2017-18
Mid-Year Report

Contents

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 2017-18 Mid-Year Report are based on Government decisions that I was aware of, or were made available to me by the Treasurer, before 15 November 2017. The projections are presented in accordance with the Uniform Presentation Framework.

Craig Graham
Under Treasurer
16 November 2017

Chapter 1

Overview

The 2017-18 Mid-Year Report has been prepared in accordance with the *Fiscal Integrity and Transparency Act* (FITA), which requires the Treasurer to prepare and publicly release a mid-year fiscal outlook report each year.

The Mid-Year Report provides an update on the current fiscal and economic outlook for the Territory and includes material variations that have occurred since the 2017-18 Budget and their effect on the remainder of 2017-18 and the forward estimates.

Fiscal Outlook

The 2017-18 Mid-Year Report continues to project significant fiscal deficits and increasing net debt levels. Despite a large increase in Territory own-source revenue in 2017-18, and smaller increases across the forward estimates, without a significant recovery in GST and Territory own-source revenues across all forward years, the return to a budget surplus is unlikely in the short-term. Government's response to these fiscal challenges resulted in a substantially revised fiscal strategy announced as part of the 2017-18 Budget. This revised strategy is aimed at supporting the economy through the current economic downturn and setting a pathway back to surplus through expenditure restraint. Assessment against the fiscal strategy is provided in Chapter 2.

The 2017-18 Mid-Year Report incorporates updated revenue projections, variations to tied Commonwealth funding, Government decisions made since the 2017-18 Budget and the flow-on effect of the 2016-17 outcome. While the 2016-17 fiscal balance outcome was largely in line with the budget-time estimate, improvements in the market value of financial investments resulted in a modest reduction in net debt. This, together with the projected fiscal balance improvement in 2017-18, has had a flow-on effect of reduced net debt forecasts and net debt to revenue ratios across all years.

Table 1.1 highlights the key fiscal aggregates for the general government sector and the non financial public sector for the 2017-18 Mid-Year Report.

Table 1.1: Key Fiscal Indicators and Aggregates

	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance	- 77	- 387	- 590	- 612	- 606
Non financial public sector					
Fiscal balance	- 548	- 1 067	- 924	- 660	- 643
Net debt	2 271	3 272	4 135	4 720	5 330
Net debt to revenue (%)	35	50	68	76	84

The key outcomes for the fiscal outlook presented in the 2017-18 Mid-Year Report are:

- a general government operating deficit of $387 million in 2017-18 and operating deficits projected to peak by 2019-20
- a non financial public sector fiscal deficit of $1.067 billion in 2017-18 and reducing deficits projected over the forward estimates period
- net debt of $3.272 billion in 2017-18, increasing to $5.330 billion in 2020-21
- a net debt to revenue ratio of 50 per cent in 2017-18, rising to 84 per cent in 2020-21.

Further information on the comparison between the estimates contained in the 2017-18 Mid-Year Report and those forecast at the time of the 2017-18 Budget is provided in Chapter 2.

Economic Overview

The Territory's headline economic growth rate strengthened to 4.0 per cent in 2016-17 to a total gross state product (GSP) of $25.4 billion. Economic growth for 2016-17 was stronger than the anticipated 1.0 per cent published in the 2017-18 Budget. The Territory recorded the second highest economic growth of all jurisdictions, behind the Australian Capital Territory (4.6 per cent). Nationally, gross domestic product increased by 2.0 per cent.

GSP measured on an expenditure basis is used to forecast and analyse the key drivers of economic growth. Growth in the Territory economy for 2016-17 was primarily driven by private investment (up 23.5 per cent), household consumption (2.8 per cent) and public investment (up 7.5 per cent). This resulted in an 8.2 per cent increase in Territory state final demand (SFD) to $30.0 billion. Net exports was the main detractor from economic growth in 2016-17, which declined by 58.6 per cent, reflecting a 61.3 per cent decrease in net goods (34.1 per cent increase in goods imports and a 4.6 per cent decline in goods exports). The reduction in the trade balance is mainly driven by significant levels of imports of equipment for major projects, which are now reflected as expenditure on a balance of payments basis in 2016-17.

The Department of Treasury and Finance has revised forecasts for both GSP and SFD, following updated information from that available at the time of preparing 2017-18 Budget forecasts. Revised forecasts mainly reflect updated construction timeframes and investment activity for major projects, particularly the Ichthys liquefied natural gas (LNG) project, which has a significant impact on the Territory's economy.

The most significant effect of the Ichthys LNG project has been the substantial levels of private business investment (largely non-dwelling construction). Over the five years from 2012-13, it is estimated there was an average $4.0 billion per annum of additional investment, equivalent to almost 20 per cent of total GSP. This scale of investment is unprecedented in the Territory's history and has had a substantial impact on the Territory's economic indicators.

Over the forecast period, Territory economic growth is expected to moderate to 1.1 per cent in 2017-18 and 0.5 per cent in 2018-19, largely a result of Territory private business investment reverting to the long-term average following record levels experienced over the last five years. Strong growth in exports, driven by the Ichthys LNG project, will offset the decline in private business investment from 2018-19. Despite this, the timing and scale of the transition will reflect a more modest headline economic growth rate than forecast in the 2017-18 Budget.

Territory SFD is expected to moderate to 0.4 per cent in 2017-18, with a key driver of growth being increased public investment by the Territory Government and defence spend. From 2018-19, SFD is expected to contract, driven by the anticipated declines in private business investment.

Household consumption growth is expected to remain below long-term growth, due to a moderation in employment, and will only partly offset the decrease in private business investment.

The timing and investment of other smaller scale major projects, such as construction of the Northern Gas Pipeline and defence infrastructure projects, are expected to help offset some of the declines in private investment and support growth in GSP and SFD in the outer years.

Employment growth has been largely dominated by construction in major projects and dwelling activity in recent years. In 2016-17, employment grew by 2.7 per cent, which was in line with the estimate published in the 2017-18 Budget Papers. The Ichthys LNG project has been a dominant driver of employment in the Territory and, as such, fluctuations in its workforce will have a strong influence on the employment outlook over the short term. In addition, overall employment conditions across the resource sectors have moderated in recent years, following the completion of other projects or the cessation of some mining developments.

Going forward, employment conditions are expected to moderate, with a decrease of 2.5 per cent estimated in 2017-18, reflecting the transition of the Ichthys LNG project from construction activity to the less labour-intensive operational phase, coupled with high outflows of net interstate migration resulting in subdued population and employment conditions across the Territory. Over the outlook period, employment is expected to grow below long-term trends, with a shift from the construction sector as the main driver to an increased reliance on general growth across other key industries in the Territory including the tourism-related, education services, agricultural and defence sectors.

Unemployment and labour force participation rates have continued to remain strong, with both measures recording favourable results in the Territory. In 2016-17, the Territory's unemployment rate was 3.5 per cent, consistent with expectations published in the 2017-18 Budget. As employment growth moderates, the unemployment rate is expected to increase to an annual average of 4.4 per cent over the medium term, reflecting the expectation that many workers on the Ichthys LNG project will leave the Territory upon completion of the construction phase and therefore will not be reported in the Territory's unemployment figures, as they will no longer be captured in the labour force.

The persistence of high levels of net interstate migration outflows, together with uncertainty in the timing of the transition of the Ichthys LNG project from the construction to the operational phase, have necessitated some revisions to the population estimate and forecasts published in the 2017-18 Budget Papers. Population growth is now expected to be flat in 2017 and then decrease by 0.7 per cent in 2018 as a significant portion of resident construction workers employed at the Ichthys LNG project depart the Territory. Population growth is forecast to recover to 1.0 per cent by 2020, achieving the long-term average of 1.4 per cent beyond the forward estimates period. The return to trend is largely attributable to natural increase with a modest contribution from migration as long-run economic patterns progressively re-assert themselves.

Wage and price pressures in the Territory continue to ease with both forecast to remain below trend levels in 2017-18 and through the forward estimates, reflecting the effect of moderate population and employment growth. The Darwin consumer price index and Territory wage price index results for 2016-17 were consistent with 2017-18 Budget forecasts. In the medium term, wage growth in the Territory is expected to remain subdued, in line with national expectations, with a key factor being a reduction in labour demand as construction activity associated with major projects reduces. Consumer price and wage price forecasts remain unchanged from the 2017-18 Budget.

Further detail on the updated economic forecasts is provided in Chapter 3.

Table 1.2: Key Economic Results and Forecasts (%)

	2016-17		2017-18	2018-19	2019-20	2020-21
	Budget	Actual	Estimate		Forecast	
Gross state product[1]	1.0	4.0	1.1	0.5	1.4	2.7
State final demand[1]	0.2	8.2	0.4	-8.6	- 2.5	2.2
Population[2]	0.3	0.3	0.0	-0.7	0.6	1.0
Employment[3]	2.9	2.7	-2.5	-0.4	0.6	1.0
Unemployment rate[4]	3.6	3.5	4.5	4.5	4.4	4.3
Consumer price index[3]	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index[3]	2.1	2.1	1.9	2.0	2.3	2.6

1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance; Australian Bureau of Statistics

Chapter 2

Fiscal Outlook and Strategy

Overview

The information provided in this chapter meets the requirement under section 10(1)(a) of the *Fiscal Integrity and Transparency Act* (FITA) for each fiscal outlook report to contain updated financial projections for the budget year and the following three financial years for the general government and non financial public sectors.

In addition, this chapter provides:

- a comparison of estimates presented in the 2017-18 Budget
- an assessment of projections against the government's fiscal strategy targets
- updated information on the Statement of Risks.

Updated Fiscal Projections

Key Fiscal Indicators – Operating Statement

Table 2.1 presents the key general government and non financial public sector operating statement measures for 2017-18 through to 2020-21, compared to the estimates provided in the 2017-18 Budget.

Table 2.1: Key Fiscal Indicators – Operating Statement

	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance					
2017-18 Budget	- 50	- 503	- 509	- 561	- 556
2017-18 Mid-Year Report	**- 77**	**- 387**	**- 590**	**- 612**	**- 606**
Variation	- 27	116	- 81	- 51	- 50
Non financial public sector					
Fiscal balance					
2017-18 Budget	- 552	- 1 312	- 859	- 611	- 572
2017-18 Mid-Year Report	**- 548**	**- 1 067**	**- 924**	**- 660**	**- 643**
Variation	4	245	- 65	- 49	- 71

1 Mid-Year Report reflects actual outcome as per 2016-17 Treasurer's Annual Financial Statements.

General Government Sector Net Operating Balance

As shown in table 2.1, the general government net operating balance is projected to improve by $116 million in 2017-18 and worsen across the forward estimates when compared to the 2017-18 Budget.

The improvement in 2017-18 reflects one-off increases in mining royalties and payroll tax collections, while the worsening in the forward estimates is largely driven by additional depreciation, a non-cash expense, of $47 million per annum. This increase is a result of the revaluation of remote dwellings in accordance with accounting standards, as highlighted in the 2016-17 Treasurer's Annual Financial Report. Excluding this non-cash adjustment and transfer of expenditure between years, the net operating balance across the forward years would largely be unchanged from the budget-time estimates.

Non Financial Public Sector Fiscal Balance

The fiscal balance is influenced by the same factors affecting the general government sector net operating balance, however, the fiscal balance includes net capital investment and excludes depreciation.

As shown in Table 2.1, the fiscal balance has improved in 2017-18 and worsened across the forward estimates when compared to 2017-18 Budget. The improved deficit in 2017-18 is largely consistent with the changes affecting the operating result described previously, combined with the revised timing of key capital commitments.

The revised projections show a net improvement across all years in the fiscal balance of $60 million when compared to budget-time estimates. This net improvement is primarily due to improved Territory revenue, partially offset by the carryover of expenditure from 2016-17 into 2017-18 and new policy decisions.

Reconciliation with Previous Fiscal Projections

This section addresses the requirement under section 10(1)(f) of FITA that each fiscal outlook report contains an explanation of the factors and considerations that contributed to any material differences between the updated financial projections and the equivalent projections published in the last Budget.

The fiscal projections contained in this report have been updated to reflect policy and non-policy changes since 2017-18 Budget. Policy variations are the result of government decisions to implement new or expanded agency programs, while non-policy variations are due to influences outside the government's control, such as the timing of receipts from the Commonwealth.

Policy and Non-Policy Changes since 2017-18 Budget

Table 2.2 highlights the effect of both policy and non-policy changes on the non financial public sector's fiscal balance since the 2017-18 Budget.

Table 2.2: Non Financial Public Sector – Policy and Non-Policy Variations

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
2017-18 Budget	**- 1 312**	**- 859**	**- 611**	**- 572**
Policy changes	- 15	- 15	- 15	- 14
Non-policy changes	260	- 49	- 34	- 58
2017-18 Mid-Year Report	**- 1 067**	**- 924**	**- 660**	**- 643**

Policy Changes since 2017-18 Budget

Only a limited number of policy decisions with funding implications have been made since the 2017-18 Budget with new recurrent commitments totalling $15 million per annum ongoing from 2017-18. Key commitments include:

- reinstatement of $6.4 million ongoing from 2017-18 for the Community Benefit Fund
- new funding of $4.9 million in 2017-18, $7.2 million in 2018-19 and $6.7 million ongoing from 2019-20 to fund the implementation of the NT Pensioner and Carer Concession Scheme reforms

- new funding of $2.2 million in 2017-18 for the development of a Northern Territory Master-brand strategy, architecture and visual identity as part of the 40th anniversary of self-government on 1 July 2018.

Non-Policy Changes since 2017-18 Budget

Table 2.3 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2017-18 Budget.

Table 2.3: Non-Policy Changes since the 2017-18 Budget

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
GST revenue	17			
Taxation and mining royalties	144	16	23	31
Transfers between years	111	- 53	- 34	- 83
Other agency-related adjustments	- 11	- 13	- 22	- 5
Total variations	**260**	**- 49**	**- 34**	**- 58**

The non-policy variations since 2017-18 Budget result in an improvement in the fiscal balance for 2017-18 of $260 million and a worsening to a lesser extent to the fiscal projections in all forward years. Key variations include:

- one-off additional GST receipts of $17 million in 2017-18 relating to an underpayment in 2016-17
- additional taxation and mining royalties of $144 million in 2017-18, $16 million in 2018-19, $23 million in 2019-20 and $31 million in 2020-21, primarily related to increased mining royalties partially offset by lower stamp duty on conveyances
- transfers between years relating to the carryover of expenses from 2016-17 and revised timing of tied Commonwealth and Territory-funded programs including the delivery of the Health Core Clinical Systems Renewal program and the Ship Lift and Marine Industry project. These timing variations have resulted in an improvement in 2017-18 and a worsening across the forward estimates.

Consolidated Table of Changes since 2017-18 Budget

Table 2.4 sets out the consolidated changes in the non financial public sector fiscal balance for 2017-18. The most significant items contributing to the variations have already been described above in the reconciliation with previous fiscal projections section of this chapter.

Table 2.4: Policy and Non-Policy Changes to the Fiscal Balance since 2017-18 Budget

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
2017-18 Budget	**- 1 312**	**- 859**	**- 611**	**- 572**
Effect of policy decisions				
Revenues				
Expenses	- 15	- 15	- 15	- 14
Capital				
Total policy decisions	**- 15**	**- 15**	**- 15**	**- 14**
Effect of non-policy decisions and other variations				
Revenues	270	47	46	36
Expenses	- 139	- 114	- 83	- 72
Capital	130	17	3	- 21
Total non-policy decisions and other variations	**260**	**- 49**	**- 34**	**- 58**
Total variations	**245**	**- 64**	**- 49**	**- 72**
2017-18 Mid-Year Report	**- 1 067**	**- 924**	**- 660**	**- 643**

Operating Revenue – Forward Estimates

Table 2.5 sets out the revised revenue projections for 2017-18 and the forward estimates.

Table 2.5: Non Financial Public Sector – Revenue

	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Revenue					
2017-18 Budget	6 492	6 229	6 002	6 166	6 275
2017-18 Mid-Year Report	**6 439**	**6 499**	**6 049**	**6 212**	**6 311**
Variation	- 53	270	47	46	36

1 Mid-Year Report reflects actual outcome as per 2016-17 Treasurer's Annual Financial Statements.

Total operating revenue is projected to be higher in all years when compared to the 2017-18 Budget. Despite the overall improvement in revenue, the growth rate over the forward estimates is now projected to contract by 1 per cent as a result of significant one-off increases in 2017-18. The revised growth rate has worsened when compared to the near flat 0.2 per cent projected at budget time.

The $270 million increase in 2017-18 largely relates to one-off increases in GST revenue and mining royalties combined with additional Commonwealth-tied funds for remote housing, policing and health programs.

GST Revenue

The parameters that influence the amount of GST revenue the Territory receives are national GST collections, GST relativities as assessed by the Commonwealth Grants Commission (CGC), and the Territory's share of the national population.

The Commonwealth released its 2016-17 Final Budget Outcome (FBO) in September 2017. The FBO resulted in a $17 million increase to the Territory's GST revenue estimate for 2017-18, reflecting an underpayment in 2016-17 due to higher than expected national GST collections.

Notwithstanding the impact of the Commonwealth's 2016-17 FBO, the growth rates for the population and GST pool parameters, and the estimated GST relativities used to inform the 2017-18 Budget estimates of Territory GST revenue remain unchanged for the 2017-18 Mid-Year Report.

Taxation and Royalty Revenue

Taxation and royalty revenue are the most significant components of the Territory's own-source revenue and have been revised upwards by $144 million in 2017-18 when compared to Budget projections.

The increase in 2017-18 is attributable to significantly higher royalty receipts ($138 million) than forecast in the 2017-18 Budget. Forecasts are reliant on mining companies' forecasts of sales prices, production volumes, costs and movements in the Australian dollar. Several miners had forecast large increases in mining royalty payments in 2017-18 compared to 2016-17. Overall mining royalty forecasts are based on the middle range of miners' forecasts, having particular regard to the expected reduction in royalty payments in 2018-19. However, year-to-date receipts are much higher than expected and consistent with the upper range of miners' forecasts.

Other significant contributions in 2017-18 include higher payroll tax receipts ($30 million) resulting from revisions to the expected timing of the completion of construction of the Ichthys liquefied natural gas project, and increased stamp duty on insurance ($6 million). This is offset by reduced stamp duty on conveyances ($30 million), reflecting lower than expected property sales volumes, particularly in the commercial property market. Forward estimates include increases to mining royalty forecasts to a lesser extent and continue to be affected by reduced stamp duty on conveyances.

Tied Commonwealth Funding

The remaining significant change in revenue estimates since 2017-18 Budget predominantly relates to tied Commonwealth funding, which has increased by $110 million in 2017-18 and to a lesser extent in forward years. This largely represents the revised timing of and additional funding provided under the National Health Reform Agreement, Indigenous Australians Health Program, remote housing and remote policing.

These tied funding adjustments tend not to affect the fiscal outcome over time as increases in Commonwealth revenue are generally matched by a corresponding increase in expenditure.

Operating Expenses – Forward Estimates

Table 2.6 sets out the revised expense projections of total expenditures for 2017-18 and the forward estimates.

Table 2.6: Non Financial Public Sector – Expenditure

	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Operating expenses					
2017-18 Budget	6 519	6 730	6 505	6 724	6 821
2017-18 Mid-Year Report	**6 541**	**6 885**	**6 634**	**6 821**	**6 907**
Variation	22	155	129	97	86
Net capital payments					
2017-18 Budget	1 026	1 291	880	580	552
2017-18 Mid-Year Report	**961**	**1 209**	**910**	**625**	**621**
Variation	- 65	- 82	30	45	69

1 Mid-Year Report reflects actual outcome as per 2016-17 Treasurer's Annual Financial Statements.

Although total operating expenses have increased from 2017-18, annual expenditure growth is projected to increase by 0.1 per cent over the forward estimates period, lower than the 0.4 per cent annual average growth estimated at Budget time. The increase in operating expenses since 2017-18 Budget is largely reflective of increased tied Commonwealth funding and the carryover of expenditure from 2016-17. The increase also includes a significant increase in depreciation, a non-cash expense, of $47 million per annum as a result of the revaluation of remote dwellings in accordance with accounting standards, which the Territory is unable to influence.

The basis of the parameters used remains unchanged from 2017-18 Budget. The main parameters used to adjust forward estimates are:

- wages – inflator
- consumer price index (CPI) – inflator
- efficiency dividend – deflator.

There have also been variations to net capital payments to reflect the revised delivery of key capital commitments resulting in lower payments in 2016-17 and 2017-18, and corresponding increases across the forward estimates. These timing variations largely relate to the revised delivery of the Health Core Clinical Systems Renewal program to meet contractual milestone payments and the Ship Lift and Marine Industry project.

Key Fiscal Indicators – Balance Sheet

Table 2.7: Non Financial Public Sector – Net Debt and Net Debt to Revenue Ratio

	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2017-18 Budget	2 358	3 604	4 404	4 939	5 479
2017-18 Mid-Year Report	**2 271**	**3 272**	**4 135**	**4 720**	**5 330**
Variation	- 87	- 332	- 269	- 219	- 149
Net debt to revenue (%)					
2017-18 Budget	36	58	73	80	87
2017-18 Mid-Year Report	**35**	**50**	**68**	**76**	**84**
Variation	- 1	- 8	- 5	- 4	- 3

1 Mid-Year Report reflects actual outcome as per 2016-17 Treasurer's Annual Financial Statements.

As shown in Table 2.7, net debt and net debt to revenue have improved in all years when compared to 2017-18 Budget. The improvement is largely driven by the better net debt outcome for 2016-17 combined with the projected improvement in the 2017-18 fiscal balance that has flowed through to the forward estimates.

As a result, the net debt to revenue ratio in 2017-18 is now estimated at 50 per cent, compared to 58 per cent in 2017-18 Budget.

Assessment of Updated Fiscal Outlook against the Fiscal Strategy

This section addresses the requirement under section 10(1)(g) of FITA that each fiscal outlook report is to contain an explanation of the factors and considerations contributing to any material differences between the updated fiscal projections against the Government's fiscal objectives and targets.

The fiscal strategy is an essential element of budget planning and accountability and provides the basis against which policy decisions can be assessed. The Territory's fiscal strategy was substantially revised in the 2017-18 Budget to take into account subdued national and Territory economic conditions, falling GST revenue and the Government's commitment to increase investment to support jobs and stimulate the Territory economy.

The analysis in this chapter is an assessment of the updated 2017-18 mid-year fiscal projections against the Government's short-term and medium-term fiscal objectives and targets.

Sustainable Service Provision

Short-term target: Maintain an improving operating position over the budget cycle by ensuring growth in general government operating expenses is declining in real terms

The Government's over-arching target of sustainable service provision is to achieve a general government sector net operating surplus. Given the Territory's limited own-source revenue base and reliance on Commonwealth revenues, which represent around 70 per cent of total revenues, the Territory has limited ability to influence the level of revenue it is able to generate. However, it can directly influence the level of expenditure in order to achieve this fiscal strategy target.

Table 2.8 shows that while total operating expenses have increased since 2017-18 Budget largely due to additional tied Commonwealth revenues, carryover of expenses from 2016-17 and increased depreciation expense, in real terms, total operating expenses are forecast to decline in 2020-21 by $71 million from the revised 2017-18 base.

Table 2.8: General Government Sector – Total Operating Expenses

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
Operating expenses				
2017-18 Budget	6 109	5 847	6 021	6 108
2017-18 Mid-Year Report	**6 265**	**5 975**	**6 118**	**6 194**
Variation	156	128	97	86

Medium-term target: Achieve a general government sector net operating surplus that ensures new general government capital investment is funded through revenues rather than borrowings

A return to long-term economic conditions and associated revenue growth, combined with continued focus on limiting annual expenditure growth, will enable the Territory budget to return to an operating surplus and provide the capacity to invest in infrastructure without increasing borrowings.

As economic conditions remain subdued, the general government sector net operating balance remains in a deficit position over the budget cycle. Similar to budget-time estimates, Table 2.9 shows the net operating deficit is expected to peak in 2019-20.

Table 2.9: General Government Sector – Net Operating Balance

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
Net operating balance				
2017-18 Budget	- 503	- 509	- 561	- 556
2017-18 Mid-Year Report	**- 387**	**- 590**	**- 612**	**- 606**
Variation	116	- 81	- 51	- 50

Infrastructure for Economic and Community Development

Short-term target: Stimulate the economy by maintaining general government sector infrastructure spending to at least twice the level of depreciation on average over the immediate Budget cycle to 2020

The short-term fiscal target of maintaining general government sector infrastructure spending to at least twice the level of depreciation was developed to counter the Territory's subdued economic conditions by supporting economic activity.

As shown in Table 2.10, the revised projections meet this element of the fiscal strategy with average infrastructure investment 2.0 times depreciation across the budget cycle to 2020-21. The reduction in the ratio when compared to 2017-18 Budget largely reflects the increase in depreciation expense of $47 million per annum due to the revaluation of remote dwellings in accordance with accounting standards.

Table 2.10: General Government Sector – Capital Investment to Depreciation Ratio

	2017-18	2018-19	2019-20	2020-21	
	Budget	Forward estimate			Average
2017-18 Budget					
Total capital investment ($M)	1 255	841	514	473	771
Depreciation ($M)	354	351	349	349	351
Capital investment to depreciation ratio	**3.5**	**2.4**	**1.5**	**1.4**	**2.2**
2017-18 Mid-Year Report					
Total capital investment ($M)	1 166	896	551	534	787
Depreciation ($M)	400	398	397	396	398
Capital investment to depreciation ratio	**2.9**	**2.2**	**1.4**	**1.3**	**2.0**
Variation					
Total capital investment ($M)	- 89	55	38	61	16
Depreciation ($M)	47	47	47	47	47
Capital investment to depreciation ratio	**- 0.6**	**- 0.2**	**- 0.1**	**- 0.1**	**- 0.2**

Competitive Tax Environment

Target: Maintain a competitive tax environment that encourages investment, creates jobs, and attracts business to the Territory, while raising sufficient revenue to contribute to funding government service delivery requirements

This element of the fiscal strategy aims to maintain taxation levels that are competitive with other jurisdictions, encourage increased levels of business activity in the Territory while ensuring sufficient levels of own-source revenue to contribute to government service delivery.

The CGC analysis of tax effort assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below the Australian average of 100 per cent. This measure is a lagging indicator as the CGC updates the information annually based on the actual outcome of the previous year. The Territory's taxation effort has declined from 103 per cent in 2014-15 to 85 per cent in 2015-16, the latest year assessed by the CGC. With taxation revenue in 2016-17 largely consistent with 2015-16 levels, it is expected the Territory's taxation effort will remain largely unchanged in the next assessment. The improvement to projected mining royalties for 2017-18 will not affect future assessments of taxation effort however will improve the Territory's future assessment of total revenue-raising effort.

Prudent Management of Debt and Liabilities

Short-term target: Achieve an improving fiscal balance at the non financial public sector over the budget cycle

The fiscal balance differs from the net operating balance as it includes spending on capital items but excludes depreciation, a non-cash expense and provides a more complete measure of the Territory's overall financial position. A fiscal surplus indicates that government has sufficient capacity to fund all its capital spending without the need for borrowings.

During the current stage of the economic cycle, the short-term target is to achieve an improving fiscal balance over the budget cycle to minimise any further increase in net debt. As shown in Table 2.11, while the fiscal balance is projected to be in a significant deficit position across all years, it is forecast to improve across the budget estimates and meets this element of the fiscal strategy. The variation to 2017-18 Budget largely reflects the revised timing of key capital commitments from 2017-18 into forward years combined with one-off mining royalty receipts.

Table 2.11: Non Financial Public Sector – Fiscal Balance

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
Fiscal balance				
2017-18 Budget	- 1 312	- 859	- 611	- 572
2017-18 Mid-Year Report	**- 1 067**	**- 924**	**- 660**	**- 643**
Variation	245	- 65	- 49	- 71

Medium to long-term target: The Territory's non financial public sector net debt as a percentage of revenue is returning towards the long-term average of 40 per cent

This element of the strategy aims to ensure debt is prudently managed and requires improvements in operating and fiscal balances to ensure debt levels are kept to a minimum. Once economic conditions improve, the Government's strategy is to retire debt. This will set the pathway for the net debt to revenue ratio to return to the long-term average of 40 per cent, as experienced over the last 10 financial years.

As shown in Table 2.12, both net debt and net debt to revenue ratios have improved when compared to 2017-18 Budget and reflect the better net debt outcome for 2016-17 combined with the projected improvement in the 2017-18 fiscal balance that has flowed through to the forward estimates. Despite this improvement, the net debt to revenue ratio is projected to be more than twice the 40 per cent target by 2020-21.

Table 2.12: Non Financial Public Sector – Net Debt and Net Debt to Revenue Ratio

	2017-18	2018-19	2019-20	2020-21
	Budget	Forward estimate		
	$M	$M	$M	$M
Net debt				
2017-18 Budget	3 604	4 404	4 939	5 479
2017-18 Mid-Year Report	**3 272**	**4 135**	**4 720**	**5 330**
Variation	- 332	- 269	- 219	- 149
Net debt to revenue (%)				
2017-18 Budget	58	73	80	87
2017-18 Mid-Year Report	**50**	**68**	**76**	**84**
Variation	- 8	- 5	- 4	- 3

Conclusion

The Mid-Year Report highlights changes to economic and fiscal conditions that have emerged since the 2017-18 Budget. While these present an immediate challenge to returning the Budget to a sustainable position, Government is committed to setting a pathway for the Budget to return to a surplus while continuing to support economic recovery and sustaining Territory jobs through high levels of infrastructure investment and stimulus programs.

Risks and Contingent Liabilities

As required under section 10(1)(e) of FITA, each fiscal outlook report is required to contain 'a statement of the risks, quantified as far as practicable, that could materially affect the updated financial projections, including any contingent liabilities and any government negotiations that have yet to be finalised'.

This section 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.

Risks to the Budget

Revenue

GST Revenue

Volatility in GST revenue represents the largest revenue risk for the Territory, with GST revenue accounting for about half of the Territory's total revenue. The risk was clearly evident in the context of the development of the 2017-18 Budget where GST revenue estimates were reduced by $397 million in the budget year and around $1970 million over the budget cycle due primarily to a significant reduction in the Territory's GST relativity, when compared to previous estimates. The Commonwealth's 2016-17 FBO released in September 2017 has resulted in a slight increase to the Territory's GST revenue estimate for 2017-18, reflecting an underpayment in 2016-17 due to higher than expected GST collections. The changes in GST revenue estimates recorded in the 2017-18 Budget remain unchanged across the forward estimates and have significantly affected the Territory's fiscal capacity in all years.

The Territory's GST entitlement is dependent on three parameters: national GST collections; the Territory's share of the national population; and GST relativities as determined by the Commonwealth Treasurer based on recommendations from the CGC. There are many variables that influence each of these parameters, adding to the complexity of forecasting GST revenue for the Territory over the Budget and forward estimates period. Notwithstanding the Commonwealth's 2016-17 FBO, the growth rates for the population and GST pool parameters, and estimated GST relativities used to inform the 2017-18 Budget remain unchanged for the 2017-18 Mid-Year Report.

Productivity Commission Inquiry into Horizontal Fiscal Equalisation

One of the biggest risks to the budget through revenue is the outcome of the Productivity Commission (PC) Inquiry into Horizontal Fiscal Equalisation (HFE), which could see a permanent drop in GST revenue to the Territory. In April 2017 the Commonwealth Treasurer, Scott Morrison, announced a PC Inquiry into HFE, the main principle used to distribute GST revenues between the states and territories. The PC released its Draft Report on HFE on 8 October 2017. The most significant risk to the Territory arising from the key findings and recommendations of the Draft Report is the proposal to revise the objective of HFE so it achieves 'reasonable' rather than full equalisation. Changing the current objective as proposed will likely result in a permanent and ongoing reduction in the Territory's share of GST revenue, significantly impacting the Territory's ability to deliver the current level of government services without incurring substantial fiscal deficits on an ongoing basis. The Territory Government has responded to the PC's draft report and the PC's Final Report is to be provided to the Commonwealth Government by 31 January 2018.

National GST Collections

The Territory's estimates of national GST collections in 2017-18 have been revised upwards since 2017-18 Budget to take into account higher than expected collections in 2016-17.

The Territory's GST revenue is directly affected by variations in national GST collections. A ±1 percentage point change in the growth rate of GST collections is estimated to have a ±$29 million impact on the Territory's GST revenue in 2017-18. If variations of ±1 percentage point occurred in each of the Budget and forward estimates years, the cumulative impact on Territory GST revenue is about ±$124 million.

Territory's Share of National Population

Overall, the Territory's population is expected to grow at a slower rate than the national average over the Budget and forward estimates period. Estimates of the Territory's population growth relative to the national rate influence the Territory's share of the national population and therefore affect forecasts of the Territory's GST revenue. The effect of a ±1 percentage point variation in the Territory's forecast population growth is estimated at ±$28 million in 2017-18, all other things being equal. The cumulative impact of a ±1 percentage point variation in the estimate of the Territory's population growth rate over the Budget and forward estimates period is about ±$118 million.

GST Relativities

The CGC is responsible for recommending GST relativities, which are updated each year to incorporate new data and changes in states' fiscal capacities. In its 2017 Update, the CGC recommended a significant decrease in the Territory's GST relativity from 5.28450 in 2016-17 to 4.66024 in 2017-18. This was primarily driven by changes in the CGC's assessment of national average service delivery costs and use patterns for government services, particularly in remote areas.

Predicting future relativities is the most difficult aspect of estimating future GST revenue, with allocation of relativities being a zero-sum game. Changes in service delivery costs and usage patterns, and the expectation that Western Australia's relativity will continue to improve, are expected to have a further downward impact on the Territory's relativity. GST relativities to apply in 2018-19 are expected to be finalised around March 2018.

The impact of a 1 per cent variation in the Territory's GST relativity is around ±$28 million per annum. A ±1 percentage point variation in the Territory's GST relativity in each year of the forward estimates period would have a cumulative effect of around ±$118 million.

The above analysis examines the effect of variations in estimates of each parameter in isolation. However, these parameters often interact and, as a result, variations in each parameter could have a compounding or offsetting effect on GST revenue estimates.

Other Commonwealth Grants and Subsidies

Commonwealth funding is provided under either the Intergovernmental Agreement on Federal Financial Relations (IGA) through specific purpose payments (SPPs), National Health Reform (NHR) payments, schools funding and national partnership (NP) payments, or through Commonwealth own-purpose expenses provided directly to agencies.

The IGA affords flexibility of expenditure across the skills and workforce, disability and housing sectors for funding provided under relevant SPPs in 2017-18 without input controls, co-investment or maintenance of effort requirements. SPPs are ongoing and indexed on a sector-specific basis, providing a degree of certainty for the Territory's budgeting, although adequacy of indexation in terms of capturing cost growth remains an ongoing risk.

The 2017-18 Commonwealth Budget has announced plans to combine the current housing sector SPP and the NP Agreement on Homelessness in 2018-19 to form a new National Housing and Homelessness Agreement (NHHA). As a result, expenditure flexibility currently available under the housing sector SPP will be tied to performance measures set by the Commonwealth from 2018-19. This arrangement sets a potential risk for the Territory as the Commonwealth is seeking to tie funding under the new NHHA to outcomes targeted at the entire housing continuum, rather than just social housing and homelessness issues in accordance with the current arrangements.

NHR payments are predominantly based on either hospital activity or 'block funding' for smaller hospitals in recognition of their circumstances. A risk remains that the Territory's circumstances will not be adequately recognised in the current funding arrangements.

In its 2017-18 Budget, the Commonwealth also announced the Quality Schools funding and reform package 2018-2027, which will be tied to the implementation of national and bilateral reforms to improve outcomes for students. The Quality Schools arrangements seek to harmonise the Commonwealth's contribution to schools in each state, with the Northern Territory the only jurisdiction estimated to receive a reduced Commonwealth funding contribution towards government schools. The funding and reform arrangements are underpinned by Commonwealth legislation, which imposes maintenance of effort requirements on states, with scope for funding penalties to apply where effort is not maintained. These arrangements represent a significant financial risk to the Territory due to the onerous indexation arrangements legislated by the Commonwealth.

NP agreements continue to include many risks to states including co-investment, input controls, burdensome reporting and administrative arrangements, and potential withdrawal of funding at the Commonwealth's discretion. The Commonwealth is also increasingly using legislative instruments to set out its requirements for funding arrangements, in the absence of any substantial consultation with states. The expiry of NP agreements, which are time limited, also potentially poses a risk to the Territory's Budget, particularly where funding has raised service delivery expectations.

Funding associated with 11 NP agreements to which the Territory is signatory, including schedules under agreements, totalling $472.8 million is due to expire by the end of 2017-18. Should the funding under these agreements not be renewed or rolled into an existing SPP, the Territory would need to either reduce service delivery levels or provide additional funding. In addition, timing of Commonwealth decisions regarding the treatment of expiring NP agreements and their funding is critical to ensure continuity of service delivery or allow for alternative approaches to be considered should funding not be available. A significant example of an expiring NP is the NP Agreement on Remote Housing Strategy, which concludes at the end of 2017-18. The services currently delivered under this agreement include property and tenancy management, which is expected by the public to be maintained on an ongoing basis after the completion of the NP.

Own-Source Revenue

The amount of revenue received from Territory taxes and royalties is dependent on the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions made about the performance of the various economic factors and indicators directly affecting Territory taxes and royalties, such as growth in wages, employment, average hours worked, commodity and residential property prices, market activity and exchange rates.

The risks in forecasting the various elements of the Territory's own-source revenue remain unchanged from those included in the 2017-18 Budget.

Expenses and Payments

The forward estimates for expenses are based on known policy decisions, with adjustments for non-policy changes.

The most significant risk to the expense estimates is increasing budget pressure due to increased cost and demand influences and inability to meet savings measures factored into agency budgets.

The 2017-18 Budget included a reduction to the approved wage parameter from 3 per cent to 2.5 per cent from 2017-18 ongoing in line with Government's wages policy. Future enterprise bargaining agreements represent a risk to the Budget to the extent the outcome of negotiations is over and above amounts currently factored into the forward estimates.

In accordance with FITA, the 2017-18 Mid-Year Report includes forward estimates up to 2020-21. There is potential for the fiscal aggregates beyond the forward estimates period to be affected by existing commitments. These could either take the form of recurrent costs not expected to crystallise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding, or capital infrastructure for which the associated recurrent costs are not fully incorporated into forward years as their completion falls either close to or outside the forward estimates period.

Royal Commission into the Protection and Detention of Children of the Northern Territory

The Royal Commission into the Protection and Detention of Children in the Northern Territory delivered its report on 17 November 2017. The Territory's contribution to the cost of conducting the Royal Commission has been factored into the 2017-18 Mid-Year Report. However, the cost of implementing the recommendations from the Royal Commission have not yet been quantified and, while not included in the revised fiscal projections, they are likely to affect the fiscal aggregates over the budget cycle contained in this Mid-Year Report. The Territory's response to the recommendations will be considered as part of the 2018-19 Budget development.

Government Owned Corporations

The Power and Water Corporation (PWC) has now been structurally separated into three government owned corporations: PWC, Territory Generation and Jacana Energy. Although it is expected this reform will result in future operational efficiencies, there is a risk of higher costs in the short term as each entity focuses on business improvements.

All three government owned corporations have incorporated future efficiencies in their respective 2017-18 Statement of Corporate Intent. If they are unable to achieve their Statement of Corporate Intent targets, this may present risks to the Budget.

Risks to Economic Forecasts

Economic forecasts are subject to a number of upside and downside risks and uncertainties. Economic conditions in the Territory also tend to be highly volatile due to the relatively small size of the Territory's economy, the impact of major projects and external factors such as movements in commodity prices, and this is often reflected in the available data, which can be subject to significant revisions.

The availability, range of sources and volatility of data for the Territory's economy presents an underlying risk to forecasts, particularly in relation to reporting capital expenditure for major projects and movements of capital interstate and overseas. Some data is confidentialised, making it difficult to report when actual expenditure occurs. There are also difficulties associated with measuring interstate trade flows and other complexities associated with the balancing item of gross state product (GSP), the components of which are not published publicly.

Most significant for Territory forecasts is the timing of the Ichthys liquefied natural gas (LNG) project. Given the size of the project, it has been factored into current forecasts based on publicly available information, including timing of completion and anticipated commencement of production. However, further delays in the transition of the project from construction to the production and export phase, as well as variations in investment and costs, have the potential to influence a range of economic indicators, particularly GSP growth, employment and population forecasts.

There are also a range of other potential projects not included in the Territory's economic forecasts, given the uncertainty around final investment decisions, timing, levels of proposed expenditure and other impacts on the economy, including projects such as Project Sea Dragon, a number of resources projects and some initiatives outlined in the 2016 Defence White Paper.

The Territory economy is heavily exposed to changes in the global economy. Movements in global commodity prices can have significant impacts on the viability of mining activity in the Territory, as experienced in recent years. Global oil prices can also affect the cost of living and doing business in the Territory, not only regarding the price of automotive fuel for consumers, but also transport costs, as well as other goods and services.

Movements in the Australian dollar against other currencies (mainly the United States dollar) will influence the cost of the Territory's imports and competitiveness of Territory goods and services exports, largely affecting industries such as tourism, agriculture, mining and manufacturing.

Economic conditions in other Australian jurisdictions present risks to the Territory's economic forecasts. This includes effects on the labour market and interstate migration flows. The relative labour market conditions in other jurisdictions can affect the availability of labour in the Territory. Interest rate movements also present an uncertainty for the Territory economy, particularly influencing business, residential property, and household consumption and investment.

Adverse weather conditions and natural disasters (such as cyclones, flooding, drought and climate variability) are also key risks to many of the Territory's economic forecasts and have the potential to place upward pressure on food prices due to effects on agricultural production across the country.

Contingent Liabilities

Contingent liabilities are potential future costs to Government that may arise from guarantees, indemnities, legal and contractual claims as they constitute a risk to the Territory's financial position. The Territory's contingent liabilities are predominantly unchanged from the 2017-18 Budget.

For more information on contingent liabilities, refer to Chapter 4 in the 2017-18 Budget: Risks to the Updated Financial and Economic Projections, and the 2016-17 Treasurer's Annual Financial Report.

Chapter 3

Economic Outlook

Key Economic Indicators

The 2016-17 outcomes have been broadly in line with the Department of Treasury and Finance's (DTF) estimates from the 2017-18 Budget, with the exception of Territory gross state product (GSP) and state final demand (SFD). GSP, SFD, population, employment and the unemployment rate forecasts have been revised as part of this Mid-Year Report, following the release of 2016-17 actual GSP data and more up-to-date information available on a range of economic indicators. Table 3.1 provides the latest actuals and updated forecasts for key economic indicators for the Territory. Recent trends and factors underpinning the change in forecasts are discussed in the following sections.

Table 3.1: Key Economic Results and Forecasts (%)

	2016-17		2017-18	2018-19	2019-20	2020-21
	Budget	Actual	Estimate		Forecast	
Gross state product[1]	1.0	4.0	1.1	0.5	1.4	2.7
State final demand[1]	0.2	8.2	0.4	-8.6	-2.5	2.2
Population[2]	0.3	0.3	0.0	-0.7	0.6	1.0
Employment[3]	2.9	2.7	-2.5	-0.4	0.6	1.0
Unemployment rate[4]	3.6	3.5	4.5	4.5	4.4	4.3
Consumer price index[3]	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index[3]	2.1	2.1	1.9	2.0	2.3	2.6

1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance; Australian Bureau of Statistics (ABS)

Economic Growth

The Territory's headline economic growth rate was 4.0 per cent in 2016-17, resulting in a total GSP of $25.4 billion (Figure 3.1). The Territory recorded the second highest economic growth of the states and territories, which ranged from a decline of 2.7 per cent in Western Australia to an increase of 4.6 per cent in the Australian Capital Territory. National gross domestic product grew by 2.0 per cent over the same period.

Economic growth for 2016-17 in the Territory was stronger than the anticipated 1.0 per cent published in the 2017-18 Budget. This was largely due to private investment in the later half of 2016-17 that was higher than anticipated in the 2017-18 Budget estimate. The variance likely reflects changes in the level of investment activity as well as extensions to construction timeframes for major projects, which have both significantly impacted on the Territory economy.

GSP is the preferred measure of overall economic activity, especially when comparing against other states and territories, as it is a broad measure of the total output of the Territory economy in each year. GSP measured on an expenditure basis is used to forecast and analyse Territory economic growth.

In 2016-17, growth in Territory GSP was mainly driven by strong private business investment (largely non-dwelling construction), up by 30.3 per cent. Household consumption (up 2.8 per cent) and public investment (up 7.5 per cent) also positively contributed to economic growth. SFD, which comprises private and public consumption and investment expenditure, increased by 8.2 per cent. This was partly offset by a moderation in the Territory's trade balance, reflecting a 26.1 per cent increase in imports and 3.9 per cent decrease in exports. The reduction in the trade balance is mainly driven by significant levels of imports of equipment for major projects, which are now reflected as expenditure on a balance of payments basis in 2016-17.

Figure 3.1: Territory Gross State Product (GSP) and State Final Demand (SFD) Annual Percentage Change[1]

1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS Australian National Accounts: State Accounts, Cat. No. 5220.0

2017-18 Budget forecasts for Territory GSP and SFD over the forward estimates have been revised, following the latest data released by the Australian Bureau of Statistics (ABS) as well as more recent information available about the timing of major projects in the Territory.

The major driver of Territory economic growth has been the US$34 billion Ichthys liquefied natural gas (LNG) project, which will continue to influence the Territory's headline economic growth statistics over the forecast period, as it moves from the construction phase to the operational phase. The most significant effect of the Ichthys LNG project on the Territory economy has been the considerable levels of private business investment (largely non-dwelling construction). Over the five years from 2012-13, it is estimated there was an average $4.0 billion per annum of additional investment, equivalent to almost 20 per cent of total GSP. This scale of investment is unprecedented in the Territory's history and has had a substantial impact on the Territory's economic indicators.

Over the forecast period, Territory economic growth is expected to moderate to 1.1 per cent in 2017-18 and 0.5 per cent in 2018-19. A large decline in private business investment is expected from 2017-18, which will have a substantial impact given the relative size of investment related to the Ichthys LNG project compared to the Territory economy. It is expected that exports from the Ichthys LNG project will almost double the Territory's current goods exports at full production, however this will be offset by the scale of the decline in private business investment. As a result, a modest headline economic growth rate is forecast for the Territory over the near term (Figure 3.1).

Territory economic growth is expected to strengthen to 2.7 per cent by 2020-21. This remains below the 10-year average growth rate of 3.5 per cent. A major contributor to economic growth in the outer years is expected to be a recovery in household consumption, following the reduced workforce requirements for the Ichthys LNG project and ongoing public investment. The timing and investment of other major projects, such as the completion of the Northern Gas Pipeline and

Commonwealth defence infrastructure projects, are also expected to help offset the declines associated with the completion of the Ichthys LNG project and support economic growth in the outer years (Table 3.2).

Territory SFD is expected to moderate from 8.2 per cent growth in 2016-17 to 0.4 per cent growth in 2017-18. This is largely the result of declining private business investment. The major driver of growth will be public investment, reflecting increased infrastructure spending by the Territory and Commonwealth governments. Going forward, Territory SFD is expected to decrease substantially in 2018-19 and not expected to return to growth until 2020-21, as it does not include the export effect forecast in GSP.

There is a significant pipeline of other projects (Table 3.2) that remain subject to final approvals or investment decisions, which are not yet included in the published economic forecasts. This includes projects with major project status from the Territory Government, which helps facilitate the regulatory approval processes. If realised, these projects are expected to support economic growth into the future.

Table 3.2: Pipeline of Major Projects

Included in Forecasts	Not Included in Forecasts
• $800M Northern Gas Pipeline	• Barossa area development offshore gas project for Darwin LNG (estimated $8-12B)
• $470M RAAF Base Tindal New Air Combat Capability Development	• US$1.45B Project Sea Dragon
• $300M Northcrest housing development	• $970M Nolans Rare Earths Project
• $200M Darwin luxury hotel	• $850M Mount Peake Mine
• $120M City Deals	• $750M Verdant Minerals Ammaroo Phosphate Project
• $35M Darwin Port redevelopment	• $676M Chandler Salt Mine
• Darwin Business Park	• $190M Jervois Base Metal Project
	• $100M Renaissance One battery storage gigafactory
	• Uncommitted 2016 Defence White Paper expenditure

Source: Department of Treasury and Finance

Household Consumption

Household consumption increased by 2.8 per cent to $11.4 billion in 2016-17. The major driver of household consumption was strong growth in net interstate expenditure, in line with growth in tourism activity throughout the year. Expenditure on health services, miscellaneous goods and services (such as personal care), rent and other dwelling services also contributed positively to household expenditure growth in the year.

A more moderate increase in household consumption is forecast for 2017-18 and 2018-19. This is in line with subdued employment and population forecasts, which largely reflects the changing workforce requirements for the Ichthys LNG project as it transitions to the operational phase. This will likely be reflected by lower transport expenditure and demand for hotels, cafés and restaurants. Despite this, a modest return to growth in retail trade in the Territory will help support expenditure over 2017-18, likely due to the opening of new retail precincts, including the Gateway in Palmerston.

Dwelling Investment

In 2016-17, dwelling investment in the Territory declined by 23.9 per cent to $644 million. This continues the moderation in dwelling investment since the peak in 2013-14, when high levels of residential unit construction along with strong growth in new house construction were recorded.

The increased dwelling supply over recent years and moderating population growth has also placed downward pressure on property prices and rents.

Dwelling investment is expected return to growth in the forecast period, however at a much more modest level than previously expected, as residential property market leading indicators continue to show subdued conditions. Ongoing land release and subsequent new house construction in new suburbs, such as Zuccoli in Palmerston and the newly released Northcrest in Berrimah, are expected to support moderate dwelling investment in the outer years.

Business Investment

Business investment in the Territory grew by 30.3 per cent to $9.1 billion in 2016-17, following a 24.0 per cent decline the previous year. This strong growth is largely driven by non-dwelling construction and reflects investment related to the Ichthys LNG project. The Territory also experienced other smaller-scale major projects throughout 2016-17, including various mine site expansions and developments and the commencement of construction of the Northern Gas Pipeline. In addition, the Territory recorded strong growth in investment of intellectual property products and cultivated biological resources, which is a recovery from declines in previous years.

As the Ichthys LNG project transitions from the construction phase to the operational phase, headline business investment is expected to experience a substantial decline. Despite the decline, business investment will be partly offset by activity of smaller-scale projects over the forecast period, such as the completion of the Northern Gas Pipeline, Darwin Port redevelopment works, rural agriculture developments, construction of the Darwin luxury hotel, and the new Darwin Business Park subdivision at East Arm.

Public Expenditure

Economic statistics for state, local and national governments' expenditure are not directly comparable to the expenditure published on an accounting basis in the Mid-Year Report or Budget Papers. The following information provides a representation of public expenditure relative to GSP.

Territory public investment increased by 7.5 per cent to $1.4 billion in 2016-17, which comprises almost 12.5 per cent of total investment in the Territory economy. The growth in public investment was mainly driven by state and local general government investment. Public investment is expected to continue to strengthen over the short to medium term, driven by the ongoing commitment to the Territory Government infrastructure program of over $1.7 billion in 2017-18, including $350 million worth of economic stimulus programs across 2017-18 and 2018-19. Further, Commonwealth defence infrastructure projects and the continued roll-out of the National Broadband Network are also expected to support growth.

Public consumption in the Territory has maintained relatively constant growth over the past few years. In 2016-17, public consumption decreased by 0.3 per cent. This detracted 0.1 percentage point from Territory economic growth. Public consumption is expected to remain subdued in 2017-18 and 2018-19, reflecting Territory Government budget constraints.

International Trade

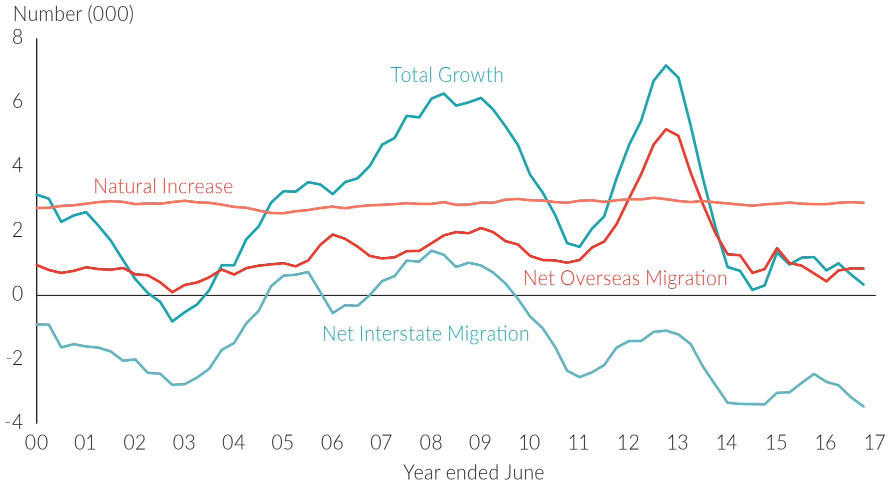
Net exports of goods and services decreased by 58.6 per cent to $865 million in 2016-17, reflecting a significant increase in goods imports of 26.1 per cent, likely relating to major project activity. There was also a 3.9 per cent decrease in goods exports from the Territory, reflecting constrained output from some of the Territory's major mines.

In the short term, improvements in the Territory's net exports are forecast in 2017-18 and 2018-19, particularly as the Ichthys LNG project transitions to full production. Expectations from the broader resources sector are generally positive and expected to improve slightly on the 2016-17 result.

Population

The Territory's population grew by 0.3 per cent in 2016, in line with the estimate in the 2017-18 Budget Papers. Natural increase contributed 2901 people and net overseas migration contributed 838 people, which was partly offset by net interstate migration outflows, which detracted 3178 people (Figure 3.2).

Figure 3.2: Components of Territory Population Growth (moving annual total)



Source: Department of Treasury and Finance; ABS Australian Demographic Statistics Cat. No. 3101.0

In the March quarter 2017, the Territory recorded annual population growth of 0.1 per cent, down from 0.5 per cent growth at the same time last year, with higher levels of net interstate migration outflows detracting from growth in 2017.

The persistence of high levels of net interstate migration outflows, together with uncertainty in the timing of the transition of the Ichthys LNG project from the construction to the operational phase, have necessitated some revisions to the population estimate and forecasts reported in the 2017-18 Budget Papers. The population declines expected in 2017 are now forecast to occur predominantly in 2018 as a significant portion of resident construction workers employed in the Ichthys LNG project are expected to depart the Territory in 2018, rather than 2017.

As a result, population growth is now expected to be flat in 2017 and then decrease by 0.7 per cent in 2018. Population growth is forecast to recover to 1.0 per cent in 2020, achieving the long-term average of 1.4 per cent beyond the forward estimates period. The return to trend is largely attributable to natural increase with a modest contribution from migration as long-run economic patterns progressively re-assert themselves.

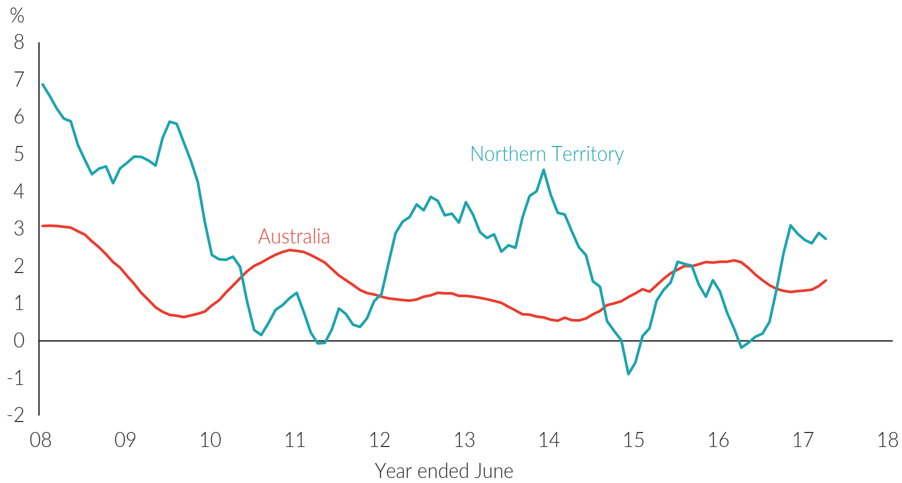
Labour Market

Employment

Resident employment in the Territory increased by 2.7 per cent in 2016-17, similar to the 2.9 per cent growth reported in the 2017-18 Budget Papers (Figure 3.3). The 2.7 per cent growth rate reflects peak construction workforce requirements associated with the Ichthys LNG project.

Industries that experienced increases in employment in 2016-17 include retail trade (up 16.7 per cent), education and training (up 11.3 per cent), accommodation and food services (11.3 per cent), agriculture, forestry and fishing (up 115.1 per cent), and professional, scientific and technical services (up 14.1 per cent). In contrast, industries that experienced negative employment conditions in 2016-17 include wholesale trade (down 22.3 per cent), construction (down 9.0 per cent), mining (down 8.3 per cent), public administration and safety (down 6.2 per cent), transport, storage, postal and warehousing (down 3.6 per cent), and manufacturing (down 2.1 per cent).

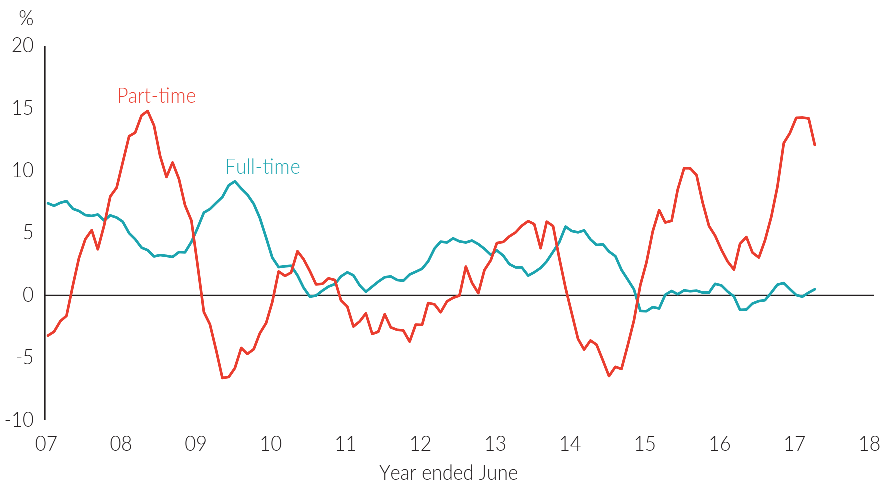
Figure 3.3: Year-on-Year Change in Employment



Source: Department of Treasury and Finance; ABS Labour Statistics Cat. No. 6202.0

In 2016-17, growth was driven by a significant increase in part-time employment (up 14.2 per cent), while full-time employment was stable. Despite this positive contribution, the overall proportion of part-time employment is relatively stable and represents around one fifth of total employment in the Territory. Since June 2015, there has been a substitution of full-time to part-time employment, which resulted in full-time employment reporting growth of 1.0 per cent or lower, whereas part-time employment increases ranged up to 15 per cent over the same period (Figure 3.4).

Figure 3.4: Territory Full-time and Part-time Employment, Year-on-Year Change



Source: Department of Treasury and Finance; ABS Labour Statistics Cat. No. 6202.0

The Ichthys LNG project has been a strong driver of employment in the Territory in recent years and, as such, fluctuations in its workforce have a strong influence on the employment outlook over the short term. Growth in employment is expected to decline by 2.5 per cent in 2017-18 as the Ichthys LNG project transitions from the construction phase to the less labour-intensive operational phase of the plant during this period. The Ichthys LNG project is the largest project in the Territory's history, and the employment loss caused by its transition to the operational phase is expected to have a one-off impact on the level of Territory employment.

Going forward, employment is forecast to grow, supported by the expected commencement of several other projects in the Territory, albeit at a smaller scale. Employment in the Territory is expected to grow below long-term trends, with a shift from the construction sector as the main driver to an increased reliance on general growth across other key industries in the Territory including the tourism-related, education services, agricultural and defence sectors.

Unemployment

As employment growth slows, the unemployment rate is expected to increase to an annual average of 4.4 per cent over the four years from 2017-18. This reflects the expectation that many workers on the Ichthys LNG project will seek employment in other construction fields or different industries within the Territory in the first instance. A large portion of those workers who become unemployed will move interstate for other employment opportunities, or return to their usual place of residence upon completion of the construction phase. The outflow of workers from the Territory is expected to limit the impact of the wind-down of the Ichthys LNG project construction phase on the Territory's unemployment rate.

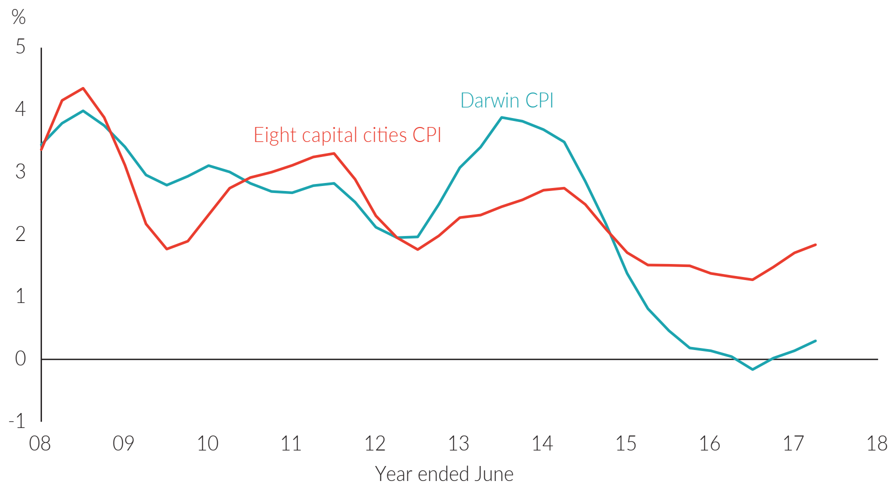
Consumer Price Index

The Darwin consumer price index (CPI) remains below long-term trends with growth of 0.1 per cent in 2016-17 (Figure 3.5). Moderate growth in the Darwin CPI over 2016-17 was due to declines in housing costs (mainly rents and electricity costs) and recreation and culture costs (mainly domestic holiday and accommodation costs). Alcohol and tobacco, and health costs continued to make the largest contributions to growth in the Darwin CPI.

The below-trend growth in the Darwin CPI, while significantly lower than experienced in the rest of Australia, broadly follows the national trend, with the eight capital cities CPI growth of 1.7 per cent in 2016-17.

More recent data released by the ABS for the September quarter 2017 shows that year-on-year movement in the Darwin CPI was nearly flat at 0.3 per cent, while the eight capital cities CPI growth was 1.8 per cent. Forecasts of the Darwin CPI remain consistent with the 2017-18 Budget estimates.

Figure 3.5: Year-on-Year Change in Consumer Price Index, Darwin and Eight Capital Cities



Source: Department of Treasury and Finance; ABS Consumer Price Index, Australia, Cat. No. 6401.0

Wage Price Index

In 2016-17, growth in the Territory's wage price index (WPI) moderated slightly to 2.1 per cent, from 2.2 per cent growth in 2015-16. This is consistent with trends in other jurisdictions and reflects subdued national labour market demand and continuing moderate inflation growth in the Territory. Latest data for the September quarter 2017 shows WPI growth at 1.9 per cent.

Over the medium term, wage growth in the Territory is expected to be moderate, in line with national expectations. A key factor contributing to modest Territory wage growth is a reduction in demand for labour as construction of the Ichthys LNG project is completed and transitions to the operational phase in 2017-18, as well as ongoing public sector wage restraints across all levels of government.

Chapter 4

Uniform Presentation Framework

Under the Uniform Presentation Framework (UPF), the Commonwealth, state and territory governments have agreed to publish information in a standard format in their budget papers. The UPF is based on accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting, which harmonises government finance statistics and generally accepted accounting principles with the objective of improving the clarity and transparency of government financial statements.

The harmonised standard means government financial reports are presented on the same basis by all jurisdictions, resulting in greater transparency and consistency.

The *Fiscal Integrity and Transparency Act* (FITA) requires 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 FITA and the UPF. They include, for the general government, public non financial corporations and non financial public sectors of government, a:

- Comprehensive Operating Statement
- Balance Sheet
- Cash Flow Statement.

The financial statements include the 2017-18 Budget, revised 2017-18 estimate and 2018-19 to 2020-21 forward estimates.

Also included are supplementary tables presenting general government sector taxes and the revised 2017-18 Loan Council Allocation.

Table 4.1

General Government Sector Comprehensive Operating Statement

		2017-18	2017-18	2018-19	2019-20	2020-21
		Budget	Revised	Forward estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	567 381	573 150	536 539	561 656	585 607
	Current grants	3 886 959	3 959 899	3 900 273	4 043 888	4 124 579
	Capital grants	361 944	404 504	116 499	50 056	11 996
	Sales of goods and services	377 119	384 071	412 284	415 366	416 503
	Interest income	65 051	69 955	70 619	72 777	74 465
	Dividend and income tax equivalent income	77 856	77 856	82 106	96 906	109 192
	Other revenue	270 418	409 035	266 584	265 439	265 439
	TOTAL REVENUE	5 606 728	5 878 470	5 384 904	5 506 088	5 587 781
less	EXPENSES					
	Employee benefits expense	2 258 075	2 343 746	2 284 399	2 328 523	2 378 428
	Superannuation expenses					
	Superannuation interest cost	129 094	129 094	128 080	128 080	128 080
	Other superannuation expenses	210 899	212 192	213 297	214 824	211 765
	Depreciation and amortisation	353 562	400 376	398 358	396 566	396 163
	Other operating expenses	1 575 269	1 574 614	1 434 164	1 493 750	1 527 094
	Interest expenses	221 613	220 842	260 702	296 971	329 871
	Other property expenses					
	Current grants	963 289	982 507	919 918	949 986	911 309
	Capital grants	121 456	121 223	77 352	40 712	35 288
	Subsidies and personal benefit payments	276 225	280 425	259 049	268 943	276 200
	TOTAL EXPENSES	6 109 482	6 265 019	5 975 319	6 118 355	6 194 198
equals	NET OPERATING BALANCE	- 502 754	- 386 549	- 590 415	- 612 267	- 606 417
plus	Other economic flows – included in operating result	44 538	44 538	46 274	48 287	49 975
equals	OPERATING RESULT	- 458 216	- 342 011	- 544 141	- 563 980	- 556 442
plus	Other economic flows – other comprehensive income	206 828	210 164	220 470	212 769	211 613
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 251 388	- 131 847	- 323 671	- 351 211	- 344 829
	NET OPERATING BALANCE	- 502 754	- 386 549	- 590 415	- 612 267	- 606 417
less	Net acquisition of non financial assets					
	Purchases of non financial assets	1 134 033	1 045 074	818 418	510 639	498 682
	Sales of non financial assets	- 62 051	- 55 051	- 60 424	- 51 221	- 51 221
	less Depreciation	353 562	400 376	398 358	396 566	396 163
	plus Change in inventories					
	plus Other movements in non financial assets					
	equals Total net acquisition of non financial assets	718 420	589 647	359 636	62 852	51 298
equals	FISCAL BALANCE	- 1 221 174	- 976 196	- 950 051	- 675 119	- 657 715

Table 4.2

General Government Sector Balance Sheet

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	205 932	271 990	93 310	47 125	76 801
Advances paid	144 155	171 269	168 082	168 082	168 082
Investments, loans and placements	1 799 389	2 038 331	2 157 385	2 269 895	2 343 205
Receivables	337 516	386 487	394 445	403 046	414 886
Equity					
Investments in other public sector entities	2 175 460	2 227 645	2 238 186	2 247 002	2 259 603
Investments – other					
Other financial assets	16 249	17 387	17 387	17 387	17 387
Total financial assets	4 678 701	5 113 109	5 068 795	5 152 537	5 279 964
Non financial assets					
Inventories	13 468	13 632	13 632	13 632	13 632
Property, plant and equipment	14 881 104	15 311 022	15 679 980	15 752 154	15 812 774
Investment property	88 694	99 495	95 495	91 495	87 495
Other non financial assets	122 545	122 352	122 330	122 308	122 286
Total non financial assets	15 105 811	15 546 501	15 911 437	15 979 589	16 036 187
TOTAL ASSETS	19 784 512	20 659 610	20 980 232	21 132 126	21 316 151
LIABILITIES					
Deposits held	263 843	318 145	341 507	380 506	412 760
Advances received	274 895	283 895	285 315	286 083	276 135
Borrowing	3 931 813	3 935 486	4 722 556	5 353 732	6 063 908
Superannuation	3 852 410	3 470 433	3 264 713	3 058 993	2 853 273
Other employee benefits	600 956	623 957	623 957	623 957	623 957
Payables	207 243	208 584	210 813	212 237	214 329
Other liabilities	877 204	877 677	913 609	950 067	950 067
TOTAL LIABILITIES	10 008 364	9 718 177	10 362 470	10 865 575	11 394 429
NET ASSETS/(LIABILITIES)	9 776 148	10 941 433	10 617 762	10 266 551	9 921 722
Contributed equity					
Accumulated surplus/(deficit)	1 891 326	2 373 486	2 039 274	1 679 247	1 321 817
Reserves	7 884 822	8 567 947	8 578 488	8 587 304	8 599 905
NET WORTH	9 776 148	10 941 433	10 617 762	10 266 551	9 921 722
NET FINANCIAL WORTH[1]	- 5 329 663	- 4 605 068	- 5 293 675	- 5 713 038	- 6 114 465
NET FINANCIAL LIABILITIES[2]	7 505 123	6 832 713	7 531 861	7 960 040	8 374 068
NET DEBT[3]	2 321 075	2 055 936	2 930 601	3 535 219	4 164 715

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 excluding investments in other public sector entities.
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

General Government Sector Cash Flow Statement

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	567 381	573 150	536 539	561 656	585 607
Receipts from sales of goods and services	407 449	414 399	442 121	445 496	446 533
Grants and subsidies received	4 248 903	4 364 403	4 016 772	4 093 944	4 136 575
Interest receipts	65 051	69 955	70 619	72 777	74 465
Dividends and income tax equivalents	62 310	62 310	81 713	84 395	97 352
Other receipts	515 013	653 632	511 978	511 120	509 597
Total operating receipts	**5 866 107**	**6 137 849**	**5 659 742**	**5 769 388**	**5 850 129**
Cash payments for operating activities					
Payments for employees	- 2 579 782	- 2 666 746	- 2 618 713	- 2 670 340	- 2 722 127
Payment for goods and services	- 1 812 987	- 1 810 610	- 1 684 886	- 1 732 087	- 1 803 387
Grants and subsidies paid	- 1 360 415	- 1 383 600	- 1 254 948	- 1 259 641	- 1 222 797
Interest paid	- 220 037	- 220 873	- 258 851	- 295 518	- 328 539
Other payments					
Total operating payments	**- 5 973 221**	**- 6 081 829**	**- 5 817 398**	**- 5 957 586**	**- 6 076 850**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 107 114**	**56 020**	**- 157 656**	**- 188 198**	**- 226 721**
Cash flows from investments in non financial assets					
Sales of non financial assets	62 051	55 051	60 424	51 221	51 221
Purchases of non financial assets	- 1 134 033	- 1 045 074	- 818 418	- 510 639	- 498 682
Net cash flows from investments in non financial assets	**- 1 071 982**	**- 990 023**	**- 757 994**	**- 459 418**	**- 447 461**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 179 096**	**- 934 003**	**- 915 650**	**- 647 616**	**- 674 182**
Net cash flows from investments in financial assets for policy purposes[1]	14 216	88	3 187		
Net cash flows from investments in financial assets for liquidity purposes	83 384	75 774	- 78 069	- 69 512	- 28 624
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 974 382	- 914 161	- 832 876	- 528 930	- 476 085
Net cash flows from financing activities					
Advances received (net)	- 7 986	2 014	1 420	768	- 9 948
Borrowing (net)	942 873	942 873	787 070	631 176	710 176
Deposits received (net)	- 96 933	- 98 714	23 362	38 999	32 254
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	837 954	846 173	811 852	670 943	732 482
NET INCREASE/DECREASE IN CASH HELD	- 243 542	- 11 968	- 178 680	- 46 185	29 676
Net cash flows from operating activities	- 107 114	56 020	- 157 656	- 188 198	- 226 721
Net cash flows from investments in non financial assets	- 1 071 982	- 990 023	- 757 994	- 459 418	- 447 461
CASH SURPLUS (+)/DEFICIT (-)	**- 1 179 096**	**- 934 003**	**- 915 650**	**- 647 616**	**- 674 182**
Future infrastructure and superannuation contributions/ earnings[2]	- 21 849	- 21 849	- 23 160	- 24 550	- 26 023
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 200 945**	**- 955 852**	**- 938 810**	**- 672 166**	**- 700 205**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 1 179 096	- 934 003	- 915 650	- 647 616	- 674 182
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 1 179 096	- 934 003	- 915 650	- 647 616	- 674 182

1 Includes equity acquisitions, disposals and privatisations (net).
2 Contributions for future infrastructure and superannuation requirements.

Table 4.4

Public Non Financial Corporation Sector Comprehensive Operating Statement

		2017-18	2017-18	2018-19	2019-20	2020-21
		Budget	Revised	Forward estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Current grants	187 547	188 547	163 899	170 861	176 314
	Capital grants	28 713	28 713	23 179	21 031	21 492
	Sales of goods and services	708 770	707 770	773 420	827 513	854 401
	Interest income	2 613	2 613	2 862	2 970	3 125
	Other revenue	36 567	36 567	24 499	24 407	29 533
	TOTAL REVENUE	964 210	964 210	987 859	1 046 782	1 084 865
less	EXPENSES					
	Employee benefits expense	126 317	126 317	128 480	127 187	126 036
	Superannuation expenses	17 096	17 096	16 934	16 934	16 934
	Depreciation and amortisation	187 194	187 194	193 125	197 410	200 762
	Other operating expenses	502 465	505 325	510 143	553 365	568 877
	Interest expenses	69 729	66 869	68 401	73 406	71 839
	Other property expenses	28 246	28 246	29 654	33 242	40 165
	Current grants	45	45	46	47	48
	Capital grants					
	Subsidies and personal benefit payments	1 514	1 514	1 530	1 548	1 568
	TOTAL EXPENSES	932 606	932 606	948 313	1 003 139	1 026 229
equals	NET OPERATING BALANCE	31 604	31 604	39 546	43 643	58 636
plus	Other economic flows – included in operating result	- 15 811	- 15 811	- 3 160	- 3 297	- 3 440
equals	OPERATING RESULT	15 793	15 793	36 386	40 346	55 196
plus	Other economic flows – other comprehensive income					- 3 333
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	15 793	15 793	36 386	40 346	51 863
	NET OPERATING BALANCE	31 604	31 604	39 546	43 643	58 636
less	Net acquisition of non financial assets					
	Purchases of non financial assets	223 525	223 525	152 288	165 153	173 062
	Sales of non financial assets	- 4 719	- 4 719			
	less Depreciation	187 194	187 194	193 125	197 410	200 762
	plus Change in inventories	37 525	37 525	6 012	7 141	6 106
	plus Other movements in non financial assets	23 500	23 500	13 500	13 500	17 500
	equals Total net acquisition of non financial assets	92 637	92 637	- 21 325	- 11 616	- 4 094
equals	FISCAL BALANCE	- 61 033	- 61 033	60 871	55 259	62 730

Table 4.5

Public Non Financial Corporation Sector Balance Sheet

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	162 427	213 432	220 672	231 839	245 509
Advances paid					
Investments, loans and placements					
Receivables	151 740	107 861	100 804	105 849	108 124
Equity	3	3	3	3	3
Other financial assets					
Total financial assets	**314 170**	**321 296**	**321 479**	**337 691**	**353 636**
Non financial assets					
Inventories	219 996	221 850	227 862	235 003	241 109
Property, plant and equipment	3 278 834	3 329 806	3 298 007	3 274 996	3 261 876
Investment property					
Other non financial assets	31 281	26 754	28 715	31 511	34 431
Total non financial assets	**3 530 111**	**3 578 410**	**3 554 584**	**3 541 510**	**3 537 416**
TOTAL ASSETS	3 844 281	3 899 706	3 876 063	3 879 201	3 891 052
LIABILITIES					
Deposits held	495	1 701	1 701	1 701	1 701
Advances received					
Borrowing	1 445 162	1 427 500	1 423 489	1 414 478	1 409 468
Superannuation					
Other employee benefits	19 248	59 929	61 552	62 254	62 295
Payables	66 793	96 846	93 015	99 653	100 679
Other liabilities	158 754	111 052	91 630	96 316	108 335
TOTAL LIABILITIES	1 690 452	1 697 028	1 671 387	1 674 402	1 682 478
NET ASSETS/(LIABILITIES)	2 153 829	2 202 678	2 204 676	2 204 799	2 208 574
Contributed equity	628 300	628 300	628 300	628 300	628 300
Accumulated surplus/(deficit)	735 765	745 929	747 927	748 050	751 825
Reserves	789 764	828 449	828 449	828 449	828 449
TOTAL EQUITY	2 153 829	2 202 678	2 204 676	2 204 799	2 208 574
NET FINANCIAL WORTH[1]	- 1 376 282	- 1 375 732	- 1 349 908	- 1 336 711	- 1 328 842
NET DEBT[2]	1 283 230	1 215 769	1 204 518	1 184 340	1 165 660

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

Public Non Financial Corporation Sector Cash Flow Statement

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Receipts from sales of goods and services	714 552	713 552	767 595	818 791	850 407
Grants and subsidies received	216 260	217 260	187 078	191 894	197 806
Interest receipts	2 624	2 624	2 855	2 966	3 118
Other receipts	13 567	13 567	11 490	11 407	12 533
Total operating receipts	947 003	947 003	969 018	1 025 058	1 063 864
Cash payments for operating activities					
Income tax equivalents paid	- 22 051	- 22 051	- 28 246	- 29 654	- 33 242
Payments for employees	- 152 419	- 152 419	- 153 523	- 153 151	- 152 661
Payment for goods and services	- 561 426	- 563 944	- 519 041	- 545 080	- 571 141
Grants and subsidies paid	- 1 559	- 1 559	- 1 576	- 1 595	- 1 616
Interest paid	- 70 635	- 68 117	- 68 619	- 73 070	- 72 293
Other payments					
Total operating payments	- 808 090	- 808 090	- 771 005	- 802 550	- 830 953
NET CASH FLOWS FROM OPERATING ACTIVITIES	138 913	138 913	198 013	222 508	232 911
Cash flows from investments in non financial assets					
Sales of non financial assets	4 719	4 719			
Purchases of non financial assets	- 223 525	- 223 525	- 152 288	- 165 153	- 173 062
Net cash flows from investments in non financial assets	- 218 806	- 218 806	- 152 288	- 165 153	- 173 062
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 79 893	- 79 893	45 725	57 355	59 849
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	- 218 806	- 218 806	- 152 288	- 165 153	- 173 062
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	50 488	50 488	- 4 511	- 9 511	- 5 510
Deposits received (net)					
Dividends paid	- 25 891	- 25 891	- 33 974	- 36 677	- 40 669
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	24 597	24 597	- 38 485	- 46 188	- 46 179
NET INCREASE/DECREASE IN CASH HELD	- 55 296	- 55 296	7 240	11 167	13 670
Net cash flows from operating activities	138 913	138 913	198 013	222 508	232 911
Net cash flows from investments in non financial assets	- 218 806	- 218 806	- 152 288	- 165 153	- 173 062
Dividends paid	- 25 891	- 25 891	- 33 974	- 36 677	- 40 669
CASH SURPLUS (+)/DEFICIT (-)	- 105 784	- 105 784	11 751	20 678	19 180
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 105 784	- 105 784	11 751	20 678	19 180
Acquisitions under finance leases and similar arrangements	- 500	- 500	- 500	- 500	- 500
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 106 284	- 106 284	11 251	20 178	18 680

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

Table 4.7

Non Financial Public Sector Comprehensive Operating Statement

		2017-18	2017-18	2018-19	2019-20	2020-21
		Budget	Revised	Forward estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	557 547	563 316	526 807	551 924	575 875
	Current grants	3 887 459	3 960 399	3 900 773	4 044 388	4 125 079
	Capital grants	372 941	415 501	121 696	52 656	14 596
	Sales of goods and services	1 021 792	1 027 797	1 122 267	1 179 586	1 207 611
	Interest income	65 051	69 955	70 619	72 777	74 465
	Dividend and income tax equivalent income	19 493	19 493	18 064	23 441	20 939
	Other revenue	304 577	443 014	288 675	287 438	292 564
	TOTAL REVENUE	6 228 860	6 499 475	6 048 901	6 212 210	6 311 129
less	EXPENSES					
	Employee benefits expense	2 384 392	2 470 063	2 412 879	2 455 710	2 504 464
	Superannuation expenses					
	Superannuation interest cost	129 094	129 094	128 080	128 080	128 080
	Other superannuation expenses	225 862	227 155	228 098	229 625	226 566
	Depreciation and amortisation	540 756	587 570	591 483	593 976	596 925
	Other operating expenses	2 003 528	2 005 606	1 870 863	1 973 815	2 022 671
	Interest expenses	288 729	285 098	326 241	367 407	398 585
	Other property expenses					
	Current grants	905 957	924 175	861 584	890 194	850 022
	Capital grants	103 740	103 507	59 370	22 281	16 396
	Subsidies and personal benefit payments	148 069	152 269	155 560	159 969	163 289
	TOTAL EXPENSES	6 730 127	6 884 537	6 634 158	6 821 057	6 906 998
equals	NET OPERATING BALANCE	- 501 267	- 385 062	- 585 257	- 608 847	- 595 869
plus	Other economic flows – included in operating result	28 727	28 727	43 114	44 990	46 535
equals	OPERATING RESULT	- 472 540	- 356 335	- 542 143	- 563 857	- 549 334
plus	Other economic flows – other comprehensive income	221 152	224 488	218 472	212 646	204 505
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 251 388	- 131 847	- 323 671	- 351 211	- 344 829
	NET OPERATING BALANCE	- 501 267	- 385 062	- 585 257	- 608 847	- 595 869
less	Net acquisition of non financial assets					
	Purchases of non financial assets	1 357 558	1 268 599	970 706	675 792	671 744
	Sales of non financial assets	- 66 770	- 59 770	- 60 424	- 51 221	- 51 221
	less Depreciation	540 756	587 570	591 483	593 976	596 925
	plus Change in inventories	37 525	37 525	6 012	7 141	6 106
	plus Other movements in non financial assets	23 500	23 500	13 500	13 500	17 500
	equals Total net acquisition of non financial assets	811 057	682 284	338 311	51 236	47 204
equals	FISCAL BALANCE	- 1 312 324	- 1 067 346	- 923 568	- 660 083	- 643 073

Table 4.8

Non Financial Public Sector Balance Sheet

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	205 955	272 009	93 329	47 144	76 820
Advances paid	144 155	171 269	168 082	168 082	168 082
Investments, loans and placements	1 799 389	2 038 331	2 157 385	2 269 895	2 343 205
Receivables	439 951	441 931	441 003	447 511	447 277
Equity					
Investments in other public sector entities	21 631	24 967	33 510	42 203	51 029
Investments – other	3	3	3	3	3
Other financial assets	16 249	17 387	17 387	17 387	17 387
Total financial assets	2 627 333	2 965 897	2 910 699	2 992 225	3 103 803
Non financial assets					
Inventories	233 464	235 482	241 494	248 635	254 741
Property, plant and equipment	18 159 938	18 640 828	18 977 987	19 027 150	19 074 650
Investment property	88 694	99 495	95 495	91 495	87 495
Other non financial assets	153 826	149 106	151 045	153 819	156 717
Total non financial assets	18 635 922	19 124 911	19 466 021	19 521 099	19 573 603
TOTAL ASSETS	21 263 255	22 090 808	22 376 720	22 513 324	22 677 406
LIABILITIES					
Deposits held	101 934	106 433	122 555	150 387	168 971
Advances received	274 895	283 895	285 315	286 083	276 135
Borrowing	5 376 975	5 362 986	6 146 045	6 768 210	7 473 376
Superannuation	3 852 410	3 470 433	3 264 713	3 058 993	2 853 273
Other employee benefits	620 204	683 886	685 509	686 211	686 252
Payables	261 796	296 170	294 561	302 619	305 730
Other liabilities	998 893	945 572	960 260	994 270	991 947
TOTAL LIABILITIES	11 487 107	11 149 375	11 758 958	12 246 773	12 755 684
NET ASSETS/(LIABILITIES)	9 776 148	10 941 433	10 617 762	10 266 551	9 921 722
Contributed equity					
Accumulated surplus/(deficit)	2 627 091	3 119 415	2 787 201	2 427 297	2 073 642
Reserves	7 149 057	7 822 018	7 830 561	7 839 254	7 848 080
NET WORTH	9 776 148	10 941 433	10 617 762	10 266 551	9 921 722
NET FINANCIAL WORTH[1]	- 8 859 774	- 8 183 478	- 8 848 259	- 9 254 548	- 9 651 881
NET FINANCIAL LIABILITIES[2]	8 881 405	8 208 445	8 881 769	9 296 751	9 702 910
NET DEBT[3]	3 604 305	3 271 705	4 135 119	4 719 559	5 330 375

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 excluding investments in other public sector entities.
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

Non Financial Public Sector Cash Flow Statement

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	557 547	563 316	526 807	551 924	575 875
Receipts from sales of goods and services	1 057 904	1 063 909	1 146 279	1 200 994	1 233 647
Grants and subsidies received	4 260 400	4 375 900	4 022 469	4 097 046	4 139 675
Interest receipts	65 051	69 955	70 619	72 777	74 465
Dividends and income tax equivalents	14 368	14 368	19 493	18 064	23 441
Other receipts	528 305	666 742	523 193	522 252	521 855
Total operating receipts	6 483 575	6 754 190	6 308 860	6 463 057	6 568 958
Cash payments for operating activities					
Payments for employees	- 2 722 367	- 2 809 331	- 2 762 504	- 2 813 759	- 2 865 056
Payment for goods and services	- 2 310 041	- 2 310 055	- 2 140 215	- 2 213 599	- 2 310 960
Grants and subsidies paid	- 1 157 211	- 1 179 396	- 1 075 143	- 1 072 444	- 1 029 707
Interest paid	- 288 048	- 286 366	- 324 615	- 365 622	- 397 714
Other payments					
Total operating payments	- 6 477 667	- 6 585 148	-6 302 477	- 6 465 424	- 6 603 437
NET CASH FLOWS FROM OPERATING ACTIVITIES	5 908	169 042	6 383	- 2 367	- 34 479
Cash flows from investments in non financial assets					
Sales of non financial assets	66 770	59 770	60 424	51 221	51 221
Purchases of non financial assets	- 1 357 558	- 1 268 599	- 970 706	- 675 792	- 671 744
Net cash flows from investments in non financial assets	- 1 290 788	- 1 208 829	- 910 282	- 624 571	- 620 523
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 1 284 880	- 1 039 787	- 903 899	- 626 938	- 655 002
Net cash flows from investments in financial assets for policy purposes[1]	14 216	88	3 187		
Net cash flows from investments in financial assets for liquidity purposes	83 384	75 774	- 78 069	- 69 512	- 28 624
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 193 188	- 1 132 967	- 985 164	- 694 083	- 649 147
Net cash flows from financing activities					
Advances received (net)	- 7 986	2 014	1 420	768	- 9 948
Borrowing (net)	993 361	993 361	782 559	621 665	704 666
Deposits received (net)	- 41 637	- 43 418	16 122	27 832	18 584
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	943 738	951 957	800 101	650 265	713 302
NET INCREASE/DECREASE IN CASH HELD	- 243 542	- 11 968	- 178 680	- 46 185	29 676
Net cash flows from operating activities	5 908	169 042	6 383	- 2 367	- 34 479
Net cash flows from investments in non financial assets	- 1 290 788	- 1 208 829	- 910 282	- 624 571	- 620 523
CASH SURPLUS (+)/DEFICIT (-)	- 1 284 880	- 1 039 787	- 903 899	- 626 938	- 655 002
Future infrastructure and superannuation contributions/ earnings[2]	- 21 849	- 21 849	- 23 160	- 24 550	- 26 023
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 1 306 729	- 1 061 636	- 927 059	- 651 488	- 681 025
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 1 284 880	- 1 039 787	- 903 899	- 626 938	- 655 002
Acquisitions under finance leases and similar arrangements	- 500	- 500	- 500	- 500	- 500
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 1 285 380	- 1 040 287	- 904 399	- 627 438	- 655 502

1 Includes equity acquisitions, disposals and privatisations (net).
2 Contributions for future infrastructure and superannuation requirements.

Table 4.10

General Government Sector Taxes

	2017-18 Budget	2017-18 Revised	2018-19 Forward Estimate
	$M	$M	$M
Taxes on employers' payroll and labour force	**270**	**300**	**253**
Payroll taxes	270	300	253
Taxes on property	**103**	**74**	**76**
Stamp duties on financial and capital transactions	103	74	76
Taxes on the provision of goods and services	**117**	**123**	**129**
Taxes on gambling	78	78	83
Taxes on insurance	39	45	46
Taxes on the use of goods and performance of activities	**77**	**77**	**79**
Motor vehicle registration fees	77	77	79
TOTAL TAXES	**567**	**573**	**537**

Table 4.11

2017-18 Loan Council Allocation

		Budget-time Estimate	Mid-year Estimate
		$M	$M
General government sector cash deficit (+)/surplus (-)		1 179	934
Public non financial corporations sector cash deficit (+)/surplus (-)		106	106
Non financial public sector cash deficit (+)/surplus (-)		1 285	1 040
less	Acquisitions under finance leases and similar arrangements		
equals	ABS GFS cash deficit (+)/surplus (-)	1 285	1 040
less	Net cash flows from investments in financial assets for policy purposes	14	
plus	Memorandum items		
2017-18 LOAN COUNCIL ALLOCATION		**1 271**	**1 040**

Appendix A
Classification of Entities in the Northern Territory

Total Public Sector

Non Financial Public Sector

General Government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation[1]
Batchelor Institute of Indigenous Tertiary Education[1]
Central Australia Health Service[2]
Central Holding Authority
Darwin Waterfront Corporation[1]
Data Centre Services[2]
Department of the Attorney-General and Justice
Department of the Chief Minister
Department of Corporate and Information Services
Department of Education
Department of Environment and Natural Resources
Department of Health
Department of Housing and Community Development
Department of Infrastructure, Planning and Logistics
Department of the Legislative Assembly
Department of Primary Industry and Resources
Department of Tourism and Culture
Department of Trade, Business and Innovation
Department of Treasury and Finance
Desert Knowledge Australia[1]
Motor Accidents (Compensation) Commission[1]
Museums and Art Galleries Board of the Northern Territory[1]
Nominal Insurer's Fund[1]
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission[1]
Northern Territory Major Events Company Pty Ltd[1]
Northern Territory Police, Fire and Emergency Services
NT Build Statutory Corporation[1]
NT Fleet[2]
NT Home Ownership[2]
Office of the Commissioner for Public Employment
Ombudsman's Office
Territory Families
Territory Wildlife Parks[2]
Top End Health Service[2]

Public Non Financial Corporations

Indigenous Essential Services Pty Ltd[1]
Jacana Energy[1,3]
Land Development Corporation[2]
Power and Water Corporation[1,3]
Territory Generation[1,3]

Public Financial Corporations

Northern Territory Treasury Corporation[2]

1 Non-budget sector entity.
2 Government business division.
3 Government owned corporation.

Appendix B

Glossary

Advances/advances paid

Advances are the creation of financial assets (that is, an increase in the indebtedness to government units) with the aim of funding particular enterprise, household or government activities.

Agency

A unit of government administration, or office or statutory corporation, nominated in an Administrative Arrangements Order for the purposes of the *Financial Management Act* and including, where the case requires, a part or division (by whatever name called) of an agency.

Appropriation

An authority given by the Legislative Assembly to make payments, now or at some future time, for the purposes stated, up to the limit of the amount in the particular Act.

Australian Accounting Standards

Statements of accounting standards that can be applied in preparation and presentation of financial statements.

Australian Bureau of Statistics (ABS)

The ABS is a Commonwealth agency that coordinates statistical activities and collaborates with official bodies in the collection, compilation, analysis and distribution of statistics. This assists in maximising the value of government investment, and ensures outputs are fit for purpose.

Capital Grants

Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, cash is transferred to enable the recipient to acquire another asset, or 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 and 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.

Commonwealth Own-Purpose Expenses

Payments by the Commonwealth for goods and services and associated transfer payments for the conduct of its general government activities.

Comprehensive Result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners as owners.

Consumer Price Index (CPI)

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.

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 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.

Fiscal Balance (Net Lending/Borrowing)

Fiscal balance, also referred to as net lending/borrowing, is an operating statement measure that differs from the net operating balance as it includes spending on capital items but excludes depreciation. 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 a government's level of investment is greater than its level of savings.

General Government Sector (GGS)

Defined in Government Finance Statistics as an entity or group of entities 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.

Generally Accepted Accounting Principles (GAAP)

Term used to describe broadly the body of principles that governs the accounting for financial transactions underlying the preparation of a set of financial statements.

Goods and Services Tax (GST) Revenue

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

Government Business Division (GBD)

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

Government Finance Statistics (GFS)

Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. GFS in Australia are developed by the ABS 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

An entity in which its objectives are to operate at least as efficiently as any corporate business and maximise sustainable return to government. The *Government Owned Corporations Act* adopts the shareholder model of corporate governance. The Territory has three government owned corporations: Power and Water Corporation, a power generation corporation (Territory Generation), and a power retail corporation (Jacana Energy).

Grants

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be of a current or capital nature (see current grants and capital grants).

Grants can be paid as general purpose grants, which refer to grants not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants, which are paid for a particular purpose and or have conditions attached regarding their use.

Gross Domestic Product (GDP)

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. GDP can be calculated by summing total output, total income or total expenditure.

Gross State Product (GSP)

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.

Intergovernmental Agreement

An agreement signed by all states and the Commonwealth in December 2008 defining the framework for federal financial relations, encompassing Commonwealth funding to states through general revenue assistance, specific purpose payments and national partnership payments.

Loan Council

The Australian Loan Council coordinates borrowing by Commonwealth and state governments. 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.

National Partnership Agreements

National partnership (NP) agreements are agreements between the Commonwealth, states and territories with defined objectives, outcomes, outputs and performance measures related to the delivery of specified projects or to facilitate reforms of national significance.

National Partnership Payments

NP payments are tied Commonwealth grants provided to states and territories to enable them to achieve the outcomes and outputs of an NP agreement.

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 purposes 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 disasters.

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 borrowing 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 public non financial corporations and public financial corporations. 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 public non financial corporation and public financial corporation sectors, it is equal to negative net financial worth.

Net Financial Worth

A measure of 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 as 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 Operating Balance

The revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations and excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

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 (NFPS)

The sector formed through a consolidation of the general government and public non financial corporation subsectors.

Other Economic Flows

Changes in the volume or value of an asset or liability that do not result from transactions (such as revaluations and other changes in the volume of assets).

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.

Payables

Includes short-term and long-term trade debt and accounts payable, grants and interest payable.

Public Financial Corporations (PFC)

Government-controlled entities that perform central bank functions and or have the authority to incur liabilities and acquire financial assets in the market on their own account.

Public Non Financial Corporations (PNFC)

Public enterprises primarily engaged in the production of goods or services of a non financial nature, for sale in the market place, at prices that aim to recover most of the costs involved.

Receivables

Includes short-term and long-term trade credit and accounts receivable, grants, taxes and interest receivable.

Sale of Goods and Services

Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale 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 and entertainment, but excludes rental income from the use of non-produced assets, such as land. User charges include sale of goods and services revenue.

Specific Purpose Payments (SPPs)

A Commonwealth financial contribution to support delivery of services in a particular sector. Payments are made from the Commonwealth Treasury to state and territory treasuries and are appropriated to the relevant government agency.

State Final Demand (SFD)

Final consumption expenditure plus gross fixed capital formation in each jurisdiction. It represents the total expenditure on consumption and investment in a jurisdiction.

Treasurer's Advance

An appropriation purpose of that name as specified in an *Appropriation Act*, which provides a pool of funds specifically set aside in each Budget to meet one-off unexpected costs that arise during the year and are substantial enough to warrant additional appropriation.

Uniform Presentation Framework (UPF)

A uniform reporting framework 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 re-issued in April 2008 to incorporate 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 based on the Government Finance Statistics, according to an agreed format and specified Loan Council reporting arrangements.