Northern Territory Government

Pre-Election Fiscal Outlook Report

August 2008

2008 Pre-Election Fiscal Outlook Report

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An electronic copy of this report may be obtained at www.nt.gov.au/ntt

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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 this pre-election fiscal outlook report are based on Government decisions that were made available to me by the Treasurer on 23 July, and other information relevant to financial projections available as at 29 July. The projections are presented in accordance with the Uniform Presentation Framework.

Jennifer Prince

Under Treasurer

31 July 2008

Treasurer's Certification

Treasurer

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Ms Jennifer Prince
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Dear Under Treasurer,

RE: PRE-ELECTION FISCAL OUTLOOK REPORT

Thank you for your letter of Tuesday 22nd July.

I can advise you that the Government has made no commitments of which you are unaware or which would have material fiscal or economic implications that would impact on your considerations under the *Fiscal Integrity and Transparency Act.*

Yours sincerely

DELIA LAWRIE

Northern Territory Government

Chapter 1

Overview

The publication of a pre-election fiscal outlook report (PEFO) is a requirement of the *Fiscal Integrity and Transparency Act* (FITA), which provides for the release of updated financial estimates for the budget year plus three forward years within 10 days of the issue of a writ for an election. These updated estimates are to include all policy and non-policy or parameter changes since the most recently published financial report which, in this instance, was the 2008-09 Budget Papers released on 6 May 2008.

Due to the timing of the PEFO, this Report includes the unaudited outcome for 2007-08 and updated information for the 2008-09 Budget and 2009-10 to 2011-12 forward estimates for the general government and non financial public sectors. The PEFO includes the same information disclosures as that required for other financial reports, and is based on the same external reporting standard, the Uniform Presentation Framework, as agreed by all Australian jurisdictions.

The FITA has an additional requirement for the PEFO compared with other fiscal outlook reports. A signed statement from the Treasurer is required advising of any commitments the Government has entered into that could have material fiscal or economic consequences for the Territory and that the Under Treasurer could not reasonably be expected to know about. This statement from the Treasurer is included at the beginning of the PEFO and states that there are no commitments of this nature.

The PEFO includes updated consolidated financial information similar to that included in the *2008-09 Budget Paper No. 2*. Given the short timeframe between the 2008-09 Budget and the PEFO, the economic assumptions upon which the 2008-09 Budget were based remain unchanged. However a discussion of relevant issues that will be taken into account in the preparation of the upcoming 2008-09 Mid-Year Report is included.

The *2008-09 Budget Paper No. 2* included a number of chapters that have not been reproduced in the PEFO. These chapters discussed the broader issues relating to Commonwealth grants, Territory own-source revenue and the economic outlook, and are virtually unchanged as a result of the PEFO projections. Where appropriate, information that would ordinarily have been included in these chapters has been included in Chapter 2 of the PEFO.

Updated Financial Projections

Updated financial projections have been prepared for 2008-09 to 2011-12. The information provided for 2007-08 is a provisional outcome and will be subject to audit during the preparation of the 2007-08 Treasurer’s Annual Financial Report. The audited outcome will not be available until October 2008. However for the purposes of the PEFO, the provisional outcome for 2007-08 will be presented in accordance with the information provided to the Australian Bureau of Statistics (ABS) on 30 July 2008.

Chapter 2 outlines the details of each policy and parameter change that has been made since the May 2008 Budget Papers and discusses material differences between the PEFO estimates and those included in the 2008-09 Budget. This chapter also includes a Statement of Risks and a discussion on contingent liabilities, as required by the FITA.

Table 1.1 compares the key aggregates in the PEFO with the 2008-09 Budget. There has been a significant improvement in the financial aggregates for 2007-08, much of which is due to timing of expenditures and revenues. There are also ongoing improvements to Territory debt and liabilities.

Table 1.1: Pre-Election Fiscal Outlook Report – General Government Sector

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
GENERAL GOVERNMENT					
Operating Result					
2008-09 Budget Papers	81	111	174	170	163
2008-09 PEFO	282	79	181	182	179
Fiscal Balance					
2008-09 Budget Papers	- 67	- 81	- 47	- 31	6
2008-09 PEFO	138	- 113	- 40	- 19	22
Cash Surplus					
2008-09 Budget Papers	5	9	21	37	50
2008-09 PEFO	209	7	28	49	66
NON FINANCIAL PUBLIC SECTOR					
Net Debt					
2008-09 Budget Papers	1 477	1 578	1 637	1 687	1 676
2008-09 PEFO	1 255	1 357	1 408	1 445	1 417
Net Debt + Employee Liabilities					
2008-09 Budget Papers	4 203	4 382	4 510	4 623	4 663
2008-09 PEFO	3 784	3 964	4 084	4 184	4 206

Source: Northern Territory Treasury.

The outcome for 2007-08 is significantly improved from the estimate presented in the 2008-09 Budget, largely due to unexpected additional Commonwealth funding received at the end of the financial year, lower than expected expenditure in some areas and usual end of year timing differences, some of which are associated with the Northern Territory Emergency Response (NTER).

The improvement is similar in all the fiscal targets as the net capital spending in 2007-08 was consistent with the estimate published in the May 2008 Budget, resulting in consistent variations in both the Operating and Cash Flow statements.

In the 2008-09 Budget $20 million of the cash improvement in 2007-08 had been set aside for the Territory's future infrastructure and superannuation liability requirements. The Budget foreshadowed that any additional net improvement would be directed towards either further infrastructure and superannuation contributions, or to reducing the net borrowing requirement having regard to financial market volatility. This will be a matter for consideration by the newly formed Government, subsequent to the 2008 General Election.

The improvement in the 2007-08 operating result and fiscal balance from the 2008-09 Budget is due to additional revenue of $136 million and reduced expenditure of $64.1 million. The cash improvement is due to additional receipts of $104.4 million and lower payments of $96.4 million. The 2007-08 year was unusual in that the combination of the financial arrangements associated with the NTER and a number of new and updated financial agreements, has meant that the financial flows between the Commonwealth and the Northern Territory have been high. Of the additional revenue since May 2008, more than half is associated with specific purpose payments from the Commonwealth. Similarly on the expenditure side, the lower than estimated spending is, in part, associated with delays in Commonwealth funded programs which will result in a carry over of expenditure obligations to 2008-09 of around $60 million. This is almost double the usual level of transfers between years.

The expected transfer of expenditure obligations has resulted in a slight reduction in the projected 2008-09 fiscal outcomes from those estimated in the 2008-09 Budget. Agencies are currently assessing their actual carry over requirement and the effect of this assessment will be incorporated into the 2008-09 Mid-Year Report and may result in slightly varied outcomes from those presented in the PEFO.

The ongoing effect of higher Commonwealth revenue and a number of policy decisions have flowed through to the forward estimates resulting in a small positive effect on the 2009-10 to 2011-12 estimates and contingency capacity.

Fiscal Strategy

The FITA requires the Treasurer to set out a fiscal strategy with each Budget. The PEFO assesses performance against the 2008-09 Fiscal Strategy published in the May 2008 Budget Papers. The PEFO operating and cash estimates from 2009-10 show a small improvement compared with the 2008 Budget Paper estimates, but show a significant improvement for 2007-08 resulting in ongoing improvements in the debt and liability measures over the forward estimates.

Updated information for other jurisdictions is now available following the publication of all state budgets, allowing a more contemporary comparison of fiscal performance. This shows ongoing improvement in the Territory's fiscal position relative the states.

A detailed discussion of the Fiscal Strategy is presented in Chapter 3 of this Report.

Economic Indicators

There has been some additional economic data released since the 2008 Budget was prepared. Where this data is the basis of a determination by the Commonwealth and affects financial flows, as is the case with population and the GST pool, it has been adopted in this Report. However, economic forecasts have not been altered on the basis that there has not been sufficient additional data since the Budget to support such a change, although influences on future economic forecasts are discussed in Chapter 2.

Fiscal and Economic Outlook

This chapter provides information on the provisional outcome for 2007-08 along with updated financial projections for the 2008-09 Budget and three forward estimate years. It also provides an update on the economic outlook as well as a Statement of Risks and information on contingent liabilities, as required by the FITA.

Fiscal Outlook

The changes to the forward estimates since the 2008-09 Budget are associated with parameter variations including revised GST estimates following Commonwealth determinations for the GST pool and the Territory's population, finalisation of additional agreements with the Commonwealth and policy decisions. The net effect of these changes is a comparatively minor improvement on the overall fiscal position.

The 2007-08 outcome varies significantly from the estimate presented in the 2008-09 Budget Papers, largely due to additional revenue from the Commonwealth in the form of GST revenue and specific purpose payments (SPPs). This additional revenue, along with associated timing differences and lower than budgeted expenditure has resulted in an improved estimate for all financial outcomes.

The timing differences associated with significant amounts of SPP funding have resulted in an improvement in 2007-08 and an associated transfer of expenditure into 2008-09 and future years. In finalising their end of year accounts, agencies are currently assessing the effect of both the additional SPP revenue and the under-expenditure in 2007-08 to determine changes required to the Budget and forward estimates. As is usual, the outcome of this assessment will be incorporated into the 2008-09 Mid-Year Report.

For the purposes of the PEFO, the transfer between years is estimated to be around $60 million which is almost double the amount usually estimated at this time of the year and reflects the higher level of Commonwealth payments, including the effect of the NTER on the Territory's Budget in 2007-08 and 2008-09. The carry over, along with the policy decisions and GST revenue variations, has resulted in slight changes to the 2008-09 estimated outcomes.

Economic Outlook

Since the 2008-09 Budget was prepared in May 2008, only limited economic data has been released against which to re-assess the key economic forecasts. As a consequence, there is insufficient new data to warrant revisions.

The initial estimate by the Australian Bureau of Statistics (ABS) of gross state product (GSP) for 2007-08 will not be available until November 2008; hence there is no basis on which to revise forecasts. Similarly, although a further three months of employment estimates have been released by ABS, all of which show an expected continuation of growth, there is no need to revise forecasts.

On 6 June the Australian Statistician determined the population of the Northern Territory for 31 December 2007 to be 217 559. This has been used as the basis for the revised GST estimates and is consistent with population forecasts in the Budget Papers. There is no basis at this time to revise forecasts for 2008 and beyond.

Although there are signs that the Darwin consumer price index may be higher than forecast in the year to December 2008, it is not possible to estimate this with any precision. A higher outcome for 2008 could occur due to the effect of higher than anticipated oil and housing prices observed up to July, however these two key prices are volatile and upward trends could be reversed before the year concludes. In line with usual practice these forecasts will be re-considered in the preparation of the Mid-Year Report.

Variations from the 2008-09 Budget

Table 2.1 details the changes in the fiscal balance and cash outcome for both 2007-08 and 2008-09 since the May 2008 Budget.

Table 2.1: Accrual and Cash Variations Since May 2008

	2007-08		2008-09	
	Accrual	Cash	Accrual	Cash
	$M	$M	$M	$M
2008-09 BUDGET PAPERS	**- 66.6**	**5.3**	**- 81.0**	**9.3**
OPERATING REVENUE/RECEIPTS				
Policy-related				
Changes to gaming machine taxes including introduction of caps			- 2.7	- 2.7
Sub-total	**0.0**	**0.0**	**- 2.7**	**- 2.7**
Non-discretionary				
GST revenue	32.8	32.8	12.1	12.1
Specific purpose payments	71.3	40.9		30.1
Agency own-source revenue	17.3	28.1		
Mining royalties	5.0	5.0	5.0	5.0
Other	10.1	- 2.4		
Sub-total	**136.5**	**104.4**	**17.1**	**47.2**
TOTAL REVENUE/RECEIPTS	**136.5**	**104.4**	**14.4**	**44.5**
EXPENSES/PAYMENTS				
Policy				
Contribution to establishment of Jetstar Hub			5.3	5.3
Remote communications infrastructure	5.0	5.0		
Capital grants to community organisations	1.7	1.7	1.1	1.1
Sub-total	**6.7**	**6.7**	**6.4**	**6.4**
Non-discretionary				
Transfers of expenditure between years	- 60.0	- 60.0	60.0	60.0
Lower than budgeted expenditure	- 10.8	- 43.1		
Use of Treasurer's Advance			- 20.0	- 20.0
Sub-total	**- 70.8**	**- 103.1**	**40.0**	**40.0**
TOTAL OPERATING EXPENSES/PAYMENTS	**- 64.1**	**- 96.4**	**46.4**	**46.4**
Net Capital Payments				
Other	- 4.0	- 2.5		
TOTAL NET CAPITAL PAYMENTS	**- 4.0**	**- 2.5**	**0.0**	**0.0**
TOTAL EXPENSES/PAYMENTS	**- 68.1**	**- 98.9**	**46.4**	**46.4**
TOTAL VARIATION	**204.6**	**203.3**	**- 32.0**	**- 1.9**
2008-09 PEFO	**138.0**	**208.6**	**- 113.0**	**7.3**

Source: Northern Territory Treasury.

As shown above, since May 2008, revenue exceeded the budget projections by $136.5 million and receipts by $104.4 million in 2007-08, with changes to 2008-09 of $14.4 million for revenue and $44.5 million for receipts.

One revenue-related policy decision has affected 2008-09 and the forward years and is due to the decision to cap the number of community gaming machines and reduce the applicable tax rate, resulting in a decrease in tax estimates for 2008-09 of $2.7 million and $5.4 million from 2009-10. The decision also provides for the trading of gaming machine licences which will be a future revenue source. However, as the regulatory regime has not yet been developed, a reliable estimate of additional revenue cannot be made at this time.

The remaining revenue/receipt variations are non-discretionary in nature:

- GST revenue increased due to the Australian Statistician's population determination for December 2007 and the Australian Tax Commissioner's determination of the GST pool for 2007-08. These resulted in increases to both the GST pool and the population estimates used to calculate the Territory's GST revenue. These changes also have an effect on the forward estimates.
- SPPs were higher than projected in 2007-08, with an additional $40.9 million being received and a further $30.1 million accrued by agencies. The accrued SPPs are the result of agreements signed since the Budget, where funding milestones have been achieved, but the funding not yet provided. This funding will now be received in 2008-09.
- Mining royalties were slightly higher than projected in 2007-08 and this improvement affects 2008-09 and the forward estimates.
- Agency own-source revenue was higher, largely due to a one-off receipt from the Commonwealth for off-shore petroleum dealing fees, higher than expected cross-border hospital charges and additional revenue associated with the remote policing strategy. No adjustment has been made to 2008-09 and the forward estimates.

In regard to expenses/payments, there have been policy decisions since the Budget totalling $6.7 million for 2007-08 and $6.4 million for 2008-09. The largest component of these is $5 million in 2007-08 for improved remote communications infrastructure and $5.3 million in 2008-09 towards the establishment of a Jetstar hub in the Territory, including marketing. The remaining decisions are for a range of grants to community organisations, including Battery Hill and Nyinkka Art and Cultural Centre in Tennant Creek, the expansion of youth camps in both the Top End and Central Australia and support for the Darwin Cup Carnival. A decision to expand services associated with mandatory reporting of domestic violence has expenditure obligations of $3 million from 2009-10 and has been included in the forward estimates.

The non-discretionary expenditure variations are reductions of $70.8 million in expenses and $103.1 million in payments in 2007-08 and a net increase of $40 million in 2008-09. These are the result of:

- Estimated carry over of expenditure from 2007-08 to 2008-09 of $60 million, with the final amount to be determined in the preparation of the 2008-09 Mid-Year Report.
- Lower than budgeted expenditure by agencies in 2007-08.

- Offset by the use of Treasurer's Advance of $20 million to fund policy decisions and the net effect of the transfer between years.

Fiscal Aggregates

Table 2.2 sets out the key aggregates and targets for general government and the non financial public sector.

Table 2.2: Key Fiscal Aggregates

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
GENERAL GOVERNMENT					
Operating Statement					
Revenue	3 814	3 793	4 003	4 142	4 308
less: Expenses	3 532	3 714	3 822	3 960	4 129
Net Operating Balance	**282**	**79**	**181**	**182**	**179**
Net acquisition of non financial assets	144	192	221	200	158
Fiscal Balance	**138**	**- 113**	**- 40**	**- 19**	**22**
Cash Flow Statement					
Operating receipts	3 771	3 828	3 993	4 138	4 292
less: Operating payments	3 218	3 446	3 557	3 699	3 876
Net capital payments	292	375	408	389	349
Assets acquired under finance leases	33				
Superannuation contribution	20				
Cash Surplus (+) / Deficit (-)	**209**	**7**	**28**	**49**	**66**
NON FINANCIAL PUBLIC SECTOR					
Balance Sheet					
Total assets	8 552	8 881	9 257	9 657	10 006
Total liabilities	5 356	5 500	5 627	5 779	5 868
Net worth (assets - liabilities)	3 196	3 381	3 630	3 878	4 138
Net Debt	**1 255**	**1 357**	**1 408**	**1 445**	**1 417**
Net Debt + Employee Liabilities	**3 784**	**3 964**	**4 084**	**4 184**	**4 206**

Source: Northern Territory Treasury.

As discussed previously, the 2007-08 outcome is a significant improvement from that estimated in the 2008-09 Budget. The improvement has also had an effect on the 2008-09 estimates due to net timing differences. These timing differences have resulted in a lower operating result and fiscal balance than projected in May 2008 of $32 million.

However due to the ongoing increase in GST revenue, which has been partially offset by new policy funding decisions and improved contingency capacity, the forward estimate projections are slightly better than those set out in the 2008-09 Budget Papers.

As discussed in *Budget Paper No. 2*, the contingency capacity is generally around 1 per cent of operating expenses. This contingency capacity is required to ensure that some level of expenditure and revenue increases and decreases can be accommodated within announced fiscal targets.

Currently there are a number of enterprise bargaining agreements (EBAs) that are either being negotiated or have not yet been certified, therefore funding cannot be provided to agencies. However at the time of the 2008-09 Budget, capacity for the EBA outcomes had been included in the contingency arrangements and will remain there until negotiations are finalised. Once agreements are finalised, a decision is required by Government regarding the release of funding to relevant agencies.

Basis of Forward Estimates

The 2008-09 *Budget Paper No. 2* outlines in some detail how agency forward estimates are developed and presented in the 2008-09 Budget. This has not been changed for the PEFO.

General Government – Operating and Cash Flow Statements

Revenue/Receipts

Table 2.3 outlines the components of revenue and receipts included in the PEFO, with the following discussion comparing the current estimates to those presented in the 2008-09 Budget Papers.

Table 2.3: General Government Sector – Operating Revenue and Receipts

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
		$M	$M	$M	$M
Revenue					
Taxation revenue	393	397	402	421	440
Current grants	2 773	2 882	3 019	3 126	3 283
Capital grants	230	166	239	256	233
Sales of goods and services	160	131	136	137	139
Interest income	61	45	46	46	46
Dividend and income tax equivalent income	59	47	34	29	40
Mining royalties income	94	93	97	97	97
Other	44	31	30	30	30
Total Revenue	**3 814**	**3 793**	**4 003**	**4 142**	**4 308**
Year on year percentage increase (%)		- 1	6	3	4
Receipts					
Taxes received	395	397	402	421	440
Receipts from sales of goods and services	170	132	137	138	140
Grants and subsidies received	2 973	3 078	3 258	3 382	3 516
Interest receipts	59	45	46	46	46
Dividends and income tax equivalents	54	59	32	32	31
Mining royalties received	94	93	97	97	97
Other receipts	26	23	21	21	21
Sales of non financial assets	57	72	62	64	68
Total Receipts	**3 827**	**3 900**	**4 055**	**4 202**	**4 360**
Year on year percentage increase (%)		2	4	4	4

Source: Northern Territory Treasury.

Revenue has increased by $136.5 million in 2007-08, largely the result of increased GST revenue ($32.8 million) and increased SPP funding ($71.3 million). Although the GST revenue increase has affected the forward estimates, the other revenue components remain largely unchanged from those projected in the 2008-09 Budget Papers. As a result, revenue is currently estimated to decline slightly in 2008-09 from the outcome in 2007-08. This would be expected to be revised as new SPP and National Partnership arrangements (NPs) are negotiated by the Council of Australian Governments (COAG) in December 2008.

Average revenue growth from 2007-08 to 2011-12 is expected to be around 3.5 per cent, consistent with the 2008-09 Budget. Growth in Commonwealth revenue is around 4.4 per cent, largely due to the growth in GST revenue projections. The GST revenue estimates have been increased as a result of the Commonwealth determinations in June 2008 of the GST pool and the Territory population estimate for 2007-08. The effect of the higher payment in 2007-08 has flowed through to 2008-09 and the forward estimates.

The increase in SPP revenue in 2007-08 of $71.3 million was due to receipts being higher by $40.9 million and a further $30.1 million being accrued. The higher SPP receipts were largely in the Department of Health and Families, Department of Local Government, Housing and Sport, Territory Housing and the Department of Employment, Education and Training.

The accrued SPPs are largely infrastructure-related agreements that have been signed since the Budget, and include $13.4 million for remote health clinics and $6.9 million for remote housing.

Territory own-source revenue is currently projected to decline between the 2007-08 outcome and 2008-09 estimate. The decline from 2007-08 is largely due to the higher than projected sales of goods and services which is the result of a one-off receipt in the Department of Primary Industry, Fisheries and Mines for off-shore petroleum dealing fees of $9.9 million, higher cross-border hospital charges of $2.9 million and increased fees of $6.4 million associated with Operation Themis in Northern Territory, Police, Fire and Emergency Services. From 2008-09 Territory own-source revenue growth of 2 per cent is expected.

In line with usual practice, revenue estimates will be reconsidered by agencies after finalisation of their 2007-08 accounts with the result of this reassessment incorporated into the 2008-09 Mid-Year Report as appropriate. This PEFO was prepared while that assessment was being undertaken.

Expenses / Payments

Table 2.4 sets out the components of expenses and payments for 2007-08 to 2011-12 included in this PEFO. The discussion below compares the updated estimates to those presented in the 2008-09 Budget Papers.

Table 2.4: General Government Sector – Operating Expenses and Payments

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	1 242	1 345	1 392	1 440	1 499
Superannuation expenses	268	252	254	257	259
Depreciation and amortisation	178	183	187	189	192
Other operating expenses	881	959	1 029	1 099	1 192
Interest expenses	152	138	141	143	146
Current grants	543	576	578	588	596
Capital grants	167	173	171	171	171
Subsidies and personal benefit payments	101	88	71	73	75
Total Expenses	**3 532**	**3 714**	**3 822**	**3 960**	**4 129**
Year on year percentage increase (%)		5	3	4	4
Payments					
Payments for employees	1 402	1 511	1 568	1 627	1 700
Payments for goods and services	861	959	1 028	1 096	1 189
Grants and subsidies paid	805	837	820	832	841
Interest paid	150	138	141	143	146
Purchases of non financial assets	349	447	469	453	418
Total Payments	**3 568**	**3 893**	**4 026**	**4 152**	**4 294**
Year on year percentage increase (%)		9	3	3	3

Source: Northern Territory Treasury.

As shown in Table 2.4, expenses and payments for 2007-08 were lower than estimated in the Budget Papers by $64.1 million and $96.4 million respectively. This includes lower employee expenses of $34 million (employee payments $44 million) and grants and subsidies of $22 million (payments $26 million). Other operating expenses were also $8 million less than the estimate, with payments for goods and services $24 million lower. It has been estimated that expenditure obligations of $60 million will transfer to 2008-09.

For 2008-09, expenditure estimates have been increased to reflect the new policy decisions and an estimate of the effect of timing differences between years. The contingency amount included in the forward estimates is set at around 1 per cent of operating expenses from 2009-10.

The effect of timing differences on 2007-08 and 2008-09 has resulted in a growth in expenses of 5 per cent between the two years. However growth across the forward estimates remains consistent with the 2008-09 Budget Papers at around 3.9 per cent. Once agencies have finalised their end of year outcome assessment, the components may vary, however the fiscal targets are expected to be in line with those presented in the PEFO.

It would be expected that as SPP and NP agreements are signed with the Commonwealth, there will be a corresponding effect on expenses. However there may be some timing differences between when the funding is received and spent.

Non Financial Public Sector – Balance Sheet

Table 2.5 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

Table 2.5: Non Financial Public Sector – Balance Sheet

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Total Assets	8 552	8 881	9 257	9 657	10 006
Financial assets	1 776	1 739	1 779	1 860	1 962
Non financial assets	6 776	7 142	7 478	7 797	8 044
Total liabilities	5 356	5 500	5 627	5 779	5 868
Net Worth (Assets minus Liabilities)	**3 196**	**3 381**	**3 630**	**3 878**	**4 138**
Net Debt	**1 255**	**1 357**	**1 408**	**1 445**	**1 417**
Net debt to revenue (%)	30	33	32	32	30
Net debt + employee liabilities	3 784	3 964	4 084	4 184	4 206
Net debt + employee liabilities to revenue (%)	90	96	93	92	89

Source: Northern Territory Treasury.

Net Worth

Since the 2008-09 Budget, assets have increased in all years by around $300 million due to a revaluation of housing assets and the additional cash on hand as a result of the cash surplus in 2007-08.

In accordance with accounting standards, the Territory's superannuation liabilities have been revalued using the 10-year bond rate that applied on 30 June 2008. This resulted in a decrease in superannuation liabilities of around $200 million using the bond rate of 6.5 per cent compared with the long-term rate of 5.7 per cent that had been used at Budget time. Payables and other liabilities were higher than budgeted with the net effect of both elements being a decrease in liabilities of around $150 million. The increase in assets and decrease in liabilities have combined to improve net worth by around $450 million in all years.

Net Debt

Due to the significant improvement in the cash outcome, net debt in 2007-08 has reduced by $222 million to $1.255 billion since the 2008-09 Budget and, as a proportion of revenue, from 37 per cent to 30 per cent. This flows through to 2008-09 and all forward years, with the projected net debt for 2011-12 being $1.417 billion and 30 per cent of revenue, an improvement of $259 million and 6 per cent since Budget time.

Net debt plus employee liabilities has also significantly improved from the estimate of $4.206 billion in the 2008-09 Budget by $419 million reducing to $3.784 billion. This is a combination of the improved cash outcome and the effect on the valuation of liabilities as a result of the change in the 10-year bond rate as explained earlier. The net debt plus employee liabilities to revenue ratio has also improved from 104 per cent to 90 per cent. The estimate for 2011-12 is $4.206 billion and 89 per cent of revenue.

Statement of Risks

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

This statement outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities. The statement is consistent with that included in *2008-09 Budget Paper No. 2* and includes reference to the increase in diesel prices that has occurred since May 2008.

Revenue

GST Revenue

The largest risk to the Territory's forward estimates is variations in GST revenue. As GST revenue accounts for almost two-thirds of the Territory's total revenue, changes in estimates have a significant effect on the Government's funding capacity and budget outcome.

The estimation of GST revenue in any year is difficult, due to volatility in the variables that determine the distribution of GST among the states, particularly if adverse economic conditions arise. Each of the variables is provided below, with the risk to these components discussed.

National GST revenue collections – the estimates for GST revenue collections for 2008-09 to 2011-12 are based on the most recent advice from the Commonwealth. The impact of a 1 per cent variation from these forecasts is estimated at ±$21 million in 2008-09 and ±$22 million in 2009-10. If a variation of this size occurred in both years, the impact would be ±$44 million, with the potential to rise to ±$100 million by 2011-12.

Territory's share of national population – population estimates to 2011-12 are based on Commonwealth projections. The effect of a 1 per cent variation in the Commonwealth's population forecasts is estimated at ±$24 million in 2008-09 and ±$25 million in 2009-10. If a variation of this size were to occur in both years, the effect would be ±$50 million and could rise to ±$112 million by 2011-12.

Territory's per capita relativity as assessed by the Commonwealth Grants Commission – the Territory's per capita relativity for 2008-09 is 4.51835. Neither the Commonwealth nor the Commission provide estimates of future relativities, therefore, considering the potential for both upside and downside movement, the Territory has presumed the 2008 Update relativities will remain constant over the forward estimates. The Commission is undertaking a major review of State Revenue Sharing Relativities in 2010 and this represents a considerable risk to the Territory from 2010-11.

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

It is important to note that changes to these variables can be either positive or negative and, if taken together, by 2010-11 could result in variations as high as $295 million. This is unlikely to occur, as all three components would need to vary by 1 per cent per annum and in the same direction; however it demonstrates the inherent volatility in the estimates.

Other Commonwealth Grants and Subsidies

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

Risks to the Territory may still exist in relation to NPs, which are a new form of payment included in the COAG reforms, due to issues surrounding co-investment costs, input controls, inadequate indexation and raised community expectation following the expiration of agreements due to the provision of seed funding.

The risks related to SPPs and NPs cannot be quantified.

Own-Source Revenue

The amount of revenue received from Territory taxes and royalties is dependent upon the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions being made about the performance of the various economic factors and indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment, prices and exchange rates.

It is difficult to accurately predict revenue collections into the future, particularly for the later years of the forward estimates. The most difficult source of revenue to forecast is conveyance stamp duty, as it is linked to activity in the property market, which can be volatile. Although there is evidence that the growth in activity levels in the residential property market has eased, the extent and timing of any drop in activity is difficult to predict and could have a significant impact on conveyance stamp duty collections.

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

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

Expenses

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

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

A further risk is in relation to any future EBAs. This is particularly relevant at the time of preparing the PEFO as there are seven agreements either being negotiated or not yet certified. The outcome of future EBAs over and above amounts currently factored into the forward estimates and included in contingency capacity increases budgetary pressures. Capacity is sufficient for EBA offers made prior to the writs for the general election being issued.

The Darwin Waterfront project presents a risk to the expense estimates in as far as interest rate fluctuations affect the payments over the life of the public private partnership agreement. This risk is not expected to be significant and will be reassessed each year.

The rising cost of diesel fuel presents a risk to expenditure estimates, particularly the cost of diesel in relation to the provision of essential services in remote communities. These costs are being closely monitored.

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

The recent Blue Mud Bay court case may result in additional costs to the Territory, but these are not expected to be material.

Contingent Liabilities

A contingent liability is a liability that the Government may be called on to meet at some future date if a specified event should occur. There are no additional material contingent liabilities than those reported at the time of the 2008-09 Budget.

Contingent liabilities of the Territory may arise out of a range of circumstances, the most common of which are indemnities and guarantees contained in agreements executed by the Territory. Contingent liabilities may also arise as a result of undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity.

Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential outcome of an actual liability should be quantified. Details of estimated amounts of material contingent liabilities as at 30 June 2007 resulting from guarantees or indemnities granted by the Territory are presented in Table 2.6. These amounts will be updated in the preparation of the 2007-08 Treasurer’s Annual Financial Report.

Table 2.6: Material Quantifiable Contingent Liabilities

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

1. Future values discounted at a nominal 7.5 per cent discount rate.
Source: Northern Territory Treasury.

Material contingent liabilities of the Territory are defined as guarantees and indemnities with potential exposure greater than $5 million and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable material contingent liabilities of the Territory are outlined below.

Quantifiable Contingent Liabilities

Electricity, Gas and Water Supply

These contingent liabilities result from arrangements for the purchase and transportation of gas, and the purchase and sale of electricity by and for the Power and Water Corporation. Material contingent liabilities relating to these arrangements are reported below.

The Power and Water Corporation has been a government owned corporation (GOC) since 1 July 2002. Under the *Government Owned Corporations Act*, a GOC is not within the shield of the Crown and the obligations of a GOC are not guaranteed by the Territory except where the Treasurer specifically agrees to this. The following Territory commitments were given prior to the Power and Water Corporation (formerly the Power and Water Authority) becoming a GOC and will remain in place until the relevant contractual arrangements cease.

Amadeus Basin to Darwin Gas Pipeline

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

Electricity and Gas Supply to Pine Creek and McArthur River

The Power and Water Corporation has entered into agreements for the provision of gas and wholesale supply of electricity for the Pine Creek region and the McArthur River Mine. The agreement for the supply of gas contains three indemnities relating to the Power and Water Corporation supplying non-conforming gas.

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

Under the Power and Water Corporation's current operating practices, the contingent events relating to each of the above indemnities are within the Corporation's control and are expected to be avoidable.

Statutory Contingent Liabilities

Public Trustee Act

Under section 97 of the *Public Trustee Act*, the Treasurer indemnifies the Common Funds against any deficiencies in money available to meet claims on it. The Common Funds are a repository for all moneys received by the Public Trustee on behalf of estates, trusts or persons, and earns interest. Money to the credit of the Common Funds is invested according to the directions issued by an Investment Board.

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

Unquantifiable Contingent Liabilities

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

Transport

The Territory has contingent liabilities in this category that relate to indemnities and guarantees that have been provided in support of the Adelaide to Darwin railway project.

The AustralAsia Railway Corporation (AARC) and the Northern Territory and South Australian governments have entered into a concession arrangement for the Adelaide to Darwin railway on a build, own, operate and transfer-back basis.

Unquantifiable contingent liabilities of the Territory in relation to the Adelaide to Darwin railway project relate to the following:

- joint guarantee of the obligations of the AARC;
- indemnities granted in relation to title over the railway corridor (title is secure but the indemnity continues);
- agreement to compensate in the case of early termination of the project (where a termination event is caused by the Territory); and
- indemnities in favour of the Commonwealth for its financial contribution.

The Darwin Port Corporation has leased facilities at the Darwin Port to Asia Pacific Transport Pty Ltd, interfacing the port and the railway. There are contingent liabilities which arise out of the performance of the facilities.

AARC and the governments have comprehensive risk management procedures in place for all events that would give rise to liabilities.

The Northern Territory Government has entered into agreements for the relocation of fuel terminals from near the Darwin central business district to the East Arm industrial estate. The agreements provide for certain unquantifiable contingent liabilities to be provided to the developer of the new fuel terminal and an oil company. Government has put in place comprehensive risk management processes to address potential exposure.

Health and Community Services

The Territory has granted a series of health-related indemnities for various purposes including indemnities to specialist medical practitioners employed or undertaking work in public hospitals and indemnities provided to medical professionals requested to give expert advice on inquiries before the Medical Board. Indemnities have also previously been granted to midwives.

Although the risks associated with health indemnities are potentially high, the beneficiaries of the indemnities are highly trained and qualified professionals. The indemnities generally cannot be called upon where there is wilful or gross misconduct on the part of the beneficiary.

Government Administration

Where the Territory has invited the participation of private sector persons and Government officers on boards of government owned or funded companies or corporations, the Territory may grant an indemnity to board members, which covers them for any losses that may result from good faith actions if indemnity is not already contained in legislation establishing the board. This indemnity is generally consistent with the cover available through directors' and officers' insurance, and the policy of issuing an indemnity rather than purchasing commercial insurance is in line with the Government's policy of self insurance.

The resulting contingent liabilities are considered low risk as board members are professionals selected on the basis of their expertise and knowledge. Further, the indemnities are restricted to good faith actions only.

Indemnities are granted to the Commonwealth and other entities involved in funding or sponsoring activities and programs initiated or undertaken by the Territory. Under the indemnities, the Government generally accepts liability for damage or losses occurring as a result of the activities or programs and acknowledges that, while the Commonwealth or another party has contributed financially or provided in-kind support, the Territory is ultimately liable for the consequences of the activity or program.

Although the resulting contingent liability may not always be low risk, depending on the activity undertaken, the Territory's financial exposure is no greater than would have been the case without funding or sponsorship assistance.

The Government has indemnified private sector insurers providing workers' compensation insurance in the Territory. The indemnity covers insurers for losses which may arise as a result of acts of terrorism. It is considered unlikely that the indemnity will be called, notwithstanding that the consequence in terms of financial exposure, should the indemnity be called, is potentially significant.

The Territory Government generally self insures its insurable risk. The size of the Government budget, coupled with the spread of risk, the small size and high degree of centralisation of Government activities, have been considerations in determining that self insurance is appropriate. Government's primary exposure is to natural disaster risks that are outside Government control, for example, cyclones. In previous years, where catastrophic natural disasters result in major loss, the Commonwealth provided assistance, even beyond the terms of the Natural Disaster Relief and Recovery Arrangements.

Finance

The Territory's financial management framework is underpinned by centralised banking arrangements. The sole provider of banking-related services has been granted indemnities under the whole of government banking contract. These indemnities are considered not to involve significant risk.

Property and Business Services

Agreements for leases or licences of property, plant or equipment generally contain standard indemnity provisions covering the lessor or licensor for any losses suffered as a result of the lease or licence arrangement. These indemnities are considered not to involve significant risk.

There are risks in relation to the Darwin Waterfront project that may result in payments being made by the Territory. These risks relate to discriminatory changes in law, native title and environmental clean-up costs. The amount of these risks is unable to be estimated accurately, but provision has been made in the forward estimates for environmental clean-up costs and it is within the Territory's discretion whether to make a discriminatory change in law.

Negotiations Not Yet Finalised

Negotiations not yet finalised have the capacity to materially affect the updated financial projections and have the potential to affect revenues and expenses, as well as the Balance Sheet. There is no increased risk in this area since the 2008-09 Budget.

Legal Proceedings

Like negotiations not yet finalised, the outcome of legal proceedings brought by and against the Government also have the potential to affect actual Budget outcomes in current and future years.

Fiscal Strategy

Overview

The *Fiscal Integrity and Transparency Act* requires that the pre-election fiscal outlook report includes an assessment of the Government's fiscal strategy targets against the updated fiscal projections included in the Report.

The PEFO shows a significantly improved outcome in 2007-08 compared with that estimated in the 2008-09 Budget Papers. Some of this improvement is due to timing issues and will result in a transfer of an estimated $60 million of expenditure obligations from 2007-08 to 2008-09. Having regard to these timing issues, the better than expected outcome in 2007-08 has resulted in a significant ongoing improvement in the Territory's debt and liabilities in all years. The PEFO also shows a moderate improvement in the operating position over the forward estimates period.

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: compared to the May 2008 Budget, there is a significantly improved operating surplus of $282 million for 2007-08 together with slightly improved 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: the estimated level of infrastructure spending was achieved in 2007-08 with continuing high levels over all forward years.

Assessment: compared with the May 2008 Budget, there was a significantly higher fiscal balance surplus in 2007-08, due in part to timing issues which will increase the deficit in 2008-09. Continuing high capital expenditure contributes to small deficits through to 2010-11, with a small surplus predicted for 2011-12.

Competitive Tax Environment

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

Assessment: updated data since the May 2008 Budget shows that taxation revenue per capita will be $1826 in 2008-09, the second lowest after Tasmania and significantly lower than the average of the states at $2603.

Prudent Management of Liabilities

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

Assessment: updated projections are for the net debt plus employee liabilities to revenue ratio for the non financial public sector to continue to fall over the forward estimates and is now projected to be 89 per cent by 2011-12.

Detailed Analysis

A detailed analysis of the changes in estimated outcomes between the 2008 Budget and the PEFO as a result of the updated fiscal projections is included in this chapter. In addition to the updated PEFO financial statements, all state and territory budget papers have now been released, allowing jurisdictional comparisons to be updated.

Sustainable Service Provision – Target: General Government Net Operating Balance by 2012-13

The operating and cash results for 2007-08 represent a significant improvement from the estimates presented in the May 2008 Budget. This is due to additional Commonwealth funding received between finalisation of the Budget and the end of the financial year together with the timing of commitments, including those associated with the Northern Territory Emergency Response.

For 2008-09, although the cash surplus remains largely unchanged, the operating result is predicted to be $32 million lower than that projected at the time of the 2008-09 Budget due to the effect of timing differences between 2007-08 and 2008-09. For all forward years, the operating and cash estimates show a small improvement compared with the May 2008 Budget, associated with higher net revenues.

Table 3.1 compares the estimates set out in the 2008-09 Budget with the PEFO estimates and highlights that the net operating balance, as a proportion of total revenue, is estimated to be at 2 per cent or above for all years.

Table 3.1: General Government – Cash Surplus and Net Operating Balance

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
2008-09 BUDGET PAPERS					
Net operating balance ($M)	81	111	174	170	163
As a proportion of total revenue (%)	2.2	2.9	4.4	4.2	3.9
Cash surplus ($M)	5	9	21	37	50
2008-09 PEFO					
Net operating balance ($M)	282	79	181	182	179
As a proportion of total revenue (%)	7.4	2.1	4.5	4.4	4.2
Cash surplus ($M)	209	7	28	49	66
VARIATION					
Net operating balance	201	- 32	7	12	16
As a proportion of total revenue (%)	5.2	- 0.9	0.1	0.2	0.3
Cash surplus ($M)	204	- 2	7	12	16

Source: Northern Territory Treasury.

The significant positive net operating balances in all years indicate that the target of a balanced outcome by 2012-13 will be achieved. A strong operating result remains essential to achieve the objective of a positive fiscal balance as it provides capacity to invest in infrastructure without the need for additional borrowing.

Infrastructure for Economic and Community Development – Target: Maintain Capital Investment at Appropriate Levels and Achieve Fiscal Balance by 2012-13

In assessing the level of infrastructure investment and the effect on the Territory's financial position, the fiscal balance is the most appropriate measure for general government.

The fiscal balance provides a measure of the Territory's overall financial position (that is, whether it is a net lender or a borrower of funds) and includes the effect of all operating costs and the change in net physical assets.

For 2007-08 the improvement in the operating result flows through to the fiscal balance. Capital spending is largely in line with the May 2008 estimate and has no material effect on the changed outcome. Consistent with the operating result, the 2008-09 fiscal balance is predicted to be $32 million lower, but for all forward years the estimates show a small improvement to that projected at May 2008.

Table 3.2: General Government – Fiscal Balance

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimate		
2008-09 BUDGET PAPERS					
Fiscal Balance ($M)	- 67	- 81	- 47	- 31	6
As a proportion of total revenue (%)	- 1.8	- 2.1	- 1.2	- 0.7	0.1
2008-09 PEFO					
Fiscal Balance ($M)	138	- 113	- 40	- 19	22
As a proportion of total revenue (%)	3.6	- 3.0	- 1.0	- 0.4	0.5
VARIATION					
Fiscal Balance ($M)	205	- 32	7	12	16
As a proportion of total revenue (%)	5	- 0.9	0.2	0.3	0.4

Source: Northern Territory Treasury.

As shown in Table 3.2, the fiscal balance is still predicted to be in deficit for 2008-09 through to 2010-11, trending downwards to a small surplus by 2011-12. A fiscal balance deficit is consistent with a developing economy such as the Territory.

Accordingly, as a proportion of total revenue, the fiscal balance is estimated to be negative in 2008-09 to 2010-11, consistent with high capital investment in those years prior to returning to a positive position in 2011-12.

When considering capital investment in the Territory, it is also useful to look at the non financial public sector as this reflects the complete picture of Government spending on significant infrastructure projects.

Table 3.3 presents the projected level of infrastructure investment for 2007-08 to 2011-12 comprising purchases of non financial assets, assets acquired under finance lease (including the Darwin Convention Centre) and capital grants to non-government organisations. The level of investment remains high in all years, although the outcome for 2007-08 is $27 million lower than that estimated in the May 2008 Budget due to the timing of capital grant payments. This change in timing is estimated to result in an increase in 2008-09 and forward years. Agreements reached with the Commonwealth since May 2008 have also resulted in an ongoing increase in the estimate for capital grants from 2008-09.

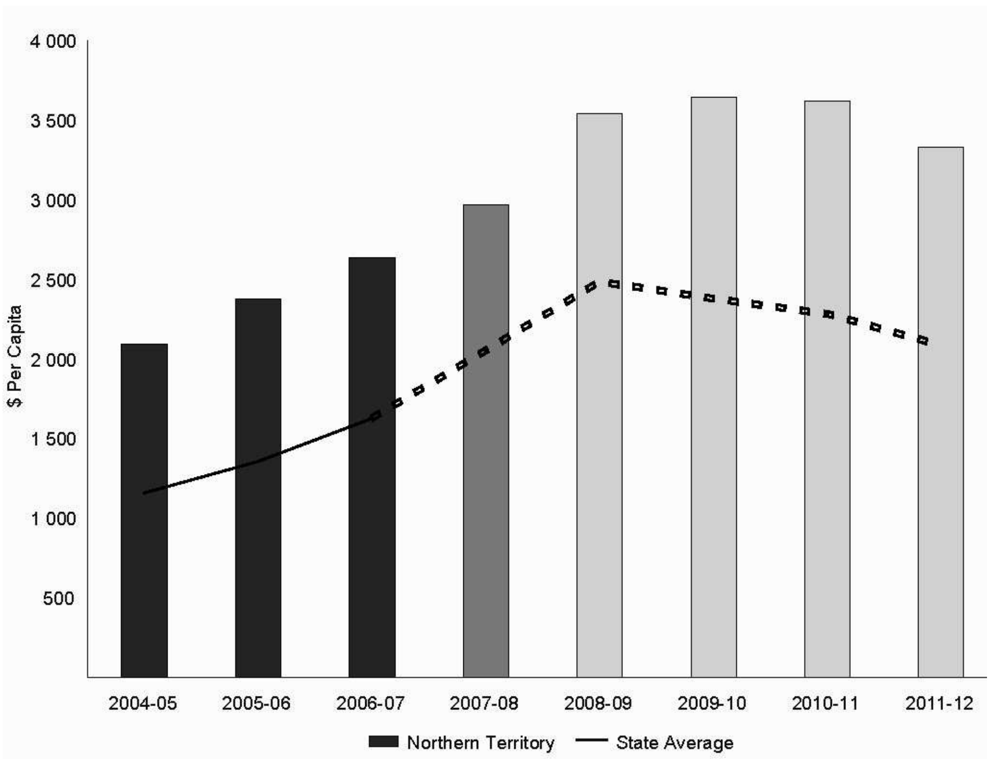
Table 3.3: Capital Investment – Non Financial Public Sector

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
2008-09 BUDGET PAPERS					
Purchases of non financial assets	533	662	637	631	570
Capital grants	104	99	123	117	120
Assets acquired under finance lease	33				
Total	**670**	**761**	**760**	**747**	**690**
2008-09 PEFO					
Purchases of non financial assets	525	662	637	631	570
Capital grants	84	109	156	156	155
Assets acquired under finance lease	33				
Total	**643**	**771**	**793**	**787**	**725**
VARIATION					
Purchases of non financial assets	- 8				
Capital grants	- 19	10	33	40	35
Assets acquired under finance lease					
Total	**- 27**	**10**	**33**	**40**	**35**

Source: Northern Territory Treasury.

Chart 3.1 illustrates the Northern Territory's capital investment per capita in the non financial public sector, relative to the average of the other jurisdictions, and shows that Territory capital spending is expected to remain at levels above the states' average.

Chart 3.1: State and Territory Capital Investment per Capita – Non Financial Public Sector



Source: Northern Territory Treasury.

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

Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. However in order to assess the competitiveness of the Territory's tax system, the following measures 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 comparability with other jurisdictions.

Table 3.4 provides the updated estimates of the Territory's tax collections per capita for 2007-08 to 2008-09 compared with the other jurisdictions. This shows that the Territory remains the second lowest taxing jurisdiction after Tasmania and is significantly lower than the average of the states' for both years.

Table 3.4: Taxation Revenue Per Capita – General Government

	2007-08 Estimate	2007-08 Unaudited	2008-09 Original	2008-09 Budget
	$ per capita	$ per capita	$ per capita	$ per capita
New South Wales	2 686	2 666	2 785	2 675
Victoria	2 405	2 395	2 512	2 551
Queensland	2 324	2 259	2 520	2 390
Western Australia	3 006	3 086	3 049	3 272
South Australia	2 150	2 240	2 186	2 271
Tasmania	1 757	1 729	1 725	1 801
Australian Capital Territory	2 942	3 022	3 034	3 078
State Average	**2 517**	**2 510**	**2 624**	**2 603**
Northern Territory	**1 835**	**1 807**	**1 848**	**1 826**

Source: State and territory outcome reports, state and territory budget papers; ABS Cat. No. 3101.0. Population figures are based on latest ABS data as at June 2008.

At the time of the May 2008 Budget, the average taxation revenue per capita for the states for 2008-09 was $2624, compared with the Northern Territory's estimated collection of $1848 per capita.

Table 3.4 has been updated for all jurisdictions' budgets as well as the Territory's PEFO estimates. On the basis of this new data, the per capita Territory and state averages for both 2007-08 and 2008-09 have reduced slightly, but the Territory's relative position remaining consistent with May 2008.

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

A more sophisticated 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 3.5 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, which remains unchanged since Budget time.

Table 3.5: Northern Territory Revenue Raising Capacity and Effort 2006-07
Australian Average = 100 per cent

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

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

Source: Commonwealth Grants Commission 2008 Update.

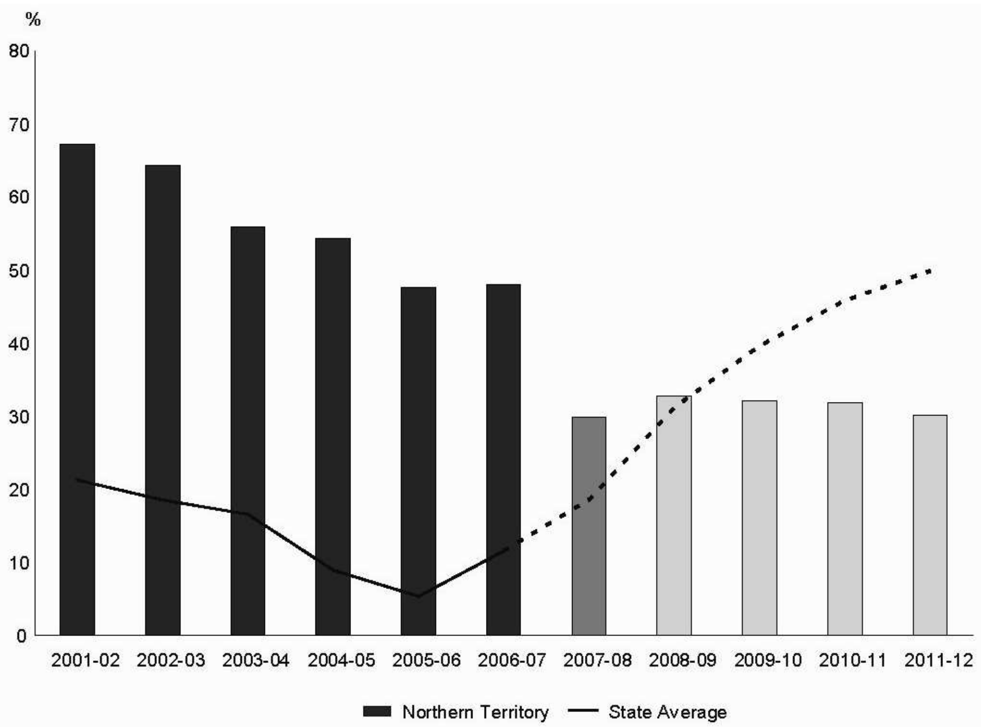
Table 3.5 shows that the Territory's revenue capacity remains below the national average and, in terms of effort, is assessed as the second lowest of all jurisdictions, behind Queensland. This, together with the per capita measure, demonstrates that the Territory continues to provide a competitive tax 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 capital investment requirements. This is particularly important for the Territory given its greater infrastructure requirements relative to other jurisdictions, due to its remoteness and stage of development, which has resulted in higher levels of debt than other jurisdictions.

Chart 3.2 compares the ratio of Territory debt to revenue with the average of the other jurisdictions for 2001-02 to 2010-11. The chart illustrates the Territory's continuing improvement at a time when the states are estimating an increase in debt levels.

Chart 3.2: State and Territory Net Debt to Revenue – Non Financial Public Sector



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

Net debt for all forward years is significantly lower than that projected in the May 2008 Budget due to the improved cash outcome for 2007-08. As projected at Budget time, net debt is still expected to rise over the forward years in absolute terms until 2010-11, in line with significant investment in infrastructure, particularly for the Power and Water Corporation and Closing the Gap initiatives. However, when measured as a percentage of revenue, Table 3.6 shows it is now anticipated that the ratio will fall to 30 per cent by 2011-12, an improvement in all years compared with that predicted in May 2008.

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

Table 3.6: Northern Territory Net Debt Plus Employee Liabilities – Non Financial Public Sector

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimate		
2008-09 BUDGET PAPERS					
Net debt ($M)	1 477	1 578	1 637	1 687	1 676
Net debt to revenue (%)	37	38	38	38	36
Net debt + employee liabilities ($M)	4 203	4 382	4 510	4 623	4 663
Net debt + employee liabilities to revenue (%)	104	106	104	104	101
2008-09 PEFO					
Net debt ($M)	1 255	1 357	1 408	1 445	1 417
Net debt to revenue (%)	30	33	32	32	30
Net debt + employee liabilities ($M)	3 784	3 964	4 084	4 184	4 206
Net debt + employee liabilities to revenue (%)	90	96	93	92	89
VARIATION					
Net debt ($M)	222	221	229	242	259
Net debt to revenue (%)	7	5	6	6	6
Net debt + employee liabilities ($M)	419	418	426	439	456
Net debt + employee liabilities to revenue (%)	14	10	11	11	12

Source: Northern Territory Treasury.

The Territory's forecast net debt plus employee liabilities as a percentage of revenue continues to fall, and as shown in Table 3.6, is now predicted to be 89 per cent by 2011-12, an improvement from that predicted in May 2008. This is largely as a result of the improved net debt position explained above, together with a reduction in the value of the Territory's superannuation liability.

As highlighted in Chapter 2 of the PEFO, the reduction in the Territory's superannuation liability is due to the use of the bond rate prevailing at 30 June 2008, as required by accounting standards. At May 2008 the Territory's superannuation liabilities were estimated using the applicable long-term bond rate which had been estimated as 5.7 per cent. However accounting standards require that for reporting end of year actual outcomes, the 10-year bond rate as at 30 June is used. For 30 June 2008, the rate was 6.5 per cent. The use of the 30 June bond rate for 2007-08 and all forward years, compared to the 5.7 per cent used at the time of the Budget, has reduced the valuation of the liability by around $200 million and highlights the volatility of a change in bond rates on the measurement of all jurisdictions' future superannuation liabilities.

The rate used for measuring the Territory's liability will again be reassessed during the preparation of the 2008-09 Mid-Year Report. If the rate varies from 6.5 per cent, the liability will vary accordingly.

Conclusion

Overall, this Report concludes that the PEFO estimates are consistent with the medium-term fiscal objectives and targets as set out in the Government's Fiscal Strategy. The improved outcome for 2007-08, its flow on effect to forward years and the slightly improved operating position suggest that the targets of balance on an accrual basis by 2012-13 remain achievable.

Net debt has improved significantly since the 2008-09 Budget, due to the improved 2007-08 outcome that has flowed through to the forward estimates.

Net debt plus employee liabilities as a proportion of revenue continues to fall, although this ratio is influenced by the use of the prevailing bond rate at 30 June 2008 for valuing the Territory's superannuation liability.

Chapter 4

Uniform Presentation Framework

Under the Uniform Presentation Framework (UPF), jurisdictions have agreed to publish information in a standard format in their financial reports. The UPF has been adopted by all governments to facilitate a better understanding of governments' financial statements and to provide a basis for meaningful comparisons of each government's financial results and projections. The UPF that was updated in April 2008 is now based on the accounting standard AASB 1049 that harmonises both Australian Accounting Standards and the Australian Bureau of Statistics' Government Finance Statistics (GFS).

This is consistent with the reporting requirements of the *Fiscal Integrity and Transparency Act* that requires fiscal outlook reports be prepared in accordance with external reporting standards that include both the GFS and Australian Accounting Standards.

The tables in this chapter therefore 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 and non financial public sectors.

The financial statements include the provisional (unaudited) 2007-08 outcome, and the updated 2008-09 Budget and 2009-10 to 2011-12 Forward Estimates.

Table 4.1

General Government Sector Operating Statement

		2007-08	2008-09	2009-10	2010-11	2011-12
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	393 148	397 386	402 269	420 669	440 073
	Current grants	2 773 433	2 881 816	3 018 766	3 126 232	3 283 165
	Capital grants	229 793	166 290	239 103	255 766	233 156
	Sales of goods and services	159 974	131 496	135 650	137 461	138 976
	Interest income	60 958	45 354	46 149	46 272	46 409
	Dividend and income tax equivalent income	58 577	46 518	34 417	28 726	39 543
	Other	138 425	123 708	126 757	126 968	126 580
	TOTAL REVENUE	**3 814 308**	**3 792 568**	**4 003 111**	**4 142 094**	**4 307 902**
less	**EXPENSES**					
	Employee expenses	1 241 922	1 344 840	1 392 092	1 439 519	1 498 639
	Superannuation expenses					
	Superannuation interest cost	126 841	131 288	135 168	138 520	141 320
	Other superannuation expenses	141 575	120 223	118 513	118 395	117 617
	Depreciation and amortisation	178 449	183 270	186 537	188 997	191 811
	Other operating expenses	881 382	958 859	1 028 684	1 099 264	1 192 252
	Interest expenses	151 748	138 041	140 750	143 252	145 500
	Other property expenses					
	Current grants	542 546	575 847	577 035	588 449	595 224
	Capital grants	166 662	173 384	171 117	171 432	170 730
	Subsidies and personal benefit payments	101 274	88 087	71 794	72 544	75 462
	TOTAL EXPENSES	**3 532 399**	**3 713 839**	**3 821 690**	**3 960 372**	**4 128 555**
equals	**NET OPERATING BALANCE**	**281 909**	**78 729**	**181 421**	**181 722**	**179 347**
plus	Other economic flows	194 910	101 138	67 710	66 508	79 940
equals	**COMPREHENSIVE RESULT - Total change in net worth**	**476 819**	**179 867**	**249 131**	**248 230**	**259 287**
	NET OPERATING BALANCE	**281 909**	**78 729**	**181 421**	**181 722**	**179 347**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	349 463	447 137	469 458	453 269	417 706
	Sales of non financial assets	- 57 358	- 72 128	- 61 598	- 64 025	- 68 379
	less Depreciation	178 449	183 270	186 537	188 997	191 811
	plus Change in inventories	361				
	plus Other movements in non financial assets	29 859				
	equals **Total net acquisition of non financial assets**	**143 876**	**191 739**	**221 323**	**200 247**	**157 516**
equals	**FISCAL BALANCE**	**138 033**	**- 113 010**	**- 39 902**	**- 18 525**	**21 831**

Table 4.2

General Government Sector Balance Sheet

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	129 962	115 139	124 499	136 680	154 327
Advances paid	164 805	165 874	166 514	168 706	171 035
Investments, loans and placements	1 032 201	1 034 554	1 027 060	1 057 369	1 109 514
Receivables	167 428	127 642	129 780	125 994	133 814
Equity					
Investments in other public sector entities	1 167 357	1 224 923	1 253 046	1 282 211	1 321 822
Investments - other					
Other financial assets					
Total financial assets	**2 661 753**	**2 668 132**	**2 700 899**	**2 770 960**	**2 890 512**
Non financial assets					
Land and other fixed assets	5 411 294	5 620 880	5 852 924	6 059 916	6 225 327
Other non financial assets					
Total non financial assets	**5 411 294**	**5 620 880**	**5 852 924**	**6 059 916**	**6 225 327**
TOTAL ASSETS	**8 073 047**	**8 289 012**	**8 553 823**	**8 830 876**	**9 115 839**
LIABILITIES					
Deposits held	208 308	172 301	126 773	121 526	109 172
Advances received	240 318	240 944	240 604	220 296	219 505
Borrowing	1 761 556	1 750 472	1 741 672	1 732 163	1 718 530
Superannuation	2 098 747	2 166 814	2 225 624	2 274 748	2 314 682
Other employee benefits	404 773	414 147	424 757	436 690	446 379
Payables	141 410	141 363	141 361	141 271	141 222
Other liabilities	22 043	21 886	22 816	25 736	28 616
TOTAL LIABILITIES	**4 877 155**	**4 907 927**	**4 923 607**	**4 952 430**	**4 978 106**
NET ASSETS(+)/LIABILITIES(-)	**3 195 892**	**3 381 085**	**3 630 216**	**3 878 446**	**4 137 733**
Contributed equity					
Accumulated surplus(+)/deficit(-)	928 136	1 055 763	1 276 771	1 495 836	1 715 512
Other reserves	2 267 756	2 325 322	2 353 445	2 382 610	2 422 221
NET WORTH	**3 195 892**	**3 381 085**	**3 630 216**	**3 878 446**	**4 137 733**
NET FINANCIAL WORTH (a)	-2 215 402	-2 239 795	-2 222 708	-2 181 470	-2 087 594
NET FINANCIAL LIABILITIES (b)	3 382 759	3 464 718	3 475 754	3 463 681	3 409 416
NET DEBT (c)	**883 213**	**848 150**	**790 976**	**711 230**	**612 331**

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

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

(c) 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

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	394 892	397 386	402 269	420 669	440 073
Receipts from sales of goods and services	170 367	131 864	136 539	138 450	139 965
Grants and subsidies received	2 972 826	3 078 106	3 257 869	3 381 998	3 516 321
Interest receipts	58 878	45 354	46 149	46 272	46 409
Dividends and income tax equivalents	54 427	59 216	31 841	32 063	31 261
Other receipts	119 741	116 068	118 291	118 073	117 697
Total operating receipts	**3 771 132**	**3 827 994**	**3 992 958**	**4 137 525**	**4 291 726**
Cash payments for operating activities					
Payments for employees	-1 401 592	-1 511 287	-1 568 393	-1 627 077	-1 699 653
Payment for goods and services	- 861 123	- 959 034	-1 027 765	-1 096 355	-1 189 372
Grants and subsidies paid	- 805 349	- 837 273	- 819 901	- 832 380	- 841 371
Interest paid	- 149 766	- 138 064	- 140 742	- 143 332	- 145 549
Other payments					
Total operating payments	**-3 217 831**	**-3 445 658**	**-3 556 801**	**-3 699 144**	**-3 875 945**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**553 301**	**382 336**	**436 157**	**438 381**	**415 781**
Cash flows from investments in non financial assets					
Sales of non financial assets	57 358	72 128	61 598	64 025	68 379
Purchases of non financial assets	- 349 463	- 447 137	- 469 458	- 453 269	- 417 706
Net cash flows from investments in non financial assets	**- 292 105**	**- 375 009**	**- 407 860**	**- 389 244**	**- 349 327**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**261 196**	**7 327**	**28 297**	**49 137**	**66 454**
Net cash flows from investments in financial assets for policy purposes (a)	21 366	- 25	- 640	- 2 192	- 2 329
Net cash flows from investments in financial assets for liquidity purposes	- 201 186	24 888	36 371	300	- 19 700
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 471 924	- 350 146	- 372 129	- 391 136	- 371 356
Net cash flows from financing activities					
Advances received (net)	- 55 009	82	- 340	- 20 308	- 791
Borrowing (net)	- 16 762	- 11 083	- 8 800	- 9 509	- 13 633
Deposits received (net)	46 809	- 36 013	- 45 528	- 5 247	- 12 354
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 24 962	- 47 014	- 54 668	- 35 064	- 26 778
NET INCREASE/DECREASE IN CASH HELD	56 414	- 14 824	9 360	12 181	17 647
Net cash flows from operating activities	553 301	382 336	436 157	438 381	415 781
Net cash flows from investments in non financial assets	- 292 105	- 375 009	- 407 860	- 389 244	- 349 327
CASH SURPLUS (+)/DEFICIT (-)	**261 196**	**7 327**	**28 297**	**49 137**	**66 454**

Table 4.3 (b) Additional Information to the Cash Flow Statement

CASH SURPLUS (+)/DEFICIT (-)	**261 196**	**7 327**	**28 297**	**49 137**	**66 454**
Acquisitions under finance leases and similar arrangements	- 32 608				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	**228 588**	**7 327**	**28 297**	**49 137**	**66 454**
less future infrastructure and superannuation contributions (b)	20 000				
UNDERLYING SURPLUS (+)/DEFICIT (-)	**208 588**	**7 327**	**28 297**	**49 137**	**66 454**

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

(b) Contributions to meet future infrastructure requirements and defined benefit superannuation liabilities.

Table 4.4

Non Financial Public Sector Operating Statement

		2007-08	2008-09	2009-10	2010-11	2011-12
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	388 097	391 566	396 183	414 323	433 455
	Current grants	2 773 399	2 881 816	3 018 766	3 126 232	3 283 165
	Capital grants	229 648	166 290	239 103	255 766	233 156
	Sales of goods and services	542 098	488 384	506 278	520 173	534 704
	Interest income	61 100	45 402	46 178	46 301	46 439
	Dividend and income tax equivalent income	29 387	24 458	26 778	28 356	28 925
	Other	171 230	144 379	147 577	148 087	148 353
	TOTAL REVENUE	**4 194 959**	**4 142 295**	**4 380 863**	**4 539 238**	**4 708 197**
less	**EXPENSES**					
	Employee expenses	1 302 349	1 402 450	1 450 973	1 503 017	1 564 672
	Superannuation expenses					
	Superannuation interest cost	126 841	131 288	135 168	138 520	141 320
	Other superannuation expenses	144 693	122 285	120 578	120 464	120 045
	Depreciation and amortisation	243 485	254 085	261 675	267 417	274 513
	Other operating expenses	1 203 986	1 267 462	1 344 192	1 425 051	1 499 210
	Interest expenses	179 400	174 319	184 545	195 331	204 990
	Other property expenses					
	Current grants	495 499	531 296	531 297	541 491	547 014
	Capital grants	83 699	108 825	156 194	156 136	155 051
	Subsidies and personal benefit payments	46 448	31 818	14 177	13 543	15 044
	TOTAL EXPENSES	**3 826 399**	**4 023 828**	**4 198 799**	**4 360 970**	**4 521 859**
equals	**NET OPERATING BALANCE**	**368 560**	**118 467**	**182 064**	**178 268**	**186 338**
plus	Other economic flows	108 259	61 400	67 067	69 962	72 949
equals	**COMPREHENSIVE RESULT - Total change in net worth**	**476 819**	**179 867**	**249 131**	**248 230**	**259 287**
	NET OPERATING BALANCE	**368 560**	**118 467**	**182 064**	**178 268**	**186 338**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	524 927	662 228	636 519	630 920	569 681
	Sales of non financial assets	- 58 530	- 72 254	- 61 784	- 64 151	- 68 505
	less Depreciation	243 485	254 085	261 675	267 417	274 513
	plus Change in inventories	5 552	576	438	448	460
	plus Other movements in non financial assets	42 953	11 500	11 788	12 082	12 384
	***equals* Total net acquisition of non financial assets**	**271 417**	**347 965**	**325 286**	**311 882**	**239 507**
equals	**FISCAL BALANCE**	**97 143**	**- 229 498**	**- 143 222**	**- 133 614**	**- 53 169**

Table 4.5

Non Financial Public Sector Sector Balance Sheet

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	132 738	119 248	131 167	143 378	155 082
Advances paid	164 805	165 874	166 514	168 706	171 035
Investments, loans and placements	1 032 201	1 034 554	1 027 060	1 057 369	1 109 514
Receivables	212 910	171 542	178 659	182 861	185 475
Equity					
Investments in other public sector entities	233 257	248 237	275 537	308 036	340 536
Investments - other					
Other financial assets					
Total financial assets	**1 775 911**	**1 739 455**	**1 778 937**	**1 860 350**	**1 961 642**
Non financial assets					
Land and other fixed assets	6 776 013	7 142 013	7 478 200	7 796 947	8 044 469
Other non financial assets					
Total non financial assets	**6 776 013**	**7 142 013**	**7 478 200**	**7 796 947**	**8 044 469**
TOTAL ASSETS	**8 551 924**	**8 881 468**	**9 257 137**	**9 657 297**	**10 006 111**
LIABILITIES					
Deposits held	115 060	96 791	77 127	67 283	50 985
Advances received	240 318	240 944	240 604	220 296	219 505
Borrowing	2 229 510	2 339 414	2 414 680	2 526 866	2 582 096
Superannuation	2 098 747	2 166 814	2 225 624	2 274 748	2 314 682
Other employee benefits	429 837	439 287	450 912	463 906	474 703
Payables	220 407	195 122	195 033	199 891	197 666
Other liabilities	22 153	22 011	22 941	25 861	28 741
TOTAL LIABILITIES	**5 356 032**	**5 500 383**	**5 626 921**	**5 778 851**	**5 868 378**
NET ASSETS(+)/LIABILITIES(-)	**3 195 892**	**3 381 085**	**3 630 216**	**3 878 446**	**4 137 733**
Contributed equity					
Accumulated surplus(+)/deficit(-)	1 488 385	1 658 599	1 880 430	2 096 161	2 322 948
Other reserves	1 707 507	1 722 486	1 749 786	1 782 285	1 814 785
NET WORTH	**3 195 892**	**3 381 085**	**3 630 216**	**3 878 446**	**4 137 733**
NET FINANCIAL WORTH (a)	-3 580 121	-3 760 928	-3 847 984	-3 918 501	-3 906 736
NET FINANCIAL LIABILITIES (b)	3 813 378	4 009 165	4 123 521	4 226 537	4 247 272
NET DEBT (c)	**1 255 143**	**1 357 473**	**1 407 670**	**1 444 992**	**1 416 955**

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

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

(c) 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)

Non Financial Public Sector Cash Flow Statement

	2007-08	2008-09	2009-10	2010-11	2011-12
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	389 967	391 566	396 183	414 323	433 455
Receipts from sales of goods and services	537 337	490 786	499 928	518 398	533 707
Grants and subsidies received	2 979 142	3 078 106	3 257 869	3 381 998	3 516 321
Interest receipts	59 021	45 402	46 178	46 301	46 439
Dividends and income tax equivalents	35 896	26 796	24 029	26 339	27 906
Other receipts	142 190	131 466	133 887	134 014	133 990
Total operating receipts	**4 143 553**	**4 164 122**	**4 358 074**	**4 521 373**	**4 691 818**
Cash payments for operating activities					
Payments for employees	-1 467 201	-1 577 112	-1 634 888	-1 698 487	-1 773 910
Payment for goods and services	-1 185 173	-1 281 252	-1 341 592	-1 417 964	-1 499 174
Grants and subsidies paid	- 620 189	- 671 894	- 701 623	- 711 125	- 717 064
Interest paid	- 176 895	- 173 954	- 184 310	- 194 959	- 204 902
Other payments					
Total operating payments	**-3 449 457**	**-3 704 212**	**-3 862 413**	**-4 022 535**	**-4 195 050**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**694 095**	**459 910**	**495 661**	**498 838**	**496 768**
Cash flows from investments in non financial assets					
Sales of non financial assets	58 530	72 254	61 784	64 151	68 505
Purchases of non financial assets	- 524 927	- 662 228	- 636 519	- 630 920	- 569 681
Net cash flows from investments in non financial assets	**- 466 397**	**- 589 974**	**- 574 735**	**- 566 769**	**- 501 176**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**227 698**	**- 130 064**	**- 79 074**	**- 67 931**	**- 4 408**
Net cash flows from investments in financial assets for policy purposes (a)	21 366	- 25	- 640	- 2 192	- 2 329
Net cash flows from investments in financial assets for liquidity purposes	- 201 186	24 888	36 371	300	- 19 700
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 646 217	- 565 111	- 539 004	- 568 661	- 523 205
Net cash flows from financing activities					
Advances received (net)	- 55 009	82	- 340	- 20 308	- 791
Borrowing (net)	62 705	109 905	75 266	112 186	55 230
Deposits received (net)	1 465	- 18 275	- 19 664	- 9 844	- 16 298
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	9 161	91 712	55 262	82 034	38 141
NET INCREASE/DECREASE IN CASH HELD	57 040	- 13 489	11 919	12 211	11 704
Net cash flows from operating activities	694 095	459 910	495 661	498 838	496 768
Net cash flows from investments in non financial assets	- 466 397	- 589 974	- 574 735	- 566 769	- 501 176
CASH SURPLUS (+)/DEFICIT (-)	**227 698**	**- 130 064**	**- 79 074**	**- 67 931**	**- 4 408**

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

	2007-08	2008-09	2009-10	2010-11	2011-12
CASH SURPLUS (+)/DEFICIT (-)	**227 698**	**- 130 064**	**- 79 074**	**- 67 931**	**- 4 408**
Acquisitions under finance leases and similar arrangements	- 32 608				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	**195 090**	**- 130 064**	**- 79 074**	**- 67 931**	**- 4 408**
less Future infrastructure and superannuation contributions (b)	20 000				
UNDERLYING SURPLUS (+)/DEFICIT (-)	**175 090**	**- 130 064**	**- 79 074**	**- 67 931**	**- 4 408**

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

(b) Contributions to meet future infrastructure requirements and defined benefit superannuation liabilities.