FINANCIAL PROJECTIONS

THE APPROACH TAKEN TO DEVELOP THE NOVEMBER 2001 MINI BUDGET

As outlined in Chapter 1, the Government decided that it would present a Mini Budget in November 2001 to set in place the fiscal policy parameters for its first term in office. The Government committed to:

- resetting the base allocation across the public sector in order to provide increased resources to the priority areas of health, education and law and order;
- incorporating Government initiatives, both expenditure and savings measures;
- introducing revenue measures to contribute to the deficit reduction strategy; and
- introducing budget improvement measures across the public sector to contribute to the deficit reduction strategy while ensuring that the key service delivery aspects of the health, education and law and order functions are not unduly compromised.

In addition to these policy related variations, there were also a number of non-policy related variations that needed to be included. Each of the major variations is explained below. Variations to agency budgets are explained in *Budget Paper No. 2*.

TABLE 2.1: RECONCILIATION BETWEEN 2001-02 MAY BUDGET AND NOVEMBER 2001 MINI BUDGET

	$M
May Budget Deficit (a)	**12**
Parameter and non-policy related variations	
- change to UPF scope (b)	-4
- removal of NT Fleet asset sale	50
- non-policy related variations (c)	5
Base Funding Adjustments (d)	
- Capital Works and Repairs and Maintenance Program (e)	11
- health	32
- education	7
- law and order	9
Carryover Items from 2000-01	17
Underlying Deficit	**139**
Government Initiatives	
- expenditure initiatives	7
- savings measures	-8
- HIH payment (f)	6
Net Cost of Government Initiatives	**5**
Deficit Reduction Strategy	
- budget improvement measures	-15
- revenue measures	-4
Net Benefit of Deficit Reduction Measures	**-19**
Mini Budget Deficit	**126**

(a) Public Account Scope.

(b) UPF scope excluding the AustralAsia Railway Corporation.

(c) Comprises adjustments to interest, GST revenue and some 75 other items.

(d) Includes ongoing and one off amounts.

(e) Overall increase for capital works and repairs and maintenance is $15 million but $4 million has been redirected from elsewhere in the Budget.

(f) Brought forward from 2002-03

Totals may not add due to rounding.

PARAMETER AND NON-POLICY RELATED VARIATIONS

Details of parameter and non-policy related variations areas follow:

- Consistent with Fiscal Integrity and Transparency legislation expected to be passed by the Northern Territory Legislative Assembly in November 2001, the Northern Territory's whole of government reports have moved to a UPF basis. As discussed in more detail later in this chapter, UPF scope excluding the AustralAsia Railway Corporation provides a better basis for assessing the Territory's underlying fiscal position.
- Removal of $50 million asset sale – the May Budget had included the sale and lease back of NT Fleet assets. Such transactions had been undertaken by a number of governments on the basis that sale and lease back presented a more attractive financing option than vehicle ownership. However, investigations undertaken since the Budget have indicated that tax changes and reduced interest rates have meant that sale and lease back is in fact a more costly financing option and that some jurisdictions are considering unwinding such arrangements. On this basis, the sale and lease back proposal was suspended.
- Interest paid and interest received estimates have been reassessed after a major refinancing program and reconsideration of cash balance levels. The net effect is an improvement in the Budget bottom line of $11 million.
- GST revenue and budget balancing assistance estimates have been revised following a reduction in population estimates and an increase in the inflation estimate. The net effect of these parameter changes is a reduction of $2 million in general revenue grants from the Commonwealth.
- Inclusion of other new items that had been identified since the original Budget was prepared have a net effect of $14 million, for some 75 individual items.

RESETTING THE BASE LEVEL FUNDING FOR 2001-02

A number of changes were required in order to establish an appropriate base both for the aggregate components of the Budget and also by agency. These included:

- *Adjustments to agency base funding levels:* A number of agencies have experienced funding pressures due to growth in demand and additional commitments. The practice had developed to fund these additional expenditure requirements throughout the year while initially setting tight fiscal targets for agencies. This practice was noted by Professor Allan in his report on the Territory's finances but has also been recorded in the financial reports of other jurisdictions where it is stated that policy related expenditure increases (i.e. not parameter-based changes) have provided major fiscal challenges in recent years. It is likely that this practice contributed to an attitude where compliance with budget allocations was given less priority than it should. The increases in base funding levels for specific functions are as follows:
  - Health: ongoing increased funding of $21 million for service delivery requirements including the full cost of the nurses' enterprise bargaining agreement (EBA) (the EBA outcome also largely met a major election initiative with regard to nurses' salary levels); $11 million is also provided for one off costs associated with long standing litigation, outstanding cross border hospital charges, and likely increases in patient travel costs due to the collapse of Ansett.

- Education: ongoing funding of $5 million for teachers' salaries and schools' operational costs and one off funding of $2 million for fit-outs of new schools; this followed ongoing increases totalling $38 million since March 1998.
- Recreation and Culture: $0.2 million was provided in recognition of increased running costs of the expanded Araluen Cultural Precinct.
- Law and Order functions: increases included $3 million for Police including costs associated with the Police Consent Agreement, communications costs and one off costs related to the Falconio investigation; $0.9 million for growth in public prosecutions workload; $5 million for the Crime Victims Assistance Scheme (this had previously been funded from Treasurer's Advance).
- Capital Works and Repairs and Maintenance: an additional $15 million cash was provided for the capital works and repairs and maintenance programs - $11 million in additional funds and $4 million redirected from railway-related capital works which will now not occur until 2002-03. Additional major capital works items are: $2 million for Aboriginal Essential Services; $1.5 million for a System Control and Data Acquisition (SCADA) system for PAWA; $4 million additional cash has been provided for minor new works; $1.2 million is for a range of other projects. $6 million has been provided for additional repairs and maintenance expenditure.

- *Carryover items:* Since the introduction of the *Financial Management Act* in 1995, the amount of expenditure that agencies have sought to transfer from one year to the next has increased substantially. Carryover items tend to fall into two categories:

  (a) Commonwealth funded programs where revenue is received in one year but related expenditure is in subsequent year/s; and

  (b) unexpended funds on approved programs.

The amount carried into one year is generally comparable with the amount carried out into the following year. Thus for comparisons over time it does not present a problem. However, within a year it has a distorting effect. In order to promote better cash flow management, particularly in view of the move to an accrual output budget framework, carryover approvals in 2001-02 have generally been limited to items in category (a). Items in category (b) have only been approved when they are outside of the usual cash flow parameters for an agency. The carryover items are in addition to the items listed above for particular functional areas. Even so, the approved carryover expenditure totals $17 million in 2001-02.

INCLUSION OF GOVERNMENT INITIATIVES

Labor's election platform was premised on introducing a number of initiatives across a range of functional areas to be funded by a range of savings measures and reduced capital works expenditure.

In line with the Government's overriding requirement that election commitments would be implemented, a rigorous process was undertaken to determine whether the estimated cost of the initiatives was accurate and the extent to which the savings initiatives could be achieved.

The result was that the overall cost of the initiatives was reduced either by the use of a more appropriate costing methodology, a decision that the initiative would be funded by a redirection of priorities within the relevant agency, or deferral of the commencement date of the initiative.

In some areas, notably executive management, it was decided to rely on the targeted budget improvement methodology, (which is discussed below) rather than specific savings measures.

A detailed explanation of each initiative is included in Chapter 3.

REVENUE MEASURES

As part of the deficit reduction strategy, a number of revenue raising measures have been introduced in this Mini Budget to rectify the imbalance between expenditure and revenue and to set the Territory on a course to return to a budgetary surplus.

Whilst steps have been taken to reduce the cost of providing government services and to reorder expenditure priorities, there was little choice but to raise additional revenue.

The new revenue raising measures are:

- the introduction of a $90 Temporary Budget Improvement Levy on vehicle registrations;
- increases in vehicle and driver licence fees (excluding commercial vehicle licence fees) and miscellaneous charges imposed by the Motor Vehicles Registry;
- an increase in the rate imposed on pastoral rents, from 1 per cent to 2 per cent;
- a 5 per cent increase in water and sewerage tariffs; and
- introduction of trade waste charges for the disposal of non-domestic strength sewage.

Table 2.2 below summarises the impact on revenue of the new measures which have been introduced by the Government as part of this Mini Budget.

TABLE 2.2: SUMMARY OF NEW REVENUE MEASURES

	2001-02 $M	2002-03 $M	2003-04 $M	2004-05 $M	Total $M
General Government Sector					
Temporary Budget Improvement Levy on vehicle registrations	3.0	7.9	8.0	5.1	24.0
Vehicle/driver licensing and miscellaneous charges	0.3	0.6	0.6	0.6	2.1
Pastoral rents		1.4	1.4	1.4	4.2
Public Non-Financial Corporate Sector					
Water and sewerage tariffs	0.9	1.9	1.9	1.9	6.6
Trade waste charges	0.2	1.0	2.0	2.0	5.2
Total	**4.4**	**12.8**	**13.9**	**11.0**	**42.1**

Temporary Budget Improvement Levy

The Temporary Budget Improvement Levy is introduced as a supplementary levy on vehicle registration fees from 28 November 2001. The levy is set at $90 per annum and applies to vehicles capable of being used for private and domestic purposes. The levy will apply to all new vehicle registrations from 28 November 2001, and in relation to all renewal notices issued on or after 28 November 2001. The levy will only operate for 3 years and during that time is expected to raise $24 million.

A 50 per cent concession applies to holders of the NT Pensioner Concession Card and holders of the Commonwealth Health Care Card and Pensioner Health Benefit Card issued under the Commonwealth *Social Security Act*. The concession operates to reduce the levy by 50 per cent on the cardholders' vehicle. No concession is available on the cardholders' additional vehicles.

The following types of vehicles are excluded from the levy:

- heavy vehicles (defined as an omnibus or goods vehicle with greater than 3.5 Gross Vehicle Mass (GVM), or other vehicles with greater than 4.5 GVM, as defined by the Australian design rules);
- motor tractors, mobile plant or mobile machinery;
- a trailer or caravan; and
- a motorised wheelchair, or a motorised golf buggy.

Arrangements have also been made to ensure the cost of the levy is passed through to Parliamentarians and Government workers who are provided with a private-plated government vehicle for their private use.

Vehicle and Driver Licensing Fees and Miscellaneous Charges

Vehicle and driver licensing fees in the Territory have remained unchanged for a number of years and, in some cases, are low compared to other jurisdictions. These fees will increase by 20 per cent. For example, a one-year driver's licence will increase from $20 to $24, and a 3-year licence will increase from $40 to $48. The exception is commercial vehicle licence fees which remain unchanged since these fees were restructured as part of the taxi licence compensation scheme in 1999.

Miscellaneous Motor Vehicle Registry (MVR) charges include vehicle inspection charges and fees for personalised number plates. Again these fees have remained unchanged for a number of years and are low compared to other jurisdictions.

The current $50 flat fee for personalised number plates does not cover production and administration costs. This fee will increase to $140 from 1 January 2002.

Vehicle inspection fees are set by the Government and vehicle inspections can be carried out by approved inspectors in both the public and the private sector. The Motor Traders Association, who represent the approved inspectors in the private sector, have claimed that the current fee does not cover the actual cost of an inspection. Having a fee too low may encourage inspectors to “cut corners”. Therefore, the Government has agreed to increase the fee from $20 (GST-exclusive) to $35 (GST-exclusive) for light vehicles and $70 (GST-exclusive) for heavy vehicles.

The increase for vehicle inspection fees applies from 1 January 2002.

Other miscellaneous MVR charges will increase by around 20 per cent. These include various administrative fees as well as some fees for METAL (Motorcyclist Education, Training and Licensing).

Pastoral Lease Rents

Annual pastoral lease rentals are based on a percentage of the unimproved values of the leased land. Whilst the annual lease rentals may increase as the unimproved value of the land increases, the underlying rental rate of 1 per cent has remained unchanged since the *Pastoral Land Act* commenced in June 1992.

The Government has decided to increase the rental rate from 1 per cent to 2 per cent with effect from 1 July 2002 for the 2002-03 year. This should lead to increased revenue in 2002-03 of $1.4 million.

The range of fees and charges on pastoral leases varies around the country and thus it is difficult to draw firm comparisons between the schemes and rates imposed. However, it is still considered that the Territory's imposts will be relatively lower than those in Queensland, and similar to those in South Australia and Western Australia.

It is recognised that the pastoral industry is susceptible to seasonal and fluctuating market fortunes. Accordingly, hardship criteria have been established to allow pastoral rents to be deferred or waived in appropriate circumstances.

Water and Sewerage Charges

Water and sewerage tariffs will increase by 5 per cent with effect from 1 January 2002. Whilst the increase in charges is not repatriated directly to the Consolidated Revenue Account, the effect of the increases leads to better cost recovery by PAWA, and ultimately improved dividends payable to the Northern Territory Government.

Water

PAWA's water tariffs consist of two parts:

- A usage charge for each kilolitre consumed, and
- A fixed daily charge based on the size of the connection meter.

For example, the domestic usage charge will increase from $0.63c/kL to $0.66c/kL. The following table illustrates the impact of the proposed tariff increase on an average customer in each of the customer classes. The calculation is based on total charges for an average customer over a 365-day period.

TABLE 2.3: IMPACT OF INCREASE IN WATER TARIFFS ON AVERAGE CUSTOMER

Customer Type	Based On Current Rate $pa	Based On Increased Rate $pa	Increased Cost $pa
Domestic	371	389	18
Domestic Pensioner	143	155	12
Small Commercial	3 392	3 554	162
Large Commercial	21 051	22 053	1 002
Government	12 408	12 593	185

Sewerage

The COAG Strategic Framework for Water Reform states that providers of waste-water services should recover efficient operating costs; provide for asset replacement; and earn a positive return on the written down replacement cost of assets employed. PAWA's current operating costs and sewerage charges do not produce a positive return on assets employed and increases in charges will enable the Northern Territory to comply with the national framework for water reform. The 5 per cent increase in sewerage charges is projected to achieve a small overall return on sewerage assets of around 0.5 per cent.

For example, the current fixed annual charge for domestic customers rises from $299.25 to $314.20 (that is, an additional $14.95 per annum for sewerage services). The impact of the increase on non-domestic customers will vary as the sewerage charge is calculated on a sliding diminishing scale based on the number of sanitary fixtures installed.

The following table illustrates the average impact of the proposed tariff increase on each of PAWA's customer classes. The data compiled is based on total charges for an average customer over a 365-day period.

TABLE 2.4: IMPACT OF INCREASE IN SEWERAGE TARIFFS ON AVERAGE CUSTOMER

Customer Type	Based On Current Rate $pa	Based On Increased Rate $pa	Increased Cost $pa
Domestic	299	314	15
Domestic Pensioner	292	307	15
Small Commercial – Between 3 & 24 Fittings	1 314	1 380	66
Large Commercial – Greater than 150 Fittings	132 967	139 615	6 648

Sewerage: Trade Waste

PAWA's standard sewerage service charge is to recover the cost of collecting and treating domestic-strength sewage. It is an offence under the *Water Supply and Sewerage Services Act* for a customer to discharge waste other than domestic waste into a licensee's sewerage infrastructure without written approval of the licensee. The discharge of non-domestic sewage must be in accordance with the licensee's Trade Waste Code.

There is a need for PAWA to develop an industrial trade wastewater management system due to both the short and long term environmental, occupational health and safety, regulatory, National Competition Policy and financial implications for PAWA and Government.

The range of sewerage charges will be expanded to recover the cost of collection and treatment of non-domestic sewage from the commercial sector. Trade waste charges will apply from 1 January 2002. Once fully implemented, trade waste charges are intended to recover the full cost of collecting and treating non-domestic sewage.

BUDGET IMPROVEMENT MEASURES

A key element of the deficit reduction strategy, once having reset base funding levels and incorporated the Government’s initiatives and approved new revenue measures, was the development of a budget improvement model that could be reasonably applied across the public sector. The budget improvement targets were to be in addition to those in *Labor’s Financial Statement*.

The method approved by Cabinet was for:

- the budget improvement target required by the deficit reduction strategy to be set;
- the target to be met through productivity improvements in agencies including re-ordering of program priorities;
- the level to be calculated on the final consumption expenditure of agencies; that is the salaries and operational costs of agencies less any agency-based revenue;
- grants, capital expenditure, repairs and maintenance expenditure and superannuation benefits payments were excluded from the calculation of savings;
- a range of budget improvement targets set at an average of 4 per cent in a full year;
- budget improvement targets for the functions of hospitals, health and community services, schools, police and emergency services, and custodial services were set at 25 per cent of the average level, recognising the comparatively important nature of the service delivery aspects of those functions and the high priority placed on those functions by the Government.

In addition, the public sector administrative restructure announced on 13 November 2001 is estimated to produce $4.4 million in productivity savings from 2002-03.

In view of the impending Government Owned Corporations status for the Power and Water Authority, the budget improvement model as outlined above has not been applied directly to PAWA. However, it is expected that similar levels of improvement will be included in the Statement of Corporate Intent which is yet to be finalised.

Table 2.5 sets out the effect of these measures.

TABLE 2.5: EFFECT OF BUDGET IMPROVEMENT MEASURES

	2001-02	2002-03	2003-04	2004-05
	$M	$M	$M	$M
Savings	15	35	35	35

FORWARD ESTIMATES FOR 2002-03 AND FUTURE YEARS

Having set the appropriate base funding requirements for 2001-02 and after the inclusion of the Government's initiatives, budget improvement and revenue measures, Cabinet determined the basis upon which the ongoing requirements of agencies would be cast forward. The basis is as follows:

- On the expenditure side, using the approved underlying base amount for each agency for 2001-02 (i.e. 2001-02 Budget including ongoing additional funding approved but removing carry over and one-off items),
  - escalate wages costs by 3 per cent;
  - escalate agency operational costs by 2.5 per cent;
  - apply an annual productivity dividend of 1 per cent, to commence from 2003-04 to take advantage of efficiencies available from technology and other investments and also to require the public sector to achieve ongoing productivity improvements. This was applied on the same basis as the budget improvement model outlined above where only 25 per cent of the dividend is applied to health services, schools, police and emergency services and custodial services;
  - generally, escalate grant funding by 2.5 per cent;
  - escalate superannuation costs by 10 per cent in line with the most recent actuarial assessment;
  - include a cash requirement for capital works of $210M in 2002-03 consistent with the additional cash requirements of major projects currently underway (eg East Arm Port); and
  - reduce the cash requirement for capital works by $20 million from 2003-04 in line with *Labor's Financial Statement* but delayed by one year.

The extent of any additional growth factor for health is under consideration; at this stage provision has been made for future growth which is consistent with past trends.

- On the revenue side:
  - GST revenue has been escalated by 4 per cent consistent with real per capita growth;
  - other Commonwealth revenue escalated by 2.5 per cent; and
  - tax revenue is generally escalated by 4 per cent consistent with real per capita growth.

FINANCIAL PROJECTIONS

Northern Territory Public Sector financial projections have been prepared in accordance with the Uniform Presentation Framework (UPF) and the cash based Government Finance Statistics as promulgated by the Australian Bureau of Statistics. It is expected that the 2002-03 Budget will be presented on an accrual basis.

The UPF has been agreed by the Commonwealth and all State and Territory Governments as the basis upon which budget and actuals data are to be prepared in order to facilitate comparisons across jurisdictions. Jurisdictions also prepare other budget and actuals material required for other accountability purposes, most notably various appropriation requirements. The UPF is broader in coverage than budget sectors because it includes all entities irrespective of whether or not they receive appropriation.

The entities included in the Northern Territory Public Sector are listed in Appendix 2.1. They are categorised by UPF sector and their Public Account status, as defined by the *Financial Management Act*. *Budget Paper No.2* includes detailed information for all agencies included in the Public Account and thus subject to the *Financial Management Act*. The UPF comprises all agencies included in the Public Account plus:

- AustralAsia Railway Corporation;
- Northern Territory Legal Aid Commission;
- Batchelor Institute of Indigenous Tertiary Education;
- Darnor Pty Ltd and Gasgo Pty Ltd (Power and Water Authority subsidiaries).

Appendix 2.2 provides the aggregate Public Account data presented on the UPF basis. There is minimal difference between the Total Public Sector on a UPF basis from 2002-03 and the Public Account on a UPF basis. The difference in 2000-01 and 2001-02 is due to transactions involving the Conditions of Service Trust which was previously outside of the Public Account but brought into the Public Account in 2000-01 and the railway.

Table 2.6 sets out summary details on a UPF basis for the Northern Territory Total Public Sector, from 1999-00 to 2004-05. The projections are based on the methodology outlined above and include a provision for contingencies not allocated to particular functions, but based on past trends, assessed as being reasonable at this point in time.

TABLE 2.6: NORTHERN TERRITORY PUBLIC SECTOR (a)

	2000-01 Actual $M	2001-02 May Budget $M	2001-02 Mini Budget $M	2002-03 Forward Estimate $M	2003-04 Forward Estimate $M	2004-05 Forward Estimate $M
CURRENT OUTLAYS	**1 913**	**1 911**	**1 984**	**1 995**	**2 051**	**2 110**
Final Consumption Expenditure	1 430	1 408	1 473	1 516	1 559	1 619
Interest Payments	174	189	179	165	172	172
Current Grants	247	247	263	244	253	251
Other Current Payments	62	68	69	70	66	67
CAPITAL OUTLAYS	**366**	**500**	**555**	**276**	**251**	**218**
Gross Capital Expenditure	291	434	518	251	224	188
New Fixed Capital Expenditure	324	526	541	272	246	211
Expenditure on Second Hand Assets (net)	- 33	- 92	- 23	- 22	- 23	- 23
Capital Grants	44	47	48	41	39	39
Other Capital Outlays	31	18	- 11	- 16	- 11	- 10
TOTAL OUTLAYS	**2 279**	**2 411**	**2 538**	**2 270**	**2 302**	**2 327**
REVENUE	**2 088**	**2 213**	**2 204**	**2 165**	**2 235**	**2 269**
Taxes	220	215	215	231	242	240
Net Operating Surplus of PNFC's and PFC's	58	50	45	48	44	42
Interest Received	36	41	34	32	34	33
Grants Received	1 722	1 857	1 854	1 799	1 859	1 898
Other Revenue	50	50	54	55	56	55
DEFICIT AND FINANCING TRANSACTIONS	**192**	**198**	**335**	**105**	**67**	**58**
Net Advances Received	- 73	30	30	3	3	9
Net Domestic and Overseas Borrowings	236	62	162	2	12	13
Increase in Provisions (net)	62	51	62	62	62	62
Other Financing Transactions	- 34	56	80	39	- 9	- 26
TOTAL FINANCING TRANSACTIONS	**192**	**198**	**335**	**105**	**67**	**58**
Less Increase in Provisions (net)	62	51	62	62	62	62
DEFICIT (+) / SURPLUS (-)	**129**	**147**	**272**	**43**	**5**	**- 4**

(a) Includes AustralAsia Railway Corporation, excludes TIO.

Table 2.6 above includes the operations of the AustralAsia Railway Corporation (ARC). The transactions associated with the operations of the ARC are of such significance in 2000-01 and 2001-02 that its inclusion distorts the Territory's underlying UPF position.

The ARC has been set up under Northern Territory legislation to manage the interests of the Northern Territory and South Australian Governments in the Alice Springs to Darwin Railway. The ARC has or will receive grant and loan funds totalling $480 million from the governments of the Northern Territory, South Australia and the Commonwealth.

The Australian Bureau of Statistics has determined that the ARC will be included wholly in the Northern Territory scope for UPF purposes even though the Corporation is a vehicle of both the Northern Territory and South Australian governments.

The grant and loan funds provided to the ARC from South Australia and the Commonwealth are provided directly to the Corporation and do not pass through the Northern Territory Budget. There is some time delay between when funds are provided to the Corporation and when funds are provided to the Consortium undertaking the construction. Because of the magnitude of the funds involved and the effects associated with timing between the receipt and payment of the funds by the ARC, their inclusion distorts the Territory's underlying position.

The ARC expended $100 million on new fixed capital expenditure in 2000-01 and this is expected to rise to $284 million in 2001-02. The capital expenditure is in accordance with the schedule of payments agreed between the ARC and the Consortium. However, the ARC received $140 million in grant funding and a $25 million advance from the Northern Territory. In addition, $105 million in grants and $25 million in advances were received from other governments. Thus, while the Territory made its contribution to the ARC in 2000-01, timing of payments and contributions from other governments meant that in 2000-01, the ARC recorded a surplus of $146 million. Because ARC is classified as part of the Northern Territory's UPF sector, this surplus in 2000-01 is attributed to the Northern Territory. Conversely in 2001-02, the schedule of payments increases and the ARC records a deficit of $147 million. Thus removal of the ARC provides a better basis for understanding the Territory's fiscal position. Table 2.7 below removes the ARC, presenting the Territory's underlying UPF position.

Table 2.7 shows financial data and projections from 1999-00 through to 2004-05. The inclusion of 1999-00 assists understanding of the trends in various items as it provides a base prior to the commencement of railway-related transactions.

TABLE 2.7: NORTHERN TERRITORY PUBLIC SECTOR (a)

	1999-00 Actual $M	2000-01 Actual $M	2001-02 May Budget $M	2001-02 Mini Budget $M	2002-03 Forward Estimate $M	2003-04 Forward Estimate $M	2004-05 Forward Estimate $M
CURRENT OUTLAYS	**1 807**	**1 904**	**1 912**	**1 981**	**1 994**	**2 043**	**2 110**
Final Consumption Expenditure	1 342	1 421	1 408	1 470	1 513	1 557	1 617
Interest Payments	168	174	189	179	165	172	172
Current Grants	230	247	247	264	246	247	252
Other Current Payments	67	62	68	69	70	66	67
CAPITAL OUTLAYS	**219**	**415**	**220**	**270**	**251**	**233**	**218**
Gross Capital Expenditure	170	191	155	234	226	206	188
New Fixed Capital Expenditure	242	224	247	256	247	228	211
Expenditure on Second Hand Assets (net)	- 71	- 33	- 92	- 23	- 22	- 23	- 23
Capital Grants	56	193	47	48	41	39	39
Other Capital Outlays	- 7	31	18	- 11	- 16	- 11	- 10
TOTAL OUTLAYS	**2 026**	**2 318**	**2 132**	**2 252**	**2 244**	**2 276**	**2 327**
REVENUE	**1 881**	**1 981**	**2 073**	**2 064**	**2 139**	**2 209**	**2 269**
Taxes	229	220	215	215	231	242	240
Net Operating Surplus of PNFC's and PFC's	60	58	50	45	48	44	42
Interest Received	35	35	37	31	32	33	33
Grants Received	1 502	1 617	1 722	1 718	1 773	1 833	1 898
Other Revenue	54	50	50	54	55	56	55
DEFICIT AND FINANCING TRANSACTIONS	**145**	**337**	**59**	**188**	**106**	**67**	**58**
Net Advances Received	- 47	- 79	35	37	3	3	9
Net Domestic and Overseas Borrowings	142	236	62	162	2	12	13
Increase in Provisions (net)	56	62	51	62	62	62	62
Other Financing Transactions	- 5	119	- 89	- 73	39	- 9	- 26
TOTAL FINANCING TRANSACTIONS	**145**	**337**	**59**	**188**	**106**	**67**	**58**
Less Increase in Provisions (net)	56	62	51	62	62	62	62
DEFICIT (+) / SURPLUS (-)	**90**	**275**	**8**	**126**	**43**	**5**	**- 4**

(a) excludes AustralAsia Railway Corporation and TIO.

The underlying deficit from 2000-01 was $275 million. This includes the full effect of the Territory's railway contribution in 2000-01. The result excluding the railway grant is $135 million.

The estimated result for the November 2001 Mini Budget is a deficit of $126 million, an increase of $118 million from the original budget. However, this amount includes $17 million in carryover expenditure from 2000-01. A similar level of expenditure is expected to be carried out into 2002-03 but these transfers are not yet reflected in the estimates and hence the estimates for 2001-02 are likely to be overstated by this amount.

The estimated deficit for 2002-03 declines to $43 million and the budget is expected to be in a small surplus of $4 million by 2004-05.

The key reason for this projected improvement in performance is the action the Government has taken to restrain spending by putting in place budget improvement targets for agencies while also meeting its election commitments.

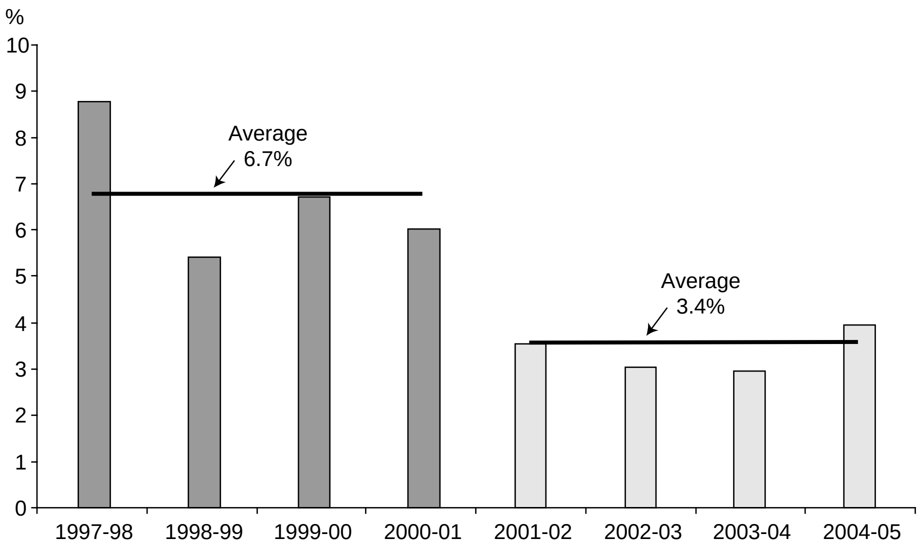
Final consumption expenditure is estimated to increase by 14 per cent by the end of the forward estimates period. The budget improvement initiatives are largely attributed to final consumption expenditure with agencies being required to:

- reduce their running costs by an average of 2 per cent in 2001-02 and 4 per cent in 2002-03, in addition to specific savings measures approved as part of the Government's Inititatives; and
- to make productivity improvements of 1 per cent thereafter.

The main social service areas of hospitals, health and community services, schools, police and emergency services and custodial services are largely quarantined from these processes in that their budget improvement and productivity measures are 25 per cent of that applied to the rest of the public sector.

Figure 2.1 shows the average annual growth in final consumption expenditure over the previous four years compared with that projected for 2001-02 and the forward estimates period. The reduction in growth is necessary to achieve the debt reduction strategy and is considered achievable on the basis of known events.

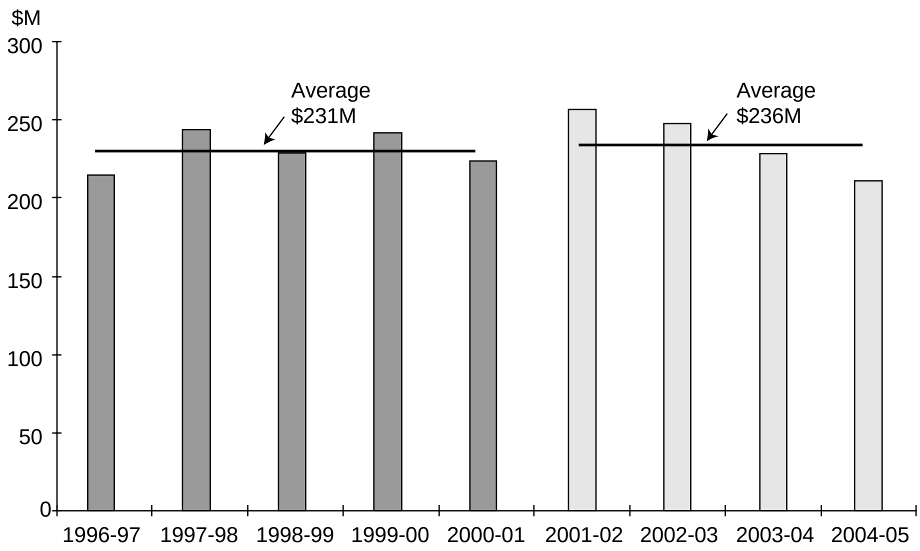
FIGURE 2.1: GROWTH IN FINAL CONSUMPTION EXPENDITURE



Interest payments are relatively constant over the period with reductions resulting from lower average interest costs associated with refinancing but some increases as a result of new net borrowings.

Apart from the capital grant expenditure associated with the Territory's contribution to the railway in 2000-01, expenditure on new fixed assets is at comparatively high levels until 2002-03, after which the expenditure returns to previous levels. Figure 2.2 below shows that new fixed capital expenditure in nominal terms is slightly higher over the period 2001-02 to 2004-05 compared with the previous 5 years.

FIGURE 2.2: EXPENDITURE ON NEW FIXED CAPITAL EXPENDITURE



Revenue is projected to grow at a slightly higher rate than expenditure with Commonwealth grants and own-source revenue being estimated to be maintained in real per capita terms. The operating surplus of government businesses is expected to decline minimally over the period.

The key risk in achieving the projected outcome is that expenditure will not be able to be restrained to the extent predicted.

TAXATION REVENUE ESTIMATES

The following table summarises the budget projections for State taxes, incorporating the revenue measures outlined above and forecast economic parameters.

TABLE 2.8: SUMMARY OF NORTHERN TERRITORY TAXATION

	2000-01 Actual	2001-02 Mini Budget Estimate	2002-03 Forward Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate
	$M	$M	$M	$M	$M
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE	**85.9**	**90.2**	**97.6**	**99.6**	**96.3**
Payroll taxes	85.9	90.2	97.6	99.6	96.3
TAXES ON PROPERTY	**53.5**	**44.3**	**43.2**	**47 6**	**49.4**
Stamp Duties on Financial and Capital Transactions	32.1	34.8	35.0	39.0	40.4
Financial Institutions Transactions Taxes	21.3	9.6	8.2	8.7	9.0
TAXES ON THE PROVISION OF GOODS AND SERVICES	**44.3**	**44.8**	**44.7**	**47.9**	**49.4**
Taxes on Gambling	32.3	31.4	31.3	33.7	34.5
Taxes on Insurance	12.0	13.4	13.3	14.3	14.8
Other					
TAXES ON USE OF GOODS AND PERFORMANCE OF ACTIVITIES	**36.6**	**36.2**	**45.9**	**47.1**	**44.9**
Motor Vehicle Taxes	28.7	32.8	38.1	39.3	37.1
Other	8.0	3.4	7.8	7.8	7.8
TOTAL TAXES	**220.3**	**215.5**	**231.3**	**242.1**	**240.0**

The fall in total tax revenue in 2001-02 is attributed to the abolition of financial institutions duty and stamp duty on listed marketable securities (both from 1 July 2001) as part of the national tax reform arrangements. These revenue losses are offset by GST revenue grants and budget balancing assistance from the Commonwealth.

Abstracting from the impact of tax reform, growth in tax revenues is expected to be around 3.3 per cent in 2001-02, then increases by 8 per cent in 2002-03, reflecting the impact of economic growth on the tax base and the net impact of new revenue measures.

Beyond 2003-04, the growth in tax revenue will be affected by the cessation of the Temporary Budget Improvement Levy in November 2004 and some proposed policy changes. These are subject to review prior to the 2002-03 Budget.

Additional information on the assumptions underlying the estimates for each of the major tax revenue categories is set out below.

Taxes on Employers' Payroll and Labour Force

This category is comprised exclusively of pay-roll tax collections and is expected to account for around 41.9 per cent of total taxation revenue in 2001-02.

The growth in pay-roll tax collections is expected to be 5.0 per cent in 2001-02 and 8.2 per cent in 2002-03, reflecting forecast increases in employment and earnings, including a surge associated with railway construction and an increase in the superannuation guarantee charge rate from 8 per cent to 9 per cent from 1 July 2002. The lower growth from 2003-04 reflects proposed rate changes but these are to be reviewed prior to the 2002-03 Budget.

Taxes on Property

This category comprises stamp duties on financial and other capital transactions, financial institutions transaction taxes and other property-related taxes. These taxes are estimated to account for around 20.6 per cent of total taxation revenue in 2001-02.

Stamp duties on financial and other capital transactions include stamp duties on property conveyances, leases and marketable securities. In 2000-01, collections were affected by a sharp decline in housing purchases in the first half of 2000-01. However, this decline was partially offset by an increase in construction due to the Territory's QuickStart grant for new houses, the Commonwealth's temporary $7 000 increase in the First Home Owner Grant for new homes and successive reductions in interest rates.

The abolition of stamp duty on listed marketable securities will marginally reduce total collections from stamp duties on financial and other capital transactions in 2001-02. Conveyance duty collections are expected to remain stable for the remainder of 2001-02 and grow moderately in 2002-03 in response to the recovery of the property market.

Financial institutions transaction taxes comprise financial institutions duty (FID), debits tax and electronic debits duty. The estimated fall in financial institutions transaction taxes in 2001-02 is due to the abolition of FID. Debits tax is expected to decline in real terms, reflecting the deterioration of this tax base as alternatives to cheque account facilities become more widespread. Under the national tax reform arrangements, debits tax is earmarked for abolition by 1 July 2005, subject to review by the Ministerial Council.

Taxes on the Provision of Goods and Services

This category includes taxes on gambling and insurance, and some minor levies. These tax revenues are expected to account for around 20.8 per cent of total taxation revenue in 2001-02.

Taxes on gambling mainly comprise lotteries, bookmakers' betting tax, casino tax, wagering tax and gaming machine tax. Gambling revenue estimates are based on prior year collections and incorporate revisions to the casino tax arrangements, and regulatory and tax rate changes made to gaming machines. The estimates for lotteries revenue are based on projections of turnover for existing games, with no provision for the introduction of new games which may boost turnover.

Taxes on insurance comprise stamp duty on general and life insurance policies. These revenues are expected to grow by 12 per cent in 2001-02 resulting from high growth in insurance premiums arising from the demise of HIH and the United States terrorist attacks.

Taxes on the Use of Goods and Performance of Activities

This category mainly comprises motor vehicle taxes and is expected to account for around 16.8 per cent of total taxation revenue in 2001-02. Motor vehicle taxes comprise stamp duty on the registration and transfer of vehicle licences and revenue from vehicle registration fees.

The forecast revenues include additional revenue collected from vehicle registration fees resulting from the Temporary Budget Improvement Levy which is introduced as part of this Mini Budget. The Temporary Budget Improvement Levy is scheduled to cease in November 2004.

Motor vehicle stamp duty collections are expected to increase by around 7 per cent per annum from 2001-02 to 2003-04, reflecting an expected improvement in vehicle sales and prices. This is expected to normalise to 4 per cent growth in 2004-05.

MINING ROYALTIES

Mining royalties are the price paid to the community by mining companies for the right to extract resources which are owned by the community. Mineral royalties account for 82.6 per cent of the Territory's mineral and petroleum royalty collections of which bauxite and manganese mining account for the largest share of mining royalties. In the Territory (unlike other States), uranium royalties are imposed by the Commonwealth and repatriated to the Territory as Commonwealth grants in lieu of uranium royalties.

TABLE 2.9: NORTHERN TERRITORY MINERAL ROYALTIES

	2000-01 Actual $M	2001-02 Budget Estimate $M	2002-03 Forward Estimate $M	2003-04 Forward Estimate $M	2004-05 Forward Estimate $M
Mineral	21.4	20.0	20.8	20.8	20.8
Petroleum	4.5	4.2	4.3	4.3	4.3
TOTAL	**25.9**	**24.2**	**25.1**	**25.1**	**25.1**

Mining royalties (including petroleum royalties) rose by 3.6 per cent in 2000-01. This increase mainly reflected a 14 per cent fall in the average $A/$US exchange rate from 62.9 in 1999-2000 to 53.8 in 2000-01 (all major mineral categories in the Territory are sold under $US contracts, but royalties apply to the $A value), and the impact on petroleum royalties of a very high average oil price of around $US30 per barrel.

However, royalty collections in 2001-02 are expected to reduce by 6.4 per cent due to declining world oil prices and weaker demand for mineral commodities due to the world economic downturn.

Mining and petroleum royalty revenue in 2001-02 and across the forward estimates period incorporate:

- individual mining company projections of sales, prices and operating costs; and
- no provision for any planned new mining projects, unless they have already been formally approved and committed to.

HYPOTHECATED REVENUES

A small number of revenue types are imposed for specific hypothecation to particular programs or purposes. These are explained further below.

TABLE 2.10: DISBURSEMENTS OF HYPOTHECATED REVENUES

	2000-01 $000	2001-02 $000
Community Benefit Fund [1]	483	1 404
Community Gaming Allowance [2]	6 158	6 466
Alice Springs Convention Centre (Operating Contribution) [2]	n/a	210
Lotteries Fund	8 733	8 840
MACA contributions to road safety	1 121	1 240
TOTAL	**16 495**	**18 160**

Notes:

1. Amounts are the GST-exclusive payments from the CBF.
2. Amount is available as an offset against the casino's tax liability.

Community Benefit Fund

Section 150 of the *Gaming Machine Act* provides that prescribed licensees must pay a gaming machine levy to the Director of Licensing on a monthly basis. The monies are paid into the Community Benefit Fund, managed by Northern Territory Treasury. Section 155 of the *Gaming Machine Act* provides that the Director, with the approval of the Minister, may pay amounts out of the Fund “for the benefit of the community” which generally results in the monies being used for gambling amelioration and social benefit projects. The increase in disbursements in 2001-02 is related to payments from the Small Grants Program approved late in 2000-01 but not paid until 2001-02.

Community Gaming Machine Allowance

Under agreements with the Northern and Southern Region casino operators, the Government pays 22 per cent of the gross profit derived from community gaming machines to the casinos. The payment is made out of tax revenue earned by Government from the clubs and hotels with gaming machines. The payments were negotiated in exchange for the casinos relinquishing gaming machine exclusivity. This arrangement will cease for the Northern Region on 30 June 2005 and for the Southern Region on 30 June 2003.

Alice Springs Convention Centre Operating Contribution

The Development Agreement for the construction and operation of the Alice Springs Convention Centre provides for an operating incentive to be paid to the Operators of the Convention Centre when pre-determined performance benchmarks are met. The total amount of the incentive is capped at $5.0M with annual payments not exceeding $1.25M in any one year. The Operating Contribution is to be paid as an offset against casino taxes owing.

Lotteries Fund

Monies received by the Director of Licensing are paid into the Lotteries Fund from Lotteries conducted under Part 4, Division 3 of the *Gaming Control Act*; commission payable on Foreign Lotteries under this Act (eg Tattersalls products); and unclaimed prizes.

Under section 43(3)(c) of the *Gaming Control Act* payments, as directed by the Minister for Racing and Gaming, are made from the Lotteries Fund to:

- the Consolidated Revenue Account (base amount of $1M, which can be varied annually);
- charitable organisations, or other bodies, which in the opinion of the Minister, promote the welfare of the community (a base amount of $0.1M); and
- remaining funds are to be paid into the Sport and Recreation Development Fund (base amount of $6.945M is in the Budget).

The Minister for Racing and Gaming approves the amount to be distributed from the Fund, with the Treasurer determining the timing.

MACA Contributions to Road Safety

Pursuant to sections 23(2) and 26 of the *Territory Insurance Office Act*, the TIO is required to provide the Northern Territory Government with funds to meet certain costs in relation to the operation of road safety programs. Accordingly, amounts are collected through the contributions to Motor Accidents Compensation Scheme to fund a range of road safety programs, including the Road Safety Council, Driver Training and Licensing and Motorcyclist Education Training and Licensing (METAL).

GROSS AND NET DEBT

Debt is a necessary source of funding for governments. In recent years, the Territory has raised debt exclusively through the Northern Territory Treasury Corporation, by the issue of inscribed stock and other debt securities to domestic and offshore financial institutions, and to the Australian public.

In the past, debt was also raised through advances from the Commonwealth.

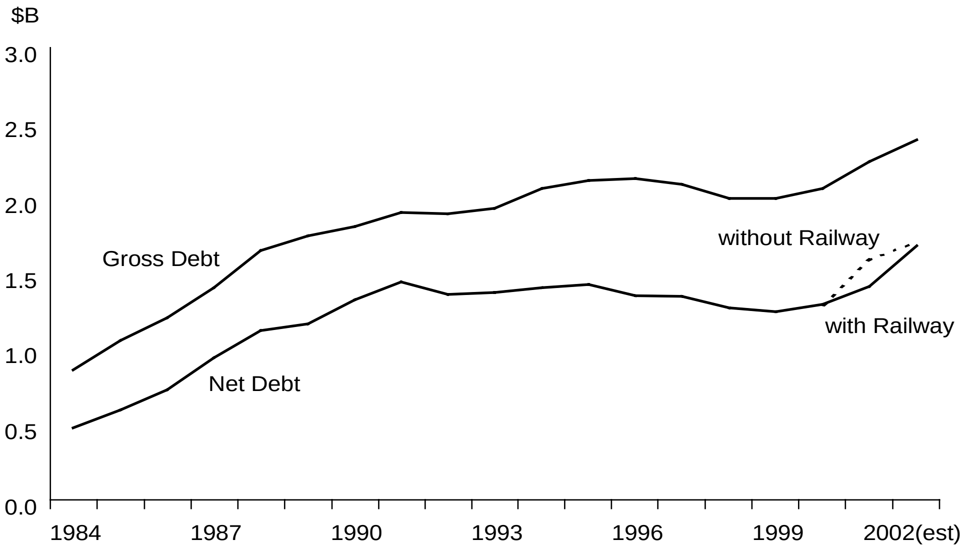
Recently, it has become more difficult to analyse and compare debt due to a number of different factors. This includes:

- the change by the majority of jurisdictions to accrual accounting (except for the Territory and Tasmania), thus making comparisons of debt burden measures more difficult;
- the transfer of debt between the General Government and the Public Non-Financial Corporations sector by most Australian governments; and
- in the Territory's case, the effect of financing transactions for the Alice Springs to Darwin railway.

Territory Debt Over Time

Territory gross and net debt rose sharply during the 1980s, as a result of the high expenditure associated with the period following self government and also from the absorption of liabilities previously held by the Commonwealth on the Territory's behalf. As Figure 2.3 shows, the level of debt plateaued in the 1990s. Changes in gross and net debt in recent years reflect: the effect of major capital works projects such as East Arm Port, the acquisition of the Darwin to Katherine transmission line and the creation of additional generating capacity at Channel Island; the Alice Springs to Darwin railway (see below) and the effect of successive deficits since 1999-00.

FIGURE 2.3: NORTHERN TERRITORY GROSS AND NET DEBT AT 30 JUNE



Source: 1979 to 1987: Northern Territory Treasury; 1988 to 1991: Public Sector Debt, Australia, ABS Cat No 5513.0; 1992 to 1996: Public Sector Financial Assets and Liabilities, ABS Cat. No 5513.0; 1997 to 2001: TAFR Schedule 9.1 Total Public Sector, 2002: NT Treasury estimate

The Railway

Table 2.11 compares the effect of financial transactions relating to the AustralAsia Railway Corporation (ARC), which receives contributions from the Territory, South Australian and Commonwealth Governments for on passing to the railway Consortium. As the timing of the receipt of the contributions did not match the payments to the railway consortium, this had an impact on the Territory's net debt.

In 2000-01, the ARC received the three government's contributions, however, payments to the Consortium were spread over 2000-01 and 2001-02. Hence, Territory financial assets were higher and net debt was lower in 2000-01, when the ARC is included. By the end of 2001-02, with all payments from the ARC to the Consortium concluded, the difference between Territory financial assets and net debt with the ARC and without the ARC will be $25 million (reflecting a loan to the ARC by South Australia).

The movements in gross debt throughout the period are not related to ARC transactions. The Territory's railway contributions were sourced from cash balances rather than borrowings.

TABLE 2.11: NORTHERN TERRITORY GOVERNMENT DEBT

	Gross Debt	Financial Assets with ARC	Financial Assets without ARC	Net Debt with ARC	Net Debt without ARC
	$M	$M	$M	$M	$M
30 June 2000 [1]	2064	770	769	1 294	1 295
30 June 2001 [1]	2 242	826	654	1 416	1 588
30 June 2002(b)	2 389	700	675	1 689	1 714

1. TAFR 2000-01 Total Public Sector Schedule 9.1

Note: (b) Mini-Budget

Interstate Comparisons

The polarisation of state policies on the role of public assets to fund the retirement of debt, has made meaningful comparisons of the change in gross and net debt increasingly difficult in recent years. While there has been a general trend towards reducing debt through the sale of public assets, some States, supported by sizeable public assets, have pursued this policy far more aggressively than others.

In 1992-93, Victorian net debt was approximately 209 per cent of total revenue, over twice the level of debt in the Territory. Since then, Victoria has raised roughly $35 billion through asset sales, most of which has been used to retire debt. On 30 June 2001, Victoria had the second lowest ratio of net debt to total revenue in Australia, (14 per cent).

The sale of assets can be an effective means of obtaining revenue with which to reduce debt, and therefore interest payments. However, the sale of profitable public enterprises also means that a source of revenue through dividend and tax equivalent payments is lost.

The differing focus by jurisdictions on the General Government and Non-Financial Public Corporations sectors has also resulted in a change in the sectoral mix of debt for a number of jurisdictions. As a consequence, a number of jurisdictions now predominantly hold debt in the Non-Financial Public Corporations sector, with financial assets being held in the General Government sector.

Queensland is the best example of this sectoral mix of debt, where it was forecast to have a negative net debt of some $10 billion in the General Government sector in 2001-02, while having $11 billion in net debt in the Public Non-Financial Corporations sector. When these two sectors are consolidated in the Non-Financial Public sector, Queensland's net debt becomes $1 billion. This example illustrates how the sectoral mix of financial assets and debt can obscure a jurisdiction's financial position and that the Non-Financial Public sector is the best sector to compare jurisdictional debt. Recent discussions with Moody's Investors Service confirms this approach, as Moody's expressed the need to look at all sectors when making an assessment of a jurisdiction's financial position. (The difficulty of making meaningful comparisons because of different attitudes to retiring debt from asset sales remains.)

The following analysis is based on the Non-Financial Public sector.

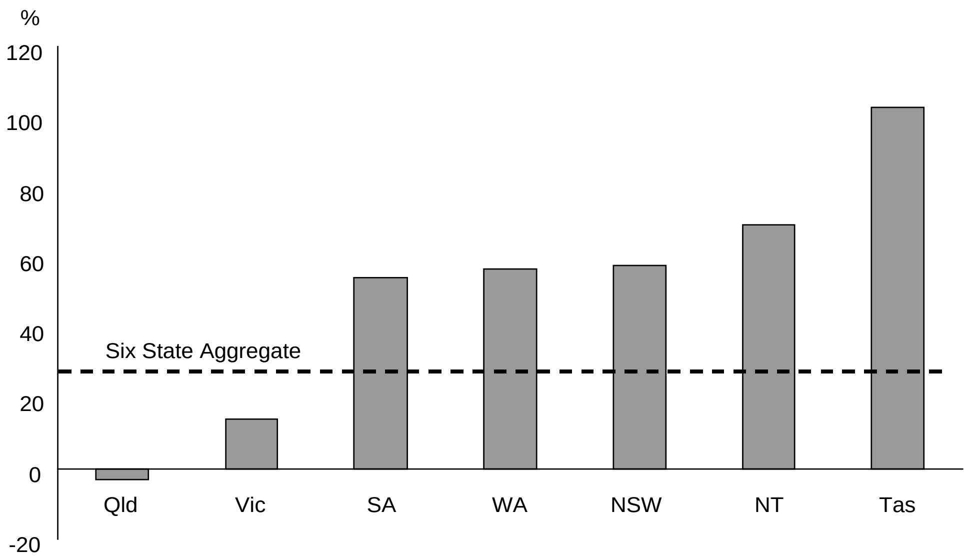
Net Debt to Total Revenue

The Territory's net debt fell from 99 per cent to 68 per cent of revenue between 1993-94 and 1998-99. However, the six State weighted average, largely driven by Victoria, Western Australia and Queensland, fell from 109 per cent to 36 per cent during the same period.

Irrespective of policy, small jurisdictions including the Northern Territory, Tasmania and South Australia, have a limited capacity to retire debt through the sale of public assets, since the risk to both private sector investors and the public is likely to be greater than in the larger jurisdictions.

Figure 2.4 shows the ratio of net debt to total revenue for the six States and the Territory estimated as at 30 June 2001. The chart shows the clear distinction between Queensland and Victoria, and the rest of the jurisdictions. When these jurisdictions are removed, the average ratio of net debt to revenue is 57 per cent, compared with 69 per cent for the Territory. For the six States in aggregate, however, the ratio is 34 per cent, reflecting the impact of the different conditions in Victoria and Queensland.

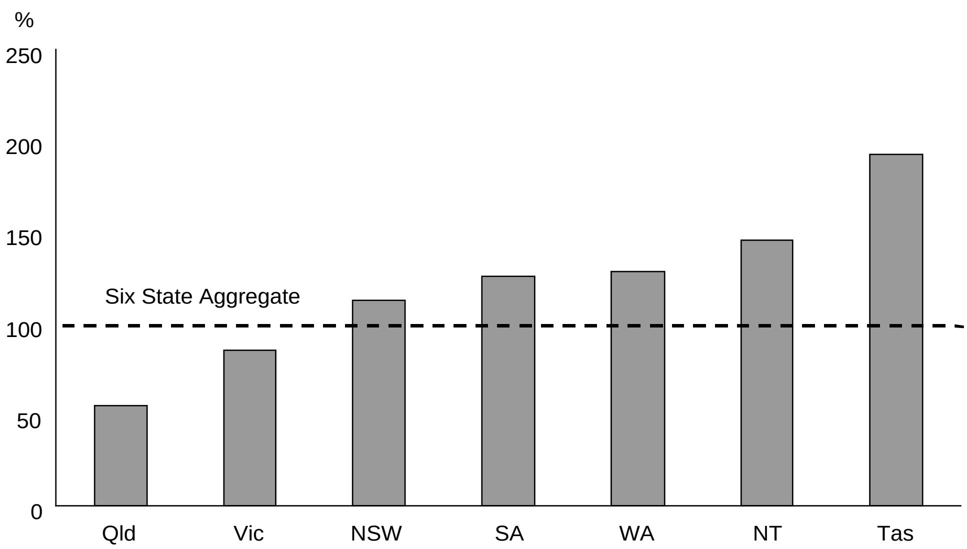
FIGURE 2.4: NET DEBT TO TOTAL REVENUE AT 30 JUNE 2001



Source: State Budget Papers – Non-Financial Public Sector
Cash Estimates for accrual jurisdictions based on change in accrual based equivalent

A broader comparative measure of the level of government liabilities is the ratio of net debt plus employee liabilities to total revenue across jurisdictions. Figure 2.5 shows this ratio and demonstrates that compared to the net debt to total revenue ratio, jurisdictions' liability positions are closer together.

FIGURE 2.5: NET DEBT PLUS EMPLOYEE LIABILITIES TO TOTAL REVENUE AT 30 JUNE 2001



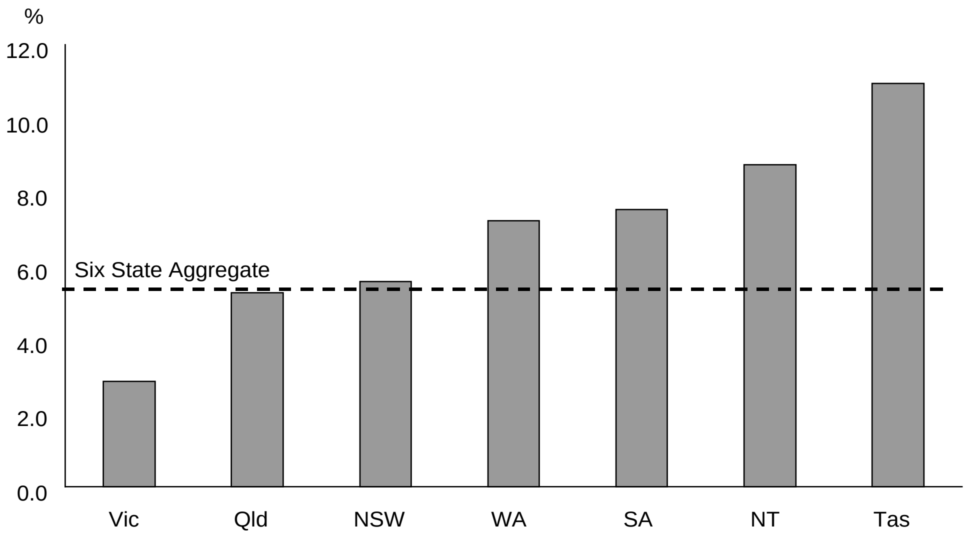
Source: State Budget Papers – Non-Financial Public Sector
Cash Estimates for accrual jurisdictions based on change in accrual based equivalent

Gross Interest Payments to Total Revenue

An alternative measure of the level of debt carried by the Territory and the six States is the ratio of gross interest payments to total revenue. Figure 2.6 shows that the Territory's gross interest payments are greater, as a proportion of total revenue, than for the six States in aggregate.

While the Territory is currently above the six State average on this measure, the Territory is comparable with other smaller jurisdictions. The Territory (8.8 per cent) is higher than Western Australia (7.2 per cent) and South Australia (7.5 per cent), but lower than Tasmania (10.9 per cent). Jurisdictions such as Western Australia and South Australia have benefited from lower interest payments in previous years from asset sales, however, recent increases in net debt in these jurisdictions appear to be reversing the benefits.

FIGURE 2.6 : GROSS INTEREST PAYMENTS TO TOTAL REVENUE 30 JUNE 2001



Source: State Budget Papers Non-Financial Public Sector
Cash estimates for accrual j jurisdictions are based on change in accrual based equivalent

STATEMENT OF RISKS

The financial projections in this document are based on assumptions about the state of Government finances, present and future, and to a lesser extent the Territory economy. Naturally, any shifts in these underlying assumptions will impact on the financial projections to varying degrees.

Major risks surrounding robustness of the financial projections include:

- unforeseen changes to Government policy including the Commonwealth Government given the Territory's reliance on Commonwealth grants;
- economic conditions and financial market developments differing from forecasts;
- achievability of financial projections in light of the appropriateness of underlying assumptions;
- failure to include the consequences of financial considerations that have either not been identified or have been too difficult to quantify;
- realisation of material contingent liabilities; and
- revaluations of assets and liabilities.

A key step in managing the risk associated with assumptions is the initial identification, attempted quantification and ultimate understanding of the sensitivity of projections to these risks.

While appropriate risk management/mitigation policies and practices should work to reduce the level of the Government's exposure to adverse consequences, a number of these risks are outside any direct Government control.

Realisation of Contingent Liabilities

Contingent liabilities are potential obligations of the Government and generally result from guarantees and indemnities granted in agreements or under legislation. Whilst the contingent event can be defined, the financial consequences of such events may be unquantifiable or unanticipated.

The Government has processes in place to monitor and control entering into arrangements that may include contingent liabilities and represent risk exposure for the Territory.

QUANTIFIABLE CONTINGENT LIABILITIES

Material quantifiable contingent liabilities are set out in the table below and have been calculated based on a discount factor of 8 per cent. A materiality threshold of $5 million has been used. Further information on this can be found in Schedule 5 of the *2000-01 Treasurer's Annual Financial Report*.

TABLE 2.12 : SUMMARY OF MATERIAL CONTINGENT LIABILITIES

Contingent Liability	Amount to Nearest Million $
Amadeus Basin to Darwin Gas Pipeline	313
Pine Creek/McArthur River Electricity Purchase Agreements	110
Alice Springs to Darwin Railway Contingent Equity	43
Additional Airline Services to Darwin	4
Territory Insurance Office Guarantee	456
Public Trustee Common Fund	20
Total Material Contingent Liabilities	**946**

Amadeus Basin to Darwin Gas Pipeline

The Territory has indemnified the company which constructed the natural gas pipeline from the Amadeus Basin to Darwin in support of obligations of the Power and Water Authority. The Territory has also supported the Power and Water Authority's financing obligations to the pipeline company and its financiers. Should this facility be terminated, the Territory has undertaken 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 Territory has guaranteed the gas producers in support of the obligations of a subsidiary company of the Power and Water Authority under gas purchase contracts and provided a letter in support of a loan to the subsidiary company used to meet the company's development obligations under a gas purchase agreement.

In the event that the Power and Water Authority experiences a significant decline in its sales of electricity, there is the risk that the Authority may have a lesser requirement for natural gas to be delivered through the Amadeus Basin to Darwin gas pipeline. In circumstances where such a decline was severe, both the gas purchase contracts and the pipeline financing arrangements could present a risk to the Authority and the Territory that there would be ongoing payments made despite reduced need for delivered gas.

Electricity and Gas Supply to Pine Creek and McArthur River

The Power and Water Authority 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 Mines. The agreement for the supply of gas contains three indemnities relating to the Power and Water Authority supplying non-conforming gas without prior agreement.

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.

In relation to the electricity purchase agreements, the Territory has provided an indemnity against certain possible actions of the Territory in relation to the structure or operations of the Power and Water Authority. The Territory's maximum exposure is equivalent to the net present value of charges under the purchase agreements.

Under the Power and Water Authority's current operating practices, the contingent events relating to each of the above indemnities are within the Territory's and the Authority's control and are expected to be easily avoidable. Accordingly, the prospect of these undertakings being called upon is considered to be negligible.

Alice Springs to Darwin Railway

In relation to the Alice Springs to Darwin railway project, the Northern Territory Government has committed to providing $42.7M in stand-by assistance in the form of an equity underwrite and contingent equity participation in the Consortium through Special Purpose Vehicles (SPVs) established by Deutsche Bank Australia Ltd. This is 50 per cent funded through a grant from the Commonwealth. This stand-by assistance may be called on at different stages of the project, as last recourse financing.

The Territory has also provided a Government guarantee for the equity obligations of the SPVs. The risk associated with the guarantees is considered low as the contingent event is within the Territory's control. The Government's intentions are to sell the SPVs at a suitable time, which the Government's advisers suggest is most likely to be around practical completion or in the early years of the concession period, from about 2004.

Additional Airline Services to Darwin

The Territory has agreed to support the provision of new interstate airline services. The support is in terms of a guarantee to purchase a fixed number of seats on each flight. The support is expected to operate for two years from March 2002.

Statutory Indemnities/Guarantees

A number of statutory indemnities and guarantees also exist, however, the prospect of these contingent liabilities being called upon is considered to be negligible.

Section 40(1) of the *Territory Insurance Office Act* provides that the Territory guarantees every policy or contract of insurance or indemnity; and the repayment of, and the interest payable on, each deposit with the Territory Insurance Office in pursuance of a contract or other agreement.

The Treasurer, under section 28 of the *Public Trustee Act*, indemnifies the Common Fund against any deficiencies in money legally available to meet lawful claims on it. The Common Fund is established under the Act as a repository for all moneys received by the Public Trustee on behalf of estates, trusts or persons. Money to the credit of the Common Fund is invested, in accordance with directions issued by the Investment Board, and any interest earned is available for distribution among the participating trusts or estates.

UNQUANTIFIABLE CONTINGENT LIABILITIES

Some contingent liabilities are unquantifiable and the financial impact is not likely to be determined until the event triggering liability eventuates. The following section relates to known contingent liabilities that are considered to be unquantifiable.

Alice Springs to Darwin Railway

The Alice Springs to Darwin Railway project also involves the acceptance of potentially significant but unquantifiable contingent liabilities. The AustralAsia Railway Corporation and the Northern Territory and South Australian Governments have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway. The obligations of the Corporation are jointly guaranteed by the South Australian and Northern Territory Governments.

The Corporation has provided certain indemnities in relation to security over the railway corridor. These cover native title, Aboriginal land rights, undisclosed interests, environmental contamination, heritage, sacred sites and environment assessment processes. The Territory Government has undertaken extensive investigation to ensure title to the railway corridor is secure.

Project documentation also provides for early termination of the project arrangements which would result in the payment of an Early Termination Amount (ETA). The amount is dependent on circumstances at the time the ETA is determined. Should the ETA be called upon, ownership of the railway will revert to the Corporation (and therefore effectively to both Governments).

Offshore Gas Projects

Offshore waters adjacent to the Northern Territory are both highly prospective and known to contain world class gas reserves.

However, if gas from one or more of the offshore gas fields is brought to Darwin by a pipeline, the implications for the Territory economy and thus for the Territory budget could be expected to be very significant. The impact would depend very largely on the scale of the operations involved.

In the context of the development model that involves a joint pipeline from both the Bayu-Undan and Greater Sunrise fields to Darwin, for example, the Government offered to provide infrastructure support totalling $20 million. This was in connection with the previously proposed Methanex export methanol plant for development of an industrial estate at Glyde Point to the north of Darwin. However, Methanex has not secured a supply of gas on acceptable terms from the Timor Sea fields to support a decision to locate a plant here. Methanex has in the last few weeks announced that it will relocate to Western Australia.

The Power and Water Authority is currently negotiating with the operators of both the Bayu-Undan and Greater Sunrise fields with a view to buying its expected needs of gas fuel for the two decades from mid to late in the current decade. The operators are seeking to get the Authority to contract as a foundation customer. This would involve the Authority potentially securing an attractive price for its main fuel, but carries with it a risk that the quantities contracted for differ from the Authority's actual future needs. The nominal value of the gas expected to be required by the Authority over the 20 year period is up to $1 billion in 2001 prices.

Cheaper electricity would assist in promoting greater economic activity in the Territory, especially in small manufacturing. At the same time, cheaper gas could mean increased use of gas as a direct energy source. Either way, significant effects on the Territory economy and therefore on the budget could be expected, both on the revenue side and in terms of expenditure required to provide infrastructure needed to service a growing economy.

Against this, as stated above, the Territory and the Power and Water Authority have guaranteed the financing of the Amadeus Basin to Darwin gas pipeline. With offshore gas delivered to Darwin, there could be a situation where the pipeline would be underutilised but where either the Territory or the Authority would have to buy the pipeline for its financing residual. This is because the pipeline was designed to carry gas from the Amadeus Basin to Darwin, where over 80 per cent of gas used in the Territory is currently consumed in generating electricity. However, offshore gas for Darwin could be expected to make little or no use of the Amadeus Basin to Darwin gas pipeline. The indications are, nonetheless, that even in such a scenario, there will remain a good use for the pipeline to transport gas fuel for electricity generation in centres south of Darwin, including Katherine, Pine Creek, McArthur River, Tennant Creek and Alice Springs.

Negotiations Not Yet Finalised

Negotiations not yet finalised have the capacity to influence the achievement of budget projections and have the potential to affect both revenue and expenses as well as the Statement of Financial Position.

Reporting on these issues is complicated by the objective of full disclosure on the one hand, and the commercially sensitive nature of financial details on the other. As there is potential for negotiations to be jeopardised by full disclosure, the practice not to disclose details of negotiations not yet finalised has been adopted.

Disclosure of Legal Proceedings

Again on the basis that disclosure is likely to jeopardise the outcome of legal proceedings brought by and against the Government, the practice is not to report the potential expected financial implications of such actions. This practice is consistent with the Government's legal advice on these matters.

CLASSIFICATION OF AGENCIES IN THE NORTHERN TERRITORY PUBLIC SECTOR

GENERAL GOVERNMENT

Included in Public Account
Auditor-General's Office
Ombudsman's Office
Department of the Chief Minister
Department of the Legislative Assembly
Northern Territory Treasury: Services
Northern Territory Treasury: Superannuation Office
Department of Employment, Education and Training
Centralian College
Northern Territory Police, Fire and Emergency Services
Department of Justice
Department of Corporate and Information Services
Information Technology Management Services (a)
Government Printing Office (a)
NT Fleet (a)
Department of Business, Industry and Resource Development
Northern Territory Tourist Commission
Territory Discoveries (a)
Department of Community Development, Sport and Cultural Affairs
Aboriginal Areas Protection Authority
Department of Health and Community Services
Department of Infrastructure, Planning and Environment
Construction Division (a)
Territory Wildlife Parks (a)
Trade Development Zone Authority

External to Public Account
Australasia Railway Corporation
Northern Territory Legal Aid Commission
Batchelor Institute of Indigenous Tertiary Education

PUBLIC NON-FINANCIAL CORPORATIONS

Included in Public Account
Housing Business Services (a)
Darwin Bus Service (a)
Darwin Port Corporation (a)
Power and Water Authority (a)

External to Public Account
Darnor Pty Ltd
Gasgo Pty Ltd

PUBLIC FINANCIAL CORPORATIONS

Included in Public Account
Northern Territory Treasury Corporation (a)

External to Public Account
Territory Insurance Office

(a) Government Business Divisions

NORTHERN TERRITORY PUBLIC ACCOUNT (a)

	2000-01 Actual $M	2001-02 May Budget $M	2001-02 Mini Budget $M	2002-03 Forward Estimate $M	2003-04 Forward Estimate $M	2004-05 Forward Estimate $M
CURRENT OUTLAYS	**1 880**	**1 883**	**1 957**	**1 969**	**2 018**	**2 084**
Final Consumption Expenditure	1 388	1 371	1 436	1 479	1 522	1 582
Interest Payments	173	188	177	163	171	171
Current Grants	257	256	275	257	258	264
Other Current Payments	62	68	69	70	66	67
CAPITAL OUTLAYS	**93**	**218**	**270**	**251**	**233**	**217**
Gross Capital Expenditure	191	153	233	225	205	188
New Fixed Capital Expenditure	224	244	256	247	228	211
Expenditure on Second Hand Assets (net)	- 33	- 92	- 23	- 22	- 23	- 23
Capital Grants	193	47	48	41	39	39
Other Capital Outlays	- 291	18	- 11	- 16	- 11	- 10
TOTAL OUTLAYS	**1 973**	**2 101**	**2 227**	**2 220**	**2 251**	**2 301**
REVENUE	**1 951**	**2 039**	**2 037**	**2 111**	**2 180**	**2 240**
Taxes	221	216	216	232	243	241
Net Operating Surplus of PNFC's and PFC's	53	51	40	42	39	37
Interest Received	31	30	31	31	33	32
Grants Received	1 595	1 691	1 695	1 750	1 809	1 874
Other Revenue	51	51	55	56	56	56
DEFICIT AND FINANCING TRANSACTIONS	**21**	**62**	**191**	**109**	**70**	**61**
Net Advances Received	- 76	35	37	3	3	9
Net Domestic and Overseas Borrowings	236	62	162	2	12	13
Increase in Provisions (net)	62	50	62	62	62	62
Other Financing Transactions	- 201	- 85	- 70	42	- 6	- 23
TOTAL FINANCING TRANSACTIONS	**21**	**62**	**191**	**109**	**70**	**61**
Less Increase in Provisions (net)	62	50	62	62	62	62
DEFICIT (+) / SURPLUS (-)	**- 41**	**12**	**129**	**46**	**8**	**- 1**

(a) Presented on a UPF basis, excludes entities external to the Public Account as set out in Appendix 2.1.