

Chapter 1 Overview

This Budget Paper presents whole of government financial information and related issues and brings together information included in other Budget Papers in a consolidated form. It also meets the requirements of the *Fiscal Integrity and Transparency Act* (FITA) and complies with the Uniform Presentation Framework, as agreed by all Australian jurisdictions, which is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS).

Fiscal Position and Outlook

Fiscal highlights in the 2007-08 Budget include:

- improved cash position for 2006-07, with all other cash targets remaining unchanged;
- operating surplus projected for all years;
- fiscal balance continues on a trend towards surplus, in line with the fiscal strategy target of a balance by 2012-13;
- contribution of \$60 million in 2006-07 towards the Territory's superannuation liabilities;
- capital investment of \$629 million in 2007-08 at the non financial public sector;
- net debt to revenue ratio to fall to 42 per cent by 2010-11, a significant improvement on the 67 per cent recorded in 2001-02; and
- net debt plus employee liabilities to revenue ratio to fall to 110 per cent by 2010-11, a significant improvement on the 134 per cent recorded in 2001-02.

Tables 1.1 and 1.2 presents the Territory's key aggregates at the time of the 2006-07 Budget and the 2007-08 Budget.

Table 1.1: Estimated Outcomes
– General Government

	2006-07	2007-08	2008-09	2009-10	2010-11
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Cash Outcome					
2006-07 Budget	- 56	- 40	0	17	na
2007-08 Budget	- 11	- 40	0	17	34
Operating Result					
2006-07 Budget	17	- 18	- 15	4	na
2007-08 Budget	31	29	8	15	38
Fiscal Balance					
2006-07 Budget	- 105	- 98	- 56	- 35	na
2007-08 Budget	- 71	- 96	- 41	- 32	- 10
Net Debt					
2006-07 Budget	1 251	1 277	1 261	1 227	na
2007-08 Budget	1 225	1 245	1 225	1 186	1 129
Net Debt + Employee Liabilities					
2006-07 Budget	3 418	3 501	3 536	3 548	na
2007-08 Budget	3 820	3 911	3 933	3 949	3 939

Source: Northern Territory Treasury.

Table 1.2: Estimated Outcomes
– Non Financial Public Sector

	2006-07	2007-08	2008-09	2009-10	2010-11
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Net Debt					
2006-07 Budget	1 776	1 804	1 794	1 770	na
2007-08 Budget	1 578	1 693	1 748	1 749	1 742
Net Debt + Employee Liabilities					
2006-07 Budget	3 943	4 028	4 069	4 091	na
2007-08 Budget	4 196	4 382	4 481	4 537	4 578

Source: Northern Territory Treasury.

The improved cash position in 2006-07 is predominantly the result of increased revenue related to mining royalties and stamp duty on conveyances and the revised timing of capital payments, largely related to the Darwin Waterfront. This results in an improvement of \$105 million in 2006-07 compared with that projected in May 2006.

In the 2007-08 Budget, the Government has announced that it will contribute additional superannuation payments to offset the Territory's growing superannuation liabilities, to reduce this significant burden on future Budgets. As these contributions are not available for current spending, an outcome which reflects this has been used and is referred to as an underlying outcome. For 2006-07, the Government expects to contribute \$60 million, resulting in an underlying cash outcome for 2006-07 of an \$11 million deficit. This contribution results in an improvement in the operating and fiscal balances of around \$4 million from 2007-08, due to a reduction in the nominal superannuation interest.

These underlying targets for the general government sector will be the primary measures adopted when assessing the Territory Government's likely achievement against fiscal strategy targets. Accordingly it is these underlying targets, rather than the GFS targets, that are discussed in the remainder of this Budget Paper.

A more detailed discussion on the Budget treatment of additional Territory superannuation contributions is presented in Chapter 2.

All other years' cash targets remain unchanged from May 2006 with the Budget still projected to return to balance in 2008-09 and into surplus thereafter. A surplus of \$34 million is currently projected for 2010-11.

The operating result has improved in all years since the 2006-07 Budget. The small improvement in 2006-07 is a result of increased revenue that has contributed to the improved cash position, but has been largely offset by increased superannuation expenses and a one-off reduction in dividends. Neither of these affects the cash result. For 2007-08 and forward years the improvement represents the flow on effect of an improved GST relativity and the timing of the recognition of payments from the Australian Government. By 2010-11 the operating result is expected to be a surplus of \$38 million.

The fiscal balance has also improved since the 2006-07 Budget consistent with the improved cash and operating results. As shown in the 2006-07 Budget, the deficit peaks in 2006-07 and 2007-08 due to the Territory's capital contributions to the Darwin Waterfront Development but from 2008-09 is expected to move towards surplus. The net borrowing of \$10 million in 2010-11 indicates that the fiscal strategy target of balance by 2012-13 will be achieved.

The increase in net debt from 2006-07 through to 2009-10 represents the significant investment in the Territory's infrastructure over the forward years in both the Darwin Waterfront Development and the Power and Water Corporation, but still remains below May 2006 projections. Net debt as a proportion of revenue has improved for both the general government and non financial public sectors on that projected at the time of the May 2006 Budget, dropping to 31 and 42 per cent respectively by 2010-11. This is largely a result of the improved general government cash position in 2005-06 and improvement for 2006-07, which flows through to forward years. It represents a significant reduction on the 67 per cent recorded for the non financial public sector in 2001-02.

Net debt plus employee liabilities have worsened since the 2006-07 Budget as a result of revised actuarial superannuation projections, predominantly related to the Commonwealth Superannuation Scheme. Despite this increase in absolute terms, the measure of net debt plus employee liabilities as a proportion of revenue for the non financial public sector is projected to continue to fall from the 134 per cent recorded in 2001-02 to 110 per cent by 2010-11. A similar trend is projected for general government.

The following provides an outline of the fiscal-related chapters in this Budget Paper.

- Chapter 2 provides a more detailed discussion of the movements during 2006-07 and 2007-08 and across the three forward estimate years. It also includes a Statement of Risks, as required by the FITA.
- Chapter 3 outlines the Territory Government's Fiscal Strategy, setting out its medium-term fiscal objectives and financial targets and provides a detailed discussion of achievement against the targets. The 2007-08 Fiscal Strategy and underlying targets remain unchanged from the 2006-07 targets.
- Chapter 4 outlines the new and expanded expenditure and revenue initiatives included in the 2007-08 Budget contributing to the outcomes set out above.
- Chapter 11 provides detailed consolidated financial statements, by sector, on a Uniform Presentation Framework basis, including tables presenting general government sector expenses by function, general government sector taxes and Loan Council Allocations. These financial statements form the basis of all analyses presented in this Budget Paper.

Economic Outlook

From an economic perspective the highlights for 2007-08 are:

- forecast gross state product (GSP) growth of 3.7 per cent; and
- economic growth underpinned by solid resident employment and population growth.

Table 1.3: Summary of Territory Economic Indicators

	2002-03	2003-04	2004-05	2005-06	2006-07e	2007-08f
	%	%	%	%	%	%
Real GSP	0.2	0.2	6.0	7.5	7.2	3.7
Resident Employment	- 0.1	- 2.2	- 2.0	4.0	4.4	2.3
Population ¹	0.1	0.3	1.2	2.0	1.6	1.4
Darwin CPI ²	2.2	2.1	1.6	2.6	4.4	3.0

e: estimate f: forecast

¹ As at December, annual percentage change (compares latest quarter with the same quarter in previous year).

² As at December, year on year percentage change (compares latest 12 months to previous 12 months).

GSP growth of 3.7 per cent is forecast for 2007-08, as business investment returns to more normal levels, and the contribution from exports peak, as production capacity is achieved.

Resident employment growth of 2.3 per cent is forecast for 2007-08 underpinned by major projects such as the Darwin Waterfront Development and the Blacktip to Amadeus pipeline as well as residential construction activity. The number of fly-in fly-out workers will decline and the composition of employment is expected to change substantially, resulting in lower real growth in employment income.

Resident population growth of 1.4 per cent is forecast for 2007 and 2008. This represents moderation from the stronger growth rates of 2.0 and 1.6 per cent in 2005 and 2006 respectively, but nevertheless remains above national growth. Territory population growth in both 2005 and 2006 was influenced by major employment-generating mega projects which led to positive net interstate migration. With the completion of these mega projects, Territory population growth is forecast to moderate.

Growth in the Darwin consumer price index (CPI) is set to moderate from the strong growth of 4.4 per cent reported for 2006. The Darwin CPI is estimated to increase by 3 per cent in 2007 and by 2.5 per cent in 2008. The moderation in 2007 and 2008 is driven by lower growth in house prices, lower average crude oil prices and the last inflationary effects of Cyclone Larry (on banana prices).

Wages growth in the Territory is expected to moderate in 2007 as major projects such as the Alcan G3 refinery expansion are completed, and growth in public sector wages is constrained by the Territory Government's public sector wages policy.

Chapter 10 presents an overview of the economy, with greater detail provided in the Northern Territory Economy Budget-related paper.

Issues in Public Finance

In addition to the specific chapters on the fiscal and economic outlook, the following chapters also provide additional information and discussion about the Territory's demography, revenue sources and commercial issues.

- Chapter 5 provides an analysis on the Territory's demographic change and its implications for the future, with particular emphasis on the effects of ageing.
- Chapter 6 provides further analysis on the results of the Indigenous-related expenditure and revenue review conducted in 2006.
- Chapter 7 provides information on revenue from the Australian Government, including the framework within which it is provided. This includes a discussion of national tax reform issues, with an emphasis on GST revenue.
- Chapter 8 presents information on the Territory's own source revenue, including comparisons with other Australian jurisdictions, by tax type. This chapter also complies with the FITA by including a Statement of Tax Expenditures.
- Chapter 9 outlines a number of the Government's commercial issues including a discussion of community service obligation payments to, and dividends and taxes paid by, Territory government businesses. The chapter also complies with the FITA by including a discussion of contingent liabilities.