
2003-04 MID-YEAR REPORT

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OVERVIEW

The *Fiscal Integrity and Transparency Act* requires the Treasurer to prepare and publicly release a mid-year fiscal outlook report each year. This report also meets the Territory's obligations under the Uniform Presentation Framework.

The *Fiscal Integrity and Transparency Act* also requires the Territory Government to comply with external reporting standards. The external reporting standard is the Uniform Presentation Framework (UPF). The UPF is in turn based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS).

The general government sector is the focus for revenue and expenditure, as this is the sector that is reliant on Government's taxing policies and Commonwealth revenue. The non-financial public corporation sector should, by its nature, generate sufficient revenue to meet operating costs.

In regards to the analysis of assets and liabilities, as is the case with all jurisdictions, the emphasis is on the non-financial public sector (excludes Northern Territory Treasury Corporation and Territory Insurance Office). Jurisdictions may vary treatment and classification of assets and liabilities, therefore assessment on a non-financial public sector basis means these differences are removed.

ECONOMIC OUTLOOK

The economic outlook for 2003-04 can be summarised as follows:

- growth is expected to strengthen to 1.6 per cent in 2003-04, compared with the forecast of 3.4 per cent at the time of the Budget. Downward revisions to oil production from Laminaria-Corallina, as well as the impact of delays in production of condensate from Bayu-Undan stage one, will result in weaker export growth and headline Gross State Product than previously forecast;
- the improvement in onshore economic activity is expected to continue;
- services exports are expected to recover;
- consumption is expected to moderate;
- dwellings investment is forecast to make a positive contribution to Territory economic growth; and
- major projects still to be a major influence on business investment.

FISCAL POSITION AND OUTLOOK

Table I.1 shows the variation in operating measures for general government from the 2003-04 Budget to the revised Budget.

Table I.1: General Government – Change in Operating Measures

Budget and Mid-Year Report	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M
General Government				
2003-04 Published Budget				
Net Operating Balance (a)	2	-28	24	24
Net Lending /Borrowing (b)	-26	-35	18	21
Surplus/ Deficit (c)	-24	0	23	39
Mid-Year Report				
Net Operating Balance (a)	5	-18	9	19
Net Lending /Borrowing (b)	-34	-29	0	13
Surplus/ Deficit (c)	-1	0	4	30
Variation				
Net Operating Balance (a)	3	10	-15	-5
Net Lending /Borrowing (b)	-8	6	-18	-8
Surplus/ Deficit (c)	23	0	-19	-9

The estimated cash deficit (c) for 2003-04 is \$1 million, a \$23 million improvement on the 2003-04 Published Budget for general government. In 2004-05 the Territory Budget is expected to be in balance, which is in line with the Territory's fiscal strategy target.

GST revenues have increased by \$41 million for 2003-04, reflecting a \$53 million increase in the pool size offset by a \$12 million decrease due to a reduced population growth forecast of -0.2 percent in 2003-04. In relation to Northern Territory own-source revenue, there is no material change to the aggregate 2003-04 Budget taxation estimates, however, there have been a number of variations to the tax mix.

Increases in GST revenue (\$41 million) in 2003-04 have basically funded the \$45 million carryover of cash expenditure from 2002-03. The carryover comprises \$35 million in operational expenditure and \$10 million in capital expenditure. The carryover also comprises liabilities incurred in 2002-03 and not paid until 2003-04 and expenditure deferred until 2003-04.

Since the 2002-03 outcome, there have been a number of funding decisions totalling \$28 million which have been funded from Treasurer's Advance (\$24 million). As such, this funded amount has no effect on the net operating balance or the cash deficit. Other budget variations which assist with the overall improvement of \$23 million include the removal of the Budget Balancing Assistance repayment of \$18 million, no longer required, and reduced interest costs due to reduced cash levels.

The trend is similar with the accrual measures for 2003-04. The net operating balance (a) for the general government sector has increased from a surplus of \$2 million at the time of the 2003-04 Published Budget to a surplus of \$5 million. This reflects an increase in revenue of \$48 million, offset by an increase in expenses of \$45 million. The net lending/borrowing measure (b) has decreased by \$8 million over the same period, reflecting the slight increase in the net operating balance, offset by increased expenditure on non-financial assets. Over the forward estimates period, general government revenue is forecast to grow at a similar rate to expenditure, resulting in a surplus for all accrual measures from 2005-06.

Table 1.2 shows the variation in balance sheet measures for non-financial public sector from the 2003-04 Budget to the revised Budget.

Table 1.2: Non-Financial Public Sector – Change in Balance Sheet Measures

Budget and Mid-Year Report	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M
Non-Financial Public Sector				
2003-04 Published Budget				
Net Worth (d)	2 051	2 054	2 097	2 142
Net Financial Worth (e)	-3 524	-3 532	-3 513	3 488
Net Debt (f)	1 825	1 836	1 817	1 782
Mid-Year Report				
Net Worth (d)	1 923	1 935	1 963	2 002
Net Financial Worth (e)	-3 484	-3 487	-3 485	-3 469
Net Debt (f)	1 726	1 735	1 734	1 706
Variation				
Net Worth (d)	-128	-119	-134	-140
Net Financial Worth (e)	40	45	28	-19
Net Debt (f)	-99	-101	-83	-76

Non-Financial public sector net debt (f) is forecast to decline by \$99 million in 2003-04. Over the forward estimates period, the decline in net debt is expected to continue. In 2006-07, net debt is expected to be \$76 million lower than anticipated at the time of the 2003-04 published Budget.

FISCAL STRATEGY

The Government's fiscal strategy is based on three key principles:

- sustainable government services;
- competitive tax environment; and
- prudent management of liabilities.

Based on the revised projections, all targets are expected to be met. The Territory is still on track to achieve a balanced budget in 2004-05 and a net operating surplus by 2005-06, in line with its fiscal strategy targets. Net debt and employee liabilities for 2003-04 and the forward estimates period have significantly reduced compared with the Budget estimates, reflecting the flow-on impact of the 2002-03 cash surplus on the estimates.

FISCAL STRATEGY AND ECONOMIC OUTLOOK

The *Fiscal Integrity and Transparency Act* requires the Mid-Year Report to provide updated information to allow an assessment of the Government's fiscal performance against the fiscal strategy, as set out in the 2003-04 Budget papers. The Act also requires an update of the economic and other assumptions upon which financial projections are based.

FISCAL STRATEGY

Overall, the Territory's level of indebtedness has increased in recent years due to successive cash deficits and infrastructure investment, particularly in the Alice Springs to Darwin railway and the East Arm Port. As well, there has also been an increase in unfunded superannuation liabilities.

Against this background, the Government has framed its medium-term fiscal objectives of:

- curbing the growth in net debt and employee liabilities, while continuing to provide adequate levels of service to the community;
- a commitment to a balanced budget through continuation of the deficit reduction strategy; and
- a resultant decline in net debt and employee liabilities.

Implementation and refinement of an accrual output-based budget will assist in the achievement of these objectives.

The Government's fiscal strategy is expressed as a set of key principles, specified each year in the budget papers. The principles for the 2003-04 Budget year are:

- sustainable government services;
- a competitive tax environment; and
- prudent management of liabilities.

Each principle contains targets which provide the basis upon which fiscal decisions are taken.

SUSTAINABLE GOVERNMENT SERVICES

Target: General Government Cash Surplus by 2004-05

The 2002-03 Budget target of eliminating the Territory's general government cash deficit by 2004-05 remains unchanged.

Table 2.1: Cash Targets and Outcomes – General Government

	2002-03	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M	\$M
2003-04 Budget	-31	-24	0	+23	+39
2003-04 Revised	+9 ⁽¹⁾	-1	0	+4	+30
Variation	+40	+23	0	-19	-9

1. Actual outcome

The Territory is expected to achieve a cash deficit of \$1 million in 2003-04 which is a \$23 million improvement on the Budget estimate. The Territory is still on track to achieve a balanced budget in 2004-05.

Target: General Government GFS Operating Balance within 10 Years from 2002-03

The Territory adopted accrual output-based financial management practices in 2002-03, and until these measures are fully established, the cash balance measure will be used to supplement the accrual measures as a basis for assessing the financial performance and position of the public sector. This is more important in the early years of implementation of accrual accounting when volatility in accrual measures can be expected.

The Government's commitment to restoring the Territory's financial position to a level comparable with other jurisdictions is evident in the forward estimates period, as detailed in Table 2.2.

Table 2.2: Net Operating Balance – General Government

	2002-03	2003-04	2004-05	2005-06	2006-07
2003-04 Budget					
Net Operating Balance (\$M)	-38	+2	-28	+24	+24
As a Proportion of Total Revenue (%)	-1.6	+0.1	-1.1	+0.9	+0.9
2003-04 Revised					
Net Operating Balance (\$M)	-1 ⁽¹⁾	+5	-18	+9	+19
As a Proportion of Total Revenue (%)	-0.0	+0.2	-0.7	+0.4	+0.7
Variation					
Net Operating Balance (\$M)	+37	+3	+10	-15	-5

1. Actual outcome

The Territory is forecast to achieve a slight net operating balance of \$5 million in 2003-04. This is an improvement on the Budget estimate of \$2 million. In the forward estimates period, the Territory is on track to achieve an operating surplus in line with its fiscal strategy target.

Table 2.3 shows the net operating balance as a proportion of total revenue for each jurisdiction.

Table 2.3: Net Operating Balance as a Proportion of Total Revenue – General Government

	2002-03 Outcome	2003-04 Revised
	%	%
New South Wales	+4.5	+2.7
Victoria	+5.6	+1.6
Queensland	+0.1	+0.7
Western Australia	+2.1	+0.7
South Australia	+3.6	+0.6
Tasmania	+7.1	-0.5
Australian Capital Territory	+6.2	-0.2
State Average	+3.8	+1.5
Northern Territory	-0.0	+0.2

Source: State Budget Papers and Outcome Reports, and Northern Territory Treasury

Target: Maintain a Capital Investment Strategy Based on Service Delivery and Economic Development Requirements

Adequate capital investment is central to the delivery of Government services and the provision of economic infrastructure. Table 2.4 presents the actual and budgeted level of purchases of non-financial assets from 2003-04 to 2006-07.

Table 2.4: Purchases of Non-Financial Assets

	2002-03	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M	\$M
2003-04 Budget	242	193	166	166	166
2003-04 Revised	224 ⁽¹⁾	205	169	169	169
Variation	-18	+12	+3	+3	+3

1. Actual outcome

Purchases of non-financial assets have increased by \$12 million from the time of the Budget and by \$3 million over the forward estimates period.

The increase in capital expenditure in recent years has been driven by the railway and Port projects and the reduction in capital expenditure in 2004-05 represents a return to more historical levels.

COMPETITIVE TAX ENVIRONMENT

Target: Ensure Territory Taxes and Charges are Competitive with the Average of the States

The Government is committed to maintaining taxation levels that are competitive with other States. Comparisons of relative tax competitiveness are complex due to the inherent differences in respective economies and in taxation regimes. Taxation revenue per capita is the simplest of those measures.

In 2003-04, the Territory is expected to have the second lowest level of taxation revenue per capita after Tasmania. As shown in Table 2.5 taxation revenue per capita is expected to remain fairly stable over the forward estimates, indicating that the Territory will remain competitive with the States.

Table 2.5: Taxation Revenue Per Capita – General Government

	2002-03 Outcome	2003-04 Revised
	\$ per capita	\$ per capita
New South Wales	2 123	2 108
Victoria	1 887	1 910
Queensland	1 493	1 480
Western Australia	1 746	1 800
South Australia	1 557	1 607
Tasmania	1 178	1 122
Australian Capital Territory	1 961	1 980
State Average	1 836	1 842
Northern Territory	1 248	1 299

Source: State Budget Papers and Outcome Reports and Northern Territory Treasury

As shown in Table 2.6, tax revenue per capita has increased on the budget estimate to \$1 299 in 2003-04. Over the forward estimates, tax revenue per capita is forecast to be lower than the 2003-04 Budget estimate. This is mainly due to the effect of the scheduled

abolition of debits tax in 2004-05. However, the abolition is subject to review by the Ministerial Council for Commonwealth State Financial Relations.

Table 2.6: Northern Territory Taxation Revenue Per Capita – General Government

	2002-03	2003-04	2004-05	2005-06	2006-07
2003-04 Budget					
Revenue (\$M)	254	254	260	267	271
Per Capita (\$)	1 288	1 278	1 293	1 314	1 316
2003-04 Revised					
Revenue (\$M)	246 ⁽¹⁾	256	255	260	263
Per Capita (\$)	1 248	1 299	1 282	1 288	1 291
Variation					
Revenue (\$M)	-8	+2	-5	-7	-8
Per Capita (\$)	-40	+21	-11	-26	-25

1. Actual outcome

A more sophisticated measure of tax competitiveness is the Commonwealth Grants Commission's analysis of 'tax effort', which adjusts for the extent that a particular State's capacity to raise revenue is above or below average. In 2001-02, the last year assessed by the Commonwealth Grants Commission, the Territory's tax effort (97 per cent) was much closer to the Australian average (100 per cent) than the simple per capita measure implies. This shows that the Territory's low per capita measure reflects Territory's low tax-raising capacity (74 per cent), rather than a lack of taxation effort.

PRUDENT MANAGEMENT OF LIABILITIES

The effective management of liabilities requires focus on targeting, monitoring and reducing net debt and employee liabilities to prudent levels.

It should be noted that for benchmarking the Territory against other jurisdictions, the broader non-financial public sector scope is used, rather than the general government sector. The broader focus is appropriate because of substantial differences between the States in the allocation of debt and employee liabilities between the general government sector and the public non-financial corporations sector.

Target: Net Debt and Employee Liabilities as a Proportion of Total Revenue to Fall

The level of net debt has been a focus for all jurisdictions over the last decade. The Territory's debt levels increased during the 1980s when deficits were incurred at a time of significant asset growth. Debt levels moderated in the 1990s although not as much as in the other States where reductions were largely driven by significant asset sales.

In the last five years, however, the Territory's net debt has increased due to significant infrastructure initiatives such as the Alice Springs to Darwin railway and East Arm Port, as well as ongoing cash deficits. As a result, Territory debt levels are now relatively high compared to the States.

Unfunded employee entitlements, consisting largely of unfunded superannuation and other employee entitlements (such as workers' compensation and long service leave) are also a major liability for the Territory and most of the States.

The sum of net debt and employee liabilities provides a more comprehensive measure of the Territory's overall liability position. Table 2.7 shows that the Territory has the highest level of net debt and net debt plus employee liabilities. In 2003-04, net debt and net debt plus employee liabilities are estimated to be 61 per cent and 125 per cent of total revenue respectively.

Table 2.7: Net Debt (Nd) And Net Debt Plus Employee Liabilities to Revenue – Non-Financial Public Sector

	2002-03 Outcome		2003-04 Revised	
	ND to Revenue	ND + EL to Revenue	ND to Revenue	ND + EL to Revenue
	%	%	%	%
New South Wales	29	91	32	98
Victoria	9	71	12	78
Queensland	1	64	5	64
Western Australia	32	76	43	86
South Australia	28	86	30	89
Tasmania	53	124	49	118
Australian Capital Territory	-24	54	-29	59
State Average	19	79	23	85
Northern Territory	64	131	61	125

Source: State Budget Papers and Outcome Reports and Northern Territory Treasury

Table 2.8: Northern Territory Net Debt and Net Debt plus Employee Liabilities to Revenue – Non-Financial Public Sector

	2002-03	2003-04	2004-05	2005-06	2006-07
2003-04 Budget					
Net Debt (\$M)	1 813	1 825	1 836	1 817	1 782
Net Debt to Revenue (%)	66	65	65	61	58
Net Debt plus Employee Liabilities (\$M)	3 619	3 637	3 676	3 666	3 655
Net Debt plus Employee Liabilities to Revenue (%)	132	130	130	123	119
2003-04 Revised					
Net Debt (\$M)	1 723	1 726	1 735	1 734	1 706
Net Debt to Revenue (%)	64	61	61	58	55
Net Debt plus Employee Liabilities (\$M)	3 508	3 538	3 570	3 577	3 573
Net Debt plus Employee Liabilities to Revenue (%)	131	125	125	119	115
Variation					
Net Debt (\$M)	-90	-99	-101	-83	-76
Net Debt to Revenue (%)	-2	-4	-4	-3	-3
Net Debt plus Employee Liabilities (\$M)	-111	-99	-106	-89	-82
Net Debt plus Employee Liabilities to Revenue (%)	-1	-5	-5	-4	-4

Note: Other provisions included in Balance Sheet aggregate Other Employee Liabilities and Provisions are not included in the measure of Territory Employee Liabilities as they are not Employee Liabilities. Employee Liabilities (excluding provisions) are as follows: 2002-03 \$347M, 2003-04 \$334M, 2004-05 \$346M, 2005-06 \$358M and 2006-07 \$370M.

Table 2.8 shows that net debt and net debt plus employee liabilities have declined since the Budget estimates for 2003-04 and over the forward estimates period. This is due chiefly to the impact of the 2002-03 cash surplus on the Budget estimates. The table also shows the impact of the revised estimates on the Government's deficit reduction strategy and its commitment to prudently manage unfunded liabilities.

ECONOMIC OUTLOOK

THE ECONOMY AND THE BUDGET

In terms of the Budget and Mid-Year Report, economic parameters are used in developing Government revenue (both own-source and Commonwealth grants), and expenditure estimates and forecasts. Commonwealth grants make up approximately 80 per cent of Territory Government revenues and, to a large extent, are based on population. As such, population growth forecasts are important in estimating Commonwealth grant revenues. Own-source revenue is dominated by payroll tax and taxes on property, which combined typically account for around 60 per cent of these revenues. Key drivers of payroll tax receipts are employment and wages growth, while property tax receipts are influenced by the value and number of property transactions, all of which are influenced by the economic prospects for the Territory.

STRUCTURE OF THE ECONOMY

The structure of the Northern Territory economy reflects its abundance of natural resources, its importance in national defence and its relatively large public sector. Territory Gross State Product (GSP), at around \$9 billion, accounts for approximately 1.2 per cent of national Gross Domestic Product (GDP). The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in key export markets and, in turn, the world economy.

The industry structure of the Territory economy is quite different to that nationally, with mining, government administration, defence and tourism-related sectors relatively more significant in the Territory economy. As a proportion of the economy, manufacturing is less significant in the Territory than nationally, reflecting limited secondary processing capacity at present.

In the past ten years, a key driver of the Territory economy has been the increase in numbers of Defence personnel, contributing to a major cycle in economic activity. The next few years will see another phase of infrastructure and resource investment following the completion of the Alice Springs to Darwin railway. Increased capacity coming on stream in transport and mining and energy, mainly oil and gas, will generate opportunities in other industries, particularly manufacturing and services.

ECONOMIC PERFORMANCE

Onshore economic activity continued to show positive signs in 2002-03, and although patchy across industry sectors, State Final Demand (a measure of consumption and investment), increased by 4.8 per cent as both consumption and investment strengthened. Consumption, a key element of onshore economic activity, increased by 5.1 per cent and work for the liquefied natural gas (LNG) plant at Wickham Point boosted business investment. After three years of weak housing construction activity, dwellings investment increased by 10.2 per cent, supported by continued low interest rates and a more balanced housing market.

Despite strengthening onshore economic conditions, Northern Territory Gross State Product contracted by 0.8 per cent in 2002-03 as falling offshore oil production, which has limited links to the onshore economy, continued to negatively impact on exports. The Territory economy also continued to be affected by the downturn in international visitor arrivals, with international services exports (a significant proportion of which are tourism-related) falling by 16.3 per cent in 2002-03.

ECONOMIC OUTLOOK

Gross State Product

Gross State Product (GSP) growth is expected to strengthen to 1.6 per cent in 2003-04, compared with 3.4 per cent growth forecast at the time of the Budget. The strengthening in the onshore economy in 2002-03 is expected to continue in 2003-04, although downward revisions to oil production from Laminaria-Corallina, as well as the impact of delays in production of condensate from Bayu-Undan stage one, will result in weaker export growth and headline GSP. Full commercial production from Bayu-Undan stage one, which is in the Joint Petroleum Development Area in the Timor Sea, is now not expected until late 2004.

Consumption

Private consumption growth is set to moderate in 2003-04 after peaking in 2002-03. Some easing back is to be expected after such a strong pick up, but employment and income growth and increased demand for household items related to a pick up in population growth and dwellings construction should continue to underpin expenditure. Discretionary disposable income growth will be a major influence on household spending, and consumer confidence will be important in determining how strongly retail sales and other consumption expenditure grow. As population growth picks up in the medium term, consumption can be expected to strengthen further.

Residential investment

Dwellings investment is forecast to make a positive contribution to Territory economic growth in 2003-04. Vacancy rates have come down to a level approaching equilibrium and, as a shortage of stock develops, the upturn in residential construction will gather momentum. However, to the extent that various incentive schemes pulled demand forward, the upswing in the Territory housing cycle is likely to be more muted in the short term than would otherwise have been the case. Residential construction will continue to benefit from the further reduction in stamp duty for home buyers introduced in August 2002.

Business investment

Business investment, which has been an important driver of growth in the past few years, is expected to decline by almost 6.5 per cent in 2003-04, but will remain at a very high level. For the railway, construction work is largely completed, but the acquisition of rolling stock will require further investment.

Construction for Bayu-Undan stage two, which commenced in early 2003, will provide a significant boost to the local economy in 2003-04. Local contracts and employment associated with Bayu-Undan stage two will generate significant and localised flow-on benefits, acting to underpin economic activity, consumer confidence and business sentiment. Non-residential building activity is forecast to strengthen as work continues on a number of office, retail and hotel developments already under way.

Goods and services exports

Despite a number of setbacks in the past year, improving external conditions should act to boost demand for Territory exports, including international tourism, which has been adversely affected by recent global events. Exports will continue to be dominated by mineral and energy production, but strengthening international tourism activity, with its stronger linkages to the onshore economy, will have a greater impact on onshore activity and employment.

Employment

Employment growth is estimated to strengthen towards 1.0 per cent in 2003-04, revised down from 2.0 per cent in the Budget. The extent of the fallback in employment

associated with the completion of the railway and weaker tourism activity has been more pronounced than expected. Nonetheless, employment over the remainder of 2003-04 will be boosted by work for the LNG plant and stronger residential building and tourism activity.

Population

Territory population growth, which has been moderating for several years, is expected to start to strengthen in 2004. Nonetheless, annual population growth to December 2003 has been revised down from 0.7 per cent at the time of the Budget to -0.2 per cent in the Mid-Year Report, as interstate migration, as reported by the ABS, continues to act as a drag on growth. Increased employment opportunities associated with strengthening onshore activity combined with the relocation of Defence personnel should have a positive impact on net interstate migration and population growth in 2004, with forecast growth of 0.7 per cent in the year to December 2004.

Consumer Price Index

The Darwin Consumer Price Index is forecast to remain low at around 2 per cent in 2003-04. Further out, the impact of strengthening demand for labour associated with engineering and construction activity and a stronger economy is likely to result in higher wage and price inflation.

Table 2.9 represents a summary of the economic parameters.

Table 2.9: Territory Economic Indicators

% Change	1999-	2000-	2001-	2002-	Forecast				
					2003-	2004-	2005-	2006-	2007-
Gross State Product	-1.2	6.0	2.2	-0.8	1.6				
State Final Demand	-4.2	1.0	11.8	4.8	1.2				
Employment	-2.2	1.1	5.7	-0.5	1.0				
Population	1.6	1.0	0.9	0.1	-0.2	0.7	1.3	1.3	1.3
Darwin CPI	1.4	5.4	2.2	2.3	2.1	2.5	2.5	2.5	2.5

Source: Northern Territory Treasury, Australian Bureau of Statistics data

FISCAL POSITION AND OUTLOOK

This section provides a comparative analysis of the revised 2003-04 Budget with the published 2003-04 Budget for the budget year and forward estimates period. In relation to revenue and expenditure and cash flows, discussion will focus on general government sector, as this is the sector which is reliant on the Government's taxing policies and Commonwealth revenue. The public non-financial corporation sector should by its nature, generate sufficient revenue to meet operating costs.

In regards to the analysis of assets and liabilities, the emphasis is on the non-financial public sector (excludes Northern Territory Treasury Corporation and Territory Insurance Office) rather than the general government sector. This broader focus is appropriate because of substantial differences between the States and Territories in the allocation of assets and liabilities between the general government and public non-financial corporation sectors. Therefore, the non-financial public sector is the appropriate sector to compare the Territory's financial position with other jurisdictions.

GENERAL GOVERNMENT

OPERATING STATEMENT

Table 3.1 shows the variation in estimates from the 2003-04 Budget to the revised Budget.

Table 3.1: Operating Statement – General Government

Budget and Mid-Year Report	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M
General Government				
2003-04 Published Budget				
Revenue	2 407	2 445	2 560	2 667
Expenses	2 405	2 473	2 536	2 643
Net Operating Balance (a)	2	-28	24	24
Net Lending /Borrowing (b)	-26	-35	18	21
Surplus/ Deficit (c)	-24	0	23	39
Mid-Year Report				
Revenue	2 455	2 487	2 604	2 719
Expenses	2 450	2 505	2 594	2 699
Net Operating Balance (a)	5	-18	9	19
Net Lending /Borrowing (b)	-34	-29	0	13
Surplus/ Deficit (c)	-1	0	4	30
Variation				
Revenue	48	42	44	52
Expenses	45	32	58	56
Net Operating Balance (a)	3	10	-15	-5
Net Lending /Borrowing (b)	-8	6	-18	-8
Surplus/ Deficit (c)	23	0	-19	-9

OPERATING REVENUE

Since the May Budget, revenue estimates for 2003-04 have increased by \$48 million to \$2 455 million, predominantly due to increased GST revenue. Revised estimates of national GST revenue (which increased by \$700 million) have resulted in a \$41 million increase in GST revenue for the Territory in 2003-04. Increases in GST revenue have also been

factored into the forward estimates period. In relation to own-source revenue, revised revenue estimates are broadly in line with budget forecasts. (Refer to the appendix for further information regarding Territory own-source and Commonwealth revenue.)

OPERATING EXPENSES

There have been a number of decisions made by the Government since the 2003-04 Budget. The total cash impact of these decisions is \$28 million for the general government sector. Of this amount, \$24 million has been funded by Treasurer's Advance. Those decisions funded by Treasurer's Advance do not impact on operating expenses as they have had already been accounted for in the 2003-04 Budget. The key decisions include:

- the Road Network Strategy; \$3 million in 2003-04;
- investing in the future of the Territory tourism industry, totalling \$27.5 million over 3 years; \$7.5 million in 2003-04, \$10 million in 2004-05 and \$10 million in 2005-06; and
- the Police Resources Review, totalling \$75 million over 4 years; \$7.3 million in 2003-04, \$16.5 million in 2004-05, \$20.5 million in 2005-06 and \$28.2 million in 2006-07.

Additional operating expenditure includes the carryover of \$35 million from 2002-03 with Commonwealth Government programs contributing the majority of the carryover (\$23 million). In addition, revenue-related expenditure changes have resulted in an additional \$6 million in operating expenditure.

Overall, general government operating expenses have increased by \$45 million in 2003-04, increasing to \$56 million in 2006-07. A detailed schedule of agency total expenses (on a gross basis) is included on page 26 of this report.

NET OPERATING BALANCE

The net operating balance (a) shows the net effect of the Government's operating transactions. The fiscal strategy presented in the 2003-04 Budget has as one of its targets that the general government net operating result will be in balance within ten years from 2002-03.

In 2003-04, the net operating balance (a) for the general government sector has improved from a surplus of \$2 million at the time of the published 2003-04 Budget to a surplus of \$5 million. The projection shows a deficit in 2004-05 returning to a surplus position for 2005-06 and 2006-07.

NET LENDING (ACCRUAL FISCAL BALANCE)

The net lending, or fiscal balance, differs from the net operating balance in that it includes net capital expenditure and excludes non-cash depreciation costs. In a year where the Government undertakes major infrastructure works, the net lending surplus (or deficit) will be significantly different to the net operating balance.

The net lending/borrowing measure (b) has declined by \$8 million since the Budget reflecting the increase in the net operating balance, offset by increased expenditure on non-financial assets.

CASH FLOW STATEMENT

CASH SURPLUS (+) / DEFICIT (-) (CASH FISCAL BALANCE)

The Territory is likely to exceed its cash target in 2003-04 (\$24 million deficit) by achieving a cash deficit (c) of \$1 million, which is a \$23 million improvement on the Budget time estimate. In 2004-05, the Territory Budget is expected to be in balance which is in line with the Territory's fiscal strategy target.

A number of events have resulted in the improved result. This includes not having to repay Budget Balancing Assistance (-\$18 million) to the Commonwealth in 2003-04,

additional GST revenue (+\$41 million), timing delays in relation to the 27 paydays in 2003-04 (-\$17 million) and the carryover of cash payments from 2002-03, among others.

NON-FINANCIAL PUBLIC SECTOR

Total assets (d) (as shown in Table 3.2) for the non-financial public sector are estimated to decrease by \$122 million from the 2003-04 Budget estimate. While financial assets have significantly increased, this has been offset by the downward revaluation of non-financial assets such as Territory roads and bridges. Nevertheless, the Territory continues to invest in its assets with non-financial asset purchases increasing by \$25 million since the 2003-04 Budget. Of this expenditure, the Government has allocated an additional \$12 million for its housing program.

Total liabilities (e) have increased by \$7 million since the Budget. This reflects increases in superannuation, employee entitlements and other liabilities, offset by a reduction in borrowings.

Net worth (f) has declined by \$128 million since the Budget, primarily reflecting the reduction in assets due to revaluations and increased liabilities, while the Territory's net financial worth (g) has increased, reflecting the increase in financial assets associated with the cash surplus.

Non-Financial public sector net debt (h) is forecast to decline by \$99 million in 2003-04. In the forward estimates period, the decline in net debt is expected to continue over time. In 2006-07, net debt is expected to be \$76 million lower than anticipated at the time of the 2003-04 Published Budget.

Table 3.2: Balance Sheet - Non-Financial Public Sector

Budget and Mid-Year Report	2003-04	2004-05	2005-06	2006-07
	\$M	\$M	\$M	\$M
Non-Financial Public Sector				
2003-04 Published Budget				
Assets (d)	6 360	6 396	6 457	6 535
Liabilities (e)	4 309	4 343	4 360	4 393
Net Worth (f)	2 051	2 054	2 097	2 142
Net Financial Worth (g)	-3 524	-3 532	-3 513	-3 488
Net Debt (h)	1 825	1 836	1 817	1 782
Mid-Year Report				
Assets (d)	6 238	6 281	6 326	6 399
Liabilities (e)	4 316	4 346	4 363	4 397
Net Worth (f)	1 923	1 935	1 963	2 002
Net Financial Worth (g)	-3 484	-3 487	-3 485	-3 469
Net Debt (h)	1 726	1 735	1 734	1 706
Variation				
Assets (d)	-122	-115	-131	-136
Liabilities (e)	7	3	3	4
Net Worth (f)	-128	-119	-134	-140
Net Financial Worth (g)	40	45	28	-19
Net Debt (h)	-99	-101	-83	-76

UNIFORM PRESENTATION FRAMEWORK – FINANCIAL STATEMENTS

Table 4.1

GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

	Budget 2003-04 \$000	Revised 2003-04 \$000	2004-05 \$000	Forward Estimates 2005-06 2006-07 \$000	
REVENUE					
Taxation revenue	253 674	255 774	255 443	259 738	263 350
Current grants and subsidies	1 878 000	1 917 177	1 963 577	2 079 315	2 188 629
Capital grants	74 560	79 764	77 857	74 927	75 077
Sales of goods and services	85 467	87 156	90 671	90 753	90 509
Interest income	14 732	17 372	14 336	14 351	14 463
Other	100 961	97 891	85 132	84 627	86 560
TOTAL REVENUE	2 407 394	2 455 134	2 487 016	2 603 711	2 718 588
EXPENSES					
Gross operating expenses	1 718 009	1 739 037	1 825 058	1 912 647	2 019 194
Depreciation	133 309	133 966	134 462	135 622	138 307
Employee expenses	959 603	974 128	999 169	1 027 635	1 067 532
Other operating expenses	625 097	630 943	691 427	749 390	813 355
Nominal superannuation interest expense	83 634	83 634	85 122	86 046	87 767
Other interest expenses	137 063	135 050	122 155	118 276	114 342
Other property expenses					
Current transfers	414 611	431 877	423 144	427 623	426 619
Capital transfers	51 832	60 588	49 697	49 839	51 334
TOTAL EXPENSES	2 405 149	2 450 186	2 505 176	2 594 431	2 699 256
NET OPERATING BALANCE	2 245	4 948	- 18 160	9 280	19 332
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	192 865	205 448	169 001	168 630	168 630
Sales of non-financial assets	- 32 059	- 33 947	- 25 230	- 25 230	- 25 230
<i>less</i> Depreciation	133 309	133 966	134 462	135 622	138 307
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non-financial assets	1 073	1 073	1 075	1 080	1 077
<i>equals</i> Total net acquisition of non-financial assets	28 570	38 608	10 384	8 858	6 170
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal Balance)	- 26 325	- 33 660	- 28 544	422	13 162

Table 4.2

**GENERAL GOVERNMENT SECTOR
CASH FLOW STATEMENT**

	Budget	Revised	Forward Estimates		
	2003-04	2003-04	2004-05	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	253 474	255 574	255 136	259 238	262 850
Receipts from sales of goods and services	84 288	85 926	89 416	89 152	88 483
Grants/subsidies received	1 952 560	1 996 941	2 041 434	2 154 242	2 263 706
Other receipts	127 044	126 617	105 512	95 635	94 813
Total operating receipts	2 417 366	2 465 058	2 491 498	2 598 267	2 709 852
Cash payments for operating activities					
Payment for goods and services	-1 660 912	-1 665 338	-1 752 304	-1 854 565	-1 943 699
Grants and subsidies paid	- 483 943	- 492 355	- 472 896	- 477 517	- 477 953
Interest paid	- 137 085	- 135 457	- 121 766	- 117 828	- 113 863
Other payments					
Total operating payments	-2 281 940	-2 293 150	-2 346 966	-2 449 910	-2 535 515
NET CASH FLOWS FROM OPERATING ACTIVITIES	135 426	171 908	144 532	148 357	174 337
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	32 059	33 947	25 230	25 230	25 230
Purchases of non-financial assets	- 192 865	- 205 448	- 169 001	- 168 630	- 168 630
Net cash flows from investments in non-financial assets	- 160 806	- 171 501	- 143 771	- 143 400	- 143 400
Net cash flows from investments in financial assets for policy purposes (a)	16 220	16 220	1 110	1 110	1 110
Net cash flows from investments in financial assets for liquidity purposes	30 000	120 000	40 000		
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 114 586	- 35 281	- 102 661	- 142 290	- 142 290
Net cash flows from financing activities					
Advances received (net)	- 101	- 101			
Borrowing (net)	- 17 160	- 118 199	- 3 148	- 1 723	- 1 324
Deposits received (net)	- 16 232	- 42 109	- 2 484	5 428	4 106
Distributions paid					
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 33 493	- 160 409	- 5 632	3 705	2 782
NET INCREASE/ DECREASE IN CASH HELD	- 12 653	- 23 782	36 239	9 772	34 828
Net cash from operating activities and investments in non-financial assets	- 25 380	407	761	4 957	30 937
Finance leases and similar arrangements	1 073	- 1 073	- 1 075	- 1 080	- 1 077
SURPLUS (+) / DEFICIT (-) (b)	- 24 307	- 666	- 314	3 877	29 860

(a) Includes equity acquisitions, disposals and privatisations (net).

(b) Equates to net cash flows from operating activities plus net cash flows from investments in non-financial assets, less finance leases.

Table 4.3

**GENERAL GOVERNMENT SECTOR
BALANCE SHEET**

	Budget	Revised	Forward Estimates		
	2003-04	2003-04	2004-05	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	43 654	27 983	64 222	73 994	108 822
Advances paid	46 732	31 050	29 940	28 830	27 720
Investments, loans and placements	311 023	376 436	336 436	336 436	336 436
Other non-equity assets	82 477	107 948	98 976	100 017	104 474
Equity	1 424 724	1 425 073	1 458 554	1 480 779	1 503 769
Total financial assets	1 908 610	1 968 490	1 988 128	2 020 056	2 081 221
Non-financial assets					
Land and fixed assets	3 779 073	3 597 982	3 605 069	3 610 601	3 613 445
Other non-financial assets					
Total non-financial assets	3 779 073	3 597 982	3 605 069	3 610 601	3 613 445
TOTAL ASSETS	5 687 683	5 566 472	5 593 197	5 630 657	5 694 666
LIABILITIES					
Deposits held	134 081	164 405	161 921	167 349	171 455
Advances received	16 666	16 375	16 375	16 375	16 375
Borrowing	1 662 713	1 590 690	1 588 617	1 587 974	1 587 727
Superannuation liability	1 443 099	1 478 178	1 488 901	1 484 674	1 496 435
Other employee entitlements and provisions	339 508	329 961	337 684	345 639	353 584
Other non-equity liabilities	40 911	64 119	64 970	65 741	67 223
TOTAL LIABILITIES	3 636 978	3 643 728	3 658 468	3 667 752	3 692 799
NET WORTH	2 050 705	1 922 744	1 934 729	1 962 905	2 001 867
NET FINANCIAL WORTH (a)	-1 728 368	-1 675 238	-1 670 340	-1 647 696	-1 611 578
NET DEBT (b)	1 412 051	1 336 001	1 336 315	1 332 438	1 302 579

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances loans and placements.

Table 4.4

**PUBLIC NON-FINANCIAL CORPORATION SECTOR
OPERATING STATEMENT**

	Budget 2003-04	Revised 2003-04	2004-05	Forward Estimates	
	\$000	\$000	\$000	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Current grants and subsidies	77 788	77 338	75 202	75 202	75 065
Capital grants	10 037	10 037	10 037	10 037	10 037
Sales of goods and services	414 493	414 493	418 909	426 277	434 167
Interest income	15 589	15 589	15 090	14 994	14 901
Other	44 500	44 462	34 194	34 616	35 257
TOTAL REVENUE	562 407	561 919	553 432	561 126	569 427
EXPENSES					
Gross operating expenses	464 483	464 445	477 471	471 725	480 375
Depreciation	66 878	66 878	67 089	52 061	52 273
Employee expenses	44 693	44 693	48 852	49 300	50 508
Other operating expenses	352 912	352 874	361 530	370 364	377 594
Other interest expenses	51 794	51 794	50 798	50 317	49 860
Other property expenses	25 826	25 826	15 684	16 867	17 124
Current transfers	1 820	1 820	1 820	1 820	1 820
Capital transfers	988	988	988	988	988
TOTAL EXPENSES	544 911	544 873	546 761	541 717	550 167
NET OPERATING BALANCE	17 496	17 046	6 671	19 409	19 260
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	83 328	95 678	77 974	76 325	76 082
Sales of non-financial assets	- 12 535	- 12 535	- 13 020	- 13 020	- 13 020
<i>less</i> Depreciation	66 878	66 878	67 089	52 061	52 273
<i>plus</i> Change in inventories	- 79	- 79			
<i>plus</i> Other movements in non-financial assets	- 19 000	19 000	9 500	9 500	9 500
<i>equals</i> Total net acquisition of non-financial assets	- 15 164	35 186	7 365	20 744	20 289
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal Balance)	32 660	- 18 140	- 694	- 1 335	- 1 029

Table 4.5

**PUBLIC NON-FINANCIAL CORPORATION SECTOR
CASH FLOW STATEMENT**

	Budget	Revised	Forward Estimates		
	2003-04	2003-04	2004-05	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Receipts from sales of goods and services	406 838	408 903	411 700	418 306	426 313
Grants/subsidies received	10 174	10 174	10 174	10 174	10 037
Other receipts	118 755	118 253	114 849	115 175	115 723
Total operating receipts	535 767	537 330	536 723	543 655	552 073
Cash payments for operating activities					
Payment for goods and services	- 390 216	- 390 147	- 402 317	- 414 124	- 421 393
Grants and subsidies paid	- 2 808	- 2 808	- 2 808	- 2 808	- 2 808
Interest paid	- 51 967	- 51 967	- 50 964	- 50 473	- 50 019
Other payments					
Total operating payments	- 444 991	- 444 922	- 456 089	- 467 405	- 474 220
NET CASH FLOWS FROM OPERATING ACTIVITIES	90 776	92 408	80 634	76 250	77 853
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	12 535	12 535	13 020	13 020	13 020
Purchases of non-financial assets	- 83 328	- 95 678	- 77 974	- 76 325	- 76 082
Net cash flows from investments in non-financial assets	- 70 793	- 83 143	- 64 954	- 63 305	- 63 062
Net cash flows from investments in financial assets for policy purposes (a)	5 608	5 608	5 609	5 609	5 609
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 65 185	- 77 535	- 59 345	- 57 696	- 57 453
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	- 26 650	- 26 650	- 15 958	- 16 197	- 36 258
Deposits received (net)					
Distributions paid	- 20 478	- 20 481	- 24 481	- 15 645	- 16 867
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 47 128	- 47 131	- 40 439	- 31 842	- 53 125
NET INCREASE/ DECREASE IN CASH HELD	- 21 537	- 32 258	- 19 150	- 13 288	- 32 725
Net cash from operating activities and investments in non-financial assets	- 495	- 11 216	- 8 801	- 2 700	- 2 076
Finance leases and similar arrangements					
SURPLUS (+) / DEFICIT (-) (b)	- 495	- 11 216	- 8 801	- 2 700	- 2 076

(a) Includes equity acquisitions, disposals and privatisations (net).

(b) Equates to net cash flows from operating activities plus net cash flows from investments in non-financial assets, less finance lease

Table 4.6

**PUBLIC NON-FINANCIAL CORPORATION SECTOR
BALANCE SHEET**

	Budget 2003-04	Revised 2003-04	2004-05	Forward Estimates	
	\$000	\$000	\$000	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	79 685	106 576	87 426	74 138	41 413
Investments, loans and placements	173 925	167 981	162 372	156 763	151 154
Other non-equity assets	78 223	82 962	90 204	98 169	106 024
Equity	3	2	2	2	2
Total financial assets	331 836	357 521	340 004	329 072	298 593
Non-financial assets					
Land and fixed assets	1 795 855	1 808 830	1 816 210	1 836 969	1 857 273
Other non-financial assets					
Total non-financial assets	1 795 855	1 808 830	1 816 210	1 836 969	1 857 273
TOTAL ASSETS	2 127 691	2 166 351	2 156 214	2 166 041	2 155 866
LIABILITIES					
Deposits held	2 093	1 550	1 550	1 550	1 550
Advances received	308 414	308 414	308 414	308 414	308 414
Borrowing	355 740	354 600	338 642	322 445	286 187
Superannuation liability					
Other employee entitlements and provisions	54 908	85 591	81 148	86 692	91 221
Other non-equity liabilities	52 056	54 502	58 080	59 136	61 415
TOTAL LIABILITIES	773 211	804 657	787 834	778 237	748 787
<i>Shares and Other Contributed Capital</i>	<i>1 354 480</i>	<i>1 361 693</i>	<i>1 368 379</i>	<i>1 387 803</i>	<i>1 407 078</i>
NET WORTH					
NET FINANCIAL WORTH (a)	- 441 375	- 447 136	- 447 830	- 449 165	- 450 194
NET DEBT (b)	412 637	390 007	398 808	401 508	403 584

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances loans and placements.

Table 4.7

**NON-FINANCIAL PUBLIC SECTOR
OPERATING STATEMENT**

	Budget	Revised	Forward Estimates		
	2003-04	2003-04	2004-05	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	249 738	251 838	251 486	255 736	259 348
Current grants and subsidies	1 878 137	1 917 314	1 963 714	2 079 452	2 188 629
Capital grants	74 560	79 764	77 857	74 927	75 077
Sales of goods and services	428 329	430 187	437 982	458 755	466 421
Interest income	28 066	30 706	26 774	26 792	26 811
Other	142 495	113 561	100 660	99 394	101 711
TOTAL REVENUE	2 801 325	2 823 370	2 858 473	2 995 056	3 117 997
EXPENSES					
Gross operating expenses	2 103 960	2 125 119	2 223 992	2 319 113	2 434 330
Depreciation	200 187	200 844	201 551	187 683	190 580
Employee expenses	1 001 331	1 015 856	1 045 039	1 073 953	1 115 058
Other operating expenses	902 442	908 419	977 402	1 057 477	1 128 692
Nominal superannuation interest expense	83 634	83 634	85 122	86 046	87 767
Other interest expenses	186 602	184 589	170 301	166 040	161 649
Other property expenses					
Current transfers	338 780	356 496	349 899	354 378	353 374
Capital transfers	42 783	51 539	40 648	40 790	42 285
TOTAL EXPENSES	2 755 759	2 801 377	2 869 962	2 966 367	3 079 405
NET OPERATING BALANCE	45 566	21 993	- 11 489	28 689	38 592
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	276 193	301 126	246 975	244 955	244 712
Sales of non-financial assets	- 44 594	- 46 482	- 38 250	- 38 250	- 38 250
<i>less</i> Depreciation	200 187	200 844	201 551	187 683	190 580
<i>plus</i> Change in inventories	- 79	- 79			
<i>plus</i> Other movements in non-financial assets	- 17 926	20 072	10 575	10 580	10 577
<i>equals</i> Total net acquisition of non-financial assets	13 407	73 793	17 749	29 602	26 459
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal Balance)	32 159	- 51 800	- 29 238	- 913	12 133

Table 4.8

**NON-FINANCIAL PUBLIC SECTOR
CASH FLOW STATEMENT**

	Budget	Revised	Forward Estimates		
	2003-04	2003-04	2004-05	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	249 538	251 638	251 179	255 236	258 848
Receipts from sales of goods and services	419 495	421 288	429 518	449 017	456 541
Grants/subsidies received	1 952 697	1 997 078	2 041 571	2 154 379	2 263 706
Other receipts	144 280	143 801	118 121	117 547	116 051
Total operating receipts	2 766 010	2 813 805	2 840 389	2 976 179	3 095 146
Cash payments for operating activities					
Payment for goods and services	-1 975 555	-1 978 005	-2 116 063	-2 280 860	-2 397 947
Grants and subsidies paid	- 399 063	- 407 925	- 390 602	- 395 223	- 395 659
Interest paid	- 186 797	- 185 169	- 170 078	- 165 748	- 161 329
Other payments			37 000	74 614	95 112
Total operating payments	-2 561 415	-2 571 099	-2 639 743	-2 767 217	-2 859 823
NET CASH FLOWS FROM OPERATING ACTIVITIES	204 595	242 706	200 646	208 962	235 323
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	44 594	46 482	38 250	38 250	38 250
Purchases of non-financial assets	- 276 193	- 301 126	- 246 975	- 244 955	- 244 712
Net cash flows from investments in non-financial assets	- 231 599	- 254 644	- 208 725	- 206 705	- 206 462
Net cash flows from investments in financial assets for policy purposes (a)	21 828	21 828	6 719	6 719	6 719
Net cash flows from investments in financial assets for liquidity purposes	30 000	120 000	40 000		
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 179 771	- 112 816	- 162 006	- 199 986	- 199 743
Net cash flows from financing activities					
Advances received (net)	- 101	- 101			
Borrowing (net)	- 43 810	- 144 849	- 19 106	- 17 920	- 37 582
Deposits received (net)	6 027	- 9 129	21 399	23 980	42 095
Distributions paid	1 129	1 129	39		
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 36 755	- 152 950	2 332	6 060	4 513
NET INCREASE/ DECREASE IN CASH HELD	- 11 931	- 23 060	40 972	15 036	40 092
Net cash from operating activities and investments in non-financial assets	- 25 875	- 10 809	- 8 040	2 257	28 861
Finance leases and similar arrangements	1 073	- 1 073	- 1 075	- 1 080	- 1 077
SURPLUS (+) / DEFICIT (-) (b)	- 24 802	- 11 882	- 9 115	1 177	27 784

(a) Includes equity acquisitions, disposals and privatisations (net)

(b) Equates to net cash flows from operating activities plus net cash flows from investments in non-financial assets, less finance leases.

Table 4.9

**NON-FINANCIAL PUBLIC SECTOR
BALANCE SHEET**

	Budget 2003-04	Revised 2003-04	2004-05	Forward Estimates	
	\$000	\$000	\$000	2005-06	2006-07
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	53 034	31 529	72 501	87 537	127 629
Advances paid	220 658	199 031	192 312	185 593	178 874
Investments, loans and placements	311 022	376 436	336 436	336 436	336 436
Other non-equity assets	129 784	161 080	168 189	176 139	188 194
Equity	70 248	63 382	90 177	92 978	96 693
Total financial assets	784 746	831 458	859 615	878 683	927 826
Non-financial assets					
Land and fixed assets	5 574 928	5 406 812	5 421 279	5 447 570	5 470 718
Other non-financial assets					
Total non-financial assets	5 574 928	5 406 812	5 421 279	5 447 570	5 470 718
TOTAL ASSETS	6 359 674	6 238 270	6 280 894	6 326 253	6 398 544
LIABILITIES					
Deposits held	65 869	62 925	84 324	108 304	150 399
Advances received	325 080	324 789	324 789	324 789	324 789
Borrowing	2 018 453	1 945 290	1 927 259	1 910 419	1 873 914
Superannuation liability	1 443 099	1 478 178	1 488 901	1 484 674	1 496 435
Other employee entitlements and provisions	369 694	390 407	402 524	414 801	427 018
Other non-equity liabilities	86 773	113 936	118 367	120 360	124 121
TOTAL LIABILITIES	4 308 968	4 315 525	4 346 164	4 363 347	4 396 676
NET WORTH	2 050 706	1 922 745	1 934 730	1 962 906	2 001 868
NET FINANCIAL WORTH (a)	-3 524 222	-3 484 067	-3 486 549	-3 484 664	-3 468 850
NET DEBT (b)	1 824 688	1 726 008	1 735 123	1 733 946	1 706 163

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances and investments, loans and placements.

Table 4.10

**OPERATING EXPENSES BY AGENCY
NORTHERN TERRITORY BUDGET SECTOR**

	Budget 2003-04	Revised 2003-04
	\$000	\$000
General Government	4 201 528	4 268 167
Aboriginal Areas Protection Authority	2 565	2 581
Auditor-General's Office	2 537	2 571
Central Holding Authority	1 959 152	1 959 913
Construction Division	32 376	32 376
Department of Business, Industry and Resource Development	76 003	78 329
Department of Community Development, Sport and Cultural Affairs	204 172	211 093
Department of Corporate and Information Services	94 361	95 364
Department of Employment, Education and Training	520 398	528 522
Department of Health and Community Services	561 035	573 369
Department of Infrastructure, Planning and Environment	247 019	257 519
Department of Justice	104 940	106 034
Department of the Chief Minister	39 879	41 379
Department of the Legislative Assembly	16 275	16 275
Government Printing Office	6 050	5 781
Data Centre Services	17 303	16 956
Northern Territory Police, Fire and Emergency Services	146 312	158 608
Northern Territory Tourist Commission	27 202	34 702
Northern Territory Treasury	94 870	96 011
NT Fleet	23 623	24 205
Office of the Commissioner for Public Employment	6 112	7 235
Ombudsman's Office	1 844	1 844
Territory Discoveries	5 015	5 015
Territory Wildlife Parks	11 205	11 205
Land Development Corporation	1 280	1 280
Public Non-Financial Corporations	139 140	139 140
Darwin Bus Service	6 108	6 108
Darwin Port Corporation	39 818	39 818
Territory Housing: Business Services	93 214	93 214
Public Financial Corporations	172 479	170 171
Northern Territory Treasury Corporation	172 479	170 171

Table 4.11

LOAN COUNCIL ALLOCATION

	2003-04 Budget-time Estimate	2003-04 Mid-Year Estimate
	\$M	\$M
General Government Sector Cash Deficit	24	1
Public Non-Financial Corporations Sector Cash Deficit		11
Non-Financial Public Sector Cash Deficit	24	12
<i>minus</i>		
Net Cash Flows from Investments in Financial Assets for Policy Purposes	22	22
<i>plus</i>		
Memorandum Items		-
2002-03 Loan Council Allocation (a)	2	- 10

(a) The revised estimate for 2003-04 is -\$10 million, a reduction of \$12 million from the 2003-04 Budget-time estimate of \$2 million. This is inside the revised tolerance limit of \$55 million, which is calculated based on the 2003-04 Budget-time estimate.

APPENDIX: REVENUE

Table 1: Components of Operating Revenue – General Government

	OPERATING REVENUE GENERAL GOVERNMENT				
	Budget 2003-04	Revised 2003-04	Forward Estimate		
	\$M	\$M	2004-05	2005-06	2006-07
Taxes on Employers' Payroll and Labour Force	101	96	96	96	98
Taxes on Property	61	67	64	62	62
Stamp Duties on Financial and Capital Transactions	52	58	55	59	59
Financial Institutions Taxes	9	9	9	3	3
Taxes on the Provision of Goods and Services	60	60	63	68	70
Taxes on Gambling	39	39	40	44	45
Taxes on Insurance	21	21	23	24	24
Taxes on the Use of Goods or the Performance of Activities	33	33	32	33	33
Motor Vehicle Taxes	33	33	32	33	33
Total Taxation	254	256	255	260	263
GST Revenue	1 593	1 633	1 671	1 768	1 872
General Purpose Grants	37	38	38	48	48
Specific Purpose Grants	240	238	247	257	262
Other Grants and Non Capital Contributions	8	8	8	6	7
Total Current Grants and Subsidies	1 878	1 917	1 964	2 079	2 189
General Purpose Capital Grants	5	6	5	5	5
Specific Purpose Capital Grants	64	68	67	64	64
Other Commonwealth Capital Contributions	6	6	6	6	6
Total Capital Grants	75	80	78	75	75
Sale of Goods and Services	85	87	91	91	91
Interest Income	15	17	14	14	14
Land Rent Income	8	8	8	8	8
Royalty Income	43	41	40	40	41
Fines Revenue	4	4	4	4	4
Donated Assets	19	19	10	10	10
Other	82	79	75	75	79
Total Other Revenue	101	98	85	85	87
Total Revenue	2 407	2 455	2 487	2 604	2 719

OWN-SOURCE REVENUE

In relation to Northern Territory own-source revenue, there has been no material change to the aggregate 2003-04 Budget taxation estimates, however, there have been a number of variations to the tax mix. These include:

- \$2.1 million reduction in mining royalties. This arises from the impact of the decision to phase-in the reduction to the exploration expenditure royalty deduction cap from 35 per cent to 25 per cent over 2 years as amended in the June 2003 Legislative Assembly sittings, and a large royalty refund relating to prior years;

- \$4.3 million reduction in private sector payroll taxes in 2003-04, 2004-05 and 2005-06. This is due a downward revision to employment growth and the impact of large refunds which were not included in the Budget estimates. An additional \$3 million reduction is included in the 2005-06 estimate to reflect Government policy to further reduce payroll tax; and
- \$6.4 million increase in conveyance duty collections resulting from increased residential property market activity.

COMMONWEALTH GRANTS

UPDATE ON STATEMENT OF RISKS

The Territory is heavily reliant on Commonwealth funding relative to the other jurisdictions. Over 60 per cent of the Territory's revenue is sourced from Commonwealth GST grants, and a further 20 per cent from other Commonwealth grants. It follows that Commonwealth funding presents the single most significant risk to the Territory Budget.

Three elements combine to determine the Territory's GST revenue entitlement:

- size of the national GST collections;
- Commonwealth Grants Commission (CGC) relativities; and
- the Territory's population.

GST COLLECTIONS

The volume of national GST collections directly impacts on the Territory's GST revenue. Since the introduction of the GST in 2001, collections have been highly volatile and difficult to forecast, unsurprising given the infancy of this tax in Australia.

States' GST entitlement in a particular year is paid on the basis of Commonwealth estimates, with an ex-post adjustment in the following year for any under or over estimation. At the time of the Territory's 2003-04 Budget, the Commonwealth's latest estimate of GST collections for 2002-03 was \$30.5 billion (an increase of around \$1 billion on its earlier estimates). The Territory assumed a more modest total of \$30.0 billion for 2002-03, which, if realised, would be corrected through a negative (ex-post) adjustment to the Territory's 2003-04 GST revenue.

The Commonwealth has now released actual GST collections data for 2002-03 which is consistent with its previous (high) estimates, removing the basis for any significant ex-post adjustment in 2003-04. Consequently, the Territory's conservative 2003-04 GST pool growth estimate of 2.5 per cent – which factored in a significant ex-post adjustment – has been revised upwards to 6.3 per cent. This is now consistent with the Commonwealth's 2003-04 Mid-Year Economic and Fiscal Outlook (MYEFO).

In 2004-05, GST pool growth is forecast to be 5.3 per cent, which is slightly lower than the Budget estimate of 5.5 per cent and matches the Commonwealth's MYEFO projections. Growth rates in later years are unchanged from Budget.

COMMONWEALTH GRANTS COMMISSION RELATIVITIES

CGC relativities reflect the higher cost of providing government services and lower revenue raising capacity of the Territory relative to other States, and are the basis for determining each State's adjusted population share which is used to determine the distribution of GST proceeds among the States. In February 2003, the CGC completed its annual data update, assigning the Territory a relativity of 4.38638 for 2003-04. The financial implications of the 2003 CGC relativities were quantified in the 2003-04 Budget and remain unchanged.

The CGC's 2004 Review will recommend the 2004-05 relativities (and the methodology used to calculate relativities over the next five years) which will be released by 25 February 2004. These recommendations will be discussed at the Treasurers' Conference in March 2004 and are subject to the Commonwealth Treasurer's approval.

The Territory's dependence on Commonwealth GST revenue makes this a source of considerable risk to the Territory's Budget. Preliminary indications are that Budget projections will not be jeopardised by the CGC's 2004 Review outcome. No revision has been made to the Budget estimates.

POPULATION

The Territory has revised its 2003-04 population growth estimate downwards from 0.7 per cent to -0.2 per cent, due in part to higher than expected net interstate migration outflows. In 2004-05, the Territory has forecast a return to stronger population growth of 0.7 per cent. This is consistent with expectations of strong economic development in the Territory generating a greater level of employment opportunities and a boost in migration inflows. For the forward estimates period, the Territory has assumed an annual population growth of 1.3 per cent. Although considerably higher than previous years, this estimate is still more conservative than the historical long-term average of 1.8 per cent.

In MYEFO, the Commonwealth has forecast population growth of 1.1 per cent in 2004-05 and between 1.2 and 1.3 per cent annually thereafter.

ESTIMATES

Table 2 shows revised Territory Budget estimates for GST revenue and its components in 2003-04 and the forward estimates. In 2003-04, GST revenue is forecast to be \$1 633 million, which is \$41 million higher than the Budget estimate. GST revenue is expected to grow by 6.3 per cent in 2003-04 due to higher national economic growth and return to more normal levels of growth thereafter. In 2006-07, Territory GST revenue is forecast to be \$1 872 million.

Table 2: Summary of GST Revenue Component Changes

	2003-04	2004-05	2005-06	2006-07
2003-04 Budget \$M	1592.5	1642.8	1735.8	1836.5
Revised (\$M)	1 633.2	1 670.9	1 767.5	1 871.8
Impact of Individual Parameters				
GST Collections Growth				
Impact (\$M)	+53.3	+49.3	+51.7	+54.8
Budget %	2.5	5.5	5.5	5.6
Revised %	6.3	5.3	5.5	5.6
CGC Relativities				
Impact (\$M)	0	0	0	0
Budget	4.38638	4.28500	4.28500	4.28500
Revised	4.38638	4.28500	4.28500	4.28500
Population Growth				
Impact (\$M) (1)	- 12.6	- 21.2	- 20.0	- 19.5
Budget %	0.7	1.2	1.2	1.2
Revised %	- 0.2	0.7	1.3	1.3
Combined Parameters				
Impact (\$M)	+40.7	+28.1	+31.7	+35.3

1. Impact includes the cumulative effect of a different base in 2002-03.