

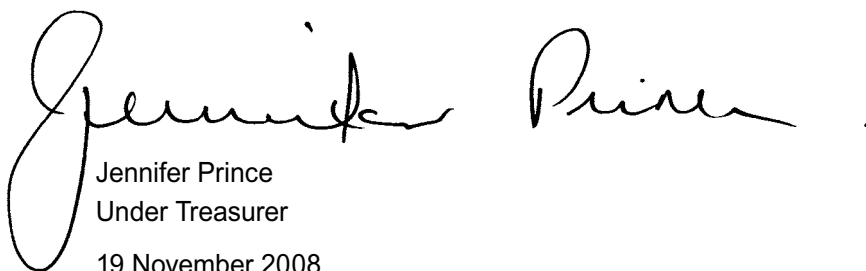
2008-09
Mid-Year Report

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Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in the 2008-09 Mid-Year Report are based on Government decisions that I was aware of, or that were made available to me by the Treasurer, before 18 November 2008. The projections are presented in accordance with the Uniform Presentation Framework.



Jennifer Prince
Under Treasurer
19 November 2008

Chapter 1 Overview

The 2008-09 Mid-Year Report has been prepared in accordance with the *Fiscal Integrity and Transparency Act* which requires the Treasurer to prepare and publicly release a mid-year fiscal outlook report each year. The Under Treasurer certifies the accuracy, completeness and reliability of all financial projections and associated information, as required by the Act.

The updated budget projections and economic outlook incorporate both the 2007-08 outcome as presented in the 2007-08 Treasurer's Annual Financial Report (TAFR) and the effects of global economic and financial conditions that have emerged since the May 2008 Budget was framed.

The global financial crisis and the resulting effect on the Australian economy has flowed on to the Territory in the form of reduced GST revenue and lower investment returns.

Although the Territory is not immune to the downturn in the Australian economy, it is well placed to withstand its effects. Consecutive cash budget surpluses and associated debt reductions as well as a growing economy provide the basis for this assessment.

The fiscal highlights in the Mid-Year Report include:

- significant operating surpluses still predicted for 2008-09 and all forward years;
- fiscal balance trending towards a surplus of \$2 million in 2011-12;
- the cash outcome, although now expected to be in deficit in 2008-09, is estimated to return to balance in 2009-10 and into surplus thereafter; and
- the ratios of net debt and net debt plus employee liabilities to revenue remain largely consistent with that predicted at Budget time.

From an economic perspective, the revisions to the outlook for the 2008-09 year confirm the underlying strength of the Northern Territory economy.

The forecast for gross state product (GSP) in 2008-09 has been revised to 4.5 per cent growth from 6.6 per cent in the May 2008 Budget. The downward revision in GSP growth for 2008-09 reflects the combined impact of:

- a stronger than estimated GSP outcome for 2007-08;
- lower gold production for 2008-09 due to the closure of GBS Gold in September 2008; and
- the flow on effect of downward revisions to Australian and global economic growth over 2008-09 as a result of the global financial crisis that has the potential to have negative impacts, both direct (demand for commodities) and indirect (availability of credit), on the Territory economy.

The outlook for state final demand is unchanged from the time of the May 2008 Budget.

The employment growth forecast of 2.5 per cent remains unchanged from the budget forecast. This primarily reflects stronger than estimated growth in 2007-08, increasing Territory resident employment to record highs. Having regard to the skilled labour shortages that are apparent in the Territory, growth of 2.5 per cent in 2008-09 is considered reasonable.

Population growth has been revised upwards to 2.0 per cent, based on the strong population growth levels experienced over the last year and continuing momentum anticipated through ongoing residential and non-residential construction projects. At the time of the 2008-09 Budget, population growth of 1.9 per cent was forecast to December 2008.

Upward pressure is expected to continue in the short term on rental prices as well as on prices for imported goods given the significant depreciation of the Australian dollar from September 2008. The Mid-Year Report revises forecast growth in the Darwin Consumer Price Index (CPI) from 3.1 per cent to 4.1 per cent, year on year to December 2008.

Details on budget variations, including changes to revenue from the Commonwealth and Territory own-source revenue since the May 2008 Budget, are provided in Chapter 2, with the revised financial statements presented in Chapter 4. Chapter 3 includes a discussion on the updated economic estimates and the fiscal strategy outlook for 2008-09 and the forward years.

Chapter 2 **Fiscal Position and Outlook**

This chapter presents the updated fiscal projections for the cash, operating and fiscal balance targets of the general government sector together with the assets and liabilities of the non financial public sectors for 2008-09 through 2011-12, compared with the estimates provided in the May 2008 Budget.

It also provides updated information on the Statement of Risks, as required by the *Fiscal Integrity and Transparency Act*.

Fiscal Outlook

The 2008-09 Budget and forward estimates have been updated to reflect:

- the outcome for the 2007-08 financial year;
- Cabinet decisions since the 2008-09 Budget including election commitments from the 2008 general election;
- revised Territory revenue estimates including updated goods and services tax (GST) and mining royalties; and
- a range of other revenue-related adjustments, largely due to changes in specific purpose payments (SPPs) from the Commonwealth.

The wage and price parameters are consistent with those used for the development of the 2008-09 Budget. In line with usual practice, these will be reviewed in the development of the 2009-10 Budget.

The revised estimates incorporated within this Report coincide with a period of unprecedented stress in both the global and Australian economies. Australian economic growth, as forecast in the Commonwealth's Mid-Year Economic and Fiscal Outlook (MYEFO), is expected to slow in 2008-09, with only a moderate increase in growth currently expected in 2009-10. This downturn has affected all state jurisdictions, including the Territory, in the form of reduced GST revenue and lower investment returns.

Although the Territory is not immune to this downturn, it is well placed to withstand the effects. The adherence to sustainable fiscal responsibility has resulted in six successive cash surpluses. Debt levels, when measured as a ratio to revenue, are at historically low levels.

Budget Targets

Table 2.1 presents the key fiscal aggregates for both the general government and non financial public sector for the 2008-09 Budget, the 2008-09 Pre-election Fiscal Outlook (PEFO) Report and the 2008-09 Mid-Year Report.

As highlighted in the 2007-08 Treasurer's Annual Financial Report (TAFR) there were two treatment changes associated with the introduction of AASB 1049 – Whole of Government and General Government Financial Reporting. These treatment changes relate to investment returns automatically reinvested and the recognition of on-costs on employee benefits that have been incorporated into the revised estimates.

The investment returns have been estimated in all years at 7.5 per cent, being the long-term expected rate of return, consistent with the approach used in other jurisdictions. As these amounts are automatically reinvested into the Conditions of Service Reserve, these earnings are incorporated into the contributions to the Territory's future superannuation and infrastructure fund in the cash flow statement, resulting in an underlying cash outcome.

For consistency, all original budget and PEFO data presented in this Report have been restated for these treatment changes.

Table 2.1: 2008-09 Budget and Mid-Year Report Targets

	2007-08 ¹	2008-09	Forward Estimates		
			2009-10	2010-11	2011-12
	\$M	\$M	\$M	\$M	\$M
GENERAL GOVERNMENT					
Cash Outcome					
2008-09 Budget	5	9	21	37	50
2008-09 PEFO	209	7	28	49	66
2008-09 Mid-Year	211	- 47	0	17	30
Net Operating Balance					
2008-09 Budget	125	141	201	198	193
2008-09 PEFO	326	109	208	210	209
2008-09 Mid-Year	340	75	173	182	157
Fiscal Balance					
2008-09 Budget	- 23	- 51	- 20	- 3	36
2008-09 PEFO	182	- 83	- 13	9	52
2008-09 Mid-Year	198	- 137	- 48	- 21	2
NON FINANCIAL PUBLIC SECTOR					
Net Debt					
2008-09 Budget	1 477	1 578	1 637	1 687	1 676
2008-09 PEFO	1 255	1 357	1 408	1 445	1 417
2008-09 Mid-Year	1 257	1 551	1 675	1 779	1 801
Net Debt + Employee Liabilities					
2008-09 Budget	4 216	4 395	4 523	4 636	4 676
2008-09 PEFO	3 797	3 977	4 097	4 197	4 219
2008-09 Mid-Year	3 796	4 529	4 633	4 707	4 788

Source: Northern Territory Treasury

1. Mid-Year Report reflects actual outcome.

The table highlights that all targets have been revised downwards, as a result of reduced GST revenue from the Commonwealth due to the downturn in the Australian economy. The change in targets is more pronounced in 2008-09 as it also incorporates the additional \$100 million carryover of expenditure from 2007-08, as highlighted in the 2007-08 TAFR. These carryovers relate to Commonwealth specific purpose payments (SPPs), including for the Northern Territory Emergency Response (NTER). This increased level of tied funding from the Commonwealth has the potential to increase volatility in annual outcomes, as experienced in 2007-08, due to timing differences between the receipt of revenue and the associated expenditure. For a small jurisdiction such as the Territory, this is likely to have a greater effect on the achievements of annual fiscal targets.

For 2008-09, the underlying cash outcome has been revised from a surplus of \$9 million at Budget time to a deficit of \$47 million. As indicated above, the downturn in the national economy has resulted in reduced GST revenue in 2008-09 of \$48 million from that estimated at Budget time and a similar amount in future years. In addition, 2008-09 includes a larger carryover of expenditure

Operating and Cash Flow Statements – General Government

from 2007-08, being around \$100 million more than predicted in May 2008. These are partially offset by an increase in mining royalties of \$88 million in 2008-09 associated with higher volumes and contracted commodity prices. The cash target for 2008-09 has accordingly been revised downwards to reflect these movements, with similar downward adjustments to the cash targets made in forward years. However, over the budget cycle, the cash position is expected to return to a surplus position from 2009-10.

Consistent with the May 2008 Budget, the operating balance remains in surplus for all years with the fiscal balance now expected to remain in deficit until 2011-12.

Net debt over the forward years is expected to increase from that projected at budget time to \$1801 million by 2011-12, an increase of \$125 million. This is mainly due to the reduced cash targets over the forward years, partially offset by the surplus achieved in 2007-08.

Net debt plus employee liabilities are also expected to increase compared with that recorded in May 2008, largely as a result of the increased net debt position. By 2011-12 net debt plus employee liabilities is expected to be \$4788 million, an increase of \$112 million.

Table 2.2 summarises the key movements in the general government 2008-09 cash flow and operating statements since the 2008-09 Budget. Variations are categorised into policy and non-policy variations. Policy variations are the result of a Government decision to implement or expand agency programs. Non policy variations are either due to influences outside the Government's control, such as the timing of receipts from the Commonwealth, or changes in economic parameters.

Table 2.2: Variations to the Cash
Flow and Operating Statements
since May 2008

	2008-09	
	Accrual	Cash
	\$M	\$M
2008-09 BUDGET	-81.0	9.3
Treatment changes	30.3	
RESTATED 2008-09 BUDGET	-50.7	9.3
REVENUE/RECEIPTS		
Revenue/Receipts – Non Policy		
Taxation	2.7	2.7
GST Revenue	-48.1	-48.1
Specific Purpose Payments	74.1	101.7
Interest Income	-1.2	-1.2
Mining Royalties	88.0	88.0
Income Tax Equivalents and Dividends	-26.1	-17.0
Other including Agency Own-Source Revenue	11.4	1.1
Total Revenue/Receipts – Non Policy	100.7	127.2
OPERATING EXPENSES/PAYMENTS		
Expenses/Payments – Policy		
Cabinet Decisions	26.0	26.0
Election Commitments	7.0	7.0
Total Expenses/Payments – Policy	33.0	33.0
Expenses/Payments – Non Policy		
Carryovers from 2007-08	80.2	80.2
Specific Purpose Payments	73.6	73.6
Interest	-4.6	-4.6
Superannuation Costs	6.5	
Treasurer's Advance	-20.0	-20.0
Other	-1.9	-1.8
Total Expenses/Payments – Non Policy	133.7	127.3
TOTAL OPERATING EXPENSES/PAYMENTS	166.7	160.3
Net Capital Payments		
Election Commitments	0.3	0.3
Specific Purpose Payments	1.4	1.4
Carryover from 2007-08	21.2	21.2
Depreciation	-3.7	
Other	0.8	0.8
Total Capital Payments	19.9	23.7
TOTAL EXPENSES/PAYMENTS	186.7	184.0
TOTAL VARIATION	-86.0	-56.8
2008-09 REVISED BUDGET	-136.7	-47.5

Source: Northern Territory Treasury

Significant increases have occurred in expenses/payments, partially offset by increases in revenue/receipts. This has resulted in a reduction in both the accrual and cash outcomes compared to May 2008.

Variations in individual categories are described in more detail below.

General government operating revenue and receipts have increased by \$100.7 million and \$127.2 million respectively due to:

- slightly higher Territory taxation revenue of \$2.7 million, adjusting for year to date payroll tax collections;
- GST revenue being revised down by \$48.1 million, due to a reduction in the Commonwealth's estimates of the national GST pool. The reduction in pool growth rates flow through to outer years;
- an increase in SPPs of \$74.1 million (\$101.7 million in cash as additional amounts accrued in 2007-08 are received) due to new agreements being finalised or re-negotiated, largely related to education and health and including funding for the NTER;
- increased mining royalty revenue from \$88 million to \$176 million, associated with increased mining production and based on higher collections received year to date; and
- decreased income tax equivalents and dividends of \$26.1 million (\$17 million cash) associated with the Power and Water Corporation (PWC) dividend moratorium to support additional capital investment, along with some reduction in profitability for other government trading entities.

General Government expenses increased by \$166.7 million and payments by \$160.3 million due to:

- policy decisions of \$33 million approved by Government since the 2008-09 Budget including 2008 election commitments and the Buildstart scheme;
- the carryover of expense obligations from 2007-08 of \$80.2 million, largely related to timing of delivery of Commonwealth funded programs;
- increased expenses of \$73.6 million related to additional SPPs from the Commonwealth;
- decreased interest of \$4.6 million due to a reduction in debt; and
- increased superannuation expenses of \$6.5 million due to improving mortality rates affecting the overall liability.

In addition to the above operating variations, there have been some changes to capital spending. These are reflected in both the Cash Flow Statement and the Operating Statement. The key variation relates to the carryover of capital obligations from 2007-08 of \$21.2 million, related to receipts from the Commonwealth late in that financial year.

Operating revenue is projected to rise in the forward years from \$3909 million in 2008-09 to \$4245 million by 2011-12. The increase in 2009-10 through to 2011-12 is around 3.3 per cent per annum.

Operating expenses are projected to rise in the forward years from \$3834 million in 2008-09 to \$4088 million by 2011-12. The increase in 2009-10 through to 2011-12 of around 3.7 per cent per annum is largely due to increased expenditure related to additional SPPs, including the NTER together with new and expanded initiatives approved by the Territory Government. The reduction in expenditure between

Operating Statement Forward Estimates – General Government

2008-09 and 2009-10 is largely the result of the significant carryover of expenditure from 2007-08 resulting in higher estimated expenditure in 2008-09. Net capital spending remains largely constant with that predicted at Budget time.

Overall, the net operating balance remains in surplus in all years. The fiscal balance, which includes the effect of both capital and operating transactions, remains in deficit for 2008-09 trending downwards to a small surplus position by 2011-12, largely in line with that projected in May 2008.

Table 2.3: General Government Operating Statement – 2008-09 Budget and Mid-Year Report

	2008-09	2009-10	2010-11	2011-12
	\$M	\$M	\$M	\$M
2008-09 Budget				
Operating Revenue	3 808	3 969	4 090	4 233
Operating Expenses	3 667	3 767	3 893	4 040
Net Operating Balance	141	201	198	193
Net Capital	192	221	200	158
Fiscal Balance	- 51	- 20	- 3	36
2008-09 Mid-Year Report				
Operating Revenue	3 909	3 981	4 122	4 245
Operating Expenses	3 834	3 808	3 940	4 088
Net Operating Balance	75	173	182	157
Net Capital	212	221	202	155
Fiscal Balance	- 137	- 48	- 21	2
Variation				
Operating Revenue	101	12	31	11
Operating Expenses	167	41	47	48
Net Operating Balance	- 67	- 28	- 17	- 36
Net Capital	20	0	2	- 3
Fiscal Balance	- 86	- 28	- 18	- 35

Source: Northern Territory Treasury

Operating Revenue

The majority of the Territory's revenue is from the Commonwealth in the form of GST and SPP revenue (around 80 per cent).

GST revenue is expected to grow on average by around 6 per cent over the forward estimates period. The level of GST revenue received by each state is dependent on total GST collections, states' population shares and relativities as determined by the Commonwealth Grants Commission (the Commission).

The Territory has adopted the Commonwealth's 2008-09 Mid-Year Economic and Fiscal Outlook estimates for national GST collections to 2011-12. This reflects significant decline in growth rates from that predicted by the Commonwealth at Budget time due to the downturn in the Australian economy. Territory population estimates are based on Northern Territory Treasury analysis. The revised projections assume an unchanged relativity over the forward estimates period as the outcomes from the Commonwealth Grants Commission's 2010 Review may significantly impact the Territory's relativity from 2010-11, however details of the Commission's deliberations will not be known until February 2010.

Estimates of specific purpose funding and other agency arrangements from the Commonwealth have also been revised upwards since the 2008-09 Budget. These adjustments tend not to affect the fiscal outcome over time as increases in revenue are generally matched by a corresponding increase in expenditure, although timing differences affect the outcome in particular years. The increase in 2008-09 of around \$74.1 million is the result of a number of agreements being finalised. Further negotiations are also under way with the Commonwealth with new SPP arrangements expected to commence in January 2009, which will be incorporated as part of the 2009-10 Budget. The increase in 2008-09 is predominantly:

- education related increase of \$10 million, largely Indigenous education and Clever Networks;
- health increase of \$48 million, largely due to the NTER; and
- public safety related of \$15 million, largely due to the remote policing element of the NTER together with upgrades to remote police stations and vehicle fleet.

Despite these increases, SPP's decline over the forward estimates period. This is not unusual as many agreements are for fixed periods and are not included in the forward estimates beyond the life of the agreement. This is particularly so with NTER funding which is currently only incorporated for one to two years.

Taxation revenue is the most significant component of the Territory's own-source revenue and is expected to increase by around 3 per cent over the forward estimates period, marginally lower than that projected in May 2008. The majority of this is related to reductions in gaming machine tax, due to the Territory Government's decision to cap the number of gaming machines and reduced rates of tax, partially offset by increased payroll tax and motor vehicle registration collections.

The balance of other Territory own-source revenue largely relates to mining royalties. Mining royalty projections have been revised upwards since Budget time. For 2008-09 this was on the basis of collections received to date, that reflected higher production and contracted commodity prices. For forward years, the uncertainty being experienced in global financial markets and world economies that affect the level of mining production, commodity prices and the exchange rate between the Australian and US dollars has resulted in a more conservative estimate. Accordingly for 2009-10 through to 2011-12, an estimate of \$129 million has been projected, which is an increase of \$37 million on the \$92 million predicted in May 2008, but \$47 million lower than the revised 2008-09 estimate of \$176 million.

Operating and Net Capital Expenses

Operating expenses are projected to increase in all years compared to the 2008-09 Budget, largely a result of:

- newly approved initiatives including commitments from the 2008 general election and new initiatives such as Buildstart; and
- an increase in expenditure commitments tied to Commonwealth funding in 2008-09 and future years that largely relate to the NTER.

The significant increase in 2008-09 relates to the carry over of unspent items from 2007-08, mostly attributable to the timing of expenses related to tied funding received from the Commonwealth.

Net capital is largely consistent with that projected in May 2008.

Assets and Liabilities – Non Financial Public Sector

Table 2.4 presents the key measures for the non financial public sector balance sheet as presented in the May 2008 Budget Papers and the 2008-09 Mid-Year Report.

Table 2.4: Balance Sheet – 2008-09 Budget and Mid-Year Report – Non Financial Public Sector

	2008-09	2009-10	2010-11	2011-12
	\$M	\$M	\$M	\$M
2008-09 Budget				
Net Worth	2 933	3 176	3 413	3 658
Net Debt	1 578	1 637	1 687	1 676
Net Debt to Revenue (%)	38	38	38	36
Net Debt plus Employee Liabilities	4 395	4 523	4 636	4 676
Net Debt plus Employee Liabilities to Revenue (%)	106	105	104	102
2008-09 Mid-Year Report				
Net Worth	2 894	3 198	3 498	3 699
Net Debt	1 551	1 675	1 779	1 801
Net Debt to Revenue (%)	36	38	39	39
Net Debt plus Employee Liabilities	4 529	4 633	4 707	4 788
Net Debt plus Employee Liabilities to Revenue (%)	106	106	104	103
Variation				
Net Worth	- 39	22	85	41
Net Debt	- 27	38	92	125
Net Debt to Revenue (%)	- 2	0	1	3
Net Debt plus Employee Liabilities	134	110	71	112
Net Debt plus Employee Liabilities to Revenue (%)	0	1	0	1

Source: Northern Territory Treasury

The estimate of net worth has improved over the forward estimates period since the 2008-09 Budget by \$41 million in 2011-12, rising to \$3699 million. This is largely due to the flow on effect of the improved balance sheet position, as reported in the 2007-08 Treasurer's Annual Financial Report.

Net debt is estimated to increase by \$125 million in 2011-12 from Budget-time forecasts, to \$1801 million, due to combination of;

- the downward revision in the general government cash targets in all years;
- a reduction in the net value of investments; and
- increased borrowings by PWC to fund its capital infrastructure program.

As highlighted earlier in the chapter, the revised cash targets are a direct result of the downturn in the Australian economy which has reduced the Territory's revenue base. Included in this is the instability in equity markets that has resulted in unrealised losses in certain investments held by the Territory Government.

Financial investments held by the Territory Government comprise a range of instruments including short-term securities, fixed interest securities, fixed rate notes and equities. These financial assets, with a combined value of around \$1 billion, are structured in a diversified portfolio to ensure that they meet the purpose for which the investments have been designated. The majority of the portfolio is in short-dated low risk investments to match the relatively short-dated nature of their

requirements and the returns on these investments are still showing a positive return in line with the benchmark.

In the case of the Conditions of Service Reserve (COSR) these investments are managed by three external fund managers and relate to funds that have been set aside to fund the Territory Government's long-term employee liabilities in future years. Accordingly these investments have a weighting to long-term growth assets in order to match the long term-nature of the liability.

Over the past five years to 30 June 2008, these funds have averaged annual returns of 11.66 per cent, 2.68 per cent in excess of benchmark and significantly in excess of the long-term target rate of return. As has been the case with the sharp fall in Australian equities since the start of the financial year, the value of the COSR has dropped from the \$403.8 million at 30 June 2008 to \$342.5 million at 31 October 2008 but is forecast to increase slightly to \$357 million by 30 June 2009.

These unrealised losses do not impact on the ability of the Territory Government to meet its ongoing superannuation obligations as they are invested for the long term and not expected to be drawn down for at least ten years. As with all such investments it is expected that negative returns will be experienced once in every six years over the cycle of the investment period.

Overall the total returns in the year to 31 October 2008 on the Territory's combined investment portfolio are approximately negative 2.7 per cent, significantly less than the drop over the same period in the Australian ASX200 of negative 23 per cent.

Although net debt is expected to increase in absolute terms as a percentage to revenue, net debt is estimated to remain largely in line with that predicted in May 2008, increasing from 36 per cent in 2008-09 to 39 per cent in 2011-12. This is still significantly below the 67 per cent recorded in 2001-02. For the general government sector the ratio to revenue is now estimated to be 20 per cent by 2011-12, around one-third of 2001-02 levels.

The net debt plus employee liabilities measure is expected to rise to \$4788 million by 2011-12, a \$112 million increase on that estimated at Budget time, in line with the increase in net debt.

When measured as a percentage of revenue, it is expected that the net debt plus employee liabilities ratio will be largely in line with that projected in May 2008, dropping to 103 per cent by 2011-12.

Statement of Risks

The *Fiscal Integrity and Transparency Act* requires that each Fiscal Outlook Report must contain "a statement of risks, quantified as far as practical, that could materially affect the updated financial projections, including any contingent liabilities and any Government negotiations that have yet to be finalised".

The risks identified and explained in detail at the time of the 2008-09 Budget remain appropriate, with the following providing a summary of those risks that have been updated to reflect recent events.

Revenue

GST Revenue – The most significant risk to the revenue projections is GST revenue changes. GST revenue accounts for around two-thirds of the Territory's budget and therefore even small variations in key parameters can have a significant impact on Government's funding capacity and budget outcomes.

The three components affecting the amount of GST to be received are: the Territory's relativity; the national GST pool; and the Territory's share of the national population. The most significant components being national GST collections and future GST relativities.

There is significant uncertainty as to the length and depth of the slowdown in economic activity arising from the global financial crisis. On balance, there is greater short-term downside risk with the risk of a more prolonged and/or severe downturn in economic growth placing additional pressure on state budgets. For instance, should the reduced growth in national GST collections anticipated in 2008-09 continue in 2009-10, the impact of the reduced growth would be to lower the Territory's GST revenue for 2009-10 by \$32 million.

The increased growth rate for national GST collections for 2009-10 in the Commonwealth's MYEFO is predicated on a recovery in dwelling investment in 2009-10 arising from the stimulus provided to the housing sector through the First Home Owner Boost and the expectation of further interest rate reductions. Lower growth than that predicted represents a significant downside risk over this period.

Future GST relativities are impacted by cyclical economic circumstances and the 2010 Review of State Revenue Sharing Relativities by the Commonwealth Grants Commission. The slowdown in economic conditions, particularly in southern states, may reduce the Territory's relative revenue needs in the short term. Secondly the 2010 Review itself will be based on a major revision to the methodology underpinning the Commonwealth Grants Commission assessments.

The outcomes from the Commonwealth Grants Commission's deliberations will not be known until February 2010.

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

Own-Source Revenue – The amount of revenue received from Territory taxes and royalties is dependent upon the performance of the Territory economy and other external factors. Mining royalty revenue is mainly impacted by changes in mining production, commodity prices and the exchange rate between the Australian and US dollar. Changes to any of these factors will have a material impact on mining royalty revenue. The current uncertainty relating to global financial markets and world economies has recently increased the volatility of commodity prices and exchange rates. It may also have an impact on mining production levels, in response to slowing demand.

Expenditure

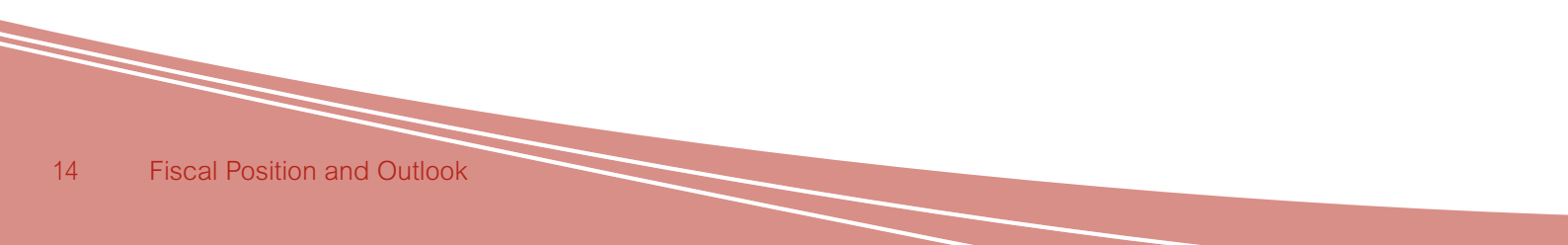
Parameters – Increased cost and demand influences on the forward estimates pose a risk in increasing budget pressures.

Enterprise Bargaining Agreements – The outcome of future enterprise bargaining agreements over and above amounts currently factored into the forward estimates will increase budgetary pressures.

Contingent Liabilities

These are potential future costs to Government that may arise from guarantees, indemnities, legal and contractual claims which constitute a risk to the Territory's financial position.

For more information on Statement of Risks, refer to Chapter 2 in the 2008-09 Budget Paper No. 2: Fiscal and Economic Outlook.



Chapter 3 Economic Outlook and Fiscal Strategy

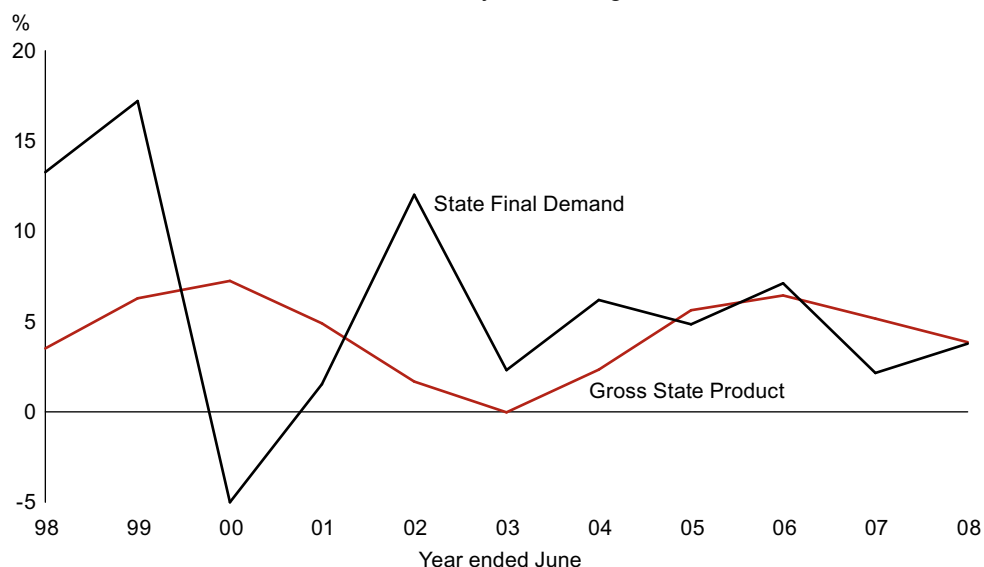
This chapter meets the *Fiscal Integrity and Transparency Act* requirement for the Mid-Year Report to provide updated information on both the economic assumptions and Fiscal Strategy as set out in the May 2008-09 Budget Papers.

Structure of the Economy

The structure of the Northern Territory economy is markedly different to other Australian jurisdictions, reflecting its abundance of natural resources, its comparatively large public sector, and the importance of the large defence presence. Territory Gross State Product (GSP), at around \$14.6 billion, accounts for approximately 1.3 per cent of national Gross Domestic Product (GDP).

Economic growth in the Northern Territory can be volatile from year to year. The small economy means large, typically resource-based projects can have a substantial impact on investment and income streams, resulting in volatile growth patterns. Another source of volatility in reported annual economic growth comes from data revisions, which in the Territory can be significant.

Figure 3.1: Northern Territory Real GSP and SFD (year on year percentage change)



Source: ABS Catalogue Number 5220.0

Recent Economic Performance

Table 3.1: Summary of Economic Parameters

% Change	ABS						
	2004-05	2005-06	2006-07	Budget Estimate 2007-08	Latest Reported 2007-08	Budget Forecast 2008-09	Revised Forecast 2008-09
GSP	5.6	6.5	5.2	2.8	3.9	6.6	4.5
SFD	4.9	7.1	2.2	2.1	3.8	-0.4	-0.4
Employment	-1.3	3.0	5.3	4.8	5.9	2.5	2.5
Population ¹	2.1	2.1	2.0	2.2	2.1	1.9	2.0
CPI ²	2.2	2.6	4.4	3.4	3.4	3.1	4.1

¹ Based on middle of the financial year, December estimates

² Year on year ended December percentage change

n.a. not available

Source: Northern Territory Treasury, Australian Bureau of Statistics

On 14 November 2008, the ABS reported that the Territory's GSP increased by 3.9 per cent in 2007-08, 1.1 percentage points higher than the Northern Territory Treasury estimate of 2.8 per cent at the time of the Budget. The major variations between the Treasury estimate and the ABS reported outcome was due to a larger than estimated contribution from net exports and a smaller than estimated contraction in private investment.

The onshore economy continued to strengthen in 2007-08, with many indicators reporting growth consistent with the Budget estimate. State Final Demand (SFD), a measure of consumption and investment is reported by the ABS to have increased by 3.8 per cent, stronger than the 2.1 per cent growth estimated at the time of the Budget. The main contributor to reported SFD growth for 2007-08 was consumption, which increased by 4.2 per cent in 2007-08, contributing 3.2 percentage points to growth. Private consumption increased by 4.7 per cent in 2007-08, supported by strong employment and population growth and low unemployment rates. Public sector consumption increased by 3.6 per cent primarily reflecting increased expenditure relating to the Commonwealth's Northern Territory Emergency Response and the Territory Government's Closing the Gap initiatives to improve Indigenous outcomes.

Total investment increased by 2.7 per cent in 2007-08, adding 0.9 percentage points to growth. In the May 2008 Budget, total investment was forecast to have declined by 7 per cent over this period as major engineering projects were completed. Although there was a large decline in engineering construction expenditure consistent with the completion of major projects, it was offset by a large increase in the purchases of machinery and equipment by Territory businesses, particularly in the mining and construction sectors.

Economic Outlook

The GSP, population and CPI economic parameters reported in the 2008-09 Budget have been revised for the Mid-Year Report (Table 3.1). Revisions reflect new and/or revised data and latest information regarding the status of projects.

Gross State Product (GSP) in 2008-09

The Budget forecast of 6.6 per cent for economic growth in the Territory in 2008-09 has been revised downwards to 4.5 per cent, on the back of a stronger than estimated outcome for 2007-08. In addition, less gold production is now expected for 2008-09 than forecast at the time of the May Budget due to the closure of GBS Gold in September 2008. Additionally, there have been significant downward revisions to Australian and global economic growth over 2008-09 as a result of the global financial crisis that have the potential to have negative impacts, both direct (demand for commodities) and indirect (availability of credit), on the Territory economy. The turmoil in international financial markets over the past 12 months has the potential to have an adverse impact on the Territory economy as a whole with particular concerns for the tourism, construction and mining sectors in 2008-09. Additionally the tightening of credit by lending institutions has the potential to significantly impact the ability of consumers and businesses to fund consumption and investment expenditure. This is despite expectations of lower interest rates in 2008-09 and significant fiscal stimulus by the Commonwealth.

Economic growth in the Territory is forecast to increase by a solid 4.5 per cent in 2008-09 driven by growth in public sector investment and consumption. Although the prices for most of the Territory's resource commodities are expected to be lower than in 2007-08, volumes of production are expected to increase substantially. This

reflects the ramping up of production at a number of mines throughout the Territory and oil and gas fields in the Timor Sea that will lead to strong volume growth in net exports. Production at the Wickham Point Liquefied Natural Gas plant is expected to be higher in 2008-09 following a six-week scheduled maintenance shutdown in 2007-08 that curtailed output. The removal of bottlenecks in the production process and upgrades to the plant are also expected to lead to substantial increases in output in 2008-09. Production is also expected to ramp up significantly at the Rio Tinto Alcan alumina refinery at Gove, the Territory Resources iron ore mine at Frances Creek and the OM Holdings Bootu Creek and GEMCO Groote Eylandt manganese mines.

Investment expenditure will decline but remain near historically high levels as major construction projects are completed and machinery and equipment expenditure declines from the historic high reported in 2007-08. The \$1.27 billion expenditure on machinery and equipment in 2007-08 (which includes the GEMCO refinery expansion and the Xstrata McArthur River mine expansion) is about two and half times the ten-year average of \$581 million, and is expected to decline in 2008-09.

Strong forecast growth in public sector investment expenditure reflects a large increase in Territory Government capital works infrastructure projects throughout the Territory in 2008-09 and increased spending on public housing. Growth in the retail sector is expected to moderate in the year but will continue to be supported by low unemployment levels, strong wages growth and an expanding population.

State Final Demand (SFD)

Another broad measure of economic activity is SFD, which is forecast to decrease by 0.4 per cent in 2008-09, unchanged from the Budget forecast. Like GSP, Territory SFD has been volatile in recent years, influenced by the timing of investment for major projects.

Employment

The ABS reports Territory employment increased by 5.9 per cent in 2007-08, stronger than the 4.8 per cent rise in employment estimated at the time of the 2008-09 Budget. The employment growth forecast for 2008-09 of 2.5 per cent remains unchanged from the Budget forecast.

The sustained demand for employment in key employment contributing industries associated with an expanding population, such as in retail and construction, is expected to place upward pressure on Territory employment. However this is expected to be tempered in 2008-09, primarily due to supply side constraints as the Territory experiences its lowest unemployment rate on record.

Sampling variability and higher standard errors than exist in other jurisdictions continue to be a factor affecting ABS labour force data in the Territory.

Population

Population estimates at 31 December each year are a key determinant of the allocation of the national GST revenue pool. Accurate population estimates are very important to the Territory which receives around two-thirds of its revenue from the GST. Territory population growth is particularly difficult to forecast because of the volatility in interstate migration numbers.

At the time of the 2008-09 Budget, population growth of 1.9 per cent was forecast to December 2008. This has been revised upwards to 2.0 per cent based on the

strong population growth levels experienced over the last year and continuing momentum anticipated through ongoing residential and non-residential construction projects. Activity related to the Northern Territory Emergency Response and the Strategic Indigenous Housing Infrastructure Program is also likely to stimulate growth while the global economic downturn may actually advantage the Territory by reducing labour shortages.

Consumer Price Index (CPI)

The inflation outlook reported at the time of the Budget was that moderating growth in house prices and a tight monetary policy employed by the Reserve Bank of Australia over 2008 would lead to a fall in the Darwin inflation rate from 3.4 per cent reported in 2007 to 3.1 per cent in 2008.

Although growth in house prices has moderated, the overall decline in the housing category of the Darwin CPI has been lower than expected. This primarily reflects much steeper rent increases in 2008 than estimated at the time of the Budget.

In addition, the Australian Bureau of Agricultural and Resource Economics (ABARE) forecasted crude oil prices to average US\$78 dollars per barrel during 2008, however prices have tracked higher for most of the year. Oil prices peaked at US\$145 per barrel in July 2008 and have averaged US\$111 per barrel for the year to October 2008, with rising fuel prices flowing through to higher transportation and food costs. As such, the contribution of the transportation category to the Darwin CPI (to the September quarter 2008) has been greater than forecast at the time of the Budget. However, declining oil and fuel prices are expected to impact positively on the Darwin CPI for the December quarter 2008 (despite the significant depreciation of the Australian dollar since September 2008) with oil prices at a three-year low of less than US\$60 a barrel in November 2008.

Nevertheless, the depreciation of the Australian dollar will place upward pressure on the prices of imported goods and services, which comprise a significant portion of the CPI basket.

In addition, the \$10.4 billion stimulus package announced by the Commonwealth Government, to take effect from 8 December 2008, is anticipated to have some inflationary impact, by raising aggregate demand for goods and services. This may affect the Darwin CPI in the December quarter of 2008, but will have a relatively bigger effect in 2009. The Reserve Bank of Australia also lowered the cash rate in September, October and November 2008 by a combined 2 percentage points, to stimulate economic growth and increase liquidity.

Commonwealth fiscal policy combined with expansionary monetary policy is expected to stimulate aggregate demand. Combined with Darwin's tight property and labour markets, this has the potential to put upward pressure on prices.

On balance, upward pressure on prices is expected to continue in the short term. In the Mid-Year Report, the Darwin CPI is revised upward from 3.1 per cent to 4.1 per cent, year on year to December 2008.

Crude oil is forecast by ABARE to average US\$98 per barrel in 2009. Downward pressure on world oil prices is expected in 2009 due to a slowing world economy coupled with considerable supply side investment in production capacity encouraged by higher prices earlier in 2008.

Fiscal Strategy

High demand for Territory goods and services is expected to continue in 2009 underpinned by strong population growth, tight labour conditions, high rents and low housing affordability. In the Mid-Year Report, the Darwin CPI for 2009 is revised upward from 2.8 per cent to 3.5 per cent.

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 Fiscal Strategy targets, as set out in the 2008-09 Budget.

This Mid-Year Report has been framed in the midst of a significant downturn in global financial and economic conditions. As foreshadowed in the previous chapter, although the Territory is not immune, it is well placed to withstand the effects. This is predicated on the continuing fiscal responsibility that has resulted in six successive cash surpluses and the still growing Territory economy, albeit at a lower rate than forecast in May 2008. Accordingly while there have been no changes to the fiscal strategy targets, the revised forward estimates reflect changes over the budget cycle in line with the effects of the global financial crisis.

The Government's medium-term fiscal objectives as set out in the 2008-09 Budget papers and the assessment of this strategy against the updated fiscal projections are as follows.

Sustainable Service Provision

Target: General government net operating balance by 2012-13.

Assessment: Operating surpluses projected for the forward estimate years.

Infrastructure for Economic and Community Development

Target: Maintain infrastructure investment at appropriate levels and achieve a general government fiscal balance by 2012-13.

Assessment: Record infrastructure spending in 2008-09 and continuing high levels over all forward estimate years to 2011-12.

Assessment: Fiscal balance lower than that projected in May 2008 but remains on target of achieving a positive fiscal balance with a net surplus of \$2 million estimated in 2011-12, a year prior to the target year.

Competitive Tax Environment

Target: Ensure Territory taxes and charges are competitive with the average of the jurisdictions.

Assessment: Territory taxation revenue per capita of \$1844 in 2008-09, significantly lower than the average of the states at \$2571.

Prudent Management of Liabilities

Target: Net debt plus employee liabilities as a proportion of revenue to fall.

Assessment: Net debt plus employee liabilities as a proportion of revenue is largely consistent with that estimated in May 2008 and remains on a downward trend.

The purpose of the Mid-Year Report is to provide updated estimates for the Budget and three forward years. Many of the fiscal strategy targets provide both absolute measures for the Territory as well as comparative state measures. Although information for the states is generally available for the 2007-08 outcome, updated state estimates for 2008-09 are not yet available. Thus the comparisons that follow provide updated information for the Territory and, only where possible, updated comparative state data.

Sustainable Service Provision

Target: General Government Net Operating Balance by 2012-13

The net operating balance for 2008-09 and the forward years is projected to remain in a significant surplus in all years, despite being revised downwards in all years from that estimated in May 2008.

This downward revision is a direct result of the downturn in the Australian economy, which has resulted in a decline in the Territory's share of GST. For 2008-09 the target is also affected by the \$100 million carryover of tied funding from the Commonwealth that relates to revenue received in 2007-08, which will not be spent until 2008-09.

A positive net operating balance is necessary to achieve Government's objective for a positive fiscal balance as it provides capacity to invest in infrastructure without the need for additional borrowing.

The cash outcome is estimated to decline in 2008-09 to a \$47 million deficit as a result of the same factors affecting the net operating balance. It is projected to return to a balance in 2009-10 and to rise to small surpluses in forward years.

Table 3.2 compares the net operating balance, including as a proportion of revenue, and the cash outcome for 2008-09 and forward estimates against those predicted in May 2008.

The continuing positive net operating balances in all revised forward year estimates indicate that the accrual target of an operating balance by 2012-13 remains realistic.

Table 3.2: General
Government Net Operating
Balance

	2007-08 ¹	2008-09	2009-10	2010-11	2011-12
2008-09 Budget					
Net Operating Balance (\$M)	125	141	201	198	193
As a Proportion of Total Revenue (%)	3.4	3.71	5.06	4.85	4.56
Cash Outcome (\$M)	5	9	21	37	50
2008-09 Mid-Year Report					
Net Operating Balance (\$M)	340	75	173	182	157
As a Proportion of Total Revenue (%)	8.79	1.92	4.35	4.41	3.69
Cash Outcome (\$M)	211	-47	0	17	30
Variation					
Net Operating Balance (\$M)	215	-66	-28	-17	-36
As a Proportion of Total Revenue (%)	5.39	-1.79	-0.71	-0.44	-0.87
Cash Outcome (\$M)	206	-56	-21	-20	-20

Source: Northern Territory Treasury

¹ Mid-Year Report reflects actual outcome.

Infrastructure for Economic and Community Development

Target: Maintain Infrastructure Investment at Appropriate Levels and Achieve Fiscal Balance by 2012-13

Infrastructure investment plays a key role in the Government's budget strategy and is essential for the delivery of the Territory's social and economic requirements.

The provision of adequate levels of infrastructure remains an ongoing challenge for the Territory due to its remoteness and the stage of development, relative to other states.

The fiscal balance is an accrual measure that includes the effect of both capital and operating transactions and demonstrates the Territory's investment balance.

Table 3.3 presents the general government sector's fiscal balance for forward years and as a proportion of total revenue against those predicted in May 2008.

Table 3.3: General Government Fiscal Balance

	2007-08 ¹	2008-09	2009-10	2010-11	2011-12
2008-09 Budget					
Fiscal Balance (\$M)	-23	-51	-20	-3	36
As a Proportion of Total Revenue (%)	-0.63	-1.34	-0.51	-0.06	0.86
2008-09 Mid-Year Report					
Fiscal Balance (\$M)	198	-137	-48	-21	2
As a Proportion of Total Revenue (%)	5.12	-3.50	-1.21	-0.51	0.04
Variation					
Fiscal Balance (\$M)	221	-86	-28	-18	-35
As a Proportion of Total Revenue (%)	5.74	-2.15	-0.70	-0.44	-0.82

Source: Northern Territory Treasury

¹ Mid-Year Report reflects actual outcome.

The Territory's fiscal balance is still predicted over the budget cycle to trend upwards to a surplus position of \$2 million by 2011-12, albeit at a slower rate than projected in May 2008, consistent with the factors affecting the net operating balance.

As with the positive net operating balance, the trend of improvement over the forward estimates indicates that the Territory's aim of a balanced position by 2012-13 remains achievable. This is despite significant investment in the Territory's infrastructure in all years, including a record estimated spend for 2008-09 of \$822 million at the non financial public sector.

Table 3.4 presents the latest estimated level of infrastructure investment through to 2011-12 compared to May 2008. The Government's infrastructure investment comprises purchases of non financial assets (including construction and capital items), capital grants to non government organisations and assets acquired under finance leases (largely the Darwin Convention Centre that was completed in 2007-08).

The increase in capital investment since May 2008 is mainly a result of the infrastructure spending on remote Indigenous housing and continued additions to core service infrastructure. This includes the Power and Water Corporation, which will be investing in excess of \$1 billion over the next five years in infrastructure for the essential services of electricity, sewerage and water, and the Darwin Port Corporation for expanded activities at East Arm.

Table 3.4: Capital Investment –
Non Financial Public Sector

	2007-08 ¹	2008-09	2009-10	2010-11	2011-12
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget					
Purchases of Non Financial Assets	533	662	637	631	570
Capital Grants	104	99	123	117	120
Assets Acquired under a Finance Lease	33				
Total	670	761	760	748	690
2008-09 Mid-Year Report					
Purchases of Non Financial Assets	529	708	677	658	573
Capital Grants	91	113	134	117	120
Assets Acquired under a Finance Lease	33				
Total	653	822	811	776	693
Variation					
Purchases of Non Financial Assets	- 4	46	40	27	3
Capital Grants	- 13	14	11	0	0
Assets Acquired under a Finance Lease	0	0	0	0	0
Total	- 17	61	51	28	3

Source: Northern Territory Treasury

¹ Mid-Year Report reflects actual outcome.

Competitive Tax Environment

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

The Government is committed to maintaining taxation at levels that are competitive with other states and to encourage increased levels of business activity in the Territory. Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. Therefore in order to measure and assess the competitiveness of the Territory's tax system, the following are utilised:

- taxation revenue per capita; and
- taxation effort as assessed by the Commonwealth Grants Commission.

Taxation revenue per capita is a simple summary measure that affords some comparability with other jurisdictions.

Table 3.5 shows that the Territory's tax collection for 2008-09 is estimated to increase by \$12 to \$1844 per capita from original 2008-09 Budget estimates and is well below the average of the other jurisdictions of \$2571 per capita.

Table 3.5: Comparison of Taxation Revenue Per Capita – General Government

	2007-08 Estimate	2007-08 Outcome ¹	2008-09 Budget	2008-09 Revised ²
	\$ per capita	\$ per capita	\$ per capita	\$ per capita
State Average	2 472	2 505	2 571	2 571
Northern Territory	1 819	1 807	1 832	1 844

Source: State and territory outcome reports, state and territory budget papers, ABS Cat. No. 3101.0

1 Actual 2007-08 data not available for Tasmania and South Australia (Budget estimate used).

2 2008-09 Revised reflects original Budget for state average.

Although taxation per capita is a useful comparative measure, it is limited in that it does not make any allowances for differences in states' capacity to raise revenue.

A more useful measure of tax competitiveness is the Commission's analysis of 'tax effort', which adjusts for the extent to which a particular state's capacity to raise revenue is above or below average. Table 3.6 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2006-07, the latest year assessed by the Commission.

Table 3.6: Northern Territory Revenue-Raising Capacity and Effort 2006-07

	Capacity ¹	Effort ²
	%	%
Total Taxation	77	102
Total Own-Source Revenue	90	96

Source: Commonwealth Grants Commission 2008 Update

1 Northern Territory's capacity to raise revenue compared with the Australian average.

2 Northern Territory's revenue effort compared with the Australian average, given the capacity available.

The Commission's assessment shows that the Territory's tax effort (102 per cent) is slightly above the Australian average reflecting the continued growth in the housing market in that year. In regard to own-source revenue, the Territory's effort is at 96 per cent, slightly below the average.

The Commission's assessment combined with the per capita measure of taxation revenue demonstrates that the Government continues to provide a competitive tax environment for Territorians.

Prudent Management of Liabilities

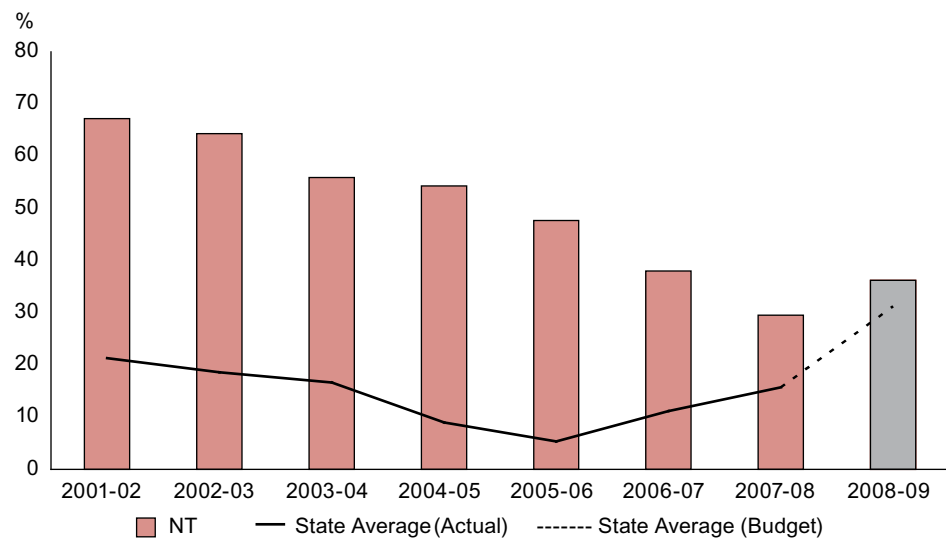
Target: Net Debt and Employee Liabilities as a Proportion of Total Revenue to Fall

This component of the fiscal strategy aims to ensure that debt is prudently managed, taking into consideration service delivery needs and investment in infrastructure to promote sustainable social wellbeing and economic growth.

This is particularly important for the Territory due to its greater infrastructure requirements relative to other jurisdictions, resulting in the Territory traditionally having higher levels of debt than the states.

Figure 3.2 compares the level of Territory debt with the average of the states for 2001-02 to 2008-09 and shows the Territory continues to improve relative to the states to 2007-08 before narrowing the margin in 2008-09.

Figure 3.2: Historical State and Territory Net Debt to Revenue - Non Financial Public Sector



Source: State and territory outcome reports, state and territory budget papers

The Territory's commitment to improving its net debt position over time has resulted in a significant improvement from that recorded in 2001-02. This results from six successive cash surpluses which has flowed through to the forward estimates.

Over the forward estimates period, the ratio of net debt to revenue is set to remain largely in line with that estimated in May 2008, increasing from 36 per cent in 2008-09 to 39 per cent in 2011-12. This is despite the slowdown in the Australian and world economies affecting the Territory's forecasts over the budget cycle and is significantly below the 67 per cent recorded in 2001-02.

Net debt plus employee liabilities is a broader measure than net debt in that it includes unfunded employee entitlements, consisting largely of unfunded superannuation, which is a major liability for the Territory and most states.

Table 3.7 highlights that the level of net debt plus employee liabilities is estimated to continue to fall over the forward years, largely consistent with Budget-time estimates, to 103 per cent by 2011-12.

When compared to the 2007-08 outcome of 89 per cent, net debt plus employee liabilities as a ratio to revenue has significantly increased in all forward years. As foreshadowed in the 2007-08 Treasurer's Annual Financial Report and the Pre-Election Fiscal Outlook report, this increase is predominantly due to the long-term bond rate used to value the Territory's superannuation liability. A discount rate of 6.5 per cent, as required by accounting standards, was applied in the 2007-08 actual outcome resulting in a lower liability. However since 30 June 2008, the current downturn in financial markets and associated rate cuts by the Reserve Bank of Australia have reduced the 10-year bond rate to around 5 per cent at the time of writing. Accordingly 5 per cent has been used in valuing the Territory's superannuation for 2008-09, with 5.35 per cent used for 2009-10 and 5.7 per cent estimated for all other forward years, being the long-term average used by the Territory at Budget time.

Table 3.7: Net Debt and Employee Liabilities – Non Financial Public Sector

	2007-08 ¹	2008-09	2009-10	2010-11	2011-12
2008-09 Budget					
Net Debt (\$M)	1 477	1 578	1 637	1 687	1 676
Net Debt to Revenue (%)	37	38	38	38	36
Net Debt plus Employee Liabilities (\$M)	4 216	4 395	4 523	4 636	4 676
Net Debt plus Employee Liabilities to Revenue (%)	104	106	105	104	102
2008-09 Mid-Year Report					
Net Debt (\$M)	1 257	1 551	1 675	1 779	1 801
Net Debt to Revenue (%)	30	36	38	39	39
Net Debt plus Employee Liabilities (\$M)	3 796	4 529	4 633	4 707	4 788
Net Debt plus Employee Liabilities to Revenue (%)	89	106	106	104	103
Variation					
Net Debt (\$M)	- 220	- 27	38	92	125
Net Debt to Revenue (%)	- 7	- 2	0	1	3
Net Debt plus Employee Liabilities (\$M)	- 420	134	110	71	112
Net Debt plus Employee Liabilities to Revenue (%)	- 15	- 0	1	0	1

Source: Northern Territory Treasury
¹ Mid-Year Report reflects actual outcome.

Conclusion

Overall the Territory continues to maintain its trend towards the realisation of its objectives and targets as set out in the Fiscal Strategy. The projected net operating balance surpluses in all forward years, together with the cash and fiscal balance targets trending to surplus positions over the budgetary cycle, suggest that the targets of balance on an accrual basis by 2012-13 remain realistic. This is despite the slowdown in the Australian economy that has affected all jurisdictions' fiscal position.

The Territory Government is also continuing its commitment to maintain taxation at competitive levels, relative to the rest of Australia, in order to encourage increased levels of business activity.

Net debt and net debt plus employee liabilities to revenue continue on downward paths, albeit at a lower rate than projected in May 2008. This again is despite a backdrop of economic uncertainty and the record levels of investment in the Territory's infrastructure base.

Chapter 4 **Uniform Presentation Framework**

Under the Uniform Presentation Framework (UPF), jurisdictions have agreed to publish information in a standard format in their budget papers, outcome and mid-year reports to facilitate a basis for meaningful comparisons of each government's financial results and projections. The format of the UPF was revised in April 2008 to incorporate the new accounting standard AASB 1049 – Whole of Government and General Government Sector Financial Reporting.

The reporting requirements of the *Fiscal Integrity and Transparency Act* complement those specified in the UPF Agreement. The Act requires that fiscal outlook reports be prepared in accordance with external reporting standards, including the Australian Accounting Standards and the UPF.

The tables in this chapter meet the Territory's reporting obligations under both the *Fiscal Integrity and Transparency Act* and the UPF. They include an operating statement, balance sheet and cash flow statement for the general government, public non financial corporation and non financial public sectors.

Also included are tables presenting general government sector taxes and the revised 2008-09 Loan Council Allocation.

Table 4.1

General Government Sector Operating Statement

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimates	2010-11 Forward Estimates	2011-12 Forward Estimates
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	400 036	402 688	405 925	423 085	441 197
Current grants	2 869 716	2 927 667	2 943 638	3 047 537	3 171 290
Capital grants	166 290	134 317	240 063	255 766	233 156
Sales of goods and services	131 496	141 903	138 461	140 177	141 676
Interest income	45 354	74 420	71 727	73 458	75 299
Dividend and income tax equivalent income	46 518	20 393	21 686	22 326	22 896
Other	118 708	207 721	159 236	159 438	159 032
TOTAL REVENUE	3 778 118	3 909 109	3 980 736	4 121 787	4 244 546
<i>less</i> EXPENSES					
Employee expenses	1 344 510	1 377 160	1 391 625	1 445 722	1 503 513
Superannuation expenses					
Superannuation interest cost	131 288	128 929	133 177	136 995	140 193
Other superannuation expenses	120 223	129 952	129 313	127 952	128 142
Depreciation and amortisation	183 270	186 981	190 627	193 244	196 363
Other operating expenses	948 301	979 874	1 028 058	1 126 413	1 189 433
Interest expenses	138 041	133 423	130 039	132 094	133 539
Other property expenses					
Current grants	570 297	616 018	549 169	534 554	546 342
Capital grants	163 384	177 915	148 691	132 368	135 650
Subsidies and personal benefit payments	68 087	103 887	107 049	110 799	114 717
TOTAL EXPENSES	3 667 401	3 834 139	3 807 748	3 940 141	4 087 892
<i>equals</i> NET OPERATING BALANCE	110 717	74 970	172 988	181 646	156 654
<i>plus</i> Other Economic Flows – Included in Operating Result	44 710	- 249 434	103 958	99 846	4 852
<i>equals</i> OPERATING RESULT	155 427	- 174 464	276 946	281 492	161 506
<i>plus</i> Other Economic Flows – Other Movements in Equity	55 961	22 501	27 179	18 911	39 545
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth	211 388	- 151 963	304 125	300 403	201 051
NET OPERATING BALANCE	110 717	74 970	172 988	181 646	156 654
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	447 137	472 291	474 427	460 787	420 864
Sales of non financial assets	- 72 128	- 73 628	- 62 598	- 65 065	- 69 419
<i>less</i> Depreciation	183 270	186 981	190 627	193 244	196 363
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets					
<i>equals</i> Total net acquisition of non financial assets	191 739	211 682	221 202	202 478	155 082
<i>equals</i> FISCAL BALANCE	- 81 022	- 136 712	- 48 214	- 20 832	1 572

Table 4.2

General Government Sector Balance Sheet

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimates	2010-11 Forward Estimates	2011-12 Forward Estimates
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	48 713	8 344	46 964	54 508	62 332
Advances paid	186 191	155 164	155 804	157 996	160 325
Investments, loans and placements	853 538	859 613	819 784	813 498	824 772
Receivables	108 408	130 602	131 899	132 529	133 086
Equity					
Investments in other public sector entities	1 224 589	1 201 570	1 228 749	1 247 660	1 287 205
Investments – other					
Other financial assets					
Total financial assets	2 421 439	2 355 293	2 383 200	2 406 191	2 467 720
Non financial assets					
Land and other fixed assets	5 553 474	5 639 591	5 871 514	6 080 737	6 243 714
Other non financial assets					
Total non financial assets	5 553 474	5 639 591	5 871 514	6 080 737	6 243 714
TOTAL ASSETS	7 974 913	7 994 884	8 254 714	8 486 928	8 711 434
LIABILITIES					
Deposits held	142 231	136 765	121 107	91 751	70 178
Advances received	281 800	240 241	239 901	219 593	218 802
Borrowing	1 709 726	1 625 595	1 616 795	1 627 286	1 613 653
Superannuation	2 371 367	2 528 442	2 499 428	2 459 531	2 507 808
Other employee benefits	407 552	423 891	432 484	441 447	450 795
Payables	97 936	106 012	106 006	106 004	105 951
Other liabilities	18 121	40 040	40 970	42 890	44 770
TOTAL LIABILITIES	5 028 733	5 100 986	5 056 691	4 988 502	5 011 957
NET ASSETS (+)/LIABILITIES (-)	2 946 180	2 893 898	3 198 023	3 498 426	3 699 477
Contributed equity					
Accumulated surplus (+)/deficit (-)	695 973	596 857	873 803	1 155 295	1 316 801
Other reserves	2 250 207	2 297 041	2 324 220	2 343 131	2 382 676
NET WORTH	2 946 180	2 893 898	3 198 023	3 498 426	3 699 477
NET FINANCIAL WORTH¹	-2 607 294	-2 745 693	-2 673 491	-2 582 311	-2 544 237
NET FINANCIAL LIABILITIES²	3 831 883	3 947 263	3 902 240	3 829 971	3 831 442
NET DEBT³	1 045 315	979 480	955 251	912 628	855 204

1 Net financial worth equals total financial assets minus total liabilities.

2 Net financial liabilities equals the sum of total liabilities less (total financial assets figure less investments in other public sector entities figure).

3 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 4.3 (a)

General Government Sector Cash Flow Statement

	2008-09 Budget	2008-09 Revised	2009-10	2010-11	2011-12
	\$000	\$000	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	400 036	402 688	405 925	423 085	441 197
Receipts from sales of goods and services	131 864	142 079	139 350	141 166	142 665
Grants and subsidies received	3 036 006	3 089 591	3 183 701	3 303 303	3 404 446
Interest receipts	45 354	74 420	71 727	73 458	75 299
Dividends and income tax equivalents	59 216	42 418	19 951	21 247	21 877
Other receipts	111 069	189 793	150 770	150 543	150 149
Total operating receipts	3 783 545	3 940 989	3 971 424	4 112 802	4 235 633
Cash payments for operating activities					
Payments for employees	-1 510 957	-1 545 662	-1 570 576	-1 637 303	-1 705 923
Payment for goods and services	- 948 476	- 982 526	-1 027 139	-1 124 504	-1 187 553
Grants and subsidies paid	- 801 723	- 897 775	- 804 864	- 777 676	- 796 664
Interest paid	- 138 064	- 133 559	- 130 035	- 132 086	- 133 592
Other payments					
Total operating payments	-3 399 220	-3 559 522	-3 532 614	-3 671 569	-3 823 732
NET CASH FLOWS FROM OPERATING ACTIVITIES	384 325	381 467	438 810	441 233	411 901
Cash flows from investments in non financial assets					
Sales of non financial assets	72 128	73 628	62 598	65 065	69 419
Purchases of non financial assets	- 447 137	- 472 291	- 474 427	- 460 787	- 420 864
Net cash flows from investments in non financial assets	- 375 009	- 398 663	- 411 829	- 395 722	- 351 445
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	9 316	- 17 196	26 981	45 511	60 456
Net cash flows from investments in financial assets for policy purposes ¹	- 25	- 525	- 640	- 2 192	- 2 329
Net cash flows from investments in financial assets for liquidity purposes	24 888	98 482	37 077	3 398	- 14 306
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 350 146	- 300 706	- 375 392	- 394 516	- 368 080
Net cash flows from financing activities					
Advances received (net)	82	82	- 340	- 20 308	- 791
Borrowing (net)	- 11 083	- 131 083	- 8 800	10 491	- 13 633
Deposits received (net)	- 36 013	- 71 036	- 15 658	- 29 356	- 21 573
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 47 014	- 202 037	- 24 798	- 39 173	- 35 997
NET INCREASE/DECREASE IN CASH HELD	- 12 835	- 121 276	38 620	7 544	7 824
Net cash flows from operating activities	384 325	381 467	438 810	441 233	411 901
Net cash flows from investments in non financial assets	- 375 009	- 398 663	- 411 829	- 395 722	- 351 445
CASH SURPLUS (+)/DEFICIT (-)	9 316	- 17 196	26 981	45 511	60 456
Table 4.3 (b) Additional Information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	9 316	- 17 196	26 981	45 511	60 456
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	9 316	- 17 196	26 981	45 511	60 456
Future infrastructure and superannuation contributions/ earnings ²		- 30 282	- 26 794	- 28 402	- 30 106
UNDERLYING SURPLUS (+)/DEFICIT (-)	9 316	- 47 478	187	17 109	30 350

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

2. Contributions to meet future infrastructure requirements and defined benefit superannuation liabilities and investment earnings reinvested in the fund.

Table 4.4

Public Non Financial Corporation Operating Statement

	2008-09	2008-09	2009-10	2010-11	2011-12
	Budget	Revised	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Current grants	105 720	110 445	108 588	111 107	113 905
Capital grants	64 559	64 559	14 923	15 296	15 679
Sales of goods and services	378 610	374 610	386 518	398 775	411 791
Interest income	1 726	1 726	1 704	1 719	1 743
Other	26 948	26 723	27 224	28 073	28 727
TOTAL REVENUE	577 563	578 063	538 957	554 970	571 845
<i>less</i> EXPENSES					
Employee expenses	57 610	59 100	61 432	66 158	68 805
Superannuation expenses	8 289	8 289	8 629	8 973	9 332
Depreciation and amortisation	70 412	70 815	75 138	80 170	84 452
Other operating expenses	336 195	392 695	343 534	354 246	335 689
Interest expenses	37 956	36 795	49 691	59 726	67 416
Other property expenses	21 892	167	194	176	177
Current grants					
Capital grants					
Subsidies and personal benefit payments	4 900	4 900	5 023	5 148	5 277
TOTAL EXPENSES	537 254	572 761	543 641	574 597	571 148
<i>equals</i> NET OPERATING BALANCE	40 309	5 302	- 4 684	- 19 627	697
<i>plus</i> Other economic flows – included in operating result	120	120	180	120	120
<i>equals</i> OPERATING RESULT	40 429	5 422	- 4 504	- 19 507	817
<i>plus</i> Other economic flows – other movements in equity	- 168	4 832	- 214	- 194	- 194
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth	40 261	10 254	- 4 718	- 19 701	623
NET OPERATING BALANCE	40 309	5 302	- 4 684	- 19 627	697
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	215 091	236 091	203 061	197 651	151 975
Sales of non financial assets	- 126	- 126	- 186	- 126	- 126
<i>less</i> Depreciation	70 412	70 815	75 138	80 170	84 452
<i>plus</i> Change in inventories	576	576	438	448	460
<i>plus</i> Other movements in non financial assets	11 500	11 500	11 788	12 082	12 384
<i>equals</i> Total net acquisition of non financial assets	156 629	177 226	139 963	129 885	80 241
<i>equals</i> FISCAL BALANCE	- 116 320	- 171 924	- 144 647	- 149 512	- 79 544

Table 4.5

Public Non Financial Corporation Balance Sheet

	2008-09	2008-09	2009-10	2010-11	2011-12
	Budget	Revised	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	56 013	36 347	43 957	37 460	22 711
Advances paid					
Investments, loans and placements					
Receivables	65 519	52 728	56 535	59 170	58 228
Equity		3	3	3	3
Other financial assets					
Total financial assets	121 532	89 078	100 495	96 633	80 942
Non financial assets					
Land and other fixed assets	1 523 222	1 546 805	1 686 948	1 816 953	1 897 314
Other non financial assets					
Total non financial assets	1 523 222	1 546 805	1 686 948	1 816 953	1 897 314
TOTAL ASSETS	1 644 754	1 635 883	1 787 443	1 913 586	1 978 256
LIABILITIES					
Deposits held		33	33	33	33
Advances received					
Borrowing	589 058	608 313	763 379	903 299	968 448
Superannuation					
Other employee benefits	24 366	25 190	26 208	27 270	28 378
Payables	50 860	34 618	37 242	42 357	40 161
Other liabilities	6 066	16 339	13 909	13 656	13 642
TOTAL LIABILITIES	670 350	684 493	840 771	986 615	1 050 662
NET ASSETS (+)/LIABILITIES (-)	974 404	951 390	946 672	926 971	927 594
Contributed equity	356 521	361 549	361 549	361 549	361 549
Accumulated surplus (+)/deficit (-)	600 551	571 015	566 297	546 596	547 219
Other reserves	17 332	18 826	18 826	18 826	18 826
TOTAL EQUITY	974 404	951 390	946 672	926 971	927 594
NET FINANCIAL WORTH¹	- 548 818	- 595 415	- 740 276	- 889 982	- 969 720
NET DEBT²	533 045	571 999	719 455	865 872	945 770

¹ Net financial worth equals total financial assets minus total liabilities.

² Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 4.6 (a)

Public Non Financial Corporation Cash Flow Statement

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimates	2010-11 Forward Estimates	2011-12 Forward Estimates
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Receipts from sales of goods and services	380 644	381 644	380 279	396 011	412 805
Grants and subsidies received	170 279	169 704	123 511	126 403	129 584
Interest receipts	1 725	1 725	1 703	1 718	1 742
Other receipts	15 448	15 223	15 436	15 991	16 343
Total operating receipts	568 096	568 296	520 929	540 123	560 474
Cash payments for operating activities					
Income tax equivalents paid	- 32 281	- 18 668	- 155	- 195	- 177
Payments for employees	- 71 645	- 73 004	- 75 133	- 80 416	- 83 647
Payment for goods and services	- 343 989	- 400 491	- 335 765	- 343 721	- 331 915
Grants and subsidies paid	- 4 900	- 4 900	- 5 023	- 5 148	- 5 277
Interest paid	- 37 567	- 36 469	- 49 266	- 59 321	- 67 313
Other payments					
Total operating payments	- 490 382	- 533 532	- 465 342	- 488 801	- 488 329
NET CASH FLOWS FROM OPERATING ACTIVITIES	77 714	34 764	55 587	51 322	72 145
Cash flows from investments in non financial assets					
Sales of non financial assets	126	126	186	126	126
Purchases of non financial assets	- 215 091	- 236 091	- 203 061	- 197 651	- 151 975
Net cash flows from investments in non financial assets	- 214 965	- 235 965	- 202 875	- 197 525	- 151 849
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 137 251	- 201 201	- 147 288	- 146 203	- 79 704
Net cash flows from investments in financial assets for policy purposes ¹					
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 214 965	- 235 965	- 202 875	- 197 525	- 151 849
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	120 988	142 001	155 066	139 920	65 149
Deposits received (net)					
Dividends paid	- 140	- 140	- 168	- 214	- 194
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	120 848	141 861	154 898	139 706	64 955
NET INCREASE/DECREASE IN CASH HELD	- 16 403	- 59 340	7 610	- 6 497	- 14 749
Net cash flows from operating activities	77 714	34 764	55 587	51 322	72 145
Net cash flows from investments in non financial assets	- 214 965	- 235 965	- 202 875	- 197 525	- 151 849
Dividends paid	- 140	- 140	- 168	- 214	- 194
CASH SURPLUS (+)/DEFICIT (-)	- 137 391	- 201 341	- 147 456	- 146 417	- 79 898

Table 4.6 (b) Additional Information to the Cash Flow Statement

CASH SURPLUS (+)/DEFICIT (-)	- 137 391	- 201 341	- 147 456	- 146 417	- 79 898
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 137 391	- 201 341	- 147 456	- 146 417	- 79 898

¹ Includes equity acquisitions, disposals and privatisations (net).

Table 4.7

Non Financial Public Sector Operating Statement

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimates	2010-11 Forward Estimates	2011-12 Forward Estimates
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	394 216	396 868	399 839	416 739	434 579
Current grants	2 869 716	2 930 862	2 943 638	3 047 537	3 171 290
Capital grants	166 290	134 317	240 063	255 766	233 156
Sales of goods and services	488 384	494 715	503 013	516 813	531 328
Interest income	45 402	74 468	71 756	73 487	75 329
Dividend and income tax equivalent income	24 458	20 058	21 278	21 956	22 525
Other	139 379	228 167	179 846	180 557	180 805
TOTAL REVENUE	4 127 845	4 279 455	4 359 433	4 512 855	4 649 012
<i>less</i> EXPENSES					
Employee expenses	1 402 120	1 436 260	1 453 057	1 511 880	1 572 318
Superannuation expenses					
Superannuation interest cost	131 288	128 929	133 177	136 995	140 193
Other superannuation expenses	122 285	132 014	131 378	130 021	130 570
Depreciation and amortisation	253 682	257 796	265 765	273 414	280 815
Other operating expenses	1 256 904	1 344 901	1 343 490	1 452 124	1 496 315
Interest expenses	174 319	168 540	178 055	190 130	199 242
Other property expenses					
Current grants	525 746	571 242	503 221	487 596	498 132
Capital grants	98 825	113 356	133 768	117 072	119 971
Subsidies and personal benefit payments	11 818	46 313	49 432	51 798	54 299
TOTAL EXPENSES	3 976 987	4 199 351	4 191 343	4 351 030	4 491 855
<i>equals</i> NET OPERATING BALANCE	150 858	80 104	168 090	161 825	157 157
<i>plus</i> Other economic flows – included in operating result	44 830	- 249 314	104 138	99 966	4 972
<i>equals</i> OPERATING RESULT	195 688	- 169 210	272 228	261 791	162 129
<i>plus</i> Other economic flows – other movements in equity	15 700	17 247	31 897	38 612	38 922
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth	211 388	- 151 963	304 125	300 403	201 051
NET OPERATING BALANCE	150 858	80 104	168 090	161 825	157 157
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	662 228	708 382	677 488	658 438	572 839
Sales of non financial assets	- 72 254	- 73 754	- 62 784	- 65 191	- 69 545
<i>less</i> Depreciation	253 682	257 796	265 765	273 414	280 815
<i>plus</i> Change in inventories	576	576	438	448	460
<i>plus</i> Other movements in non financial assets	11 500	11 500	11 788	12 082	12 384
<i>equals</i> Total net acquisition of non financial assets	348 368	388 908	361 165	332 363	235 323
<i>equals</i> FISCAL BALANCE	- 197 510	- 308 804	- 193 075	- 170 538	- 78 166

Table 4.8

Non Financial Public Sector Balance Sheet

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimates	2010-11 Forward Estimates	2011-12 Forward Estimates
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	52 095	12 466	53 645	61 219	63 100
Advances paid	186 191	155 164	155 804	157 996	160 325
Investments, loans and placements	853 538	859 613	819 784	813 498	824 772
Receivables	162 089	171 052	176 069	179 371	178 985
Equity					
Investments in other public sector entities	250 185	250 180	282 077	320 689	359 611
Investments – other		3	3	3	3
Other financial assets					
Total financial assets	1 504 098	1 448 478	1 487 382	1 532 776	1 586 796
Non financial assets					
Land and other fixed assets	7 076 696	7 186 396	7 558 462	7 897 690	8 141 028
Other non financial assets					
Total non financial assets	7 076 696	7 186 396	7 558 462	7 897 690	8 141 028
TOTAL ASSETS	8 580 794	8 634 874	9 045 844	9 430 466	9 727 824
LIABILITIES					
Deposits held	89 600	104 573	83 864	61 035	48 268
Advances received	281 800	240 241	239 901	219 593	218 802
Borrowing	2 298 784	2 233 908	2 380 174	2 530 585	2 582 101
Superannuation	2 371 367	2 528 442	2 499 428	2 459 531	2 507 808
Other employee benefits	431 917	449 083	458 691	468 715	479 171
Payables	143 010	134 254	136 872	141 984	139 734
Other liabilities	18 136	50 475	48 891	50 597	52 463
TOTAL LIABILITIES	5 634 614	5 740 976	5 847 821	5 932 040	6 028 347
NET ASSETS (+)/LIABILITIES (-)	2 946 180	2 893 898	3 198 023	3 498 426	3 699 477
Contributed equity					
Accumulated surplus (+)/deficit (-)	1 296 524	1 167 872	1 440 100	1 701 891	1 864 020
Other reserves	1 649 656	1 726 026	1 757 923	1 796 535	1 835 457
NET WORTH	2 946 180	2 893 898	3 198 023	3 498 426	3 699 477
NET FINANCIAL WORTH¹	-4 130 516	-4 292 498	-4 360 439	-4 399 264	-4 441 551
NET FINANCIAL LIABILITIES²	4 380 701	4 542 678	4 642 516	4 719 953	4 801 162
NET DEBT³	1 578 360	1 551 479	1 674 706	1 778 500	1 800 974

1 Net financial worth equals total financial assets minus total liabilities.

2 Net financial liabilities equals the sum of total liabilities less (total financial assets figure less investments in other public sector entities figure).

3 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 4.9 (a)

Non Financial Public Sector Cash Flow Statement

	2008-09 Budget	2008-09 Revised	2009-10	2010-11	2011-12
	\$000	\$000	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	394 216	396 868	399 839	416 739	434 579
Receipts from sales of goods and services	490 786	501 925	497 663	515 038	533 331
Grants and subsidies received	3 036 006	3 092 786	3 183 701	3 303 303	3 404 446
Interest receipts	45 402	74 468	71 756	73 487	75 329
Dividends and income tax equivalents	26 796	23 740	19 629	20 839	21 506
Other receipts	126 467	199 666	166 156	166 484	166 442
Total operating receipts	4 119 673	4 289 453	4 338 744	4 495 890	4 635 633
Cash payments for operating activities					
Payments for employees	-1 576 782	-1 612 977	-1 639 622	-1 711 373	-1 782 952
Payment for goods and services	-1 270 694	-1 361 168	-1 340 890	-1 446 037	-1 497 279
Grants and subsidies paid	- 636 344	- 730 866	- 686 376	- 656 421	- 672 357
Interest paid	- 173 954	- 168 351	- 177 627	- 189 718	- 199 193
Other payments					
Total operating payments	-3 657 774	-3 873 362	-3 844 515	-4 003 549	-4 151 781
NET CASH FLOWS FROM OPERATING ACTIVITIES	461 899	416 091	494 229	492 341	483 852
Cash flows from investments in non financial assets					
Sales of non financial assets	72 254	73 754	62 784	65 191	69 545
Purchases of non financial assets	- 662 228	- 708 382	- 677 488	- 658 438	- 572 839
Net cash flows from investments in non financial assets	- 589 974	- 634 628	- 614 704	- 593 247	- 503 294
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 128 075	- 218 537	- 120 475	- 100 906	- 19 442
Net cash flows from investments in financial assets for policy purposes ¹	- 25	- 525	- 640	- 2 192	- 2 329
Net cash flows from investments in financial assets for liquidity purposes	24 888	98 482	37 077	3 398	- 14 306
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 565 111	- 536 671	- 578 267	- 592 041	- 519 929
Net cash flows from financing activities					
Advances received (net)	82	82	- 340	- 20 308	- 791
Borrowing (net)	109 905	10 918	146 266	150 411	51 516
Deposits received (net)	- 18 275	- 10 348	- 20 709	- 22 829	- 12 767
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	91 712	652	125 217	107 274	37 958
NET INCREASE/DECREASE IN CASH HELD	- 11 500	- 119 928	41 179	7 574	1 881
Net cash flows from operating activities	461 899	416 091	494 229	492 341	483 852
Net cash flows from investments in non financial assets	- 589 974	- 634 628	- 614 704	- 593 247	- 503 294
CASH SURPLUS (+)/DEFICIT (-)	- 128 075	- 218 537	- 120 475	- 100 906	- 19 442

Table 4.9 (b) Additional Information to the Cash Flow Statement

CASH SURPLUS (+)/DEFICIT (-)	- 128 075	- 218 537	- 120 475	- 100 906	- 19 442
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 128 075	- 218 537	- 120 475	- 100 906	- 19 442
Future Infrastructure and Superannuation contributions/earnings ²		- 30 282	- 26 794	- 28 402	- 30 106
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 128 075	- 248 819	- 147 269	- 129 308	- 49 548

¹ Includes equity acquisitions, disposals and privatisations (net).

² Contributions to meet future infrastructure requirements and defined benefit superannuation liabilities and investment earnings reinvested in the fund.

Table 4.10

General Government Sector Taxes

	2008-09 Budget	2008-09 Revised	2009-10 Forward Estimate
	\$000	\$000	\$000
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE	146 585	149 085	156 513
Payroll taxes	146 585	149 085	156 513
TAXES ON PROPERTY	108 482	108 482	101 600
Stamp duties on financial and capital transactions	108 482	108 482	101 600
TAXES ON THE PROVISION OF GOODS AND SERVICES	102 087	99 139	101 280
Taxes on gambling	76 547	73 599	74 463
Taxes on insurance	25 540	25 540	26 817
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES	42 882	45 982	46 532
Motor vehicle registration fees	42 882	45 982	46 532
TOTAL TAXES	400 036	402 688	405 925

Table 4.11

2008-09 Loan Council Allocation

	Budget-time Estimate	Mid-Year Estimate
	\$M	\$M
General government sector cash deficit (+)/surplus (-)	- 9	17
Public non financial corporations sector cash deficit (+)/surplus (-)	137	201
Non financial public sector cash deficit (+)/surplus (-)	128	218
<i>minus</i> Acquisitions under finance leases and similar arrangements		
<i>equals</i> ABS GFS cash deficit (+)/surplus (-)	128	218
<i>minus</i> Net cash flows from investments in financial assets for policy purposes		
<i>plus</i> Memorandum items		
2008-09 LOAN COUNCIL ALLOCATION	128	218

Appendix: Classification of Entities in the Northern Territory Public Sector

Non Financial Public Sector

General Government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation¹
Batchelor Institute of Indigenous Tertiary Education¹
Central Holding Authority
Construction Division²
Darwin Waterfront Corporation¹
Data Centre Services²
Department of the Chief Minister
Department of Business and Employment
Department of Education and Training
Department of Health and Families
Department of Justice
Department of the Legislative Assembly
Department of Local Government and Housing
Department of Natural Resources, Environment, the Arts and Sport
Department of Planning and Infrastructure
Department of Regional Development, Primary Industry, Fisheries and Resources
Desert Knowledge Australia¹
Government Printing Office²
Land Development Corporation
Natural Resource Management Board¹
Nominal Insurer's Fund¹
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission¹
Northern Territory Major Events Company Pty Ltd¹
Northern Territory Police, Fire and Emergency Services
Northern Territory Treasury
NT Build¹
NT Fleet²
Office of the Commissioner for Public Employment
Ombudsman's Office
Territory Discoveries²
Territory Housing²
Territory Motor Sports Board Pty Ltd¹
Territory Wildlife Parks²
Tourism NT

Public Non Financial Corporations

Darnor Pty Ltd¹
Darwin Bus Service²
Darwin Port Corporation²
Gasgo Pty Ltd¹
Indigenous Essential Services Pty Ltd¹
Power and Water Corporation^{1,3}

1. Non budget sector entity.

2. Government business division.

3. Government owned corporation.

Glossary

Accounts Payable	The value of short-term and long-term debt and accounts payable, interest payable and prepayments received.
Accounts Receivable	The value of short-term and long-term trade credit and accounts receivable, interest receivable and prepayments made.
Advances/Advances Paid	Loans acquired for policy rather than liquidity management purposes. Included are long-term and short-term loans, non marketable debentures and long and short term promissory agreements (bonds and bills) issued to public sector units for achieving government policy objectives.
Capital Grants	Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, in which cash is transferred to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.
Cash Surplus/Deficit	Reported in the cash flow statement that measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid, less value of assets acquired under finance leases and similar arrangements.
Change in Net Worth	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows, and measures the variation in a government's accumulated assets and liabilities.
Comprehensive Result	The net result of all items of income and expense recognised for the period. It is the aggregate of the operating result and other movements in equity, other than transactions with owners as owners.
Consumer Price Index	A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.
Contingent Liability	A potential financial obligation arising out of a condition, situation, guarantee or indemnity, the ultimate effect of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.
Current Grants	Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.
Estimated Resident Population	The official measure of the usual resident population of Australia and the states and territories. It is generated by the Australian Bureau of Statistics every quarter by adding natural increase (the excess of births over deaths), net overseas migration and (for the jurisdictions) net interstate migration occurring during the period to the population at the beginning of each period.
Finance Lease	Lease agreements that transfer substantially all the risks and benefits relating to ownership of an asset from the lessor (legal owner) to the lessee (party using the asset).

Financial Asset

Any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
 - a non derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

General Government Sector (GGS)

Defined in Government Finance Statistics as an entity or group of entities which are mainly engaged in the production of goods and/or services outside the normal market mechanism. Goods and services are provided free of charge or at nominal charges well below costs of production.

General Government Agency

An entity or group of entities mainly engaged in providing services or producing goods for the general public, such as education, health and policing services. Goods and services are provided free of charge or at nominal charges.

Goods and Services Tax Revenue

On 1 July 2000, the Commonwealth introduced the goods and services tax (GST). Payments from the Commonwealth return the GST revenue to the states and territories, replacing the previous general purpose grants.

Government Business Divisions

A Territory-controlled trading entity that follows commercial practices and is required to comply with competitive neutrality principles.

Government Finance Statistics

Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. Government Finance Statistics in Australia are developed by the Australian Bureau of Statistics in conjunction with all governments and are mainly based on international statistical standards, developed in consultation with member countries by the International Monetary Fund.

Government Owned Corporation (GOC)

An entity whose objectives are to operate at least as efficiently as any corporate business and maximise the sustainable return to government. The *Government Owned Corporations Act* adopts the shareholder model of corporate governance. The Power and Water Corporation became the Territory's first government owned corporation on 1 July 2002.

Gross Domestic Product

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by summing total output, total income or total expenditure.

Gross State Product

Similar to gross domestic product, except that it measures the total value of goods and services produced in a jurisdiction. It is the sum of all income, namely wages salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks and a balancing item.

Guarantee	An undertaking to answer for the debt or obligations of another person or entity.
Indemnity	A written undertaking to compensate, protect or insure another person or entity against future financial loss, damage or liability.
Loan Council	The Australian Loan Council endorses Commonwealth and state government borrowing levels. Current arrangements seek to emphasise transparency of public sector finances, through financial market scrutiny of proposed borrowing to restrict borrowing to prudent levels.
Loan Council Allocation	The nomination to the Loan Council of the level of financing required.
Memorandum Items – Loan Council	Memorandum items are used to adjust the cash surplus/ deficit to include in the Loan Council Allocation certain transactions that may have the characteristics of public sector borrowings but do not constitute formal borrowings.
Net Acquisition/ (Disposal) of Non-Financial Assets from Transactions	Purchases (or acquisitions) of non financial assets less sales (or disposals) of non financial assets less depreciation plus changes in inventories and other movements in non financial assets.
Net Cash Flows from Investments in Financial Assets (Liquidity Management purposes)	Cash receipts from liquidation or repayment of investments in financial assets for liquidity management purpose less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.
Net Cash Flows from Investments in Financial Assets(Policy Purposes)	Cash receipts from the repayment and liquidation of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disaster.
Net Debt	Net debt measures a government's net stock of selected gross financial liabilities less financial assets. Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.
Net Financial Liabilities	Total liabilities less financial assets, other than equity in PNFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC sector, it is equal to negative net financial worth.
Net Financial Worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the Uniform Presentation Framework balance sheet as financial assets minus liabilities. Net financial worth is a broader measure than net debt, in that it incorporates provisions (such as superannuation, but excludes depreciation and doubtful debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities.

Net Lending/ Borrowing (also referred to as Fiscal Balance)	An operating statement measure that differs from the net operating balance in that it includes spending on capital items, but excludes depreciation. The net lending/borrowing measure more accurately reflects the cash requirements of a government in any given year. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit) position indicates that a government's level of investment is greater than its level of savings.
Net Operating Balance	Calculated from the operating statement as revenue less expenses from transactions. This excludes capital expenditure and provides a good measure of a government's position over time and an indication of the sustainability of the existing level of government service provision.
Net Worth	Provides a relatively comprehensive picture of a government's overall financial position. It is calculated as total assets less total liabilities less shares and other contributed capital. It includes a government's non financial assets, such as land and other fixed assets, which may be sold and used to repay debt, as well as its financial assets and liabilities including debtors, creditors and superannuation liabilities. Net worth also shows asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.
Non Financial Assets	Assets that are not financial assets, predominantly land and other fixed assets.
Non Financial Public Sector	The sector formed through a consolidation of the general government and public non financial corporation subsectors.
Operating Result	A measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.
Other Economic Flows	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets).
Provisions	Amounts set aside by entities from current revenue or income for future payments.
Public Non Financial Corporation	Public enterprises primarily engaged in the production of goods or services of a non financial nature, for sale in the market place, at prices which aim to recover most of the costs involved.
Sale of Goods and Services	Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings, but excludes rent income from the use of non-produced assets such as land.
Specific Purpose Payments	Tied grants received from the Commonwealth, which are earmarked for a specific purposes.
State Final Demand	Final consumption expenditure plus gross fixed capital formation in each jurisdiction. It represents the total expenditure on consumption and investment in a jurisdiction.

Superannuation Interest Cost

The expense resulting from the increase in the liability due to the fact that, for all participants in the scheme, retirement (and death) is one year nearer, and so one fewer discount factor must be used to calculate the present value of the benefits for each future year. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement, as per the relevant accounting standard. The cost is measured net of the actuarial return on plan assets of defined benefit schemes calculated using an actuarially determined long-term rate of return.

Other Superannuation Expense

Includes all superannuation expenses from transactions except superannuation interest cost. It generally includes current service cost, which is the increase in entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are considered other economic flows.

Tax Equivalents Regime

The mechanism to ensure that GBDs and GOCs incur similar tax liabilities to privately owned organisations. Thus, greater parity exists between the cost structures of government controlled trading entities and the private sector, aiding in the achievement of competitive neutrality.

Uniform Presentation Framework

A uniform reporting framework (UPF) agreed by the Australian Loan Council in 2000, which is a revision of the agreement reached at the 1991 Premiers' Conference. The UPF was further updated and reissued in April 2008 to incorporate the new accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting. The UPF specifies that the Commonwealth, state and territory governments will present a minimum set of budget and financial outcome information on the Government Finance Statistics basis according to an agreed format and specified Loan Council reporting arrangements.