

## Chapter 9 Commercial Issues

**Overview** Commercial policies adopted by the Territory affect the way in which Northern Territory Government businesses operate and the way in which the Territory Government deals with the private sector. Aspects that are relevant to the Territory Budget are:

- government business division (GBD) and government owned corporation (GOC) frameworks which recognise that business activities of Government must operate on a commercial basis in contrast to general government agencies, where there are non-commercial objectives;
- *Territory Partnerships*, which outlines the framework for dealings between the Territory Government and the private sector in relation to public private partnerships; and
- the risks faced by the Territory, in particular contingent liabilities arising from guarantees and indemnities that the Territory has issued when dealing with the private sector and other governments.

### Commercial Frameworks

Government has established legislative and administrative frameworks governing the operation of government owned businesses. The intent of such frameworks is to provide greater incentives to manage costs, increase efficiency and improve the quality of the goods and services delivered. Management of government-owned businesses is according to best commercial practices in recognition that:

- 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.

A government business considered suitable to operate commercially can be declared by the Treasurer as a GBD or, by statute, can be given the status of a GOC. Unlike general government agencies, these businesses do not receive direct output appropriation for their commercial activities. Instead, their operating revenue is generated from sales of goods and services to other Territory Government agencies, the private sector or both.

GBDs are subject to the financial management framework contained in the *Financial Management Act*, with the chief executive officer of a GBD accountable to the responsible Minister for financial performance.

GOCs are subject to the *Government Owned Corporations Act*, which seeks to replicate as far as possible the shareholder model of corporate governance. This structure essentially creates an 'arm's length' relationship between the GOC, which has an independent Board responsible for its management, and the Government as owner or shareholder.

The Territory Insurance Office (TIO), another government business, operates commercially under its own legislative framework (*Territory Insurance Office Act* and Regulations). It also has an independent Board that is accountable for its performance. The TIO is subject to a prudential regulatory regime, similar to that applying to competitors in insurance and financial services, but administered by Northern Territory Treasury. The *Motor Vehicle Accident (Compensation) Act* (MACA) establishes a separate statutory fund administered by TIO.

In response to the outcomes of a scoping study finalised in 2006, the TIO has been retained under Government ownership, with a range of reforms undertaken to improve risk management and financial performance. These include the adoption of prudential supervision standards consistent with those applied by the Australian Prudential Regulation Authority, separate accounting and reporting of TIO's business lines, strengthened capital management and Statement of Corporate Intent processes.

Government-owned business activities that compete with the private sector are required to comply with competitive neutrality principles which seek to ensure that resource allocation between the public and private sectors is determined by relative efficiency, rather than advantages accruing as a result of Government ownership.

Competitive neutrality complaints may arise when a government-owned business activity is in competition with private sector businesses. Northern Territory Treasury is responsible for managing such complaints. If a complaint is upheld, the Government decides on a case by case basis the appropriate action to rectify any net competitive advantage the government-owned business activity may have.

### Government Business Divisions

The Territory has established GBDs in order to improve operating efficiency and to reduce Government and business costs, thereby freeing up Government resources for other expenditure priorities.

Commercial practices that have been implemented for GBDs are:

- full attribution of costs (including tax equivalents);
- efficient pricing, based on costs;
- operating under charters of operation and establishing audit committees; and
- identification and budget funding of community service obligation (CSO) payments to compensate GBDs for undertaking non-commercial activities at the direction of Government.

The current emphasis of GBD reform is to build on initiatives to date by encouraging a 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 have been 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. The objective of the Act is to impose capital market-type disciplines on government-owned businesses and to replicate the corporate governance structures of private companies incorporated under the *Australian Corporations Act 2001*. A GOC is expected to operate as efficiently as comparable businesses and to maximise sustainable returns to the Territory.

Key elements of the Territory GOC framework are:

- corporations established under their own legislation but governed by an overarching legislative framework based on the *Corporations Act 2001* principles;

- an independent commercial board of directors that is responsible for the operation of the business and accountable to the shareholding Minister (currently the Treasurer) for financial performance;
- a shareholding Minister who monitors the financial performance of the corporation;
- a portfolio Minister 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 GOC Board.

The shareholding Minister arrangement under the GOC framework is significantly different to the governance arrangements for general government agencies and for GBDs under the *Financial Management Act*, under which the chief executive officer of a GBD is directly accountable to Government for the performance of the business. GBD Boards generally have an advisory role, with Ministers responsible for business decisions, which may or may not be taken on the advice of the Board.

Under the GOC framework, the Board 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 GOC's business.

GOCs are not subject to the *Financial Management Act*, reflecting the policy intent of operational autonomy.

The Power and Water Corporation became the Territory's first GOC on 1 July 2002 and, at this time, remains the Territory's only GOC.

The Power and Water Corporation Board is accountable for the performance of the GOC. In most of the Power and Water Corporation's business lines, the corporation is subject to a regulatory regime administered by an independent economic regulator, the Utilities Commission. This regime is applicable to any party that may operate in these areas of business in the Territory.

The Treasurer is the shareholding Minister for the Power and Water Corporation and is the Regulatory Minister for the corporation's commercial business lines. The Minister for Essential Services is the Power and Water Corporation's portfolio Minister.

Like GBDs, the Power and Water Corporation does not receive direct budget appropriation. However, through Government agencies, it receives CSO payments for non-commercial services that it provides at the direction of Government.

### Community Service Obligations

A CSO arises when the Government requires a GBD or GOC to carry out activities which it would not elect to do on a commercial basis or would only do at commercial prices. CSO payments allow the Government to achieve identifiable community or social objectives which would not be achieved if left to commercial considerations.

Government CSO policy is aimed at clearly identifying the non-commercial functions performed by GBDs and GOCs, making the functions transparent and their delivery accountable to the community. To ensure that non-commercial functions do not adversely impact on the financial performance of the GBD or GOC, the policy provides compensation for the provision of the CSO.

The provision of budget funding for CSOs or acceptance of a lower shareholder return has two important implications:

- it enables GBDs and GOCs to manage commercial activities without having to cross-subsidise non-commercial activities, promoting the development of a commercial culture within GBDs and GOCs; and
- it provides an opportunity for an annual review of CSO-funded activities.

CSO payments are provided to the GBD or GOC by the 'purchasing' agency. Territory Government CSO-related initiatives, listed by purchasing agency for 2006-07 and 2007-08, are presented in Table 9.1, with the following discussion on CSOs provided by the purchasing agency outlining the key components.

#### Northern Territory Treasury

Treasury allocates CSO funding to the Power and Water Corporation in accordance with Government policy regarding the provision of:

- electricity supply to domestic customers and small businesses and other organisations across the Territory at uniform tariffs;
- electricity supply services to tranche 4 electricity customers (primarily medium size businesses and other organisations) at a subsidised tariff ; and
- water and sewerage services to all customers at uniform tariffs.

CSO funding to maintain gazetted utility tariffs is budgeted to be \$52.7 million in 2007-08.

#### Tourism NT

Tourism NT provides Territory Discoveries, the Territory Government-owned tourism product wholesaler, with CSO payments to fund net costs incurred by the Northern Territory Holiday Centre in Alice Springs, specific shoulder season campaigns which assist in promoting the Territory as a year-round destination, and the inclusion of small tourism operators in its reservation system (\$0.45 million in 2007-08).

#### Department of Health and Community Services

The Power and Water Corporation also receives CSO payments for subsidised electricity, water and sewerage tariffs for pensioners under the Department of Health and Community Services' Pensioner Concession Scheme (\$4.3 million in 2007-08).

#### Department of Planning and Infrastructure

The Darwin Port Corporation (DPC) receives CSO funding from the Department of Planning and Infrastructure for non-commercial activities related to the development, operation and maintenance of wharf facilities that support the cruise ship and naval presence in the Northern Territory, the Darwin fishing and tourism industry and some international trade through the Port of Darwin.

It is estimated that a total of \$2.3 million in CSOs will be paid to DPC in 2007-08.

#### Department of Natural Resources, Environment and the Arts

The Department of Natural Resources, Environment and the Arts (NRETA) provides CSO funding for four non-commercial functions carried out by Territory Wildlife Parks. These functions relate to:

- maintaining the parks' assets to a high standard to assist the growth and development of the Territory's tourism industry;
- supporting the Territory's biodiversity through captive breeding of endangered, rare and threatened species;
- enhancing the education of school children by teaching them the benefits of the natural environment; and
- management of the botanic gardens at the Alice Springs Desert Park.

It is estimated that a total of \$7.9 million in CSOs will be paid by NRETA in 2007-08.

Territory Housing receives CSO payments from the Department of Local Government, Housing and Sport for non-commercial activities such as:

- rental rebates for low-income families to enable them to access secure, safe and affordable accommodation;
- providing incentives for people with medium to low incomes to increase the level of home ownership within the Northern Territory; and
- reducing up front costs for public housing tenants purchasing their homes through the provision of a stamp duty concession.

It is estimated that a total of \$15.5 million in CSOs will be paid to Territory Housing in 2007-08.

The full range of CSOs funded by the Territory Government is detailed in Table 9.1.

Table 9.1: Community Service  
Obligation Payments

	2006-07 Estimate	2007-08 Budget
<b>PURCHASING AGENCY/Provider/Description</b>	\$000	\$000
<b>NORTHERN TERRITORY TREASURY</b>	<b>52 805</b>	<b>52 662</b>
<b>Power and Water Corporation</b>		
Gazetted tariffs	52 805	52 662
<b>TOURISM NT</b>	<b>448</b>	<b>448</b>
<b>Territory Discoveries</b>		
Tourism marketing	448	448
<b>DEPARTMENT OF HEALTH AND COMMUNITY SERVICES</b>	<b>4 083</b>	<b>4 268</b>
<b>Power and Water Corporation</b>		
Pensioner Concession Scheme	4 083	4 268
<b>DEPARTMENT OF PLANNING AND INFRASTRUCTURE</b>	<b>4 981</b>	<b>2 306</b>
<b>Darwin Port Corporation</b>		
Small craft services (marine industry support)	280	280
Cruise and Defence (Wharf Precinct)	1 546	1 546
Tourism and real estate (Wharf Precinct)	480	480
Fort Hill Wharf – roll-on / roll-off facility (repairs and maintenance)	575	
Fishermans Wharf – facility (repairs and maintenance)	1 100	
Dredging Fort Hill Wharf	1 000	
<b>DEPARTMENT OF NATURAL RESOURCES, ENVIRONMENT AND THE ARTS</b>	<b>7 834</b>	<b>7 915</b>
<b>Territory Wildlife Parks</b>		
Territory Wildlife Park – tourism	3 992	4 033
Territory Wildlife Park – threatened species	475	475
Territory Wildlife Park – education	222	222
Alice Springs Desert Park – tourism	2 107	2 147
Alice Springs Desert Park – threatened species	118	118
Alice Springs Desert Park – education	277	277
Alice Springs Desert Park – botanic gardens	643	643
<b>DEPARTMENT OF LOCAL GOVERNMENT, HOUSING AND SPORT</b>	<b>15 640</b>	<b>15 483</b>
<b>Territory Housing</b>		
Rent subsidies	13 404	13 404
Low interest home loans	884	926
Fringe benefits tax on employee loans	57	48
Interest subsidy	132	100
Stamp duty differential	168	84
Police rent forgone	995	921
<b>TOTAL</b>	<b>85 791</b>	<b>83 082</b>

## Tax Equivalents Regime

GBDs and GOCs incur tax liabilities similar to privately owned organisations. This measure ensures greater parity between the cost structure of Government businesses and the private sector, aiding in the achievement of competitive neutrality. For example, the Power and Water Corporation and the Darwin Port Corporation pay local government rates equivalents to the Central Holding Authority.

Total tax equivalents are expected to be \$6.4 million higher in 2006-07 than 2007-08, due primarily to the Power and Water Corporation's operating results in each year.

It is estimated that the Power and Water Corporation's tax equivalents payable will be \$16.1 million in 2006-07 and \$9.7 million in 2007-08, reflecting a reduction in Power and Water Corporation's 2007-08 taxable income. This reduction is due to operational performance and not associated with an asset writedown for water and sewerage assets, as a result of the application of the recoverable amounts test (RAT), expected for 2006-07. Although the writedown has an effect on overall profitability and thus the level of dividends paid, the full amount is not immediately taken into account in the tax reporting and tax equivalents regimes.

Table 9.2: Tax Equivalents

	2006-07 Estimate	2007-08 Budget
	\$000	\$000
<b>Income Tax Equivalents from GBDs</b>		
Northern Territory Treasury Corporation	6 555	5 903
Darwin Bus Service	115	83
Construction Division	427	602
Data Centre Services	456	723
Government Printing Office	107	110
NT Fleet	2 402	2 497
<b>Total Tax Equivalents from GBDs</b>	<b>10 062</b>	<b>9 918</b>
<b>Income Tax Equivalents from GOCs</b>		
Power and Water Corporation	16 146	9 700
<b>Other Income Tax Equivalents</b>		
TIO	4 354	4 569
<b>Local Government Rates Equivalents from GBDs</b>		
Darwin Port Corporation	178	182
<b>Local Government Rates Equivalents from GOCs</b>		
Power and Water Corporation	214	220
<b>Total Tax Equivalents</b>	<b>30 954</b>	<b>24 589</b>

Note: GBDs not shown paid no tax equivalents in 2006-07 and are not expected to pay any in 2007-08.

## Dividend Policy

If the Treasurer is satisfied that a GBD or GOC has sufficient resources, he may determine that the GBD or GOC is to pay a dividend to the Government. 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 or GOC's debt levels are unsustainable in the medium to long term;
- where a GBD or GOC has significant future capital expenditure needs; or
- Government elects to receive a lesser amount because it has decided to only partly fund CSOs.

An example is the Northern Territory Treasury Corporation, which operates as the Government's central financing authority. The corporation generates its revenue from the positive margin between lending and borrowing activities. As the corporation does not need to retain profits to meet capital costs, it is appropriate for it to pay a dividend of 100 per cent of after-tax profit.

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 specific dividend level where it is appropriate and there are sufficient resources to pay the amount.

Dividends payable by GBDs and GOCs are projected at \$29.4 million in 2007-08, an increase of \$10 million from 2006-07. Increased dividend income is primarily due to the forecast increase in Power and Water Corporation profitability in 2007-08.

In 2006-07, Power and Water will record an accounting loss, due to a writedown of water and sewerage assets, after application of the recoverable amounts test (RAT). Therefore no dividend is payable in respect of the 2006-07 year.

The Power and Water Corporation projects a dividend payment of \$11 million in 2007-08, which is 50 per cent of its net profit after tax.

Table 9.3: Dividends Payable to Government

	2006-07 Estimate	2007-08 Budget
	\$000	\$000
<b>Dividends from GBDs</b>		
Northern Territory Treasury Corporation	15 295	13 775
Darwin Bus Service	134	96
Construction Division	498	702
Data Centre Services	532	844
Government Printing Office	124	129
NT Fleet	2 803	2 913
<b>Total Dividends from GBDs</b>	<b>19 386</b>	<b>18 459</b>
<b>Dividend from GOC</b>		
Power and Water Corporation		10 959
<b>Total Dividends to Government</b>	<b>19 386</b>	<b>29 418</b>

## 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 the Territory's PPP policy framework, *Territory Partnerships*, defines the protocol for such commercial dealings between the public and private sectors.

Generally projects considered for PPP arrangements are those with significant whole of life costs (generally 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 there is private sector experience and expertise in delivery of the project and there is an environment of competitive tension to deliver the best outcome for Government. To achieve this, a PPP requires a rigorous and structured project development and evaluation process which assists in allocation of risks to the party best able to manage them. With these elements present, the bidding process will help ensure that efficient and optimal risk transfer occurs at realistic cost and that service delivery and innovation are maximised.

The Territory formally released its *Territory Partnerships* framework in April 2004. 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 in the public interest;
- all potential PPP projects require development of a public sector cost benchmark or comparator;
- projects of sufficient scale (\$50 million net present value whole of life costs would generally 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
- projects which foster a competitive bidding environment.

In progressing a uniform Australia-wide approach to PPPs, the Territory is represented on a National Ministerial Forum which focuses on fostering and promoting a national PPP market.

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

## 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 2006 resulting from guarantees or indemnities granted by the Territory are presented in Table 9.4.

Table 9.4: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability at 30 June 2006
	\$M NPV <sup>1</sup>
Amadeus Basin to Darwin Gas Pipeline	189
Pine Creek/McArthur River Electricity Purchase Agreements	88
Public Trustee Common Fund	33

<sup>1</sup> Future values discounted at a nominal 7 per cent discount rate.

Material contingent liabilities of the Territory are defined as guarantees and indemnities with potential exposure greater than \$5 million and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable material contingent liabilities of the Territory are outlined below.

## Quantifiable Contingent Liabilities

### Electricity, Gas and Water Supply

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

The Power and Water Corporation has been a 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 the Power and Water Corporation (formerly the Power and Water Authority) becoming a GOC and will remain in place until the relevant contractual arrangements cease.

### Amadeus Basin to Darwin Gas Pipeline

The Territory indemnified the company that constructed and operates the natural gas pipeline from the Amadeus Basin to Darwin in support of obligations of the Power and Water Corporation to the company. The Territory 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 undertook 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 lease residual at the end of the contract term is a direct contingent liability of the Territory, unrelated to any obligation of the Power and Water Corporation.

The Territory guaranteed gas producers in support of the obligations of a subsidiary company of the Power and Water Corporation 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 the Power and Water Corporation experience 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 is severe, both gas purchase contracts and the pipeline financing arrangements could present a risk to the corporation and the Territory, as there would be ongoing payments made despite reduced need for gas to be delivered. This situation is considered highly improbable.

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.

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

### Electricity and Gas Supply to Pine Creek and McArthur River

The Power and Water Corporation 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 the Power and Water Corporation supplying non-conforming gas. The corporation's 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. Since 5 March 2003, no gas has been supplied to the power stations, significantly reducing, but not entirely removing, the risk exposure.

Under the Power and Water Corporation'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.

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 the Power and Water Corporation. The Territory's maximum exposure is equivalent to the net present value of lease and operating charges under the purchase agreements. This risk is within the Territory's control.

## Unquantifiable Contingent Liabilities

### Transport

The Territory also has contingent liabilities in this category related 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 Adelaide to Darwin railway on a build, own, operate and transfer-back basis.

Quantifiable contingent liabilities of the Territory identified in previous years in relation to the project arose from commitments to provide a capped amount of \$25 million in contingent equity, of which 50 per cent will be provided by the Australian Government. The equity was fully called and paid in June 2005.

Unquantifiable contingent liabilities 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 Australian Government for its financial contribution.

The Darwin Port Corporation has leased facilities at the Darwin Port to Asia Pacific Transport Pty Ltd, interfacing the port and the railway. There are contingent liabilities which arise out of the performance of the facilities.

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.

The Northern Territory Government has entered into agreements for the relocation of fuel terminals from near the Darwin central business district to the East Arm industrial estate. The agreements provide for certain unquantifiable contingent liabilities to be provided to the developer of the new fuel terminal and an oil company. Government has put in place comprehensive risk management processes to address potential exposure.

### 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.

Although 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 may grant an indemnity to board members, which covers them for any losses that may result from good faith actions if indemnity is not already contained in legislation establishing the board. This indemnity is generally 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 Australian 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, although the Australian Government or another party has contributed financially or provided in-kind support, the Territory is ultimately liable for the consequences of the activity or program.

Although the resulting contingent liability may not always be low risk, depending on the activity undertaken, 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 providing workers compensation insurance in the Territory. The indemnity covers insurers for losses which may arise as a result of acts of terrorism. It is considered unlikely that the indemnity will be called, notwithstanding that the consequence in terms of financial exposure, if called upon, is potentially significant.

The Territory Government 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, such as, cyclones. In previous years, where catastrophic natural disasters result in major loss, the Australian Government has provided assistance, even beyond the terms of the Natural Disaster Relief and Recovery Arrangements.

## Finance

The Territory's 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. These indemnities are considered not to involve significant risk.

## 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. These indemnities are considered not to involve significant risk.

## Statutory Contingent Liabilities

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

### *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 them. The Common Funds provide a repository for all moneys received by the Public Trustee on behalf of estates, trusts or persons, and they earn interest. Money to the credit of the Common Funds is invested according to the directions issued by an Investment Board.

Negotiations not yet finalised have the capacity to influence the achievement of budget projections and have the potential to affect both revenues and expenses, as well as the Balance Sheet.

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 the consensus existing at the time the Budget is framed.