profiles and budget highlights;
- output statements for agencies and business line statements for government business divisions, including performance measures and estimates;
- accrual financial statements (Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows); and
- a summary of all revenue received by the Central Holding Authority, agencies and government business divisions.

The 2005-06 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.

## 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 Australian Government. This is based on the Government Finance Statistics (GFS) as determined by the Australian Bureau of Statistics. The 2005-06 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 in *Budget Paper No. 2*. For reference, a list of Northern Territory Government Ministers and their respective Ministerial portfolios is provided at Appendix 1 to this overview.

## **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.

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

Refinement of agency output structures and performance measures will continue with the aim of enhancing usefulness of information in future years.

*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 related outputs aggregated into output groups.

Outputs and output groups 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.

While the framework provides a uniform approach, concepts continue to evolve and be implemented by agencies. A number of agencies have reviewed both output structures and measures and made modifications for the 2005-06 budget. This year the Department of Business, Industry and Resource Development has further modified its output structure to incorporate the concept of sub-output performance.

## 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 – relates to the number or amount of services provided and is a volume measurement, except for policy and advisory services where the overall capacity to provide the service is more meaningful;
- quality – relates to the calibre or excellence of an output and generally reflects service standards based on client need; and
- timeliness –relates to the time taken to produce the output and provides an indication of the service or processing speed and efficiency.

As part of the ongoing enhancement process, measures of quantity, quality, timeliness and unit cost reported in previous budgets were reviewed during the year. The quantity, quality and timeliness measures align with efficiency and effectiveness and have been retained. However, there are inherent limitations on unit cost measures due to significant levels of fixed costs, short-term fluctuations in activity, and the aggregation of sub-outputs into output measures. From 2005-06, reporting unit cost as a performance measure is not required, although some agencies have continued to do so, where the measure is considered useful.

Performance estimates are specified for each measure in *Budget Paper No. 3*. During the year, actual performance is measured and assessed against the specified estimates by both the Government and agencies. Agency annual reports will record actual performance against estimates published in the budget and will provide explanations of significant variances.

## 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 – revenue earned and expenses incurred for the period;

- Statement of Financial Position – assets, liabilities and equity of the entity at the end of the period; and
- Statement of Cash Flows – 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 is provided to fund the delivery of outputs and is determined at the whole of agency level. Output appropriation provides the Government’s funding for agency operations after taking into account funding from agency revenue. Examples of agency revenue are map sales, charges for the use of Government facilities and training course fees. Specific purpose grants from the Australian Government 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. This will result in agency operating deficits generally 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 commercial, a community service obligation can be provided to the government business division via a ‘purchasing agency’. Output appropriation will be provided to the purchasing 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 provided to agencies for capital items.

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

As assets are 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.

Although the framework allows for provision of capital appropriations to government business divisions, their commercial nature means 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 and capital appropriation funding 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, such as 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's assets include the Territory's investment portfolio, although it does not hold physical assets such as land and buildings. The Central Holding Authority has two major liabilities – Territory borrowings and unfunded employee 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. The level of tax revenue is also assessed and revenue from the Australian Government estimated in order to determine total resources available for use on 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 expenses.

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 wages 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 include 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.

## **2004-05 Estimates**

The estimates information presented in this Budget Paper for the 2004-05 year reflects the approved revised 2004-05 budget. This is determined from the original 2004-05 budget, as tabled in May 2004, 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.

## **2005-06 Budget**

As indicated above, the 2005-06 budget has been developed from the forward estimates model with inflator and deflator factors applied and additional funding incorporated for initiatives approved in the budget development process.

Specifically in relation to the 2005-06 budget, the parameters applied are:

- CPI – 1.6 per cent, being the Darwin CPI estimate through the year to December 2004 as compared to the estimate for the year to December 2003;
- 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.

## 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. Output appropriation and capital appropriation, as specified in the 2005-06 *Appropriation Act*, are also identified as well as the anticipated staffing number for 2005-06, based on an estimate of average full time equivalents.

### Agency Profile

A narrative description of the agency's key functional responsibilities and major emerging or strategic management issues for 2005-06 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 2005-06.

### Outputs, Business Lines and Performance

For agencies, 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 2004-05 and 2005-06 follows the table, broadly in output order.

For government business divisions, this sub-section describes financial performance linked to the summary table and focuses on key variations between the years.

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 estimates identified for each measure. For comparative purposes, performance estimates for the 2004-05 year are also provided, where available.

To enable meaningful comparison, where necessary, agencies and business divisions have recast performance measures and estimates to be on a basis consistent with the information presented for the 2005-06 year. Where measures have been modified and 2004-05 data is not available, no estimate is reported.

### 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 2004-05 and 2005-06.

**2004-05 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 2004-05 year. Although the 2005-06 budget is not formally enacted until late in the 2004-05 year, budget development timeframes necessarily mean estimating final outcomes based on the revised

approved budget numbers at April 2005. The revenue estimates also reflect the latest approved budget position.

**2005-06 Budget** – presents the approved budget, and aligns with appropriation amounts provided in the *2005-06 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 or 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.

## Specific Purpose Revenue from the Australian Government

Estimates for specific purpose revenue from the Australian Government reflect best estimates as at April 2005. With the Australian Government budget to be tabled after the Territory Budget, new or changed specific purpose payments subsequently announced are not incorporated. Details of specific Australian Government revenue provided to the Territory are recorded in the Revenue part of this Budget Paper with a more comprehensive discussion on the main Australian Government 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 Multicultural 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