

# Chapter 2 Fiscal Position and Outlook

## Fiscal Outlook

This chapter presents the updated financial projections for 2007-08 through to 2011-12, and an explanation of changes since the May 2007 Budget. It also includes the identification of possible risks to the Territory's Budget and Forward Estimates and the Territory's contingent liabilities, as required by the *Fiscal Integrity and Transparency Act (FITA)*. The key fiscal aggregates for the Territory are presented in Table 2.1.

Table 2.1: Key Fiscal Aggregates

	2007-08	2008-09	2009-10	2010-11	2011-12
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
<b>GENERAL GOVERNMENT</b>					
<b>Operating Statement</b>					
Revenue	3 678	3 778	3 942	4 062	4 203
Expenses	3 596	3 667	3 767	3 893	4 040
<b>Net Operating Balance</b>	<b>81</b>	<b>111</b>	<b>174</b>	<b>170</b>	<b>163</b>
Net acquisition of non financial assets	148	192	221	200	158
<b>Fiscal Balance</b>	<b>- 67</b>	<b>- 81</b>	<b>- 47</b>	<b>- 31</b>	<b>6</b>
<b>Cashflow Statement</b>					
Operating receipts	3 667	3 784	3 931	4 058	4 187
Operating payments	3 314	3 399	3 502	3 632	3 787
Net capital payments	295	375	408	389	349
Assets acquired under finance leases	33				
Contribution for infrastructure/ superannuation	20				
<b>Cash Surplus</b>	<b>5</b>	<b>9</b>	<b>21</b>	<b>37</b>	<b>50</b>
<b>NON FINANCIAL PUBLIC SECTOR</b>					
<b>Balance Sheet</b>					
Assets	8 226	8 581	8 950	9 339	9 673
Liabilities	5 491	5 635	5 761	5 913	6 003
Net Worth	2 735	2 946	3 189	3 426	3 671
<b>Net Debt</b>	<b>1 477</b>	<b>1 578</b>	<b>1 637</b>	<b>1 687</b>	<b>1 676</b>
<b>Net Debt + Employee Liabilities</b>	<b>4 203</b>	<b>4 382</b>	<b>4 510</b>	<b>4 623</b>	<b>4 663</b>

Source: Northern Territory Treasury

During 2007-08, the Territory's fiscal position in all years has improved significantly. This is primarily due to increased revenue in 2007-08 and estimated for future years with an increasing share of these additional revenues being allocated to capital rather than operating initiatives.

Consistent with this, as shown in Table 2.1, the net operating balance is significantly in surplus in all years. By comparison, the fiscal balance, which adjusts the operating balance by the net investment in capital spending, remains in deficit through much of the forward estimates but is expected to improve to a net surplus of \$6 million by 2011-12. In line with the estimates in the 2007-08 Budget, the fiscal balance deficit is greatest in 2007-08 and 2008-09.

Consistent with other aggregates, the cash targets continue to improve in all forward years, culminating in a projected surplus of \$50 million for 2011-12. For 2007-08, after a contribution of \$20 million towards future infrastructure and superannuation requirements, an underlying cash surplus of \$5 million is predicted, an improvement on the \$40 million deficit projected in May 2007. All other years also show an improved position.

Net debt has also improved since the 2007-08 Budget and is now expected to peak in 2010-11 at \$1687 million before reducing to \$1676 million in 2011-12. The increase through to 2010-11 is largely due to the significant investment of around \$1 billion in capital by the Power and Water Corporation in new and upgraded infrastructure. Despite this increase in absolute terms, when measured as a proportion of revenue, the ratio remains largely constant at between 36 to 38 per cent.

Net debt plus employee liabilities for the non financial public sector is set to increase to \$4663 million in 2011-12. When measured as a proportion of revenue, the ratio is still expected to improve over the forward estimate period from 106 per cent in 2008-09 to 101 per cent in 2011-12.

Table 2.2 sets out the variations in general government estimates for 2007-08 and 2008-09 since the May 2007 Budget.

Table 2.2: Operating and Cash Flow Statements – General Government

	2007-08 Estimate	2008-09 Budget
	\$M	\$M
<b>Operating Result</b>		
2007-08 Budget	29	8
2008-09 Budget	81	111
<b>Variation</b>	<b>52</b>	<b>103</b>
<b>Fiscal Balance</b>		
2007-08 Budget	- 96	- 41
2008-09 Budget	- 67	- 81
<b>Variation</b>	<b>29</b>	<b>- 40</b>
<b>Cash Outcome</b>		
2007-08 Budget	- 40	0
2008-09 Budget	5	9
<b>Variation</b>	<b>45</b>	<b>9</b>

Source: Northern Territory Treasury

The operating result in the general government sector has significantly improved since the original estimates in the 2007-08 Budget for both 2007-08 and 2008-09, with surpluses now forecast of \$81 million and \$111 million respectively. As mentioned previously, this is primarily due to the allocation of additional revenue to capital as well as operating expenses. In 2008-09, there are increasing levels of Commonwealth funding in both GST revenues and for specific purposes, the most significant of which relates to the Strategic Indigenous Housing Infrastructure Program (SIHIP) that will largely be spent on infrastructure investment. This increased level of tied funding from the Commonwealth for capital purposes has the potential to increase volatility in annual outcomes due to timing differences between receipt of the revenue and the associated expenditure. For a small jurisdiction such as the Territory, this volatility has the potential to materially affect the achievement of fiscal targets in any given year.

In contrast to the significantly improved operating position, the fiscal balance deficit shows a smaller improvement in 2007-08 and an increased deficit position in 2008-09. This reflects the increased investment being applied to infrastructure across the Territory in both years and the small differences between accrual and cash movements.

The cash outcome represents an improvement of \$45 million in 2007-08 and \$9 million in 2008-09, compared with that projected in May 2007. The underlying cash outcome of \$5 million in 2007-08 includes a \$20 million contribution towards future infrastructure and superannuation requirements. In 2006-07, \$150 million was set aside for the Territory's superannuation liabilities.

## Changes Since May 2007 Budget – General Government

Table 2.3 sets out the material variations in both the fiscal balance and cash estimates for 2007-08 and 2008-09 since the May 2007 Budget.

For both 2007-08 and 2008-09, there have been significant movements in both revenue/receipts and expense/payments.

Table 2.3: Variations to the  
Cash Flow and Operating  
Statements since May 2007

	2007-08		2008-09	
	Accrual	Cash	Accrual	Cash
	\$M	\$M	\$M	\$M
<b>2007-08 BUDGET</b>	<b>- 95.9</b>	<b>- 40.1</b>	<b>- 40.6</b>	<b>0.3</b>
<b>OPERATING REVENUE/RECEIPTS</b>				
<b>Policy-related</b>				
Stamp duty rates reduction	- 1.0	- 1.0	- 12.0	- 12.0
Payroll tax rate reduction and harmonisation			- 8.9	- 8.9
<b>Subtotal</b>	<b>- 1.0</b>	<b>- 1.0</b>	<b>- 20.9</b>	<b>- 20.9</b>
<b>Non-discretionary</b>				
Taxation	31.7	32.0	41.8	41.8
GST revenue	51.0	51.0	160.0	160.0
Specific purpose payments	195.1	195.1	122.3	122.3
Interest revenue	20.5	20.5	6.9	6.9
Mining royalties	16.2	16.2	11.1	11.1
Agency own-source revenue	15.7	14.9	1.0	0.5
Tax equivalents and dividends	6.8	10.5	8.7	16.6
Other	2.7	3.0	1.8	2.3
<b>Subtotal</b>	<b>339.8</b>	<b>343.3</b>	<b>353.7</b>	<b>361.6</b>
<b>TOTAL OPERATING REVENUE/RECEIPTS</b>	<b>338.8</b>	<b>342.3</b>	<b>332.8</b>	<b>340.7</b>
<b>OPERATING EXPENSES/PAYMENTS</b>				
<b>Policy-related</b>				
Closing The Gap	19.9	19.9	32.8	32.8
New and expanded initiatives	23.2	23.2	47.2	47.2
Contribution to Power and Water infrastructure	66.6	66.6	50.0	50.0
<b>Subtotal</b>	<b>109.7</b>	<b>109.7</b>	<b>130.0</b>	<b>130.0</b>
<b>Non-discretionary</b>				
Transfers of expenditure between years	18.3	18.3	15.3	15.3
Specific purpose payments	171.2	171.2	64.8	64.8
Employee entitlements	8.1	- 22.9	9.6	- 29.2
Interest	9.7	9.7	- 3.1	- 3.1
Depreciation	5.2		8.7	
Treasurer's Advance	- 40.0	- 40.0		
Other	3.8	2.1	4.6	1.8
<b>Subtotal</b>	<b>176.3</b>	<b>138.4</b>	<b>99.9</b>	<b>49.6</b>
<b>TOTAL OPERATING EXPENSES/PAYMENTS</b>	<b>286.0</b>	<b>248.1</b>	<b>229.9</b>	<b>179.6</b>
<b>Net Capital Payments</b>				
Transfer of capital payments between years	- 11.4	- 11.4	14.7	14.7
Specific purpose payments	14.4	14.4	43.9	43.9
Closing the Gap and remote housing	18.0	18.0	30.2	30.2
Capital works cash requirement			70.0	70.0
Sales of assets	9.4	9.4	- 4.6	- 4.6
Depreciation	- 5.2		- 8.7	
Other	- 1.7	- 1.6	- 2.2	- 2.1
<b>TOTAL NET CAPITAL PAYMENTS</b>	<b>23.4</b>	<b>28.8</b>	<b>143.3</b>	<b>152.1</b>
Contributions to infrastructure/superannuation		20.0		
<b>TOTAL EXPENSES/PAYMENTS</b>	<b>309.4</b>	<b>296.9</b>	<b>373.2</b>	<b>331.7</b>
<b>TOTAL VARIATION</b>	<b>29.3</b>	<b>45.4</b>	<b>- 40.4</b>	<b>9.0</b>
<b>2008-09 BUDGET</b>	<b>- 66.6</b>	<b>5.3</b>	<b>- 81.0</b>	<b>9.3</b>

Source: Northern Territory Treasury

General government operating revenue (accrual) has increased from the 2007-08 Budget by \$338.8 million in 2007-08 and \$332.8 million in 2008-09 with consistent increases for cash receipts. The difference between the cash and accrual movements is largely due to the timing of tax equivalents and dividends received from government businesses.

The main revenue-related policy variations include:

- reducing conveyance stamp duty rates and increasing to \$525 000 the property value at which the new maximum rate of 4.95 per cent applies. This measure has an estimated cost of \$12 million in 2008-09 and is effective from 6 May 2008; and
- reducing the payroll tax rate from 6.2 per cent to 5.9 per cent. This measure together with harmonisation measures has an estimated cost of \$8.9 million in 2008-09 and is effective from 1 July 2008.

The main non-discretionary variations to revenue since the May 2007 Budget include:

- upward revision of Territory taxation revenue of \$31.7 million in 2007-08 and \$41.8 million in 2008-09 due to continuing high levels of economic activity. This is offset by Government's measure to reduce the payroll tax rate and stamp duty on conveyances;
- additional GST revenue of \$51 million in 2007-08 and \$160 million in 2008-09 to reflect increased Commonwealth estimates of national GST collections and the Northern Territory's increased share of national population arising from the 2006 Census. These factors flow through to all forward years. GST revenue in 2008-09 has further increased as a result of the Northern Territory's 2008 relativity as assessed by the Commonwealth Grants Commission;
- increased specific purpose payments (SPPs) of \$195.1 million in 2007-08 and \$122.3 million in 2008-09 as shown in Table 2.4;
- increased interest revenue of \$20.5 million in 2007-08 and \$6.9 million in 2008-09 due to higher cash holdings across government and interest rate rises in 2007-08;
- increased mining royalty revenue of \$16.2 million in 2007-08 and \$11.1 million in 2008-09 due to increased mining production and commodity prices;
- increases in agency revenue across all agencies, largely linked to increased expenditure commitments; and
- increases in tax equivalents reflecting anticipated improved performance by government business divisions (GBDs) and government owned corporations (GOC), largely related to the Power and Water Corporation, partly offset by reduced dividends, mainly the result of a dividend moratorium provided to the Power and Water Corporation for 2007-08 and 2008-09 to facilitate additional capital investment.

Table 2.4: Growth in SPP Funding

	2007-08	2008-09
	\$M	\$M
Northern Territory Emergency Response	75.4	14.9
Indigenous housing	9.0	41.5
Health	38.5	21.1
Education	54.4	17.4
Other	17.8	27.4
<b>Total Increase</b>	<b>195.1</b>	<b>122.3</b>

Source: Northern Territory Treasury

General government expenses (accrual) have increased by \$286 million in 2007-08 and \$229.9 million in 2008-09, with payments (cash) increasing by \$248.1 million in 2007-08 and \$179.6 million in 2008-09. The variance between the cash and accrual movements are predominantly due to superannuation costs and depreciation.

The main expenditure-related policy variations include:

- the Territory Government's commitment to Closing the Gap initiatives as part of the \$286 million approved for the next five years;
- funding for new and expanded Cabinet decisions including:
  - public safety, to include Safer Streets, digital radio network, antisocial behaviour and increased correctional services initiatives;
  - health, to include patient assistance travel;
  - education, to include special needs funding;
  - climate change, air quality and bushfires funding aimed at protecting the environment; and
  - additional funding for new local government shires; and
- funding to the Power and Water Corporation of \$66.6 million in 2007-08, including \$16.6 million to complete the undergrounding of powerlines for Millner and Rapid Creek and \$50 million in both years to contribute to the Power and Water Corporation's infrastructure program.

Further information on the policy initiatives included in the Budget is provided in Chapter 4 of this Budget Paper.

The key non-discretionary variations are:

- transfers of expenditure between years of \$18.3 million for 2007-08 and \$15.3 million from 2007-08 into 2008-09, largely related to the delivery of Commonwealth-funded programs;
- matching expenditure requirements for SPPs, have increased in line with revenue, with some timing differences between years;
- lower cash outlays for both years reflect agreement being reached with the Commonwealth earlier than expected on additional Commonwealth Superannuation Scheme costs, resulting in the bringing forward of superannuation benefit payments to 2006-07 from 2007-08 and 2008-09. The increased accrual expenses relate to improving mortality rates affecting the superannuation liability; and
- additional depreciation in 2008-09 due to the recognition of completed infrastructure assets.

In addition to the above operating expense/payment variations, there have been some variations to net capital spending. The key variations are:

- transfer of capital payments between years largely related to the timing of delivery of Commonwealth funded programs;
- capital payments related to increased SPPs from the Commonwealth;
- policy decisions affecting capital payments of \$18 million in 2007-08 and \$30.2 million in 2008-09, largely to upgrade schools and construct housing in remote areas as part of Closing the Gap;
- an increase in capital works cash requirement of \$70 million in 2008-09 reflecting the significant infrastructure program in 2008-09; and

- revised sale of asset estimates across agencies with the remainder of receipts for Little Mindil now expected in 2008-09 and a change in accounting treatment for the recognition of land sales by the Land Development Corporation.

The cash movement in 2007-08 incorporates \$20 million that has been set aside for future infrastructure and superannuation requirements.

Further information on the Territory's Infrastructure Program can be found in *Budget Paper No. 4*.

## 2008-09 Budget and 2009-10 to 2011-12 Forward Estimates

### Basis of Forward Estimates

In accordance with the FITA, five years of estimates are maintained and used by Government, both as a planning and an operational tool. This provides the framework within which agencies plan and also provides the basis for the Government's fiscal strategy.

Agency forward estimates vary in line with the application of parameters (inflators and deflators) to the budget year on a no policy change basis. New policy decisions and funding decisions linked to demand or cost growth also add to each agency's budget and forward estimates.

The main parameters used to adjust estimates are:

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

Recently a number of new public sector wage agreements have been renegotiated. These agreements, including the general agreement, have resulted in a 4 per cent wage increase for 2008-09 and 3 per cent in 2009-10. Accordingly, the wage inflator applied is 4 per cent in 2008-09 with 3 per cent in all forward years for employee costs.

For 2008-09, a CPI factor of 3.4 per cent is applied to operational costs, being CPI growth in calendar year 2007 compared with calendar year 2006. 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 produces more stable outcomes over time. An estimate of 2.5 per cent is used for CPI over the forward estimates period.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and delivering services more efficiently, as is the case with private sector enterprises. For key service delivery agencies with fixed staffing costs (police, health, education and correctional services), one-quarter of the dividend is applied.

An efficiency dividend of 3 per cent has been applied in 2008-09, 2 per cent in 2009-10 and 1 per cent in 2010-11 and 2011-12.

A composite factor based on 75 per cent of the wages factor and 25 per cent of the CPI-based operational factor is applied to grants. Efficiency dividends are not applied to grants.

## General Government Sector Operating and Cash Flow Forward Estimates

The following section outlines the growth in the forward estimates for components of the Operating Statement and Cash Flow Statement.

### Operating Revenue and Receipts

Table 2.5 provides a breakdown of operating revenue and receipts for 2008-09 to 2011-12.

Table 2.5: Operating Revenue and Receipts – General Government

	2008-09	2009-10	2010-11	2011-12
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
<b>Revenue</b>				
Taxation revenue	400	408	426	446
Current grants	2 870	2 957	3 046	3 177
Capital grants	166	239	256	233
Sales of goods and services	131	136	137	139
Interest income	45	46	46	46
Dividend and income tax equivalent income	47	34	29	40
Mining royalties income	88	92	92	92
Other	31	30	30	30
<b>Total Revenue</b>	<b>3 778</b>	<b>3 942</b>	<b>4 062</b>	<b>4 203</b>
Year on year percentage increase (%)	3	4	3	3
<b>Receipts</b>				
Taxes received	400	408	426	446
Receipts from sales of goods and services	132	137	138	140
Grants and subsidies received	3 036	3 196	3 302	3 410
Interest receipts	45	46	46	46
Dividends and income tax equivalents	59	32	32	31
Mining royalties received	88	92	92	92
Other receipts	23	21	21	21
Sales of non financial assets	72	62	64	68
<b>Total Receipts</b>	<b>3 855</b>	<b>3 994</b>	<b>4 121</b>	<b>4 254</b>
Year on year percentage increase (%)	5	4	3	3

Source: Northern Territory Treasury

Total operating revenue and total receipts are projected to grow at an average of 3.5 per cent over the forward estimates period, with revenue from the Commonwealth growing at an average of 4 per cent and the Territory's own-source revenue increasing at around 2.25 per cent.

Taxation revenue is the most significant component of the Territory's own-source revenue and is expected to grow by an average of 3.9 per cent over the forward estimates period. This growth is the result of continued increases in economic activity and population growth, offset by the Government's commitment to payroll tax and stamp duty reductions and reforms. Further information on the Territory Government's tax reform initiatives can be found in Chapters 4 and 6 of this Budget Paper.

The majority of the Territory's revenue is from the Commonwealth in the form of GST revenue (around 64 per cent) and SPPs (around 17 per cent). Therefore, the greatest exposure to the Territory's budget and forward estimates is the volatility of GST revenue. This risk is discussed later in the chapter, and in Chapter 5 of this Budget Paper.

The average increase in grants and subsidies revenue from the Commonwealth over the forward estimate period of 4 per cent is due predominantly to an expected growth in GST revenue of 5 per cent. This growth in GST largely reflects an upward revision to relativities as assessed by the Commonwealth Grants Commission in its 2008 Update, together with anticipated growth in the GST pool and the Territory's population, based on latest estimates provided by the Commonwealth. This growth in GST revenue is slightly offset by a decline in SPPs of less than 1 per cent per annum.

The decline in SPPs over the forward estimates is traditionally higher at around 4-5 per cent per annum as many of these agreements are for fixed periods and are not included in the forward estimates beyond the life of the agreement. The smaller decline over the forward estimates is mainly attributed to the increase in capital SPPs and in particular SIHIP, which will provide new and upgraded housing in remote communities across the Territory over the next five years.

During each budget year, there are significant changes in SPP estimates as agreements are finalised. These adjustments tend not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. However, timing differences may eventuate between years that introduce a degree of volatility affecting actual outcomes, as mentioned previously in this chapter. As part of the reforms of Commonwealth-State financial relations, the structure and financial arrangements of SPP are currently being reviewed by the Council of Australian Governments. This, together with further commentary on SPPs, is discussed in Chapter 5 of this Budget Paper.

Other own-source revenue is collected from a number of sources to include sales of goods and services, interest, revenue from government trading entities and mining royalties. Both sales of goods and services and interest are projected to marginally increase over the forward years.

Revenue from government trading enterprises is expected to decrease by 5 per cent over the forward estimates, due largely to anticipated reductions in dividends from the Power and Water Corporation associated with its significant capital investment program.

The balance of own-source revenue is mainly collected from mining royalties, which is expected to increase by an average of 1.5 per cent over the forward estimates to \$92 million by 2011-12. This increase is lower than projected at the time of the Mid-Year Report due in part to the effect of the Australian dollar exchange rate on mining profits. Further analysis of the effect of changing exchange rates on mining royalties is provided in the Statement of Risks section of this chapter.

The Cash Flow Statement also includes capital receipts. These are largely sales of vehicles and land and are at more usual levels in 2009-10 and 2010-11. However, in 2008-09 and 2011-12, higher receipts are expected in line with increased land development, including light industrial land sales in 2011-12 and the next stage of the residential component of the Darwin Waterfront.

## Operating Expenses and Payments

Table 2.6 shows general government sector operating expenses and payments for 2008-09 and forward years.

Table 2.6: Operating Expenses and Payments – General Government

	2008-09	2009-10	2010-11	2011-12
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
<b>Expenses</b>				
Employee expenses	1 345	1 390	1 438	1 487
Superannuation expenses	252	254	257	259
Depreciation and amortisation	183	187	189	192
Other operating expenses	948	1 025	1 109	1 181
Interest expenses	138	141	143	146
Current grants	570	561	553	565
Capital grants	163	138	132	136
Subsidies and personal benefit payments	68	72	73	75
<b>Total Expenses</b>	<b>3 667</b>	<b>3 767</b>	<b>3 893</b>	<b>4 040</b>
Year on year percentage increase (%)	2	3	3	4
<b>Payments</b>				
Payments for employees	1 511	1 567	1 625	1 688
Payments for goods and services	948	1 024	1 106	1 178
Grants and subsidies paid	802	771	757	776
Interest paid	138	141	143	146
Purchases of non financial assets	447	469	453	418
<b>Total Payments</b>	<b>3 846</b>	<b>3 972</b>	<b>4 084</b>	<b>4 206</b>
Year on year percentage increase (%)	5	3	3	3

Source: Northern Territory Treasury

Operating expenses and total payments are expected to grow at an average of 3.25 per cent over the forward estimates period, slightly lower than revenue growth, resulting in continuing surpluses in both the Operating and Cash Flow Statements over the forward estimates period.

A small part of the growth over the forward estimates is attributed to the inclusion of a minimal contingency allowance in all forward estimate years.

The inclusion of a contingency allowance is consistent with practices in other states and territories and represents an allowance, included in aggregate expenses, for:

- unexpected events that may occur in future years;
- costs of new policy decisions rising on implementation;
- commercial-in-confidence items that cannot be separately disclosed;
- decisions made too late for inclusion against individual agency estimates; and
- the provision for events and pressures that can be reasonably expected to affect budget estimates without having to re-set fiscal targets.

Over the forward estimates period, employee expenses are estimated to increase, on average, by 3.4 per cent per annum. This reflects superannuation expenses, benefit payments and wages growth in agencies offset by the efficiency dividend.

Agencies will be required to manage their forward estimates to ensure that efficiency dividends are achieved.

Underlying growth in other operating expenses continues to grow marginally due to the contingency allowance included and the CPI inflator included in agency budgets, offset by the efficiency dividend.

There is minimal growth estimated in current and capital grants, or grants and subsidies paid, reflecting both the level of SPPs from the Commonwealth, which is slightly declining over the forward period and the fact that capital SPPs are largely spent on infrastructure rather than on operational items. This decline in SPPs over the forward years is offset by the application of parameters to Territory-funded grants.

As with receipts, the Cash Flow Statement includes capital payments. This element of the Cash Flow Statement is expected to remain high across the forward estimates, with a peak in 2009-10 due to the anticipated significant spending on multi-year infrastructure projects in that year, to include Indigenous housing and roads such as Tiger Brennan Drive and the Victoria Highway.

## Balance Sheet – Non Financial Public Sector

Table 2.7: Balance Sheet –  
Non Financial Public Sector

Table 2.7 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total Assets	7 944	8 226	8 581	8 950	9 339	9 673
Financial Assets	1 516	1 515	1 504	1 536	1 604	1 688
Non Financial Assets	6 428	6 710	7 077	7 414	7 735	7 985
Total Liabilities	5 225	5 491	5 635	5 761	5 913	6 003
<b>Net Worth</b>	<b>2 719</b>	<b>2 735</b>	<b>2 946</b>	<b>3 189</b>	<b>3 426</b>	<b>3 671</b>
<b>Net Debt</b>	<b>1 413</b>	<b>1 477</b>	<b>1 578</b>	<b>1 637</b>	<b>1 687</b>	<b>1 676</b>
Net Debt to Revenue (%)	39	37	38	38	38	36
<b>Net Debt + Employee Liabilities</b>	<b>3 908</b>	<b>4 203</b>	<b>4 382</b>	<b>4 510</b>	<b>4 623</b>	<b>4 663</b>
Net Debt + Employee Liabilities to Revenue (%)	106	104	106	104	104	101

Source: Northern Territory Treasury

### Net Worth

Since the 2007-08 Budget, projected net worth for the non financial public sector has risen in all forward years.

The improving trend over 2007-08 and the forward years is due to:

- cash surpluses in all years for general government;
- increases in the projected net worth of government trading entities; and
- projected increases in the value of the Territory's financial assets.

Since the introduction of accrual accounting in 2002-03, the Territory's net worth has risen in successive years to \$2719 million in 2006-07 (actual outcomes). This is largely the result of continued improvement in the valuation of the Territory's assets

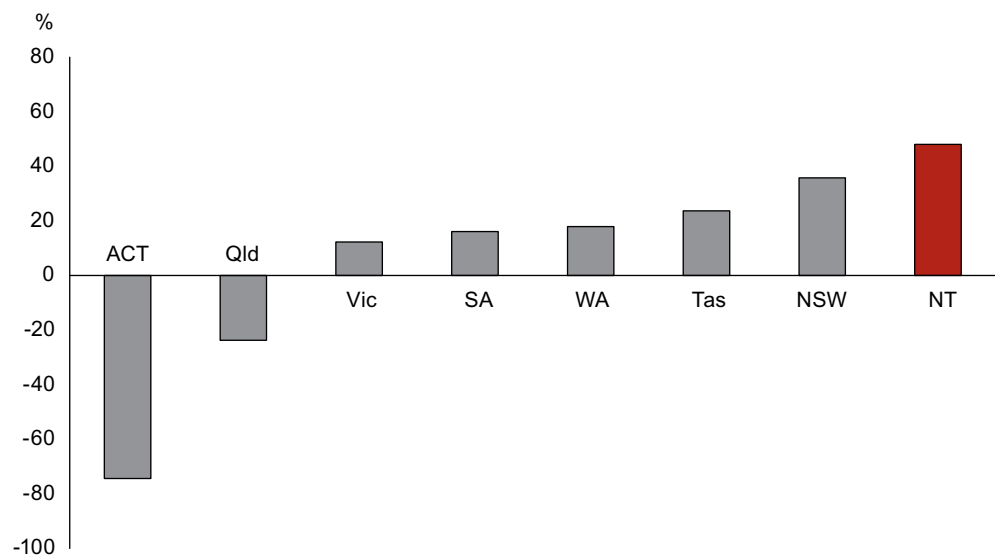
base as assessed by the Australian Valuation Office, together with successive cash surpluses in the general government sector.

Further valuation improvements on the Territory's asset base have not been factored into the forward estimates. However, due to improved cash surpluses and investment in infrastructure, net worth is expected to reach \$3671 million by 2011-12.

### Net Debt

The Territory is still a developing economy compared with other states and territories and, as a result, the Territory's current level of debt is relatively higher than other states and territories. This is highlighted in Chart 2.1, which shows the Territory's net debt as a proportion of revenue against the states' 2006-07 outcomes. A further chart comparing net debt to revenue over time is provided in Chapter 3 of this Budget Paper.

Chart 2.1: State and Territory Net Debt to Revenue – Non Financial Public Sector 2006-07 Outcomes



Source: State and territory outcome reports

Net debt for the non financial public sector is projected to peak in 2010-11 at \$1687 million. The increase through to 2010-11 is largely due to the significant investment of around \$1 billion in capital by the Power and Water Corporation over the forward years. Net debt is then expected to reduce in 2011-12 to \$1676 million. All forward estimates are nevertheless below the 2001-02 level of \$1753 million. When measured as a proportion of revenue, the ratio remains largely constant over the forward years at between 36 to 38 per cent, a significant improvement on the 2001-02 level of 67 per cent.

Net debt plus employee liabilities is a broader measure than net debt in that it encompasses unfunded employee entitlements, consisting largely of unfunded superannuation, which is a major liability for the Territory and most states. Over the forward estimate period, net debt plus employee liabilities is projected to increase to \$4663 million in 2011-12 for the non financial public sector.

Although increasing in absolute terms, when measured as a proportion of revenue, net debt plus employee liabilities for the non financial public sector will continue to fall over the forward estimates period from 106 per cent in 2008-09 to 101 per cent in 2011-12, representing a significant reduction from the 134 per cent recorded in 2001-02.

## Statement of Risks

Further analysis of net debt and net debt plus employee liabilities is provided in Chapter 3 of this Budget Paper.

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.

### GST Revenue

#### Revenue

The largest risk to the Territory’s forward estimates is variations in GST revenue. As GST revenue accounts for almost two-thirds of the Territory’s total revenue, changes in 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 volatility in the variables that determine the distribution of GST among the states and particularly should adverse economic conditions arise. Each of the variables is provided below, with the risk to these components discussed.

- National GST revenue collections – the estimates for GST revenue collections for 2008-09 to 2010-11 are based on the most recent published advice from the Commonwealth. Growth in collections of 7.2 per cent and 5.3 per cent is forecast in 2008-09 and 2009-10 respectively. The impact of a 1 per cent variation from these forecasts is estimated at  $\pm\$21$  million in 2008-09 and  $\pm\$22$  million in 2009-10. If a variation of this size occurred in both years, the impact would be  $\pm\$44$  million, with the potential to rise to  $\pm\$100$  million by 2011-12.
- Territory’s share of national population – population estimates to 2010-11 are based on Commonwealth projections. The effect of a 1 per cent variation in the Commonwealth’s population forecasts is estimated at  $\pm\$24$  million in 2008-09 and  $\pm\$25$  million in 2009-10. If a variation of this size were to occur in both years, the effect would be  $\pm\$50$  million and could rise to  $\pm\$112$  million by 2011-12.
- Territory’s per capita relativity as assessed by the Commonwealth Grants Commission (the Commission) – the Territory’s per capita relativity for 2007-08 is 4.51835. Neither the Commonwealth nor the Commission provide estimates of future relativities, therefore, considering the potential for both upside and downside movement, the Territory has presumed the 2008 Update relativities will remain constant over the forward estimates. The Commission is undertaking a major review of State Revenue Sharing Relativities in 2010 and this represents a considerable risk to the Territory from 2010-11.

The Commission’s Terms of Reference require it to simplify the methodology which will make the likely outcome more uncertain than previous reviews. Considering this uncertainty, there is potential scope for significant downside or upside movement in the Territory’s relativity. The approximate effect of a 1 per cent variation in relativity estimates is  $\pm\$25$  million, with a cumulative effect to 2011-12 of  $\pm\$84$  million.

It is important to note that changes to these variables can be either positive or negative and, if taken together, by 2010-11 could result in variations as high as

\$295 million. This is unlikely to occur, as all three components would need to vary by 1 per cent per annum and in the same direction; however it demonstrates the inherent volatility in the estimates.

A more detailed discussion of GST revenue is presented in Chapter 5 of this Budget Paper.

### Other Commonwealth Grants and Subsidies

Specific purpose payment (SPP) agreements have historically posed risks to state budgets in several ways. However the reforms to Commonwealth-State financial relations by the Council of Australian Governments (COAG) are likely to reduce the risks in relation to the major SPPs in areas such as health, education, vocational education and training, housing and disability services. However, inadequate indexation will remain a key risk under the new arrangements.

Risks to the Territory may still exist in relation to National Partnership Payments (NPPs) due to issues surrounding co-investment costs, input controls, inadequate indexation and raised community expectation following the expiration of agreements due to the provision of seed funding.

The risks related to SPPs and NPPs 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, prices and exchange rates.

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. The Northern Territory property market has experienced unusually high activity since 2003-04 and this has been a major contributor to increased stamp duty collections. Although there is evidence that the growth in activity levels in the residential property market has eased, the extent and timing of any drop in activity is difficult to predict and could have a significant impact on conveyance stamp duty collections.

Forecasting mineral royalty revenue is also difficult because it is influenced by a number of factors, but predominantly mineral price, production levels and exchange rate conditions. For example, strong growth in mineral prices since 2004-05 has been the main contributor to increased mineral royalty collections. The mineral royalty forecast is based on the assumption that current market conditions will be maintained into the future. In this regard, market changes in mineral prices or exchange rates will have a material impact on the forecast. For example an Australian dollar to US dollar exchange rate change of 1 Australian cent will impact on annual royalty collections by approximately \$1.6 million, at current exchange rates and assuming there are no changes in other market and production conditions.

In total, a variation of  $\pm 1$  per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$4.9 million for 2008-09.

## Expenses

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

The parameters for wages growth in all forward years is 3 per cent with CPI of 2.5 per cent. The efficiency dividend is 2 per cent in 2009-10 and 1 per cent in 2010-11 and 2011-12.

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

A further risk is in relation to any future enterprise bargaining agreements.

The outcome of future enterprise bargaining agreements over and above amounts currently factored into the forward estimates increases budgetary pressures.

The Darwin Waterfront project presents a risk to the expense estimates in as far as interest rate fluctuations affect 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.

The Territory Government's Closing the Gap initiatives could present a risk to expense and capital spending estimates in future years due to the potential for significant additional investment and the potential flow-on effect to service delivery areas. Any additional amounts approved over and above the funding already committed over the next five years could affect future budget outcomes.

## 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.

Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential outcome of an actual liability should be quantified. Details of estimated amounts of material contingent liabilities as at 30 June 2007 resulting from guarantees or indemnities granted by the Territory are presented in Table 2.8.

Table 2.8: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability as at 30 June 2007
	\$M NPV <sup>1</sup>
Amadeus Basin to Darwin Gas Pipeline	43
Pine Creek/McArthur River Electricity Purchase Agreements	80
Public Trustee Common Funds	35

<sup>1</sup> Future values discounted at a nominal 7.5 per cent discount rate.

Source: Northern Territory Treasury

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.

### Electricity, Gas and Water Supply

#### Quantifiable Contingent Liabilities

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 government owned corporation (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 has indemnified the financiers of the Amadeus Basin to Darwin Gas Pipeline Lease in relation to the residual value of the pipeline to be paid by the Power and Water Corporation on expiry or termination of the pipeline lease agreement.

### 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 Pine Creek region and the McArthur River Mine. The agreement for the supply of gas contains three indemnities relating to the Power and Water Corporation supplying non-conforming gas.

Although the Corporation's contingent liability is unquantifiable, a major portion of the value of the contingent liability is the cost of overhauling turbine machinery, owned by the electricity producers, damaged by the provision of non-conforming gas. The Territory's maximum exposure is equivalent to the net present value of lease and operating charges under the purchase agreements.

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 avoidable.

#### Statutory Contingent Liabilities

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

Although a material statutory contingent liability exists, the prospect of this contingent liability being called upon is considered negligible.

## Unquantifiable Contingent Liabilities

Unquantifiable contingent liabilities exist which could pose a risk to the Government's financial projections.

**Transport** The Territory also has contingent liabilities in this category that relate 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.

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 Commonwealth 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.

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 Commonwealth 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, while the Commonwealth 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, should the indemnity be called, 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, for example, cyclones. In previous years, where catastrophic natural disasters result in major loss, the Commonwealth 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.

There are risks in relation to the Darwin Waterfront 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.

**Negotiations Not Yet Finalised** Negotiations not yet finalised have the capacity to materially affect the updated financial projections and have the potential to affect revenues and expenses, as well as the Balance Sheet.

**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.