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# FISCAL AND ECONOMIC OUTLOOK

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2002-03

Budget Paper No. 2

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In this book, the term 'State' or 'States' includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

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## UNDER TREASURER'S CERTIFICATION

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In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in the August 2002 Budget documentation were based on Government decisions that I was aware of or that were made available to me by the Treasurer before the cut-off date of 9 August 2002. The projections are presented in accordance with the Australian Bureau of Statistics accrual-based Government Finance Statistics.

Jennifer Prince  
Under Treasurer

16 August 2002

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# OVERVIEW

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The 2002-03 Budget marks the introduction of significant financial management reforms intended to improve the allocation of resources within the budgetary process, enhance accountability and improve the range of financial information available to Parliament and to the Government. These developments are centred on adoption of output based budgeting together with accrual accounting principles. Both developments have been in general use in other jurisdictions for several years and, in the case of accrual accounting, its adoption is consistent with the requirements of the *Fiscal Integrity and Transparency Act*.

## **OVERVIEW OF THE *FISCAL INTEGRITY AND TRANSPARENCY ACT***

The passage of the *Fiscal Integrity and Transparency Act* was foreshadowed in the 2001 Mini Budget. The Act reflects a trend that has emerged in recent years across jurisdictions in putting into place clear, independently-based budgeting and reporting frameworks for the public sector.

Broadly, the Act has as its objective the improvement of fiscal policy outcomes by:

- requiring fiscal strategy to be based on principles of sound fiscal management;
- facilitating public scrutiny of fiscal policy and performance; and
- strengthening accountability for the economic and financial projections and underlying fiscal reporting and decision making.

The Act is underpinned by a set of principles of sound fiscal management which require:

- spending and taxing policies to be formulated with the consideration of the effect these policies will have on employment and the economic prosperity and development of the Territory;
- spending and taxing policies to be formulated and applied to give rise to a reasonable degree of stability and predictability;
- funding for current services to be provided by the current generation; and
- financial risks faced by the Territory to be managed prudently, including by maintaining Territory debt at prudent levels.

The Act requires the tabling in Parliament and the public release of a fiscal strategy statement at the time of presentation of the Budget each year, with additional statements to be released if conditions should warrant so doing. The fiscal strategy statement is required to specify:

- the Government's medium-term fiscal objectives;
- the broad strategic priorities on which the Budget is based;
- the key fiscal indicators the Government considers important and against which fiscal policy will be set and assessed; and
- fiscal objectives and targets and the expected outcomes for the Budget and three following years.

In addition to these requirements, the Act also requires a fiscal outlook report to be prepared each year setting out information that includes financial projections and economic and other assumptions. These reports are to be tabled and publicly released at the time of each Budget and by the end of February in each year, or within six months after the last Budget.

Finally, the Act also requires that a fiscal results report be tabled and publicly released after the end of each financial year, with the financial reports required to be prepared in accordance with recognised external accounting standards.

### **IMPLICATIONS FOR THE 2002-03 BUDGET**

The 2002-03 Budget is the first that has been developed within the framework established by the *Fiscal Integrity and Transparency Act* and based on accrual output based methodology. As has been the case in other jurisdictions, the introduction of accrual output based budgeting will be introduced in a staged way, with an acknowledgment that the benefits from the new approach will not become fully apparent for some three to five years. Similarly, during the first three years, there will be continuous improvement in data and expertise which will assist in refinement of the financial and non-financial data.

The 2002-03 Budget in particular provides the transition from a cash to an accrual output based framework. Outputs are specified on an accrual basis although the appropriation remains cash-based in the transitional phase. Accrual reports will commence in respect of the 2002-03 year.

This *Budget Paper No. 2* meets the requirements of the *Fiscal Integrity and Transparency Act*.

It provides an assessment of the estimated outcome for 2001-02 on a Government Finance Statistics (GFS) cash basis.

The 2002-03 Budget and forward estimates are prepared on a GFS accrual basis. An assessment of economic conditions and intergovernmental issues as well as contingent liabilities that may affect the Government's fiscal position are included.

*Budget Paper No. 2* contains a summary of expenditure and revenue initiatives in the Budget, and an explanation of financial management reforms in place in 2002-03. It also meets the Territory's obligations under the Uniform Presentation Framework agreement.

# FISCAL AND ECONOMIC OUTLOOK

The fiscal and economic outlook is prepared as part of a requirement of the *Fiscal Integrity and Transparency Act* and encompasses:

- updated fiscal projections for the Budget and following three financial years and the estimated financial result for the preceding year for the general government and the total non financial public sector;
- the economic and other assumptions on which the financial projections are based including sensitivity of the assumptions; and
- an explanation of the key reasons for differences between financial projections for the Budget and three forward years as well as the preceding year.

As this is the first fiscal outlook report, and having regard to the fact that the Territory is in a transitional phase from a cash budget and financial management framework to an accrual output based framework, the information presented is on a cash as well as an accrual basis.

## ESTIMATED FINANCIAL OUTCOME FOR 2001-02

The audited financial outcome for 2001-02 will not be available until October, when it is expected that the *Treasurer's Annual Financial Report* will be finalised. Thus, the information presented below is subject to change, particularly as the commercial entities that report on an accrual basis are yet to finalise their accounts. The information presented is on a cash Government Finance Statistics (GFS) basis and, for the general government, non financial and total public sector, is consistent with November 2001 Mini Budget presentations.

**TABLE 1.1: 2001-02 ESTIMATED OUTCOME<sup>1</sup>**

	General Government		Non Financial Public Sector		Total Public Sector	
	Nov 01	Aug 02	Nov 01	Aug 02	Nov 01	Aug 02
	\$M	\$M	\$M	\$M	\$M	\$M
Current Outlays	1 950	1 969	2 005	2 018	1 981	1 998
Capital Outlays	207	215	270	273	270	272
Total Outlays	2 157	2 184	2 275	2 291	2 252	2 270
Revenue	2 018	2 067	2 083	2 111	2 064	2 089
Provisions	-	-	56	64	62	69
Deficit(+) / Surplus (-)	139	117	136	116	126	112

1. Excludes AustralAsia Railway Corporation and Territory Insurance Office

The estimated outcome for 2001-02 is an improvement of \$22 million in the general government sector, due largely to the transfer of commitments from 2001-02 to 2002-03.

The total public sector estimated outcome also includes similar levels of carry forward of expenditure in the public non financial and public financial corporation sectors, but finalisation of a long-standing legal dispute has contributed to a slightly lower improvement than occurred in the general government sector.

The increase in current outlays for the general government sector has been kept to a minimum, at 1 per cent, and is associated with related revenue increases, largely specific purpose payments as well as minor one-off items that emerged during the year.

General government capital outlays rose as a result of the Government's decision to increase capital works expenditure by bringing forward planned projects in recognition of the low level of activity in the construction industry, particularly in Darwin.

The improved revenue was due to increased stamp duty revenues from one-off conveyance-related transactions, growth in the value of other items subject to stamp duties and an increase in royalty revenues due to improving market conditions.

As discussed elsewhere in this Budget Paper, the 2001-02 deficit reduction strategy was based on the total public sector but from 2002-03 the focus for deficit reduction will transfer to the general government sector and greater emphasis will be placed on broader performance-based criteria for the public non financial corporation sector.

### **Forward Estimates Processes**

Agency budgets are developed from a Forward Estimate model maintained within Treasury. Operationally, the model adopts the approach of using the current year Budget as a base and rolling the estimates into forward years. The current Budget is developed from what was previously a forward estimate. This eliminates the necessity for agencies to build up a budget every year and increases certainty.

The estimates are developed on the basis of no policy change. Up to five years of estimates are maintained and used by Government, both as a planning and an operational tool.

These estimates are maintained and adjusted as necessary, forming the basis for Government resource and policy decisions during the Budget development phase.

In order to accurately reflect outer years, estimates are adjusted by inflators/deflators. Parameters used are Consumer Price Index (CPI), wage increases and a productivity dividend. In particular functional areas, growth factors also apply. Parameters are applied to an agency's budget at a category of cost level, and are reviewed on a regular basis to assess for accuracy and correctness. The CPI parameter is applied generally to operational items and the wage factor to personnel costs. Both are inflators. The productivity dividend (which is a deflator) is applied to operational and personnel costs and is based on the Government's philosophy that agencies need to continually strive to deliver services efficiently.

The 2002-03 Budget and the forward years estimates have been based on wage growth of 3 per cent per annum and inflation of 2.5 per cent. The inflation parameter is based on an ex ante estimate of the eight capital cities' CPI rather than Darwin CPI, as it is considered a better indicator of cost pressures faced by agencies across the Territory. This estimate is reviewed regularly. The productivity dividend is currently applied from 2002-03 ongoing at a rate of 1 per cent.

Government makes the majority of resource decisions during the development of the Budget. At this time the Budget is collectively reviewed, new policies are set and the management of resources is decided. Agencies prepare submissions for Government to review based on cost drivers such as increased demand and new policy direction options for Government. An appropriate level of taxes is also assessed and revenue from the Commonwealth confirmed in order to determine total resources available for use on additional Government programs.

From the outcome of these decisions, the new budget is formed. In 2002-03 the Budget has been developed against a backdrop of significant Government reform, the basis of which was established in the Mini Budget in November 2001. At this time the Government was facing a significant Budget shortfall, as well as a pressing need to reset some agencies' base level funding along with the Government's commitment to meet its election commitments in full.

The 2002-03 Budget was developed in a cash framework and, in consultation with agencies, was translated into the accrual framework for presentation in these papers.

### FINANCIAL PROJECTIONS

The result for 2001-02, the year preceding the Budget year, was shown in Table 1.1.

#### Cash Comparisons for 2002-03

The 2002-03 Budget includes a number of policy and non-policy related variations which have occurred, since the forward estimate for 2002-03 was published in November 2001. These are shown in the following table.

**TABLE 1.2: CHANGES TO 2002-03 GENERAL GOVERNMENT ESTIMATED OUTCOME**

	\$M	\$M	\$M
<b>2002-03 ESTIMATED DEFICIT AT NOVEMBER 2001</b>			<b>72</b>
<b>Revenue Changes</b>			<b>-87</b>
<i>Non-Policy / Parameter Changes</i>			
GST Revenue and Other Grants		-83	
Taxes, Dividends and Other Revenue		-7	
<i>Policy Changes</i>			
Revenue Measures		3	
<b>Outlay Changes</b>			<b>110</b>
<i>Non-Policy / Parameter Changes</i>			
Input Cost Measures		15	
Carry Over from 2001-02		22	
<i>Policy Changes</i>			
Capital Outlays		43	
Recurrent Outlays		30	
Health	11		
Education, including NTU	5		
Justice	3		
Police	2		
Whole of Government Policy and Coordination	2		
Repairs and Maintenance	5		
Other Additions	2		
Unallocated Treasurer's Advance	-23		
Increased Subsidies to Trading Enterprises	23		
<b>2002-03 ESTIMATED DEFICIT AT AUGUST 2002</b>			<b>95</b>

Note: These amounts indicate the effect on the Budget outcome, eg. negative revenue indicates an improvement to the Budget outcome.

The November Mini Budget included significant expenditure restraint in line with the fiscal objective of reaching a cash surplus in 2004-05. The key revenue item for the Territory is Goods and Services Tax (GST) revenue. The November Mini Budget assumed no change in the relativities which determine GST revenue. However, at the 2002 Ministerial Council meeting of Treasurers, the Territory's overall level of GST and related grants increased by \$76 million compared with what had been included in the forward estimates. The increase was due to a positive adjustment in the Territory's relativity as recommended by the Commonwealth Grants Commission, offset slightly by the Commonwealth's decision to reduce States' and Territories' funding in line with its decision to discontinue inflation parameters to fuel excise. Increases in other Commonwealth payments totalled \$7 million, resulting in an overall increase in grants of \$83 million.



The Government decided to apply this additional revenue to boost capital outlays by \$43 million in 2002-03, having regard to the cash requirements of major projects under way and the relatively low level of activity in the construction sector. Other policy related decisions totalled \$30 million, of which non policy-related increases in input costs totalled \$15 million. Community service obligations increased by \$23 million, due largely to the decision to fully fund the uniform tariff Community Service Obligation paid to PowerWater. Capacity for this payment was available from Treasurer's Advance, unallocated at the time of the Mini Budget.

#### **Accrual Estimates for 2002-03 and Forward Estimates**

The introduction of the accrual basis of accounting will see the progressive shift in the fiscal strategy measures from a cash focus to accrual based measures. In 2002-03, the accrual figures are based on the cash budget and forward estimates, with adjustments made for assets and liabilities existing at the end of the period. While this is considered to portray a fair representation of the expected operating result and financial position of the Northern Territory Government at the end of the 2002-03 year, the quality of that information is expected to improve progressively as agencies' own systems and processes improve over the next few years. In this, the experience in the Territory is expected to mirror that of the other jurisdictions.

To avoid the possibility of having fiscal targets obscured by accounting changes, the fiscal strategy has continued with a cash outcome measure. However its focus is changing to the general government sector rather than the total public sector, as was the case in the Mini Budget. One of the key targets of the fiscal strategy is for the general government sector to be in surplus by 2004-05.

It is considered that such targets are appropriate for the tax-supported sector, whereas performance-based targets are appropriate for the commercially orientated public non financial corporations sector. Targets have also been expressed on an accrual basis, with an objective of a zero net operating balance for the general government sector within 10 years.

A detailed analysis of the fiscal strategy and targets is included in Chapter 2 of this Budget Paper.

It is important to recognise, however, that adoption of accrual accounting does not supplant the consideration of cash flows. Cash will continue to be used as the basis for appropriation. Financial reports prepared under an accrual accounting framework by individual agencies and by the Government itself will continue to report on cash flows as an important fiscal management tool. As stated above, the fiscal strategy will continue to refer to the cash outcome.

The tables below set out the accrual financial statements for 2001-02, the budget year 2002-03 and three forward years for the general government sector.

**TABLE 1.3: GENERAL GOVERNMENT STATEMENT OF FINANCIAL PERFORMANCE**

		2001-02	2002-03	2003-04	2004-05	2005-06
		\$M	\$M	\$M	\$M	\$M
	GFS Revenue	2 178	2 309	2 364	2 367	2 469
less	GFS Expenses	2 285	2 333	2 367	2 351	2 420
equals	Net Operating Balance	-107	-24	-3	15	48
less	Net Acquisition of Non Financial Assets	37	88	48	14	16
	<i>Gross fixed capital formation</i>	167	218	180	145	145
	<i>less depreciation</i>	128	129	130	130	128
	<i>plus other</i>	2	1	2	1	1
	<i>movements in non financial assets</i>					
	<i>equals net acquisition of non financial assets</i>	37	88	48	14	16
equals	GFS Fiscal Balance	-144	-112	-51	1	32

**TABLE 1.4: GENERAL GOVERNMENT STATEMENT OF FINANCIAL POSITION**

		2001-02	2002-03	2003-04	2004-05	2005-06
		\$M	\$M	\$M	\$M	\$M
	Assets	4 252	4 048	3 931	3 845	3 782
	<i>Financial</i>	921	772	736	747	779
	<i>Non financial</i>	3 331	3 276	3 195	3 098	3 003
less	Liabilities	3 661	3 634	3 658	3 675	3 682
equals	Net worth	591	414	273	170	100
	Net financial worth	-2 740	-2 862	-2 921	-2 927	-2 903
	Net debt	1 426	1 467	1 494	1 496	1 484

**TABLE 1.5: GENERAL GOVERNMENT CASH FLOW STATEMENT**

		2001-02	2002-03	2003-04	2004-05	2005-06
		\$M	\$M	\$M	\$M	\$M
	Net cash flows from operating activities	47 579	119 762	151 626	142 712	155 119
	Net cash flows from investments in non financial assets	-165 004	-216 036	-177 784	-143 103	-143 008
	Net cash flows from investments in financial assets	4 789	56 477	24 799	477	477
	Net cash flows from financing activities	107 199	-54 626	-1 526	11 763	21 237
	Net increase (decrease) in cash held	-5 437	-94 423	-2 885	11 849	33 825
	Net increase from activities in non financial assets	-117 425	-96 274	-26 158	-738	12 111
	Finance leases		910	910	738	910
	Surplus (+) / Deficit (-)	-117 425	-95 364	-25 248	0	13 021

Tables 1.3, 1.4 and 1.5 provide summary financial statements for the general government sector from 2001-02 to 2005-06. They are based on Uniform Presentation Scope

excluding the AustralAsia Railway Corporation. Tables 1.1 and 1.2 also provide information for 2001-02 and 2002-03 on a cash basis, providing continuity in the transition from cash to accrual financial information. In this transitional period both cash and accrual systems have been maintained and reconciled during the preparation of the 2002-03 Budget. It has required considerably more resources to manage and reconcile both systems but has resulted in far greater continuity than would otherwise have been the case.

The general government Statement of Financial Position shows an improvement in the GFS net operating balance of minus \$143.6 million in 2001-02 to an estimated positive balance of \$1.1 million in 2004-05.

A key element of this Statement is the estimated depreciation expense. Since self-government, the Territory has had very reliable systems for recording assets and their historical costs, but these systems did not record depreciation. In the move to accrual accounting and budgeting, all assets have been identified and allocated to agencies. A program is also under way to improve the quality of asset valuation and thus depreciation information.

The nominal superannuation interest expense has been calculated on the basis of actuarial estimates of the accruing unfunded liability for superannuation.

It is acknowledged that these accrual estimates will be refined and improved over the next one to two years. Accrual accounting and reporting systems will further improve the classification of data.

The Statement of Financial Performance shows that net debt for the general government sector continues to increase until 2004-05, when the cash surplus contributes to a reduction in net debt.

The Territory's preferred basis for a comparative analysis of net debt is the total non financial public sector. This is because there is considerable difference between jurisdictions in the allocation of debt between sectors within the public sector. In the Territory, a greater proportion of debt is allocated to the general government sector than is the case in other jurisdictions because of the less expansive government-based commercial sector in the Territory than the States. Comparative data is included in Chapter 2 of this Budget Paper.

The Statement of Cash Flows aligns with the cash information previously produced, even though the method of doing so has changed. It shows the general government sector moving into surplus in 2004-05.

Chapter 6 sets out the full forward estimates on an accrual basis using GFS methodology. As was the case with the Mini Budget, summary tables have been prepared with, and without, the AustralAsia Railway Corporation (AARC) because of the distorting effect of the significant AARC cashflows particularly on 2001-02.

The GFS has been adopted by the Commonwealth Government and all State and Territory Governments (in the Uniform Presentation Framework Agreement) as the basis upon which budget and actuals data are to be prepared in order to facilitate comparisons across jurisdictions. The entities that comprise the Northern Territory public sector are listed in Appendix A to Chapter 6.

## **INTERGOVERNMENTAL FINANCIAL RELATIONS**

### **Commonwealth Grants**

Like all jurisdictions, the Territory's revenue consists of both own-source revenue and Commonwealth grants. However, the Territory is much more reliant on Commonwealth grants than other jurisdictions. While Commonwealth grants make up approximately

80 per cent of the Territory's total revenue, they comprise only 40 to 50 per cent of the total revenue of most other jurisdictions. The Territory's greater reliance on Commonwealth funding is primarily explained by its greater expenditure needs and, to a lesser extent, its lower revenue capacity relative to other jurisdictions. Commonwealth grants are either provided in the form of general revenue assistance, predominantly GST revenue (untied funding) or specific purpose payments (tied funding).

Total Commonwealth grants to the Territory in 2002-03 are estimated at \$1 857 million, which is an 8.2 per cent increase over the latest estimate for 2001-02 of \$1 715 million.

Total Commonwealth grants comprise the Territory's estimated Guaranteed Minimum Amount (GMA) of \$1 522 million (that is, GST revenue grants of \$1 502 million and Budget Balancing Assistance (BBA) of \$20 million), with a further \$12 million in other general purpose grants and \$323 million in specific purpose payments.

### **General Revenue Assistance**

For the Territory, general revenue assistance makes up approximately 80 per cent of Commonwealth grants and is provided as revenue to be spent, at the Territory's discretion, to meet Territory priorities.

While the total amount of general revenue assistance that the Commonwealth is prepared to provide to the States and Territories is set by the Commonwealth Government, the distribution of most of this funding between the States is determined according to the recommendations of the Commonwealth Grants Commission (the Commission). These recommendations are expressed in terms of per capita relativities (or per capita grant shares) for each State. Relativities are determined according to the principles of horizontal fiscal equalisation, thus ensuring that each State has the capacity to provide public services at a similar standard and level of efficiency as the other States, given a comparable revenue-raising effort.

As part of national tax reform, and as set out in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Commonwealth agreed to provide all GST revenue to the States and guaranteed that no State would be worse off as a result of tax reform. GST revenue grants paid to the States are currently less than States would have received had tax reform not taken place, after taking into consideration various expenditure and own-source revenue adjustments associated with the *Intergovernmental Agreement*. As a result of this guarantee, the Commonwealth currently provides top-up funding through Budget Balancing Assistance to make up the difference.

### **RELATIVITIES**

The relativities recommended by the Commission, and endorsed by the Commonwealth Treasurer for the Territory in 2002-03, are higher than those applied in 2001-02 and thus have resulted in an improved outcome for the Territory in 2002-03 of \$76.1 million. The Territory's increased relativities in 2002-03 were primarily caused by increased expenditure and revenue needs relative to those of other States.

Expenditure needs result from factors that influence the costs of, and demand for, services. The Territory's considerable expenditure needs result from its small and widely dispersed population, the unique composition of its population, its harsh physical environment, and its relative isolation from Australia's main population centres. Revenue needs result from factors that influence each State's capacity to generate revenue from its own sources. These factors include differences between States in natural resource endowments and the divergent structure of State economies.

### **2002-03 Estimates Compared with 2001-02 Estimates**

The Territory's Guaranteed Minimum Amount in 2002-03 is estimated at \$1 522 million, an increase of \$134 million (or 9.7 per cent) on the Territory's Guaranteed Minimum

Amount in 2001-02 of \$1 388 million. Of this amount, the Territory's GST revenue grants are estimated to comprise \$1 502 million in 2002-03, an increase of \$212 million (or 16.5 per cent) over the 2001-02 amount of \$1 290 million.

The increase in GST revenue grants is significantly higher than the increase in Guaranteed Minimum Amount between 2001-02 and 2002-03 because, in line with the Commonwealth's guarantee in the *Intergovernmental Agreement*, Budget Balancing Assistance will fall by \$78 million from \$98 million to \$20 million. The fact that the Territory will receive Budget Balancing Assistance in 2002-03 means that the Territory, like all States, has yet to benefit from tax reform.

### Specific Purpose Payments

Specific purpose payments (SPPs) make up the remaining 20 per cent of Commonwealth grants and are provided by Commonwealth functional agencies to Territory agencies. SPPs are designed to meet Commonwealth priorities, thus the Commonwealth, to varying degrees, specifies the purpose for which a grant can be used. In addition, the Commonwealth can impose various conditions on the expenditure of a grant, such as reporting requirements or the condition that Commonwealth funds are matched by State funds. Discretion as to the expenditure of a grant rests with the Commonwealth.

Current estimates indicate that SPPs received by the Territory will increase by \$8 million (or 2.5 per cent) between 2001-02 (\$316 million) and 2002-03 (\$323 million).

### GST Revenue and Budget Balancing Assistance Grants Projections

The Commonwealth currently provides estimates for GST revenue and Budget Balancing Assistance to the States on a regular basis and has provided updated estimates for 2001-02 and 2002-03, as well as estimates for the individual components that underlie these estimates up to 2005-06. The Commonwealth has made various assumptions in the calculation of its estimates, however, some of these assumptions may not correctly reflect the likely outcome for Commonwealth grants as assessed by the Territory. Table 2.6 shows the underlying assumptions used by the Territory to calculate current and forward year estimates of GST revenue and Budget Balancing Assistance.

**TABLE 1.6: GST REVENUE AND BUDGET BALANCING ASSISTANCE ASSUMPTIONS**

	GST	BBA <sup>1</sup>	GMA <sup>2</sup>	Additional Funding GST > GMA	Population Growth	GST Relativities	FAG <sup>3</sup> Relativities	Growth in the GST Pool
	\$M	\$M	\$M	\$M	%			%
2001-02	1 290	98	1 388	0	0.70	4.02166	4.93364	9.4
2002-03	1 502	20	1 522	0	1.30	4.24484	5.22670	10.3
2003-04	1 590	0	1 581	9	1.35	4.24484	5.22670	5.9
2004-05	1 610	0	1 571	39	1.50	4.04548	4.94365	5.7
2005-06	1 713	0	1 649	63	1.50	4.04548	4.94365	5.7

<sup>1</sup>. Budget Balancing Assistance

<sup>2</sup>. Guaranteed Minimum Amount

<sup>3</sup>. Financial Assistance Grants

As the Territory has already received its final GST revenue and Budget Balancing Assistance for 2001-02, the Territory's estimates agree with those of the Commonwealth in all aspects. The estimates reflect a significantly lower population growth rate between 2000-01 and 2001-02 than previously forecast which, in part, reflects estimated population loss due to both net interstate and overseas migration for the period, offset by continuing strong natural increase.

In 2002-03, the Territory has not followed the Commonwealth estimates of GST revenue and Budget Balancing Assistance. The Commonwealth has estimated that the Territory's population will continue to grow at 0.7 per cent, however the Territory estimates that its population will grow at the faster rate of 1.3 per cent in 2002-03. The Commonwealth has assumed that the same factors that affected population growth in 2001-02 will affect population growth in 2002-03, which is clearly not the case. It is expected that the Commonwealth will revise its population estimates during 2002-03 to more closely align with the Territory's forecasts, as more population data becomes available. The relativities used by the Territory in 2002-03 are in accordance with Commonwealth Grants Commission recommendations.

Based on current Territory estimates, 2003-04 will be the first year that the Territory's GST revenue will be greater than its Guaranteed Minimum Amount. This means that the Territory will no longer require additional assistance in the form of Budget Balancing Assistance as detailed in the *Intergovernmental Agreement*. Therefore, the GST revenue pool and relativities will become the key factors in determining the level of untied Commonwealth grants to the Territory.

In 2003-04, the Territory has assumed a population growth rate of 1.35 per cent, compared to the current Commonwealth estimate of 1.2 per cent. This better reflects a return towards the Territory's long run population growth rate of approximately 1.5 per cent.

The Commonwealth Grants Commission's assessment of relativities is the other key component in the forward estimates of general revenue grants. Because this is the Territory's major revenue source, but one over which it has virtually no influence, a conservative approach is necessarily taken. The Commission does not forecast relativities past its most recent update year. Therefore, the Territory is required to make its own assumptions in relation to relativities. The Territory's conservative approach has assumed that its relativities will remain constant (at 2002-03 levels) in 2003-04. This would result in the Territory's GST revenue grants (\$1 590 million) exceeding its Guaranteed Minimum Amount by \$9 million in 2003-04.

An alternative to keeping the relativity constant (at 2002-03 levels) in 2003-04 is to assume that it will increase in line with the latest data assessed by the Commission. This assumption would lead to the Territory's 2003-04 relativities being higher than under the Territory's current conservative estimate. This higher relativity would result in GST revenue grants of \$1 645 million, which is \$54.9 million more than currently estimated.

In 2004-05 and beyond, the Territory has used its average long run population growth rate of 1.5 per cent in the calculation of its GST revenue grants.

The Commission provides a major review of its relativities every five years with the results of the next major review to be applied in 2004-05. Historically, the Territory's relativities tend to grow in the update years and decline in the major review years. After the 1993 Review, the Territory's grants declined by approximately \$50 million due to lower relativities. Expressed in current values, this would imply that an \$80 million decline is possible in 2004-05. This would result in GST revenue grants of \$1 610 million, which is \$39 million in excess of the Territory's Guaranteed Minimum Amount.

Relativities for 2005-06 have been assumed to remain the same as the 2004-05 relativities, resulting in GST revenue grants of \$1 713 million, which is \$63 million greater than the Territory's Guaranteed Minimum Amount.

The size of the GST revenue pool is another important consideration when estimating GST revenue. Currently, the Commonwealth is the only jurisdiction with the knowledge and capacity to produce reliable estimates of the GST revenue pool for the States. The

GST revenue pool is forecast to increase by 5.9 per cent in 2003-04 and 5.7 per cent in both 2004-05 and 2005-06.

### **INTERGOVERNMENTAL FINANCIAL RELATIONS RISKS**

Of all the jurisdictions, the Territory is most reliant on Commonwealth grants. Since self-government, the Territory has been subject to changes in Commonwealth policy which have had significant effects on the Territory's budgetary position.

In 1999, the Commonwealth Government introduced the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* and also entered into the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* with all States. One of the main objectives of the legislation was to improve the certainty of Commonwealth grants to the States, while the *Intergovernmental Agreement* contained the operational details that put this objective into effect.

One of the central tenets of the *Intergovernmental Agreement* is that the Commonwealth and the States would work together in the operation of the agreement. However, at the Ministerial Council for Commonwealth-State Financial Relations held in March 2002, the Commonwealth advised the States that it had unilaterally reinterpreted the *Intergovernmental Agreement* and removed petroleum excise indexation from the calculation of the Guaranteed Minimum Amount. This had the effect of removing \$900 million from the Guaranteed Minimum Amount over five years, with New South Wales suffering a \$400 million reduction in funding over this period. At this time, the Commonwealth also raised the possibility of further reinterpretation of the *Intergovernmental Agreement*, which has resulted in uncertainty about the Commonwealth's future intentions.

Another central tenet of the *Intergovernmental Agreement* is the guarantee by the Commonwealth that specific purpose payments to the States will not be reduced as a result of the States being financially better off under the new arrangements, but there is some concern that the Commonwealth could also seek to reinterpret this aspect of the Agreement, over time.

### **TAXATION REVENUE PROJECTIONS**

The following table summarises the Budget projections for State taxes, incorporating the revenue measures outlined in Chapter 3 and forecast economic parameters.

**TABLE 1.7: SUMMARY OF NORTHERN TERRITORY TAXATION**

	2001-02 Estimate	2002-03 Budget	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
	\$000	\$000	\$000	\$000	\$000
<b>Taxes on Employers' Pay-Roll and Labour Force</b>	<b>89 412</b>	<b>93 761</b>	<b>95 414</b>	<b>96 361</b>	<b>100 390</b>
Pay-roll taxes	89 412	93 761	95 414	96 361	100 390
<b>Taxes on Property</b>	<b>51 552</b>	<b>43 312</b>	<b>45 218</b>	<b>47 530</b>	<b>44 313</b>
Stamp duties on financial and capital transactions	41 903	35 027	36 879	39 067	41 472
Financial institutions transactions taxes	9 649	8 285	8 339	8 463	2 841
<b>Taxes on the Provision of Goods and Services</b>	<b>48 779</b>	<b>50 738</b>	<b>52 119</b>	<b>53 560</b>	<b>55 021</b>
Taxes on gambling	33 059	33 918	34 458	35 016	35 549
Taxes on insurance	15 720	16 820	17 661	18 544	19 472
Other					
<b>Taxes on Use of Goods and Performance of Activities</b>	<b>34 553</b>	<b>39 113</b>	<b>39 987</b>	<b>36 296</b>	<b>32 138</b>
Motor vehicle taxes	34 553	39 113	39 987	36 296	32 138
Other					
<b>TOTAL</b>	<b>224 296</b>	<b>226 924</b>	<b>232 738</b>	<b>233 747</b>	<b>231 862</b>

Growth in tax revenues is expected to be around 1.2 per cent in 2002-03, and around 2.6 per cent in 2003-04, reflecting the impact of economic growth on the tax base and the net impact of new revenue measures.

Beyond 2003-04, the growth in tax revenue will be affected by the cessation of the Temporary Budget Improvement Levy in November 2004 and the Government's commitment to reduce the rate of pay-roll tax from 2003-04. The 2005-06 estimate also reflects the abolition of debits tax (subject to the approval of the Ministerial Council) under the national tax reform arrangements.

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

### **Taxes on Employers' Pay-roll and Labour Force**

This category is comprised exclusively of pay-roll tax collections and is expected to account for around 41.3 per cent of total taxation revenue in 2002-03.

The growth in pay-roll tax collections is expected to be 4.9 per cent in 2002-03 and 1.8 per cent in 2003-04, reflecting forecast increases in employment and earnings, including an increase associated with railway construction and an increase in the superannuation guarantee rate from 8 per cent to 9 per cent from 1 July 2002. The lower growth from 2003-04 and 2004-05 reflects reductions to pay-roll tax as proposed in the Government's pre-election commitment.

### **Taxes on Property**

This category comprises stamp duties on financial and other capital transactions, financial institutions transaction taxes and other property-related taxes. These taxes are estimated to account for around 19.1 per cent of total taxation revenue in 2002-03.

Stamp duties on financial and other capital transactions include stamp duties on property conveyances, leases and marketable securities. In 2001-02, collections were affected by an unusually high number of large, business-related property sales. Conveyance duty



collections are expected to normalise in 2002-03 and grow moderately beyond 2002-03 in response to the recovery of the property market. The estimate for 2002-03 and outer years also incorporates the increased home purchase concessions announced as part of this Budget.

Financial institutions transaction taxes comprise debits tax and electronic debits duty (Financial Institutions Duty ceased on 1 July 2001). Debits tax is expected to decline in real terms, reflecting the deterioration of this tax base as alternatives to cheque account facilities become more widespread. Under the national tax reform arrangements, debits tax is earmarked for abolition by 1 July 2005, subject to review by the Ministerial Council of Commonwealth, State and Territory Treasurers.

### **Taxes on the Provision of Goods and Services**

This category includes taxes on gambling and insurance and some minor levies. These tax revenues are expected to account for around 22.4 per cent of total taxation revenue in 2002-03.

Taxes on gambling mainly comprise lotteries, bookmakers' betting tax, casino tax, wagering tax and gaming machine tax. Gambling revenue estimates are based on prior year collections and incorporate revisions to the casino tax arrangements and tax rate changes made to Internet casinos and bookmakers' betting tax during 2001-02. The estimates for lotteries revenue are based on projections of turnover for existing games, with no provision for the introduction of new games which may boost turnover. The migration of a large corporate bookmaker (Sportingbet Australia) to the Territory in February 2002 has also been included in the estimates.

Taxes on insurance comprise stamp duty on general and life insurance policies. These revenues are expected to grow by 7 per cent in 2002-03 resulting from high growth in insurance premiums arising from the demise of HIH and the terrorist attacks in the United States.

### **Taxes on the Use of Goods and Performance of Activities**

This category comprises motor vehicle taxes such as stamp duty on the registration and transfer of vehicle licences and revenue from vehicle registration fees. These tax revenues are expected to account for around 17.2 per cent of total taxation revenue in 2002-03.

The forecast revenues include:

- the impact of the full year effect of the increase in vehicle registration fees resulting from the Temporary Budget Improvement Levy which was introduced as part of the November 2001 Mini Budget. The Temporary Budget Improvement Levy is scheduled to cease in November 2004; and
- an increase of around 5 per cent to 6 per cent per annum in motor vehicle stamp duty collections in 2002-03 to 2004-05 reflecting an expected improvement in vehicle sales and prices, moderating to lower levels in 2004-05 and 2005-06.

### **MINING ROYALTIES**

Mining royalties are the price paid to the community by mining companies for the right to extract resources owned by the community. Mineral royalties account for 89 per cent of the Territory's estimated mineral and petroleum royalty collections in 2002-03, of which gold, bauxite and manganese account for the largest share. In the Territory (unlike other States), uranium royalties are imposed by the Commonwealth and repatriated to the Territory as Commonwealth grants in lieu of uranium royalties.

**TABLE 1.8: NORTHERN TERRITORY MINERAL ROYALTIES**

	2001-02 Estimate	2002-03 Budget	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
	\$000	\$000	\$000	\$000	\$000
Minerals	35 945	31 848	32 190	29 067	29 616
Petroleum	3 905	3 952	4 110	4 233	4 318
<b>TOTAL</b>	<b>39 850</b>	<b>35 800</b>	<b>36 300</b>	<b>33 300</b>	<b>33 934</b>

Mining royalties (including petroleum royalties) rose by significantly in 2001-02 (by 54 per cent) as a result of increased gold production and significant production increases in other sectors. However, royalty collections in 2002-03 are expected to normalise following the initial effects of these increases in production.

Mining and petroleum royalty revenue in 2002-03 and across the forward estimates period incorporate:

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

## TAX EXPENDITURES

Tax concessions are often provided to benefit a specified activity or class of taxpayer. They are expenditures in the sense that their impact on the budget is similar to direct outlays, and they can be used to achieve similar goals as spending programs.

Tax expenditures can be provided in a variety of ways including by way of exemption, deduction, rebate or reduced tax rate.

The tax expenditures identified in this statement are not intended to be exhaustive. Moreover, these expenditures have not been costed for the purposes of this Budget. The cost of tax expenditures will be provided in future budgets.

## Pay-roll Tax

### Small Business Exemption

The first \$600 000 of an employer's wages are exempt from pay-roll tax in the Territory. By implication, employers with wages less than this amount do not pay tax and employers with wages that exceed this amount only pay tax on the excess.

At the pay-roll tax rate of 6.3 per cent, the exemption reduces an employer's annual pay-roll tax liability by \$37 800.

### Probationers, Trainees, Graduates and Others

An exemption applies for wages that are paid or payable to:

- probationers and trainees within the meaning of the *Northern Territory Employment and Training Authority Act*;
- employees receiving wages funded under the Community Development Employment Program; or
- graduates of approved tertiary institutions employed under trainee arrangements approved by the Commissioner.

The exemption replaced a rebate scheme that applied prior to 1 July 1999.

### **Defence Force Payments**

Wages paid by an employer in relation to an employee who is on leave to work in the Defence Forces are exempt from pay-roll tax.

### **Employees Outside of Australia**

From 1 July 2000, an exemption has applied to wages paid in the Northern Territory to an employee from the beginning of the seventh month of a continuous overseas assignment.

## **Stamp Duty on Conveyances**

### **Family Farm Exemption**

Transfers of farms between family members were exempted from 1 August 1999, to encourage transfers of farm ownership to family members. This was considered to allow the introduction of more innovative and efficient farming techniques through the transfer of farming properties to the younger generation.

### **Corporate Reconstructions Exemption**

An exemption for transfers of property between commonly owned corporations has been introduced as part of the 2002-03 Budget. The exemption is to allow corporate groups to reorganise the ownership of assets into more efficient structures. The exemption is to apply from the date the amendments receive Assent.

### **First Home Owner Concession**

Up to 20 August 2002, a stamp duty concession equalling the stamp duty payable on the first \$80 000 in value (ie. up to \$2 096 in stamp duty) applies to the purchase of a person's first home in the Territory.

From 20 August 2002, as announced in the 2002-03 Budget, the concession will be increased to the first \$125 000 (ie. up to \$3 640.60 in stamp duty). However, eligibility for the concession will be restricted to the same criteria that apply to the *First Home Owner Grant Act*, which limits the grant to persons who have not previously owned a home in Australia.

### **Principal Place of Residence Rebate**

From 20 August 2002, as announced in the 2002-03 Budget, a new stamp duty rebate of up to \$1 500 will be available on the purchase of a person's principal place of residence. This concession is not available to first home buyers.

## **Stamp Duty on Insurance Policies**

### **Workers' Compensation Insurance Exemption**

An exemption is provided to workers' compensation insurance to help reduce labour oncosts. Notably, some other States apply a concessional rate of duty to this class of insurance.

### **Transport of Goods and Marine Hulls Exemption**

These exemptions apply to insurance policies for all risks associated with the transport of goods, and for all marine hulls used for commercial purposes.

## **Stamp Duty on Leases**

### **Residential Property Exemption**

An exemption is provided for residential leases to reduce the cost of leased accommodation.

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## Motor Vehicle Licence Fees

### Pensioner Vehicle Concession

The holder of a Commonwealth health benefits card is able to receive:

- a flat \$104 concession from motor vehicle registration fees; and
- a 50 per cent concession to the Temporary Budget Improvement Levy that applies to motor vehicle registration fees.

### Primary Producer Vehicle Concession

Vehicles owned by primary producers are able to receive a 50 per cent concession on their motor vehicle registration fees.

## General Territory Tax Exemptions

### Public Benevolent Institutions, Religious Institutions, Public Hospitals and Education Institutions

A Territory tax exemption is generally provided to public benevolent institutions, religious institutions, public hospitals and public education institutions subject to particular conditions that apply to the various heads of tax.

For example, for the purposes of pay-roll tax, the exemption only applies to the extent that the wages paid for an employee's services relate directly to the purpose for which the organisation was established.

Moreover, the exemption from stamp duty is only available where the property is transferred to or leased by the entity for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity.

### Trade Development Zone Exemptions

A broad Territory tax exemption is available to all businesses that hold a Trade Development Zone Licence. To obtain a licence, a business must carry on its business in the Trade Development Zone and satisfy any of the following criteria:

- the whole or part of the business involves the operation of a bonded warehouse for the purposes of the *Customs Act* of the Commonwealth;
- the substantial part of the businesses which, in the opinion of the Trade Development Zone Authority, includes or is intended to include a substantial amount of importing and exporting; or
- that a business, in the opinion of the Trade Development Zone Authority, provides or will provide goods or services necessary for, or ancillary to, the carrying on of another business that holds a Trade Development Zone Licence.

The Trade Development Zone was established for the purpose of attracting manufacturing and high technology industries based on exports.

## HYPOTHECATED REVENUES

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

**TABLE 1.9: DISBURSEMENTS OF HYPOTHECATED REVENUES <sup>1</sup>**

	2001-02	2002-03
	\$000	\$000
Alice Springs Convention Centre Operating Contribution <sup>2</sup>	n/a	819
Community Gaming Allowance <sup>2</sup>	6 391	6 695
Community Benefit Fund	6 127	1 100
Lotteries Fund	8 795	10 040
MACA Contributions to Road Safety	1 240	1 133
<b>TOTAL</b>	<b>22 553</b>	<b>19 787</b>

<sup>1</sup> Amounts are the GST-exclusive payments (where applicable).

<sup>2</sup> Amount is available as an offset against the casino's tax liability.

### **Alice Springs Convention Centre Operating Contribution**

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

### **Community Gaming Allowance**

Under agreements with the Northern and Southern Region casino operators, the Government allows the casinos to reduce their casino tax by an amount equal to 22 per cent of the gross profit derived from community gaming machines in clubs and hotels. The allowance was negotiated in exchange for the casinos relinquishing gaming machine exclusivity. This arrangement will cease for the Northern Region on 30 June 2005 and for the Southern Region on 30 June 2003.

### **Community Benefit Fund**

Currently, section 150 of the *Gaming Machine Act* provides that prescribed licensees (that is, hotels with electronic gaming machines) must pay a gaming machine levy to the Director of Licensing on a monthly basis. The monies are paid into the Community Benefit Fund (CBF), managed by Northern Territory Treasury. Under section 155 of the *Gaming Machine Act* the Director may pay, with the approval of the Minister, amounts out of the Fund "for the benefit of the community", which generally results in the monies being used for gambling amelioration and social benefit projects.

The significant disbursements in 2001-02 relate to a transfer of \$4.9 million to the Central Holding Authority for sport and recreation infrastructure (such as the new basketball stadium at Marrara in Darwin, and upgraded surfaces and facilities at Traeger Park in Alice Springs and Marrara) as well as numerous payments made in the lead-up to the Territory election associated with the former Government's Small Grants Program. The Small Grants Program has been the source of considerable public debate.

The Labor Government commissioned Treasury to undertake a review of the CBF to enhance its future operation on a wide array of matters. That review has concluded. Legislative amendments are necessary to facilitate certain aspects of the rearrangements and are expected to take effect by October 2002. The amendments are supported by the development of comprehensive guidelines for the administration of the revised CBF to significantly enhance its accountability and transparency. Key outcomes are:

- clearer objects will be provided in the legislation as to the purposes for distributions from the Fund, including a stronger focus on research and gambling amelioration;

- defined criteria and published guidelines for grants to non-profit community organisations will be provided, including clearer and more structured application processes; and
- the abolition of the Lotteries Fund (explained further below) and expansion of the community grants under the CBF to absorb the \$0.1 million previously applied from the Lotteries Fund.

### **Lotteries Fund**

Currently, monies received by the Director of Licensing are paid into the Lotteries Fund from commissions payable on foreign lotteries under the *Gaming Control Act* (eg, Tattersalls products) and unclaimed prizes.

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

- the Consolidated Revenue Account (now known as the Central Holding Authority); and
- charitable organisations, or other bodies, which in the opinion of the Minister, promote the welfare of the community (a base amount of \$0.1 million).

Remaining funds are to be paid into the Sport and Recreation Development Fund (a base amount of \$6.945 million is in the 2002-03 Budget).

The Minister for Racing, Gaming and Licensing approves the amount to be distributed from the Fund, with the Treasurer determining the timing. An amount of \$10 million not required for Lotteries Fund purposes has been transferred from the Lotteries Fund to the Central Holding Authority.

An outcome of the review of the CBF is the abolition of the Lotteries Fund. Legislative amendments to effect the abolition are expected to take effect by October 2002. Thereafter, funds will continue to be paid for sport and recreation development purposes, albeit from the Central Holding Authority rather than the Lotteries Fund. The amount of the funds will continue to be determined as part of normal budgetary processes as has been the case to date. Funds for grants to community organisations will continue to be paid under the enhanced arrangements for the CBF wherein \$0.6 million has been allocated for such grants in 2002-03.

### **MACA Contributions to Road Safety**

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

## **ECONOMIC OUTLOOK**

The distribution of tax responsibilities in Australia, whereby the Commonwealth has greater revenue raising capacity than is required for its own purposes whereas the States' expenditure requirements exceed their revenue capacity, leads to a high level of vertical fiscal imbalance. This, coupled with the Territory's much greater requirement for Commonwealth payments due to its higher relative needs, means that the Territory's total revenues are affected to a lesser degree than the States by changes in local economic conditions.

The structure of the Territory economy reflects its abundance of natural resources, importance in national defence and relatively large public sector. Territory Gross State Product (GSP), at around \$8.7 billion, accounts for approximately 1.3 per cent of national

Gross Domestic Product (GDP). The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports, and susceptible to developments in key export markets and, in turn, the world economy.

### Economic Growth

Following strong growth in the late 1990s associated with the defence build up, in 1999-00, Territory real GSP barely grew at all (0.9 per cent), and the economy remained weak in 2000-01. The headline GSP result of 4.5 per cent was mainly due to the full year effect of an increase in offshore oil production as new capacity came on stream. The spike in oil production acted to mask weak onshore economic growth.

After two years of weak onshore growth, economic activity started to show signs of recovery in 2001-02. GSP is estimated to have increased by 1.7 per cent, lower than the 5 per cent forecast in the November 2001 Mini Budget, with a sharper than expected fallback in offshore oil production and exports acting to mask the pick up in onshore growth. Consumption strengthened, dwellings investment started to recover and construction of the railway provided a major boost to the economy. Nonetheless, onshore growth was still a little patchy, with continued interstate migration outflow and the setback to tourism.

**TABLE 1.10: SUMMARY OF ECONOMIC GROWTH**

Period	GSP	Comment
Last 10 years	4.7%	Indication of sustainable long term annual growth. Around one to one and a half percentage points higher on average than rest of Australia, due to higher population growth and developing status of the economy.
5 years 1995 to 1999	6.1%	Strong growth phase. Associated with impetus from defence force relocation program. High population growth, strong demand for housing and other economic and social infrastructure, construction boom.
1999-00	0.9%	Downturn. Loss of defence impetus. Construction bust, decline in new motor vehicle sales, negative employment growth.
2000-01	4.5%	Weak onshore activity. Headline GSP boosted by offshore oil. Falling retail sales, rising unemployment rate. Major net interstate migration outflow.
2001-02	1.7% (e)	Pick up in onshore activity. Household spending. Rail-related investment surge. Headline GSP reflects sharper than expected fallback in offshore oil production, weak population growth and the setback to tourism.
2002-03	3.7% (f)	Upswing to strengthen. Private consumption and non-residential construction investment drivers. Population growth pick up and a likely rebound in the number of international visitors to boost tourism.
Next 5 years	5.0% (f)	Strong growth phase can develop. Economic upturn to broaden and gather momentum. Assisted by housing recovery, relocation of army helicopter regiment. Likelihood of an LNG plant based on Timor Sea gas to boost industry.

Source: Northern Territory Treasury, ABS data

Economic growth of 3.7 per cent is forecast for 2002-03 as the upswing in the economy begins to strengthen. Solid growth in household consumption is forecast and private investment will again contribute strongly to growth, as rail-related engineering work and an upturn in non-residential building proceeds. Offshore oil production is anticipated to level out and population growth is expected to pick up in 2002-03, with less outflow through net interstate migration. A rebound in the number of international visitors is likely, leading to stronger tourism growth in 2002-03.

### Population

The Northern Territory recorded the highest population growth of all jurisdictions over the five years to June 2001. The Territory's high growth rate is underpinned by high fertility rates, particularly amongst the Indigenous population. On an annual basis, however, Territory growth is volatile due to high interstate migration flows. The

Territory's population growth is estimated to have slowed to 0.5 per cent over 2001-02. This is below the national growth rate and can be attributed to net interstate migration loss, consistent with the weak state of the economy.

The Territory's population growth rate is expected to strengthen during 2002-03 to 1.2 per cent, although remaining relatively weak in historical terms. Further out, a return to stronger population growth is expected to be driven by the employment-creating construction phases of major projects such as onshore gas developments, further defence expansion and other building infrastructure works.

### **Employment**

Coinciding with a strong phase of economic growth, the remarkably strong period of employment growth in the Territory peaked in 1999. In the five years to 1999, Territory employment increased from around 75 000 to 96 000 at the peak, an annual average growth rate close to 6 per cent. As a result, the unemployment rate halved over the same period, falling from around 8 per cent in 1991 to 4 per cent in 1999. The subsequent deterioration in the Territory labour market was the result of a downturn in economic growth caused by a loss of impetus associated with the tailing back of the defence force relocation program. In 1999-00 and 2000-01, employment growth fell back and the unemployment rate deteriorated.

Employment growth is beginning to recover. In 2001-02, employment increased by 5.7 per cent in year average terms, although most of the increase was associated with growth in part-time employment. Although exaggerated by the official figures – labour force statistics are affected by marked volatility and large standard errors – an improvement in the trend unemployment rate has been associated with encouraging signs on the job front. An abnormally large increase in the labour force in 2001-02 was largely due to an implausibly large increase in the participation rate.

The pick up in jobs growth will be underpinned by continued railway construction activity and a broader strengthening of the economy. Tourism-related employment, which suffered a setback in 2001-02, should strengthen as the industry recovers from the negative effects of weak global growth, terrorist attacks in the United States and the Ansett collapse. Further out, the strength of the upswing in employment growth will depend on the timing and magnitude of a number of major resource projects.

Private sector forecasters expect Territory employment growth to be higher than national employment growth over the next five years. Access Economics predicts employment growth of 1.8 per cent in 2002-03 and average annual growth of 2.4 per cent over the next five years. BIS Shrapnel forecasts average annual employment growth of 3.1 per cent over the same five year period.

### **Prices and Wages**

The Darwin Consumer Price Index (CPI) tends to track national inflation. The major determinants of inflation are labour costs, productivity growth, domestic demand, import prices and the level of competition in the economy. Enterprise bargaining agreements indicate that wage outcomes are unlikely to threaten Reserve Bank targets this year.

The Territory Wage Cost Index (WCI) increased by 2.8 per cent in year on year terms to March 2002, slightly less than the national rate of 3.4 per cent. In the Territory's public sector, the WCI grew by 3.1 per cent during that period, while the private sector recorded a 2.8 per cent increase. Average annual WCI growth over the three years to March 2002 was under 3 per cent in the Territory, again lower than nationally and the lowest of all jurisdictions.

At the national level there is likely to be a gradual easing in inflation throughout 2002-03, with inflation levels falling back towards 2.5 per cent by year's end. In the Territory, price



and wage pressures over 2002-03 are expected to remain contained, despite the pick up in domestic activity. The Darwin CPI is forecast to remain largely unchanged, rising slightly to 2.3 per cent in 2002-03.

Table 1.11 lists the key economic indicators for the Territory.

**TABLE 1.11: KEY ECONOMIC INDICATORS**

Year on Year Percentage Change	2000-01	Estimate 2001-02	Forecast 2002-03
Real GSP	4.5	1.7	3.7
Employment	1.1	5.7	1.8 <sup>1</sup>
Population <sup>2</sup>	1.3	0.7	1.2
Darwin CPI	5.4	2.2	2.3

Source: ABS data, Northern Territory Treasury.

<sup>1</sup> Access Economics' forecast

<sup>2</sup> Based on mid year, December estimates

## RISKS AND LIABILITIES

All forecasts are subject to a degree of risk. Hence some risk must also attach to the Budget and the forward estimates for both revenues and expenses, as the Budget and forward estimates are based on information on a range of factors about which consensus exists at the time the Budget is framed. However, subsequent events in the period following the tabling of the Budget may affect the actual Budget outcome in the current and future years.

In addition to changes in economic or other parameters, such as changes in inflation rates, interest rates and exchanges rates, other factors that can affect the Budget outcome include:

- the exclusion of some items from forecasts because of uncertainty about their timing, magnitude or probability; and
- the crystallisation of contingent liabilities.

A change to a factor such as one of those listed above may affect the fiscal outcome. The effect may be limited to an indication of the possibility of some fiscal impact. In other cases, some fiscal impact may be regarded as having a high probability, but may not be included in the forward estimates because of the uncertainty of the timing or magnitude of the impact. At the time the forward estimates were prepared, there were known events that would lead to a revision of the estimates.

In any discussion about the Budget, it is important to remember the largest source of revenue to the Territory Government is GST revenue paid by the Commonwealth. While the GST revenue base should grow more strongly over time than the previous arrangements, it is subject to greater volatility than the previous Financial Assistance Grants. The outcome of relativity reviews by the Commonwealth Grants Commission is also of greater importance to the Territory than other jurisdictions because of its greater reliance on this revenue source. Thus, changes in relativity pose greater risks to the Territory than other jurisdictions. These risks have been discussed earlier in the chapter.

## CONTINGENT LIABILITIES

A contingent liability is an amount that the Government may be called upon to settle at some future date if some specified event should occur. Contingent liabilities fail the test for the existence of a liability in the normal accounting context because the probability of settlement having to occur is uncertain (refer Treasurer's Directions Part 1 Section 2). Examples of contingent liabilities are obligations arising out of guarantees and indemnities or letters of comfort.

Details of estimated amounts at 30 June 2002 for material quantifiable contingent liabilities are currently being collated through a contingent liability survey. They will be reported in the Treasurer's Annual Financial Report for 2001-02 later this year. The material, quantifiable contingent liabilities arising from guarantees or indemnities issued by the Territory in existence at 30 June 2001 are presented in Table 1.13.

**TABLE 1.13: MATERIAL, QUANTIFIABLE CONTINGENT LIABILITIES**

Contingent Liability Relating to:	Estimated Quantifiable Contingent Liability at 30 June 2001
	\$M
Amadeus Basin to Darwin Gas Pipeline	313
Pine Creek/McArthur River Electricity Purchase Agreements	110
Alice Springs to Darwin Railway	43
Territory Insurance Office	456
Public Trustee Common Fund	20

#### **AMADEUS BASIN TO DARWIN GAS PIPELINE**

The Territory has indemnified the company which constructed the natural gas pipeline from the Amadeus Basin to Darwin in support of obligations of the Power and Water Corporation. The Territory has also supported the Power and Water Corporation's financing obligations to the pipeline company and its financiers. Should this facility be terminated, the Territory has undertaken to stand behind and, if necessary, underwrite the refinancing of the outstanding facility amount including a lease residual due to be paid at the end of the facility term.

The Territory has guaranteed the gas producers in support of the obligations of a subsidiary company of the Power and Water Corporation under gas purchase contracts and provided a letter in support of a loan to the subsidiary company used to meet the company's development obligations under a gas purchase agreement.

In the event that the Power and Water Corporation experiences a significant decline in its sales of electricity, there is the risk that the Corporation may have a lesser requirement for natural gas to be delivered through the Amadeus Basin to Darwin gas pipeline. In circumstances where such a decline was severe, both the gas purchase contracts and the pipeline financing arrangements could present a risk to the Corporation and the Territory that there would be ongoing payments made despite reduced need for delivered gas. This situation is considered highly improbable, especially in the light that the existing gas purchase and gas pipeline obligations will all cease within the next 10 years.

#### **ELECTRICITY AND GAS SUPPLY TO PINE CREEK AND McARTHUR RIVER**

The Power and Water Corporation has agreed to provide gas and electricity for the supply of power to the Pine Creek region and McArthur River Mine. The agreement for the supply of gas contains indemnities relating to the Power and Water Corporation supplying non-conforming gas without prior agreement.

A major portion of the value of the contingent liability is the cost of overhauling turbine machinery owned by the electricity producers, where damage has been caused by the provision of non-conforming gas.

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

Under the Power and Water Corporation's current operating practices, the contingent events relating to each of the above indemnities are within the Territory's, and the

Corporation's, control and are expected to be easily avoidable. Accordingly, the prospect of these undertakings being called upon is considered to be negligible.

#### **ALICE SPRINGS TO DARWIN RAILWAY**

In relation to the Alice Springs to Darwin railway project, the Northern Territory Government has committed to providing \$43 million in stand-by assistance in the form of an equity underwrite and contingent equity participation in the Consortium through Special Purpose Vehicles (SPVs) established by Deutsche Bank Australia Ltd. This is 50 per cent funded through a grant from the Commonwealth. This stand-by assistance may be called on at different stages of the project, as last recourse financing.

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

#### **STATUTORY INDEMNITIES/GUARANTEES**

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

Section 30(1) of the *Territory Insurance Office Act* provides that the Territory guarantees every policy or contract of insurance or indemnity; and the repayment of, and the interest payable on, each deposit with the Territory Insurance Office in pursuance of a contract or other agreement.

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

### **UNQUANTIFIABLE CONTINGENT LIABILITIES**

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

#### **ALICE SPRINGS TO DARWIN RAILWAY**

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

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

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

Other developments, which are not contingent liabilities, but which may result in material calls on future Territory Budgets, follow.

#### **OFFSHORE GAS PROJECTS**

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

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

In the context of the development model that involved a joint pipeline from both the Bayu-Undan and Greater Sunrise fields to Darwin, for example, the Government offered to provide infrastructure support totalling \$20 million. This was in connection with the previously proposed Methanex export methanol plant for development of an industrial estate at Glyde Point to the north of Darwin. However, Methanex was unable to secure a supply of gas on acceptable terms from the Timor Sea fields to support a decision to locate a plant here. Methanex has subsequently announced that it would relocate to Western Australia.

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

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

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

#### **NEGOTIATIONS NOT YET FINALISED**

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

Reporting on these issues is complicated by the objective of full disclosure on the one hand, and the commercially sensitive nature of financial details on the other. As there is

potential for negotiations to be jeopardised by full disclosure, the practice not to disclose details of negotiations not yet finalised has been adopted.

**DISCLOSURE OF LEGAL PROCEEDINGS**

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

## FISCAL STRATEGY

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The Northern Territory's first Labor Government was elected on 18 August 2001 and took office on 27 August 2001. The Government was immediately advised by Treasury of the Territory's overall financial position and the requirement to reform budgetary and fiscal management more generally. The Government instituted an external review of the Territory's finances conducted by Professor Percy Allan and, consistent with Professor Allan's recommendations, put in place a deficit reduction strategy to supplement its own fiscal strategy. This was achieved in a Mini Budget introduced in November 2001. Adoption of the *Fiscal Integrity and Transparency Act* was also a result of Professor Allan's recommendations.

The *Fiscal Integrity and Transparency Act* and the move to an accrual output framework for fiscal management mean that the Government's fiscal strategy required review so that it incorporated continued commitment to the deficit reduction strategy, and was expressed in terminology in line with the accrual output based framework.

### FISCAL OBJECTIVES

Setting fiscal objectives plays an important role in assisting the Government to:

- formulate and apply spending and taxation policies in the light of their impact on the sustainability of the public sector;
- formulate and apply spending and taxation policies so as to give rise to a reasonable degree of stability and predicability. Maintaining taxes at levels consistent with the States will assist in this regard;
- ensuring funding for current services is to be provided by the current generation; and
- managing financial risks faced by the Territory prudently, including by maintaining Territory debt at prudent levels.

Such fiscal objectives will lead to a stabilisation and ultimately a reduction in the level of the net debt of the Territory.

These fiscal objectives might be best described as the principal 'macro' indicators intended to provide a high level indication about the overall financial performance of a government, the extent to which current policies are sustainable in a financial sense and the extent to which they are likely to contribute towards reductions in debt.

The Territory's overall level of indebtedness has increased in recent years due to successive cash deficits. There has also been an increase in unfunded superannuation liabilities. The Territory's capital outlays associated with the Alice Springs to Darwin railway and the new East Arm Port in Darwin are at their peak.

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

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

Changes to the budgeting and financial reporting regime as represented by the introduction of output based budgeting, net appropriations and accrual accounting, are intended to play a key role in improving resource allocation at both the agency and whole of government levels, and thus support the achievement of these objectives.

## 2002-03 FISCAL STRATEGY

The *Fiscal Integrity and Transparency Act* requires the Government to produce a fiscal strategy at the time its first budget is introduced. The Mini Budget, while prepared in accordance with *Fiscal Integrity and Transparency Act* requirements, varied allocations that were already in place and thus did not constitute a full budget. The Government's pre-election fiscal strategy was complemented by the deficit reduction strategy.

The fiscal strategy to be applied in 2002-03 has been substantially revised to be consistent with *Fiscal Integrity and Transparency Act* requirements. It incorporates short and medium term fiscal disciplines while having regard to service delivery and economic development requirements, and is competitive with other jurisdictions.

The Government has committed itself to a fiscal strategy based on three key principles:

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

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

## SUSTAINABLE GOVERNMENT SERVICES

The targets for this principle of the strategy are to achieve an underlying cash surplus by 2004-05, and to achieve a positive GFS operating balance within 10 years in the general government sector. This principle also incorporates the need to maintain a Government capital investment based on service delivery and economic development requirements.

### General Government Cash Surplus by 2004-05

The deficit reduction strategy adopted in the Mini Budget in November of 2001 was based on the achievement of a balanced budget for the total public sector on a cash basis by 2004-05. However, Professor Allan recommended that, consistent with all other jurisdictions, the Territory move as quickly as possible to targets for the general government sector. The general government sector is supported by taxation revenues (including GST revenues) and it is appropriate that the Government's principal fiscal targets are in respect of this sector.

As Table 2.1 demonstrates, the Mini Budget deficit reduction strategy did not have the general government sector moving into surplus until 2005-06. However, since the Mini Budget, one of the Territory's main revenue sources has increased. This has been due to an increase in the Territory's share (in relation to the other States) of the GST revenue pool.

Expenditure commitments have also increased but the combined effect is a target for the general government sector to be in balance by 2004-05.

**TABLE 2.1: CASH OUTCOME TARGETS – GENERAL GOVERNMENT**

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$M	\$M	\$M	\$M	\$M
2001 Mini Budget	-139	-72	-25	-12	
2002-03 Budget	-117	-95*	-25	0	13

\*includes \$22 million carried over from 2001-02

In 2002-03, the estimated outcome is \$23 million worse than at the time of the Mini Budget, due largely to the carry forward of expenditure from 2001-02.

It is expected that the actual outcome for 2002-03 will be better than estimated by around \$20 million as the usual carry forward of expenditure obligations continues from one year to the next. The underlying position in 2004-05 is, however, expected to be in balance.

The Allan Report recommended cash deficit targets continue to be set until 2004-05 to avoid having accounting changes obscure the deficit reduction strategy. Beyond that date, it is to be expected that deficit targets will be framed in accrual terms only.

### General Government GFS Operating Balance Within 10 Years

The general adoption of the accrual basis of accounting by governments was accompanied by revisions to the Government Finance Statistics (GFS) framework issued by the Australian Bureau of Statistics to bring the formerly cash based framework into line with accrual principles. In its new form, the GFS provides a very useful means for reporting on the financial performance and position of governments. The two key indicators for financial flows are:

- the net operating balance, a summary measure of value of resources received or due to the public sector for any given period, less the value of resources consumed in the same period. It is a measure of the ongoing sustainability of government operations and, at the same time, is a measure of the change in the net worth of the public sector as a result of transactions in revenues and expenses; and
- the fiscal balance sometimes referred to as net lending or borrowing. It is a summary measure that indicates the extent to which a government is either putting financial resources at the disposal of other sectors in the economy (eg, through increased investment or repayment of liabilities) or utilising the financial resources generated by other sectors. The fiscal balance is the net operating balance *minus* net capital investment. This formula means that the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non financial assets rather than consumption (depreciation) of nonfinancial assets.

In this transitional phase of the move towards full accrual output based financial management, the cash based deficit or surplus measure will be supplemented with the accrual based net operating balance.

A target has been set for the net operating balance to be reduced to zero within 10 years. During the early years of accrual budgeting and accounting it is expected that there will be some volatility in this measure, particularly as asset values are refined, thus affecting the depreciation expense. The fiscal balance will also vary in accordance with the capital needs of a growing economy. During the transition period, increasing emphasis will be placed on the accrual measures as a basis for assessing the financial performance and position of the public sector and as a basis for the setting of fiscal policy.

The medium-term objective is to ensure a progressive improvement on each of the measures shown. However, it needs to be borne in mind that fiscal objectives based on achieving progressive improvements in fiscal targets must also take account of broader economic influences that may require temporary deviation from initial fiscal objectives. Examples include the need to provide a short-term fiscal stimulus to assist economic activity in the Territory, or the need to increase spending in the event of natural disasters or other events beyond the control of the Government.

As is the case at present, if the net operating balance deviates from zero, it is necessary to have a basis on which performance can be measured relative to other jurisdictions. The most appropriate measure is a ratio of the operating balance as a proportion of total revenue.



Table 2.2 shows the net operating balance as a proportion of total revenue in 2001-02 by jurisdiction and Table 2.3 shows the Territory's net operating balance and the estimated ratio of total revenue for the past year, the budget and forward estimates period.

**TABLE 2.2: NET OPERATING BALANCE AS A PROPORTION OF TOTAL REVENUE – GENERAL GOVERNMENT**

	NSW	Vic	Qld	WA	SA	Tas	NT
	%	%	%	%	%	%	%
2001-02	5	5	-3	1	-3	3	-5

**TABLE 2.3: NORTHERN TERRITORY NET OPERATING BALANCE - GENERAL GOVERNMENT**

	2001-02	2002-03	2003-04	2004-05	2005-06
Net Operating Balance (\$M)	-107	-24	-3	15	49
Net Operating Balance as a Proportion of Total Revenue (%)	-5	-1	0	1	2

It is clear from this comparison that at the present time the Territory's performance compares unfavourably with other jurisdictions. However, considerable effort is being made to restore the financial position to a level comparable with other jurisdictions. This improvement is evident in the forward estimates period.

### **Maintain a Capital Investment Strategy Based on Service Delivery and Economic Development Requirements**

Capital works plays a central role in the Government's budget strategy as capital investment is essential for the delivery of Government services. At the same time, the capital program provides a contribution to the economic development requirements of a growing economy.

Table 2.4 presents the actual and budgeted level of gross fixed capital formation from 2001-02 to 2005-06.

**TABLE 2.4: GROSS FIXED CAPITAL FORMATION (\$M)**

	2001-02	2002-03	2003-04	2004-05	2005-06
	167	218	180	145	145

High levels of new fixed capital in 2002-03 are associated with the significant capital investment in Stage 2 of the East Arm Port. The Government's contribution to the construction of the Alice Springs to Darwin railway over 2001-02 to 2003-04 is not included in Table 2.4 because it is made by way of a grant to the AustralAsia Railway Corporation.

## **COMPETITIVE TAX ENVIRONMENT**

### **Ensure Territory Taxes and Charges are Competitive with the Average of the States**

The Government is committed to maintaining taxation at levels that are competitive with other States. Direct comparison of tax levels between jurisdictions is not an easy task, due primarily to the wide variety of imposts across jurisdictions. This is further complicated by a wide range of conditions and exemptions within individual imposts which can reduce the usefulness of these comparisons.

In assessing performance against this principle, a useful starting point is to examine the level of taxation revenue per capita. This compares the level of taxation imposed per head of population in each of jurisdictions. This is demonstrated in Table 2.5.

**TABLE 2.5: TAXATION REVENUE PER CAPITA – GENERAL GOVERNMENT**

	2001-02	2002-03
	Actual	Budget
	\$ per capita	\$ per capita
New South Wales	2 011	1 918
Victoria	1 785	1 975
Queensland	1 308	1 315
Western Australia	1 545	1 643
South Australia	1 431	1 431
Tasmania	1 080	1 019
<b>Six State Aggregate</b>	<b>1 702</b>	<b>1 727</b>
<b>Northern Territory</b>	<b>1 122</b>	<b>1 122</b>

Source: 2002-03 State Budget Papers

In 2002-03, the Territory is expected to have the second lowest level of taxation revenue per capita after Tasmania. While this indicates that Territorians enjoy a lower rate of taxation per capita compared to other jurisdictions, it does not make any allowances for a jurisdiction's capacity to raise revenue.

The Commonwealth Grants Commission (CGC), in assessing each jurisdiction's need for Commonwealth financial assistance, does assess each jurisdiction's capacity and effort in raising taxation. Table 2.6 details the Territory's revenue raising capacity and effort expressed as a percentage of the Australian average in 2000-01.

**TABLE 2.6: NORTHERN TERRITORY REVENUE RAISING CAPACITY AND EFFORT 2000-01 (%)**

<b>Total Taxation</b>	
Capacity <sup>1, 4</sup>	77
Effort <sup>2, 4</sup>	95
<b>Total Own-Source Revenue <sup>3</sup></b>	
Capacity <sup>1, 4</sup>	84
Effort <sup>2, 4</sup>	92

Source: Commonwealth Grants Commission 2002 Update using GST Relativities

<sup>1</sup> Northern Territory's capacity to raise revenue compared to the Australian average.

<sup>2</sup> Northern Territory's revenue effort compared with the Australia120n average, given the capacity available.

<sup>3</sup> Interest earnings and contributions from trading enterprises have been excluded from Total Own-Source Revenue.

<sup>4</sup> Pay-roll tax effort and capacity for 2000-01 have been adjusted and averaged over a five year period to reduce the effect of data errors in the Commonwealth Grants Commission's analysis.

As Table 2.6 indicates, the Territory has a low capacity to raise taxation revenue, which results in low taxation revenue per capita. When taxation revenue raising effort is included in the analysis, it confirms that the Territory Government is raising taxation revenue closer to the Australian average. This demonstrates that Territorians pay taxation at comparable State-like levels.

However, this does not mean that Territorians pay all individual taxes at comparable State-like levels. Further discussion on interjurisdictional comparisons of individual taxation revenue measures is contained in *Budget Paper No. 6*.

Total own-source revenue encompasses a broader level of revenue. At this level, the Commonwealth Grants Commission assesses that, after excluding the effects of interest earnings and contributions from trading enterprises, the Territory only made a 92 per cent effort to raise own-source revenue 2000-01.

This would suggest that the Territory has scope to raise additional revenue without exceeding the average effort of all the States and Territories, although it is noted that the average revenue effort of the States continues to decline. Table 2.7 shows actual taxation revenue per capita for 2001-02 and taxation revenue per capita estimates for forward years and indicates minimal change in the per capita tax burden.

**TABLE 2.7: NORTHERN TERRITORY TAXATION REVENUE – GENERAL GOVERNMENT**

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue (\$M)	224	227	233	234	232
Per Capita (\$)	1 122	1 122	1 136	1 124	1 098

#### PRUDENT MANAGEMENT OF LIABILITIES

Liabilities fall into three major categories: net debt (total borrowings less financial assets), actual liabilities and contingent liabilities. Contingent liabilities may result in financial calls on the budget and thus need to be recognised, accurately recorded and appropriately managed. The Territory has comprehensive arrangements for the approval, management and reporting of contingent liabilities. Material contingent liabilities are reported in Chapter 1 of this Budget Paper.

It is the first two categories, however, where there are contractual or statutory financial obligations, and these need to be included in financial reports and appropriate arrangements put in place for their management.

When reporting on these stock measures, it is appropriate to use the non financial public sector as the basis for comparison. This is because there are substantial differences between the States in the allocation of debt and liabilities between general government and the non financial public sector. Thus, a comparison based on general government alone can be misleading.

#### Net Debt

The level of net debt has been a focus for all jurisdictions over the last decade. In many jurisdictions, net debt levels have been reduced significantly through a combination of asset sales and budget surpluses.

In the Territory, debt levels increased during the 1980s when deficits were incurred at a time of significant asset growth. Debt levels moderated in the 1990s although not as much as other jurisdictions where large asset sales were possible. However, in the last five years, the Territory's net debt has increased due to significant commitments to major infrastructure projects such as the Alice Springs to Darwin railway and East Arm Port, as well as ongoing cash deficits.

As a result, Territory debt levels are now high relative to the States, as shown in Table 2.8. The Territory's commitment to deficit reduction is such that the general government sector will be in surplus by 2004-05 and will contribute to ongoing reductions to the burden of Territory debt as demonstrated in Table 2.9.

**TABLE 2.8 : NET DEBT TO TOTAL REVENUE – NON FINANCIAL PUBLIC SECTOR**

	2001-02	2002-03
	%	%
New South Wales	38	38
Victoria	10	13
Queensland	-2	0
Western Australia	39	42
South Australia	37	36
Tasmania	72	63
<b>Six State Aggregate</b>	<b>25</b>	<b>26</b>
<b>Northern Territory</b>	<b>67</b>	<b>70</b>

Source: 2002-03 State Budget Papers

**TABLE 2.9 : NORTHERN TERRITORY NET DEBT – NON FINANCIAL PUBLIC SECTOR**

	2001-02	2002-03	2003-04	2004-05	2005-06
Net Debt (\$M)	1 755	1 866	1 906	1 893	1 866
Net Debt to Total Revenue (%)	67	70	70	69	64

## Employee Liabilities

The other major liability is in unfunded employee entitlements, largely superannuation. Increasingly, governments have recognised that it is not appropriate for future generations to pay costs incurred by past generations. This applies particularly to superannuation, where the traditional schemes were based on the defined benefits that were not paid until retirement and not funded until benefits were payable. As a result, most governments have reviewed their superannuation arrangements such that older unfunded schemes have been closed and replaced with new fully funded arrangements and, in some cases, policies have been adopted to partially fund past liabilities.

In the Territory, fully funded superannuation arrangements were adopted for new employees from August 1999. Unfunded liabilities associated with other schemes are estimated to peak in 2006 and then decline to close to zero in around 2060. The Territory has committed to contribute \$10 million per annum in real terms from 2003-04 to fund previously unfunded liabilities. This alone will reduce the time period by which superannuation liabilities will be funded by 30 years to 2030.

A broader measure than superannuation liabilities is employee liabilities, which includes all other employee entitlements such as workers' compensation and long service leave. This measure, when added to net debt, provides a more comprehensive measure of the Territory's liability position than the previous net debt measure.

While the Territory has the highest level of net debt and employee liabilities of any jurisdiction (as shown in Table 2.10), it is similar to Tasmania. As demonstrated in Table 2.11, the Government's deficit reduction strategy and commitment to provide a contribution to unfunded liabilities will effectively reduce the Territory's net debt and employee liabilities to more State-like levels.

**TABLE 2.10: NET DEBT PLUS EMPLOYEE LIABILITIES TO TOTAL REVENUE –  
NON FINANCIAL PUBLIC SECTOR**

	2001-02	2002-03
	%	%
New South Wales	87	89
Victoria	71	73
Queensland	55	59
Western Australia	83	86
South Australia	91	88
Tasmania	139	134
<b>Six State Aggregate</b>	<b>78</b>	<b>81</b>
<b>Northern Territory</b>	<b>132</b>	<b>135</b>

Source: 2002-03 State Budget Papers

**TABLE 2.11: NORTHERN TERRITORY NET DEBT PLUS EMPLOYEE LIABILITIES –  
NON FINANCIAL PUBLIC SECTOR**

	2001-02	2002-03	2003-04	2004-05	2005-06
Net Debt plus Employee Liabilities (\$M)	3 479	3 623	3 692	3 690	3 648
Net Debt plus Employee Liabilities to Total Revenue (%)	132	135	135	134	126

## EXPENDITURE AND REVENUE INITIATIVES

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### OVERVIEW

This chapter covers two broad areas. First, it reports on significant new recurrent initiatives included in the Budget for 2002-03 and the Forward Estimates period, including those approved for the Budget and Forward Estimates period in the Mini Budget. New initiatives are also included in Agency Output Statements in *Budget Paper No. 3*, and capital initiatives are summarised in *Budget Paper No. 4*. Secondly, the chapter outlines revenue initiatives to be introduced as part of the 2002-03 Budget.

### EXPENDITURE INITIATIVES

#### Department of Employment, Education and Training

The Government places considerable priority on education and training and has funded the following new initiatives to improve outcomes in this important sector.

- Additional funding of \$3.22 million is included in the 2002-03 Budget, rising to \$8.14 million ongoing from 2004-05, for the employment of an extra 100 teachers over this term of Government.
- \$0.49 million has been added to the 2002-03 Budget, increasing to \$1.03 million in 2004-05, for a student teacher bursary scheme. This funding will provide for up to 20 students to attend the Northern Territory University and other accredited Northern Territory training institutions for teacher training each year.
- Additional funding of \$0.17 million in 2002-03, increasing to \$0.68 million ongoing from 2004-05, is provided for the employment of eight school attendance officers over three years. These staff will be located in major Territory centres and will help address truancy and behavioural problems in schools.
- The 2002-03 Budget includes funding of \$0.5 million for the introduction of diversionary programs to help get wayward students back into the classroom.
- \$1 million ongoing has been incorporated in the Budget to extend vocational education and training (VET) programs in schools down to Year 9 level, along with \$0.12 million in 2002-03, rising to \$0.66 million in 2004-05, for an additional five regional VET coordinators.
- Additional funding has been provided for non-government schools in the 2002-03 Budget and ongoing, with \$0.43 million for recurrent assistance and \$0.18 million for capital assistance.
- Further funding for the Northern Territory University of \$2 million in 2002-03 (bringing total funding this year to \$5 million) and \$5 million ongoing from 2003-04 has been included in the Budget in response to declining funding from the Commonwealth.
- Ongoing funding of \$0.5 million has been provided from 2002-03 to establish the Energy (Northern Territory) Research Institution to investigate and fund research and training priorities relevant to the oil and gas industries.
- Additional funding of \$1.62 million per annum, from 2002-03, has been included in the Budget for additional funding to schools. This amount comprises \$0.46 million for support provided to students with disabilities to attend mainstream Government schools, \$0.3 million for additional professional development for teaching staff, and \$0.86 million to increase school supplies grants to school councils.

### **Department of Health and Community Services**

Health and community services is one of the priority functions for the Northern Territory Government. A wide range of new initiatives have been funded across all service areas.

- Additional funding of \$8.04 million has been provided in the 2002-03 Budget, rising to \$11.58 million ongoing from 2004-05, to increase the number of hospital nurses by 75. This funding also provides for the increase in nurses' pay levels of 15 per cent over this term of Government.
- \$0.51 million ongoing from 2002-03 has been included in the Budget to employ specialist staff in the Accident and Emergency Unit at the Royal Darwin Hospital to overcome staff shortages.
- Funding of \$0.73 million has been incorporated in the 2002-03 Budget and Forward Estimates to increase the professional development and training budget in the Department.
- An additional \$2.22 million is being spent to increase regional health care teams by 25 personnel, with specialist skills in child health to visit remote area clinics, and to provide relief staffing arrangements in communities when required.
- \$0.41 million in ongoing recurrent funding is provided for renal dialysis services in Tennant Creek.
- Additional funding of \$0.26 million in 2002-03, increasing to \$0.54 million in 2004-05, will be provided to St John Ambulance to increase ambulance services in Darwin, Palmerston and rural areas.
- The childcare subsidy was increased by \$7.50 per week from 1 July 2002. An additional \$0.61 million has been provided to assist in meeting the increased subsidy.
- Additional ongoing funding of \$0.3 million has been provided in the 2002-03 Budget towards improving the quality of child care services.
- \$0.31 million in 2002-03, increasing to \$0.59 million in 2004-05, has been included in the Budget for trial youth activity programs in Nightcliff and Borroloola.
- The 2002-03 Budget and Forward Estimates includes an amount of \$0.32 million for the introduction of a youth night patrol and safety house.
- An additional \$11 million in base funding has been provided to the Department ongoing from 2002-03. Of this amount, \$0.4 million has been allocated to complementary alcohol measures in Alice Springs and \$2.5 million for additional grants to non-government organisations. A further \$0.5 million has been provided to fund additional child protection and family support workers to meet statutory requirements under the *Community Welfare Act*, and \$0.5 million to implement year one of the Three Year Strategic Plan in response to the recommendations of the Taskforce on Illicit Drugs Report. The balance of \$7.1 million remains unallocated pending the outcome of a review of the Department, currently under way.

### **Northern Territory Police, Fire and Emergency Services**

- As part of the Territory Government's commitment to provide 50 additional police officers over its four-year term, \$2.58 million has been provided this year. The increase in police resources will ensure there are sufficient police officers in place to target known problem areas and to help reduce the rate of crime levels. Government has given a commitment to provide additional resources for street patrols and the Home Invasion Squad and the doubling of the Drug Squad from 20 to 40 officers (in line with the Government's Three-Point and Six-Point Plans).

- Funding of \$0.46 million has been made available this year in line with Government's commitment to increase the Fire Service by 16 extra fire officers over its first term. The increase will ensure the Fire Service has the necessary staff in place to provide an effective service to the community.
- As part of Government's commitment to increase assistance to Neighbourhood Watch, additional funding of \$0.11 million has been provided.
- The Government has provided \$0.82 million for Telecommunications Interception Capability for the purchase of the interception equipment. This will enable Northern Territory Police to increase in effectiveness of its crime reduction strategies, especially drug trafficking.
- Additional funding of \$0.1 million per annum, commencing in 2002-03 for three years, has been provided to cover costs associated with the forfeiture of assets as a consequence of criminal activity in line with recent legislation.

### Department of Justice

The Department of Justice continues with its program of reform across many areas of legal services.

- An additional \$0.15 million has been provided for Crime Prevention NT to enable more community-based initiatives to be put in place to reduce crime and make suburbs safer.
- Under the Government's Six-Point Plan, significant legislation reform is required. An additional \$0.15 million has been provided in the 2002-03 Budget to employ additional staff to increase the pace of legislative reform.
- Community Justice (Mediation) Centres are to be established in the 2003 calendar year, with \$0.15 million provided in both 2002-03 and 2003-04 for this initiative.
- A further \$0.15 million has been provided in the 2002-03 Budget for the introduction of a Drug Court, with ongoing funding from 2003-04 of \$0.3 million.
- The *Information Act* is to be passed and implemented in 2002-03. To ensure the Act is appropriately implemented and all requirements are met, an Office of the Information Commissioner will be established. \$0.22 million has been included in the 2002-03 Budget to establish the office, with ongoing funding of \$0.44 million provided in the Forward Estimates from 2003-04.
- The Agency is restructuring the way in which legal services are outsourced to ensure legal services are provided to agencies in the most cost effective and efficient manner. The Agency is expanding its management services and undertaking Government specific legal services in-house.

### Department of the Chief Minister

Resources in the Department of the Chief Minister have been expanded to provide capacity to undertake a much broader role in policy development and whole of government coordination.

- Ongoing funding of \$0.64 million has been provided from 2002-03 for the recently established Office of Territory Development.
- Ongoing funding of \$0.25 million has been provided from 2002-03 to increase grants to multicultural organisations and for cultural and linguistic scholarships.
- \$0.2 million ongoing has been included in the 2002-03 Budget for the Aboriginal Family Violence Strategy.



- Additional ongoing funding of \$0.7 million has been incorporated from 2002-03 for the Office of Indigenous Policy.
- Funding of \$0.12 million has been provided in 2002-03 for a new Office of Children and Families. When fully operational, ongoing funding from 2003-04 will be \$0.64 million.
- Funding of \$0.3 million has been provided in 2002-03 for events utilising local artists.
- In addition to the above, ongoing funding of \$1.3 million has been provided from 2002-03 for expanded policy functions in line with the Department's new strategic directions.

### **Northern Territory Treasury**

As part of its responsibility for gambling, liquor and other regulation, Northern Territory Treasury will manage enhanced arrangements for the Community Benefit Fund. The Fund receives a levy on profits from hotel-based community gaming machines. The Fund will be used for gambling amelioration, research and public education programs, and grants to benefit the community.

### **Department of Business, Industry and Resource Development**

- Funding for business development remains a high priority, with ongoing and new programs designed to enhance skills development and support for industry.
- Funding of \$0.25 million has been included in the 2002-03 Budget to establish business case managers to assist in reducing the 'red tape' burden on businesses needing approvals and will provide upgraded computer systems and staff training.
- Funding of \$0.39 million is included in the 2002-03 Budget, with \$0.26 million ongoing from 2003-04, to establish short course Business Skills Workshops.
- \$90 000 has been included in the 2002-03 Budget, increasing to \$0.45 million in 2004-05, to establish a program of Indigenous Community Fisheries Officers. This program will allow communities to have more direct involvement in the protection and management of their fishing resources.
- An additional \$0.58 million ongoing has been incorporated into the Agency's 2002-03 Budget and Forward Estimates for a range of initiatives. These include funding for animal disease surveillance and retaining a Northern Territory Representative Office in East Timor.

### **Northern Territory Tourist Commission**

- Funding of \$2 million for facilitation of Virgin Blue air services to the Northern Territory.
- A further \$1 million for marketing aimed at international markets, over two years.

### **Department of Community Development, Sport and Cultural Affairs**

The Department plays an important role in building strong links across the whole Territory community, providing a broad range of community related services.

### **Housing Business Services**

- Increased funds for HomeStart  
Demand for the HomeStart Scheme last financial year exceeded expectations. In order to satisfy the projected demand, an additional \$3 million will be allocated to the HomeStart budget from 2002-03. This increased allocation of funds is in line with recent efforts by the Commonwealth and Territory Governments to support

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increased levels of home ownership and to stimulate the construction industry through grants.

- The Northern Territory Government's HomeNorth Schemes provide access to home ownership for those unable to achieve affordable housing through the private sector. The schemes represent an alternative to rental accommodation and fill a gap in the home lending market not met by private sector lending institutions. One of the current loan products is the HomeStart Private Shared Equity Loan. This loan scheme is designed to help first homebuyers in the Northern Territory buy an established dwelling in the private housing market or build a new dwelling.
- Itinerants Project – a Project Coordinator has been appointed and work has commenced implementing priority initiatives. These include a community education campaign in both urban and remote communities by the Larrakia, intervention through extended night patrol hours, expansion of outreach and referral work, and a day centre facility with diversionary activities. Further projects involving a collaboration of Government and non-government agencies will be developed in the coming months to ensure the project continues momentum in 2003-04 and 2004-05. An additional \$0.5 million has been provided in the 2002-03 Budget for this strategy.
- Tennant Creek Cultural Centre – \$1.5 million has been approved in the 2002-03 Budget for the completion of the Nyinkka Nyunyu Indigenous Cultural Centre in Tennant Creek subject to the development of a business plan identifying recurrent costs and funding sources. The Nyinkka Nyunyu is a Julalikari Council Aboriginal Corporation community development project which aims to develop a high-quality and authentic regional tourism facility, support cultural maintenance and provide economic opportunity by the introduction of Indigenous cultural tourism to the region.
- Review of arts policy and funding framework – an Arts Working Party was formed during 2001 to address key arts sector issues and to explore future opportunities for arts sector development in the Northern Territory. The Arts Working Party report findings highlighted the need to review the current arts funding and policy framework and to identify strategies which will realign priority needs and resources. \$30 000 has been allocated in the 2002-03 Budget to contribute to the independent review.
- Aboriginal Law and Justice Project – \$90 000 has been allocated in the 2002-03 Budget for the coordination of this project. Delivery in communities will be provided through targeted capacity-building grants, which will have the effect of providing greater availability of this project in communities.
- Sport and recreation officers in remote communities – the Indigenous Sports Program will continue to allocate a recreation officer to each Territory Aboriginal and Torres Strait Islander Commission region. An additional \$0.16 million is provided for sport and recreation officers in remote communities, bringing total ongoing funding to \$0.31 million in 2002-03 and \$0.32 million per annum from 2003-04. This will assist community government councils employ staff and coordinate programs. Funding for the Australian Football League Northern Territory to coordinate the Territory-wide KickStart Program will be provided with a view to assisting more sports in providing similar programs in 2003-04.
- \$0.25 million additional funding has been included in the 2002-03 Budget to bring the total Arts Sponsorship Program to \$2.86 million per annum.

## Department of Corporate and Information Services

- Additional funding of \$0.23 million has been provided for the establishment of an Executive Director position to oversee the Information and Communication Technology Strategy.

## REVENUE INITIATIVES

A number of key revenue measures have been announced in the 2002-03 Budget. They comprise a minor pay-roll tax reform, enhancements to the home purchase stamp duty concessions, concessional stamp duty treatment for franchises, an exemption for certain corporate reconstructions, enhancements to the equity and efficiency of Territory taxes, and a number of integrity and anti-avoidance measures.

These revenue measures are estimated to decrease revenue collections by \$3.1 million in a full year.

### Pay-roll Tax

The introduction of the pay-roll tax measures is intended to enhance the equity and efficiency of the Territory's pay-roll tax regime.

The changes were announced in June 2002 and commenced on 1 July 2002. They comprise a reduction in the pay-roll tax rate, and the inclusion in the pay-roll tax base of the grossed-up value of fringe benefits and eligible termination payments as determined under the income tax law.

The base-broadening changes align the Territory with most other States that have adopted the Commonwealth's framework in the same areas. Due to the rate reduction, the package of pay-roll tax measures is broadly revenue neutral (in constant terms).

#### **RATE REDUCTION**

From 1 July 2002, the pay-roll tax rate reduced from 6.5 per cent to 6.3 per cent.

#### **FRINGE BENEFITS**

Under the Commonwealth's *Fringe Benefits Tax Assessment Act*, the taxable value for fringe benefits is grossed up by either the type 1 (GST creditable) or type 2 (GST non-creditable) rate.

From 1 July 2002, the grossed up value of all fringe benefits is to be included in pay-roll tax returns using a rate equivalent to the type 2 gross up rate. That is, for pay-roll tax purposes, all fringe benefits are treated as non GST creditable benefits.

The adjustment recognises the value of a fringe benefit as if it were provided as salary or wages and ensures consistency in the pay-roll tax treatment of fringe benefits and cash salaries. The approach is consistent with the Commonwealth's fringe benefits tax arrangements and recent steps taken in other States.

#### **ELIGIBLE TERMINATION PAYMENTS**

Pay-roll tax is currently levied on certain termination payments that represent a reward for service to which employees have a pre-existing enforceable right. Conversely, certain other payments upon termination, such as gratuity payments and payments in lieu of notice, have not been taxable.

The Commonwealth's *Income Tax Assessment Act 1936* defines an eligible termination payment as wages paid by an employer as a result of an employee's termination, or of the termination of the holding of an office.

As a result, this broader definition has been adopted for the purposes of pay-roll tax, so that payments in lieu of notice, gratuity payments ("golden handshakes"), redundancy or severance payments and payments that reward unused sick leave are included in the pay-roll tax base. This is consistent with the Commonwealth and with recent steps taken in most other States.

## Stamp Duty

The key stamp duty measures provide:

- rearrangements to enhance home ownership stamp duty concessions;
- a corporate reconstructions exemption;
- a lower rate of duty for the grant of a franchise;
- exemption from stamp duty on "wet hire" arrangements; and
- enhancements to the integrity and efficiency of the Territory's stamp duty regime and a range of stamp duty anti-avoidance measures.

### INCREASE TO THE FIRST HOME OWNER CONCESSION

The *Stamp Duty Act* provides a stamp duty concession for first home buyers in the Territory on the first \$80 000 of the property's value, which amounts to a concession of up to \$2 096 on the duty payable.

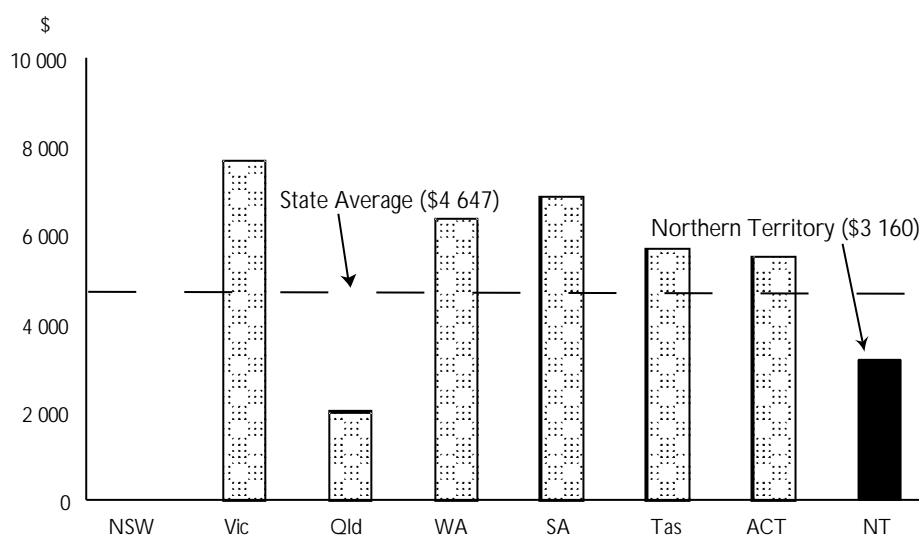
Prior to the election, the Government made a commitment to increase the first home buyer stamp duty concession threshold from \$80 000 to \$125 000. This measure was expected to provide \$2.9 million in extra assistance to Territory home buyers.

The increase commences on 20 August 2002.

The effect of this change is to increase the maximum first home buyer stamp duty concession from \$2 096 to \$3 640.60, an increase of about 74 per cent.

As indicated in Figure 3.1, the Territory's stamp duty concession compares favourably with the other States.

**FIGURE 3.1: INTERSTATE COMPARISON OF THE STAMP DUTY PAYABLE ON THE PURCHASE OF A \$200 000 FIRST HOME**



Note: New South Wales provides a complete stamp duty exemption on the first \$200 000 for the purchase of a first home.

Source: Northern Territory Treasury

In addition, the measures include changes to the first home buyer stamp duty concession eligibility criteria. Currently, the concession is available to any person who purchases their first home in the Territory. The concession applied even where a person has previously owned a property elsewhere in Australia.

To ensure the concession is targeted at true first home buyers, the eligibility criteria for the concession has been aligned broadly with the \$7 000 First Home Owner Grant eligibility criteria. These criteria are also largely adopted for the Territory's home purchase assistance schemes administered by Housing Business Services.

Savings from this narrowing of the eligibility criteria have been channelled into a new principal place of residence stamp duty rebate.

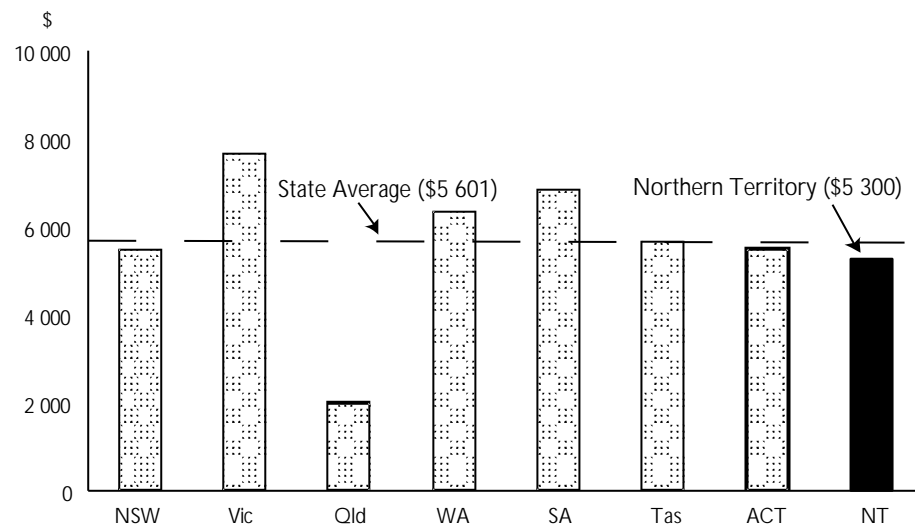
**PRINCIPAL PLACE OF RESIDENCE REBATE**

From 20 August 2002, a new stamp duty concession of up to \$1 500 will be available for all Territory home buyers who are not purchasing their first home.

People who have previously owned a home may be eligible for the principal place of residence rebate on the purchase or construction of their home. This measure will reduce a current disincentive for people wishing to move to another home (and consequently, should benefit the general housing market).

As detailed in Figure 3.2, the stamp duty paid on the purchase of a principal place of residence compares favourably with the other States.

**FIGURE 3.2: INTERSTATE COMPARISON OF THE STAMP DUTY PAYABLE ON A \$200 000 PRINCIPAL PLACE OF RESIDENCE**



Source: Northern Territory Treasury

The combination of the increased first home owner concession and the principal place of residence rebate is expected to enable more than 2 500 Territory households per year to pay around \$1 500 less stamp duty on the purchase of their home (from the increased first home concessions or the new principal place of residence rebate) than under the former stamp duty concession scheme. Around 900 applicants per year who have owned homes interstate will be eligible for the new \$1 500 principal place of residence rebate.

#### **CORPORATE RECONSTRUCTIONS EXEMPTIONS**

The introduction of a stamp duty exemption for a reconstruction of property within certain company groups aligns the Territory with most other jurisdictions and should assist business with establishing more efficient corporate structures.

When property is transferred from one entity to another, stamp duty generally applies. However, when that transfer occurs within a closely held company structure, it is arguable that, as there is no change in the overarching ownership, stamp duty should not apply.

Until now, stamp duty relief for a transaction in these circumstances was only available in limited cases as *ex gratia* relief under the *Financial Management Act*.

A new exemption is available in the stamp duty legislation for transfers of property between companies that are tightly held members (that is, where ownership is greater than 90 per cent) of a corporate group.

To be eligible for the exemption, companies are required to be a group member for three years before the transfer of dutiable property, or be a group member prior to the original acquisition of the property by the group.

For the transaction to remain exempt, the transferor and transferee are required to remain members of the group for three years after the conveyance, unless they are deregistered or publicly floated. If a company is transferred out of the group within the three-year period, the exempted stamp duty will be recovered from the company's original group.

The exemption may facilitate a backlog of exempt corporate reconstruction transactions. These transactions may not have occurred under the existing stamp duty rules and thus stamp duty would not have been collected. Accordingly, it is anticipated the effect on stamp duty forgone as a result of the exemption will be minimal.

#### **STAMP DUTY ON FRANCHISES**

These new measures provide a reduction in the stamp duty payable on the grant or renewal of a franchise.

The conveyance duty base was extended to include the transfer of business property rights from 1 January 1992. This means that franchise agreements were viewed as an acquisition of an existing business undertaking, and therefore taxed in the same manner as a business sale.

The assessment of stamp duty liability for franchise agreements is complex due to their varying terms and the fact that in many cases the consideration is not ascertainable as it is calculated as a percentage of future profits.

The new method of assessing stamp duty for franchises is in line with that employed to assess stamp duty on the lease of commercial land. That is, stamp duty is charged at the lower lease rate of 50c/\$100 rather than conveyance rates. This change also makes use of existing lease duty assessment provisions to determine the duty payable.

Subsequent transfers of these rights by the franchisee to a third party, or the franchisor, will continue to be assessed at the higher conveyance duty rates.

#### **WET HIRE EXEMPTION**

From 18 July 2002, 'wet hires' are excluded from hiring duty. This brings the Territory's hiring duty arrangements into line with all other States.

Stamp duty is payable at a rate of 1.8 per cent on the total rental income received by a hirer in respect of hiring arrangements.

A 'wet hire' occurs where an operator is also provided with the equipment, and can be categorised as either a contract for services, which did not attract stamp duty, or a hiring arrangement, which did (prior to this change). The latter arrangement sees the operator under the direct control of the person hiring the equipment.

The proposed exemption was announced on 18 July 2002 to take effect from that date. Stamp duty is no longer payable on 'wet hire' arrangements for rental payments due on or after 18 July 2002. However, hiring duty remains payable on receipts that accrued up to 18 July 2002.

#### **ANTI-AVOIDANCE MEASURES**

A number of anti-avoidance measures have been introduced in the 'land-rich' stamp duty provisions to:

- counter schemes making use of loopholes in the 'land-rich' provisions; and
- extend the period in which a majority acquisition can occur, in regard to 'land-rich' provisions, from one to three years.

#### **EFFICIENCY, EQUITY AND ADMINISTRATIVE ENHANCEMENTS**

In addition, the stamp duty amendments include a package of changes that enhance the simplicity, efficiency and equity of the stamp duty regime. These measures include:

- providing a mechanism for valuing changes in partnership interests;
- clarifying that registered lenders are able to receive the benefit of the stamp duty hiring cap in certain circumstances;
- ensuring only nominal duty is payable in respect of a range of transactions involving managed investment schemes on which double duty could otherwise be payable;
- clarifying that voluntary transfers of a business pursuant to the *Financial Sector (Transfer of Business) Act* of the Commonwealth are subject to duty where dutiable property is conveyed;
- ensuring the stamp duty exemption that applies on the grant of an estate in land from the Crown only applies where the grant does not have the effect of a transfer from a third party;
- the removal of an exemption from stamp duty on policies of insurance upon property of the Territory Government;
- clarifying that reasonable outgoings under a lease of land are not rent for the purposes of assessing lease duty;
- ensuring instruments deemed to have the effect of a deed by the *Land Title Act* are not subject to deed duty;
- allowing the Commissioner of Taxes to communicate information to Motor Vehicle Registry employees for the purposes of administering stamp duty on transfers of motor vehicle registrations;

- abolishing stamp duty on the transfer or reinsurance of life insurance; and
- allowing stamp duty to be refunded where Family Court orders are obtained within 12 months of the transfer of marital property.

### **Other Changes**

The measures also include changes to the administration of the *Mineral Royalties Act* and *Debts Tax Act* and the abolition of the liquor subsidy payable to roadside inns that are not connected to mains power from 1 October 2002. The abolition of the special liquor subsidy will realise savings of around \$0.25 million in a full year. It is currently claimed by around 15 roadside inns.



# FINANCIAL MANAGEMENT REFORMS

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## INTRODUCTION

During 2001-02, the Government agreed to two key financial management reforms: the adoption of the principles that comprise *Working for Outcomes*, and the implementation of the Government Owned Corporations arrangements.

*Working for Outcomes* is a comprehensive financial management framework that is based on outputs and the accrual methodology for budgeting, accounting and reporting. The *Working for Outcomes* framework will have a significant influence on the shape and content of budgets presented to the Territory Parliament. *Working for Outcomes* has a staged implementation with three major initiatives being introduced in 2002-03. These are:

- a Budget focus on outputs in place of the previous emphasis on inputs;
- adoption of accrual accounting principles; and
- introduction of accrual-based financial reports.

The Government Owned Corporations arrangements were put in place to provide a more effective commercially orientated financial management framework for the Territory's corporatised entities.

These two reforms, combined with the *Fiscal Integrity and Transparency Act*, place the Northern Territory's financial management arrangements on a contemporary basis consistent with other jurisdictions.

## **WORKING FOR OUTCOMES: OUTPUT BASED BUDGETING**

While past Budgets have attempted to have an output focus through the inclusion of information on activities and programs, they have tended to be framed around the inputs used by agencies to help achieve their goals. Flowing from this, annual budgets reflected the value of resources employed or consumed as part of the process, with limited focus on what was being delivered to the community.

Over a period of several years, there have been attempts, both nationally and internationally, to develop budgetary models that will improve the quality of information provided to Governments to enable them to establish a stronger relationship between their objectives and the costs of agency inputs. For various reasons, the different approaches have not proved as successful as initially hoped.

More recently, jurisdictions have adopted what is generally referred to as output based budgeting. The model has been in overseas use for some years and has been implemented to varying degrees by the Commonwealth and the States. The shift of focus to outputs is intended to address two issues. First, what goods and services (outputs) are agencies required to provide to the community, on the Government's behalf, in order that the Government's high order objectives might be achieved? Secondly, what is the appropriate price that should be placed on the outputs to assist the Government in arriving at an appropriate allocation of resources between the various competing claims?

Output based budgeting has the potential to become a very useful tool by which Governments and their agencies can meet the expectations of the community in a way that is both effective and efficient.

For 2002-03, each agency in the Northern Territory's general government sector has specified the outputs it produces. These, together with the proposed performance assessment measures, are outlined in *Budget Paper No. 3*.

General Government Business Divisions and public non financial enterprises in the Territory's Budget Sector have provided information by business line and non financial performance measures.

It is to be expected that the identification of outputs and the development of the various measures that have been put forward for assessing the cost, timeliness and quality of the outputs will include a number of imperfections, given the early stage of development. However, it is also to be expected that progressive improvements will be made over the coming years, with consequential improvements to the quality of information that will be available to Parliament.

Further details on *Working for Outcomes* can be found in *Budget Paper No. 6*.

### **WORKING FOR OUTCOMES: ACCRUAL ACCOUNTING**

Past Budgets have been based upon the use of cash accounting principles and the cash accounting system has, for many years, been the mainstay of Government accounting. In recent years, there has been a growing realisation that sole reliance on cash accounting was not adequate. There was a recognition that the roles of Governments had changed over the years and the public sector had evolved to a point where it controlled significant levels of public sector assets, particularly large infrastructure assets, and had incurred material long term liabilities. More effective means of reporting to the community on these assets and liabilities had to be developed. The adoption of the accrual basis of accounting was a response to these issues.

All jurisdictions, with the exception of the Northern Territory, adopted the accrual basis of accounting several years ago and the intervening period has seen significant improvements in the scope and quality of financial reporting by those jurisdictions. More importantly, there is evidence to suggest that the quality of decision-making by Governments has also improved due to the availability of better information, with consequent benefits to the community as a whole.

Under *Working for Outcomes*, the Territory has commenced accrual accounting from the beginning of the 2002-03 year. This requires all agencies to record transactions according to the accrual method, which prescribes recording at the time revenue is earned or an expense is incurred. Accrual accounting provides the financial data that is used to develop accrual financial reports.

While the discussion in this chapter tends to focus on the provision of information to the Government and Parliament, a further advantage flowing from the introduction of accrual accounting is the ability to improve the quality of financial information provided to agency managers. Agencies are responsible for providing outputs to the community in ways that are both effective and efficient. These goals may not be achievable if the quality of financial information is lacking. A significant challenge facing the Government is to ensure that agencies' internal systems continue to improve, and that managers are trained to use the information available, to ensure that the goals are achieved.

The adoption of accrual accounting is a major undertaking, particularly if it is intended that improved agency performance will result. The experience of other jurisdictions would suggest that a period of consolidation is required to enable systems, processes and staff skills to reach a point where data is reliable, processes efficient and the new basis of accounting fully integrated into the day to day activities of the Government and its agencies.

**WORKING FOR OUTCOMES: ACCRUAL REPORTING STANDARDS**

In conjunction with the commencement of accrual accounting, the *Working for Outcomes* framework requires the transition from cash-based financial reporting to accrual-based financial reporting at Government, sectoral and agency levels. The move to accrual-based financial reporting will encompass both budget reports using estimated data and outcomes reports using actual data.

***Fiscal Integrity and Transparency Act***

The *Fiscal Integrity and Transparency Act* was passed by the Territory Parliament in late 2001 and applies from the 2002-03 year. The *Fiscal Integrity and Transparency Act* requires that fiscal outlook and fiscal outcome reports prepared in accordance with the Act be based on external reporting standards which embody accrual principles. These standards are defined by the Act to mean:

- the concepts and classifications set out in GFS Australia (the Government Finance Statistics as reported by the Australian Bureau of Statistics); and
- the Australian Accounting Standard 31, 'Financial Reporting by Governments' (AAS31).

The application of these standards will see the following financial reports prepared:

- a set of consolidated financial statements for each agency included in the Northern Territory's Budget Sector comprising:
  - a statement of financial performance,
  - a statement of financial position,
  - a statement of cash flows; and
- sets of consolidated statements, prepared in respect of the constituent sectors of government, as defined in the GFS, namely:
  - general government sector,
  - public non financial corporations sector,
  - total non financial public sector,
  - public financial corporations sector; and
  - total public sector.

When taken together, the statements prepared under the new regime will represent a significant expansion in the level of financial information provided to the Parliament, with the accompanying opportunity to improve decision making as it affects the allocation of the community's resources.

The introduction of external financial reporting standards will be undertaken in two stages. The first stage will see the introduction of reports prepared in accordance with the GFS framework, with these to be followed by the introduction of reports based on the AAS31 standard.

This phased approach is intended to ensure that the Territory first aligns its budgeting and reporting methodology with the GFS framework that is used by all other jurisdictions. The 2002-03 Budget is the first budget using this approach, with consolidated financial statements prepared in accordance with the GFS framework reported in Chapter 6. The first report on actual data is to be prepared later in 2002 in respect of the 2001-2002 year.

The introduction of financial reporting based on the AAS31 standard, which will follow from the first stage, is intended to provide a broader set of financial information that complies with Australian Accounting Standards. This information will form the basis of audited financial statements to be submitted to Parliament in accordance with the *Financial Management Act*. It is envisaged that the first statements in this format will be prepared in respect of the 2002-2003 year. The adoption of AAS31 as part of the second

phase of the financial reporting improvement process is also planned to take advantage of foreshadowed developments in the field of accounting standards intended to align AAS31 with the GFS methodology.

### **GFS and AAS31 Comparison**

There has been active debate within the public sector over the past few years about the relative merits of the two standards and the extent to which one set should have primacy.

The accrual GFS framework is based generally on international standards issued by the International Monetary Fund and the United Nations. It consists of 97 integrated recordings of flows and stocks. Flows reflect the creation, transformation, exchange, transfer or extinction of economic value. They involve changes in the volume, composition or value of a unit's assets, liabilities and net worth. Stocks refer to a unit's holdings of assets, liabilities and net worth at a point in time.

The AAS31 methodology is based on Australian generally accepted accounting principles. This Standard was issued by the Australian Accounting Standards Board as part of the general development of accrual accounting within the public sector. The Standard requires the preparation of what are referred to as general purpose financial reports to meet the perceived information needs of a range of possible users including "parliamentarians, the public, providers of finance, the media and other analysts".

Both GFS and AAS31 require general adherence to the overall body of accounting standards issued by the Australian Accounting Standards Board, to the extent those standards are relevant. Notwithstanding this, there are a number of conceptual differences between the two methods. These differences reflect the economic focus of the GFS and the accounting focus of AAS31. As a consequence, financial reports prepared under the two methods can differ significantly in terms of the reported operating result.

The GFS and AAS31 financial statements are intended to serve different purposes and so differences in the treatment of certain items may be expected. For example, the measure of net operating balance in GFS differs from its corresponding aggregate, the operating surplus or deficit under AAS31. Certain items included in the AAS31 measure are excluded from the GFS measure. Conversely, certain items included in the GFS measure are excluded from the AAS31 measure. The principal differences are outlined below.

#### **Provisions for Doubtful Debts**

Provisions for doubtful debts reflect a recognition that not all debts will be collected. Doubtful debts expenses each period that accompany the recognition of these provisions are excluded from the GFS net operating balance, as they do not meet the GFS definition of transactions, but are included in the AAS31 operating surplus. This means that the AAS31 operating surplus will reflect a lower result as it is reduced for debts anticipated as uncollectible.

#### **Bad Debts Written Off**

In GFS, bad debts written off are treated as capital transfers (if mutually agreed between debtor and creditor) or as other changes in the volume of assets (if unilaterally written off by the creditor). An adjustment for those bad debts written off from provisions for doubtful debts and treated as capital transfers in GFS is required when reconciling the AAS31 operating surplus with GFS net operating balance.

#### **Gains and Losses on Assets**

Gains and losses on assets are excluded from GFS net operating balance, but included in AAS31 operating surplus. Such gains and losses, treated as either revenue or expenses in the AAS31 statement of financial performance, include gain or loss on the sale of assets, realised and unrealised gains and losses on derivative financial instruments, and realised and unrealised gains and losses on securities valued at historic cost. These items are treated as revaluations in GFS.

**Abnormal Items**

In GFS, only abnormal items that represent revenue and expense transactions relevant to the period are included in the net operating balance for that period. Those abnormal items that represent revaluations of assets or economic transactions relevant to other periods are not included in the net operating balance. In the case of AAS31, all abnormal items recorded in the period are included in the measure of operating surplus for that period, regardless of whether the items relate to a prior period.

**Distributions to Owners (Dividends)**

In GFS, distributions to owners refers to transfers by public corporations to their parent entities and other shareholders in the form of dividends, transfers of profits or other similar distributions. These are regarded as expenses and included in the GFS net operating balance. Under accounting conventions, distributions to owners are not regarded as operating expenses.

**Capitalised Interest**

In reports prepared under AAS31, capitalised interest forms part of the cost of an asset and is not included in the operating surplus. In GFS, capitalised interest is not considered to be conceptually part of capital formation. It is reflected as an interest expense in GFS output and is therefore included in the GFS net operating balance.

In summary, the principle differences between the GFS net operating balance measure and the AAS31 operating surplus measure are shown in table 4.1.

**TABLE 4.1: COMPARISON OF GFS AND AAS31 PRESENTATION**

	GFS net operating balance
Minus	increase in provisions for doubtful debts
Plus	bad debts written off from provisions and treated as capital transfers
Plus/Minus	gains/losses on assets, including derivatives
Plus/Minus	adjustment for abnormal/extraordinary items
Plus	distributions to owners (dividends)
Plus	capitalised interest
Equals	AAS31 operating surplus

Inter-jurisdictional work has been undertaken to explore ways in which the two standards might be brought together. A commitment to a revised basis for public sector reporting which brings the two standards together into a single framework should be viewed as a high priority by the Financial Reporting Council and the Australian Accounting Standards Board.

**GOVERNMENT OWNED CORPORATIONS**

The 2001-02 *Budget Paper No. 2*, Chapter 6 'Government Business Division Reform', discussed the main principles involved in a Government Owned Corporations framework. At that time, the Territory did not have a Government Owned Corporations legislative framework in place.

The Territory Legislative Assembly passed the *Government Owned Corporations Act* in November 2001. This Act sets out a Shareholder Model of corporate governance similar to that in other jurisdictions, with the emphasis that a Government Owned Corporation should operate, to the extent possible, in a way similar to a *Corporations Act* company. The former Power and Water Authority became the Territory's first Government Owned Corporation on 1 July 2002. It is now known as the Power and Water Corporation, or PowerWater.

There is a fundamental shift in accountability with the creation of a Government Owned Corporation. Under *Financial Management Act* accountability arrangements, the Chief Executive Officer of a government business is accountable to the Government for the performance of the business. The *Government Owned Corporations Act* provides for a commercial board of directors. Under the model, the board of directors of the Corporation is the decision-making body and is accountable for its actions. The board is accountable to the Shareholding Minister for the financial performance of the Corporation and to the Portfolio Minister for the service quality aspects of the business outlined in the Corporation's own legislation or associated services legislation (rather than in the "umbrella" *Government Owned Corporations Act*).

Under the Government Owned Corporations framework, the Shareholding Minister has separate and distinct powers from the Portfolio Minister. The Shareholding Minister holds the Corporation's equity on behalf of the Government, as owner of the Corporation. The Treasurer administers the Government Owned Corporations legislation and is the Shareholding Minister.

The Portfolio Minister administers the Government Owned Corporation's own legislation and is responsible for industry-wide policy matters such as service quality. These powers recognise that the Portfolio Minister is not responsible for the performance of the Corporation but determining the applicability of certain Government policies to the Corporation.

The basis of accountability for Government Owned Corporations is the Statement of Corporate Intent. This is an annually negotiated performance contract between the Shareholding Minister and a Corporation and it establishes the Corporation's business strategies and performance targets over three years. Any changes to the Statement of Corporate Intent during a year are negotiated with the Shareholding Minister.

The Statement of Corporate Intent framework is intended to provide a robust mechanism for monitoring the performance of the Government Owned Corporation and ensuring the board is accountable for the Corporation's performance.

Government Owned Corporations pay annual dividends to the Territory from after tax profits and make tax equivalents payments. The dividends are established by the Shareholding Minister and, as a starting point, a base of 50 per cent of after tax profits is used in projections.

Where either the National Tax Equivalents Regime or the Territory Tax Equivalents Regime applies to a Government Owned Corporation, tax equivalent and interest payments made by the Corporation, as well as dividends paid by the Corporation, will be included within the Territory's Budget. The provision for dividends and the payments of taxes again make a Government Owned Corporation similar to a *Corporations Act* company.

Community Service Obligation payments made to a Government Owned Corporation are included in the Territory's Budget.

While Government Owned Corporations are outside the Territory's budget sector, they are included in the whole of government consolidated financial statements according to their GFS sectoral classification. PowerWater is classified as a public non financial corporation. The development of the Government Owned Corporations arrangements increases the case for adopting fiscal targets for the general government sector rather than the total public sector as has previously been the case.

More details on the Government Owned Corporations arrangements are included in *Budget Paper No. 6*.

## RECENT FISCAL DEVELOPMENTS

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The higher cost of providing services to a small and highly dispersed population gives the Northern Territory certain fiscal characteristics that set it apart from other Australian jurisdictions. These include a high level of per capita expenditure and a dependence on Commonwealth grants. Historically, the dependence on Commonwealth grants has made the Territory vulnerable to changes in Commonwealth policy. However, this volatility has been significantly reduced due to reforms to intergovernmental financial relations, which took effect from 1 July 2000.

This chapter provides an overview of fiscal developments in the Territory since 1998-99, the year that the majority of Australian jurisdictions introduced accrual accounting. While accrual accounting has only been adopted by the Territory for the current 2002-03 budget, approximated accrual data has been provided by the Territory to the Australian Bureau of Statistics since 1998-99. This enables a comparative analysis of the Territory's financial performance on an accrual basis with other jurisdictions.

However, the analysis of accrual financial reports presents challenges when comparing the Territory with other jurisdictions. Accrual financial reports provide for the presentation of financial statements in a gross format where revenue and expenditure items are separated and disclosed in their relevant categories. Previously, in accordance with cash accounting conventions, the Territory netted a significant amount of its revenue against related expenditure categories. Therefore, under accrual accounting, revenues and expenses are significantly larger and as a consequence, more volatile.

The use of approximated accrual data also causes difficulty in comparative analysis. While the majority of the States have produced accrual data for some time, the Territory currently relies on estimates of its accrual data prior to 2002-03. In its approximated accrual form, this data should only be relied upon as an indicator of the Territory's financial position in the new accrual environment.

This chapter also predominantly uses the general government sector to analyse revenue and expenditure flows which enables the analysis to concentrate on the core business of Government. This avoids the influence of the Government's public non financial corporations transactions influencing trends in government expenditure revenue and expenditure patterns.

However, it is inappropriate to compare the Territory with other jurisdictions in relation to debt on a general government basis. The Territory has a debt profile which is biased towards the general government sector while other jurisdictions have debt profiles which primarily place debt in the non financial public corporations sector. Therefore, the only suitable analysis in relation to debt and interest payments is to compare the Territory with other jurisdictions on a non financial public sector basis. This consolidates the general government sector with the public non financial corporations sector in relation to debt stocks and debt interest flows.

### BACKGROUND

The Territory's financial arrangements are comparable to the States. The comparatively high cost of providing services in the Territory results in higher expenditure per capita when compared with the States. This is funded through a greater share of Commonwealth funding as a result of the fiscal equalisation process. However, in the past, this greater reliance on Commonwealth funding meant that the Territory was more affected by Commonwealth policy changes regarding funding to the States. The signing of

the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* in June 1999 has provided more certainty for the Territory in the provision of Commonwealth funding. The agreement has provided the States and Territories with a source of funding in the form of the Goods and Services Tax (GST) which is broadly aligned with growth in the economy.

**EXPENSES**

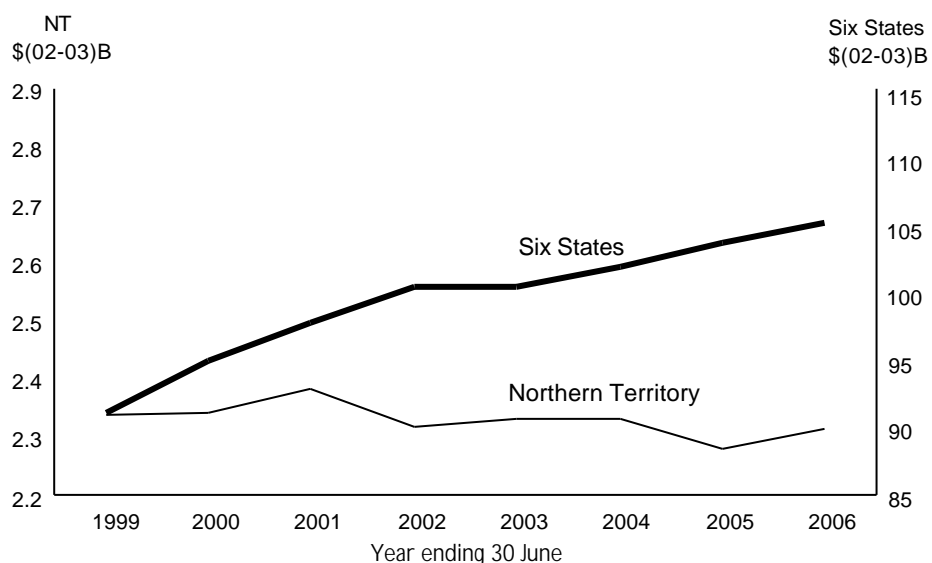
Any discussion about the Territory's expenses in relation to other jurisdictions needs to be discussed in terms of the new accrual framework. Total expenses included in the Statement of Financial Performance, include predominantly cash items such as employee and interest expenses and non-cash items such as depreciation and nominal superannuation interest expense. While total expenses does include the allocation of the cost of capital expenditure over time in the form of depreciation expense, it does not include the capital expenditure that occurred within the year as an expense, which is in stark contrast to the previous cash measure. Capital expenditure is currently included within the accrual fiscal balance measure in the Statement of Financial Performance and within changes to assets and liabilities in the Statement of Financial Performance. Therefore total expenses reflect the gross cost to Government to provide goods and services to the community.

As shown in Figure 5.1, in real terms, the Territory significantly increased total expenses between 1998-99 and 2000-01. In 2001-02, total expenses declined significantly as the Territory substituted operating expenditure for capital expenditure.

The 2002-03 Budget estimated outcome is a small increase in total expenses. On current projections, total expenses is expected to continue to decline over the forward estimates period as a result of the Government's deficit reduction strategy.

By comparison, the six States have significantly increased total expenses from 1998-99 to 2001-02 and are forecast to continue this trend throughout the forward estimates period. While the six States have significantly reduced their levels of net debt in recent years by asset sales and budget surpluses, it is expected that this trend will change and likely increases in total expenses of the six States will translate into higher budget deficits over time, increased levels of debt and a reduced ability to rely upon asset sales to manage net debt levels.

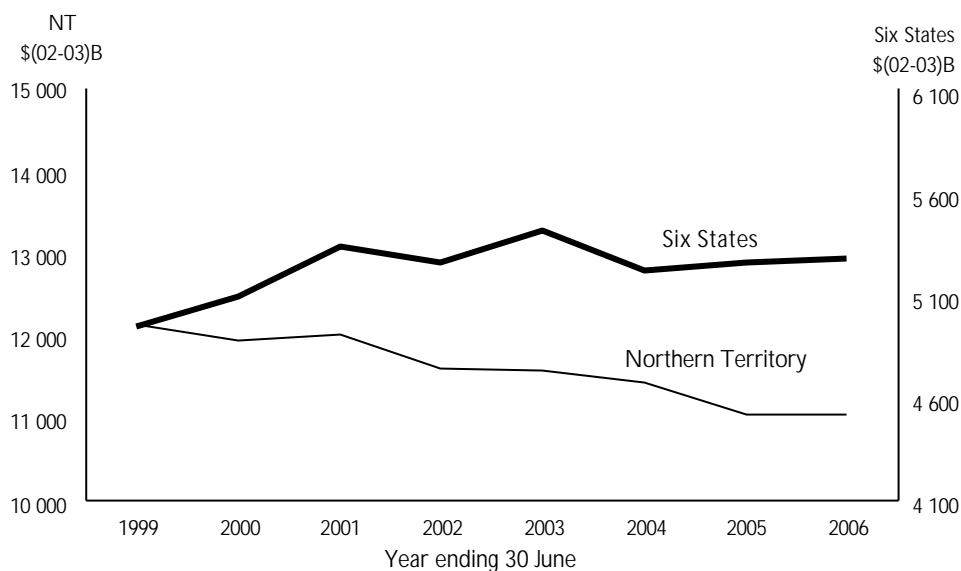
**FIGURE 5.1: TOTAL EXPENSES – GENERAL GOVERNMENT**





The different rates of population growth in the Territory and the States mean that comparative growth in expenses is best in per capita terms. Figure 5.2 (total expenses per capita) clearly mirrors the forecast decline in total expenses from 1998-99 to 2005-06. However, in real per capita terms the decline in total expenses per capita for the Territory is more pronounced.

**FIGURE 5.2: TOTAL EXPENSES PER CAPITA – GENERAL GOVERNMENT**



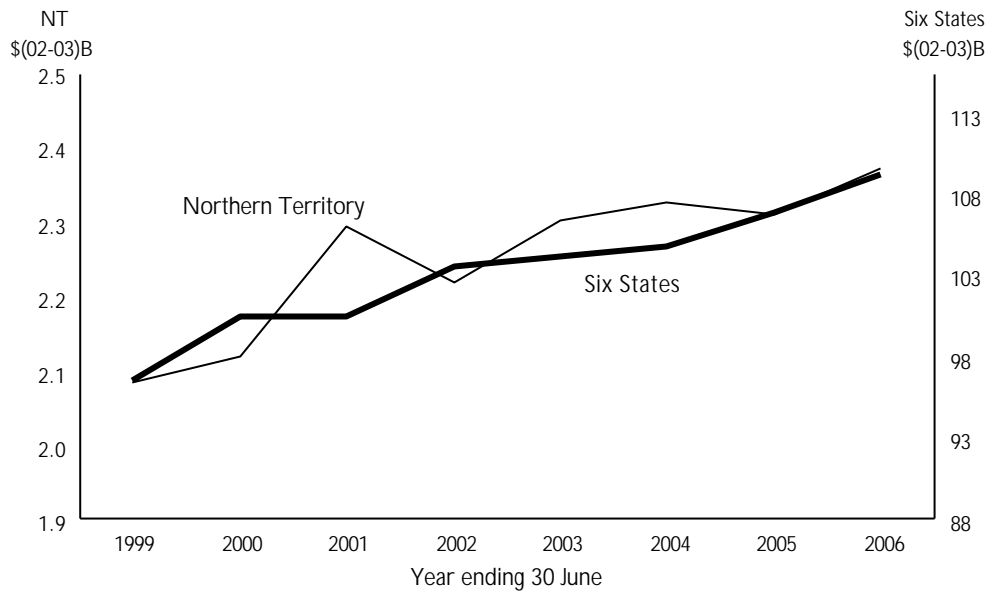
## TOTAL REVENUE

There are two broad categories of revenue available to the States and Territories:

- own-source revenue; and
- Commonwealth grants.

Total Territory revenue in 2002-03 is 11 per cent higher in real terms than in 1998-99. This is compared to an increase of 8 per cent for the six States. This in part reflects better outcomes over the period in relation to the distribution of Commonwealth grants and the effect of tax reform introduced in 2000-01. As tax reform has replaced a number of former State and Territory revenues, this places greater reliance on Commonwealth grants. The transitional arrangements under tax reform have also provided certainty to State and Territory budgets by providing guarantees in the provision of financial assistance from the Commonwealth over the period. This is represented in Figure 5.3.

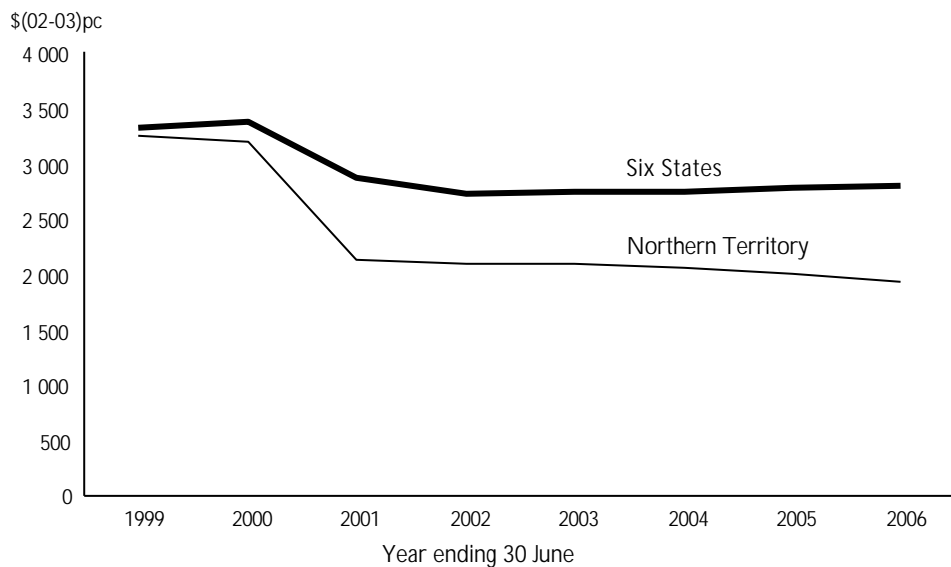
**FIGURE 5.3: TOTAL REVENUE – GENERAL GOVERNMENT**



**Own-Source Revenue**

In real per capita terms, the Territory’s own source revenue has declined 35 per cent between 1998-99 and 2002-03. The six States’ own-source revenue has also declined by 17 per cent over the same period. The introduction of tax reform in 2000-01 saw the abolition of State and Territory taxes in exchange for the introduction of the GST. In 2000-01, this included the abolition of tourism marketing duty, reduced gambling taxes and revenue replacement payments. In 2001-02, Financial Institutions Duty and stamp duty on marketable securities were also abolished. The larger decline in own-source revenue compared to the six States is due to a number of factors. This includes a greater reliance by the Territory on the abolished taxes in comparison to the six States. It also includes the fact that New South Wales and Victoria have experienced a significant property boom over recent years. This has led to burgeoning own-source revenues in those jurisdictions compared to a more subdued property market in the Territory.

**FIGURE 5.4: OWN SOURCE REVENUE PER CAPITA – GENERAL GOVERNMENT**



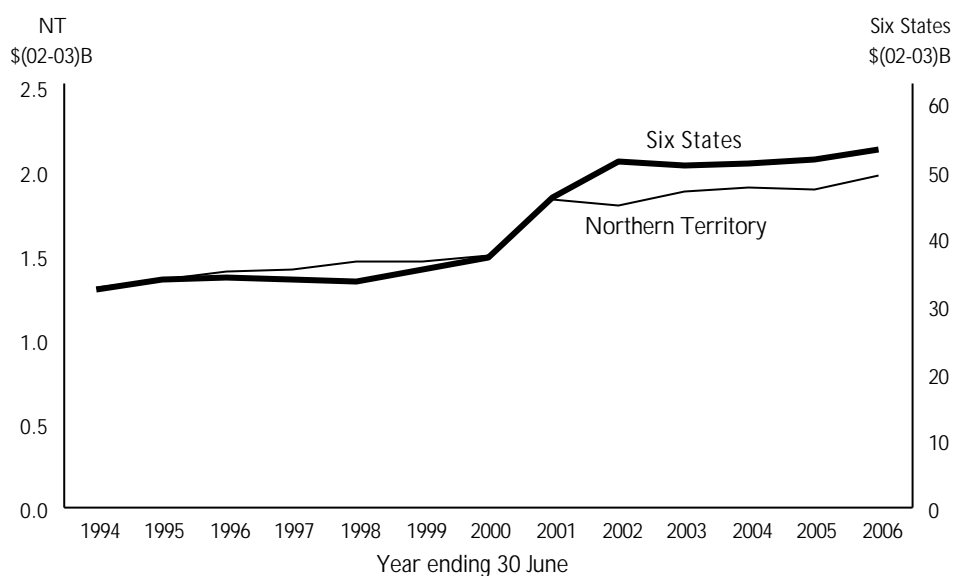
**Total Commonwealth Grants**

A substantial proportion of State revenue is received in the form of grants from the Commonwealth. This is the result of vertical fiscal imbalance in the Australian Federation,

where the revenue raising capacity of the Commonwealth exceeds its expenditure obligations and the States have responsibility for providing services which cannot be wholly supported by their revenue base.

The Territory incurs greater costs of providing State-like services and the fiscal equalisation arrangements result in the Territory receiving a greater share of Commonwealth grants.

**FIGURE 5.5: TOTAL COMMONWEALTH GRANTS – GENERAL GOVERNMENT**



As Figure 5.5 shows, the Territory has experienced a similar rate of growth in funding to the States since the early 1990's. The next major change in Commonwealth funding to the States and Territories occurs with the introduction of tax reform in 2000-01. While this represents a significant increase in Commonwealth grants, it reflects the abolition of own source revenue taxes by the States and Territories in exchange for an increase in the level of Commonwealth grants. In the following year, 2001-02, the six States experienced a higher level of growth in Commonwealth grants than the Territory. This reflected the relatively higher need for compensation, resulting from the removal of the financial taxes previously discussed, of the six States compared to the Territory.

From 2002-03, the Territory is expected to receive a greater share of Commonwealth grants compared to the six States. This is due to an increase in the share of Commonwealth grants as assessed by the Commonwealth Grants Commission (the Commission). However, the six States are expected to increase their share of Commonwealth grants from 2004-05 following the release of the 2004 Review by the Commission. Major reviews such as these traditionally result in a reduction in the share of Commonwealth grants for the Territory. Revised shares in Commonwealth grants to the Territory following the 2004 Review are expected to result in an \$80 million reduction in the growth of Commonwealth grants in 2004-05.

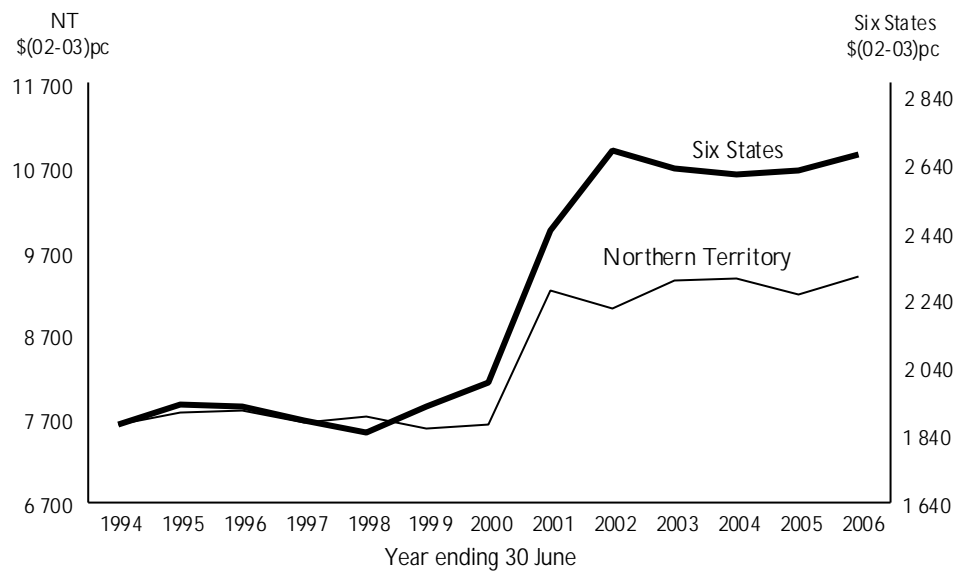
#### **COMMONWEALTH GRANTS – PER CAPITA**

As shown in Figure 5.6. in real per capita terms, the Territory has maintained a similar rate of growth of funding to the six States from 1993-94 to 2000-01.

In 2001-02, with the abolition of Financial Institutions Duty and stamp duty on marketable securities as part of the taxation reform arrangements, the Territory experienced a considerably lower rate of growth in Commonwealth grants. This occurred because the Territory was relatively less affected by abolition of these taxes and hence needed less compensation in line with *the Intergovernmental Agreement*. From 2002-03 onwards, per

capita growth in Commonwealth grants to the Territory is expected to be slightly higher than that for the six States reflecting the Commission's increased assessment of needs from 2002-03.

**FIGURE 5.6: COMMONWEALTH GRANTS PER CAPITA – GENERAL GOVERNMENT**

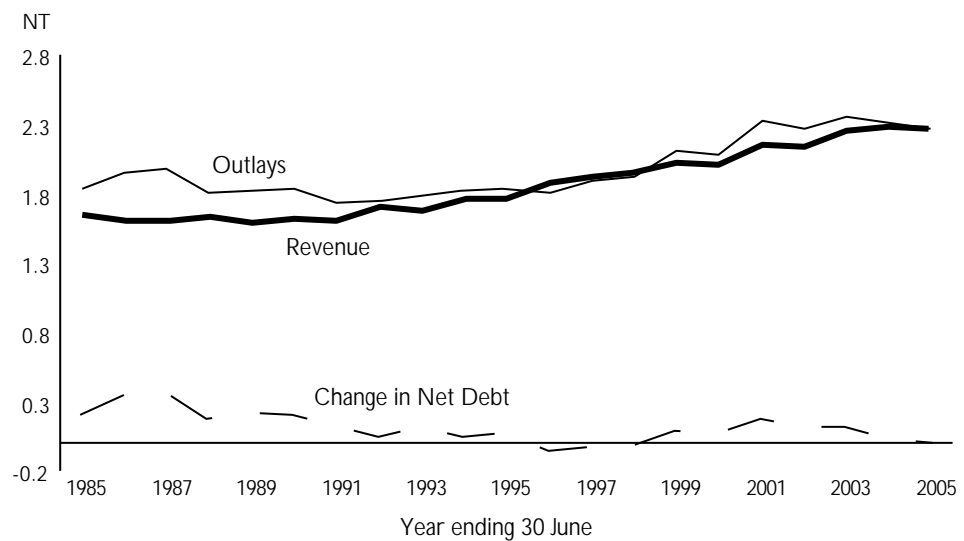


**NORTHERN TERRITORY BUDGET**

The combined effects of changes in revenue and outlays over time (on a cash basis) are illustrated in Figure 5.7, which shows total Territory revenue and expenditure and the corresponding change in net debt.

Outlays (which includes capital and current outlays) have significantly outgrown revenue since 1998-99 resulting in significant increases in net debt. As part of the Government's deficit reduction strategy, cash deficits are forecast to continue until 2003-04 with the re-emergence of a cash surplus in 2004-05. The achievement of cash surpluses will contribute to halting or reducing the Territory's debt levels from 2004-05.

**FIGURE 5.7: NORTHERN TERRITORY BUDGET CASH PRESENTATION SCOPE – NON FINANCIAL PUBLIC SECTOR**



**GROSS AND NET DEBT**

Debt is a necessary source of funding for governments. In recent years, the Territory has raised debt exclusively through the Northern Territory Treasury Corporation, by the

issue of inscribed stock and other debt securities to domestic and off-shore financial institutions, and to the Australian public. In the past debt has also been raised through advances from the Commonwealth.

## TERRITORY DEBT

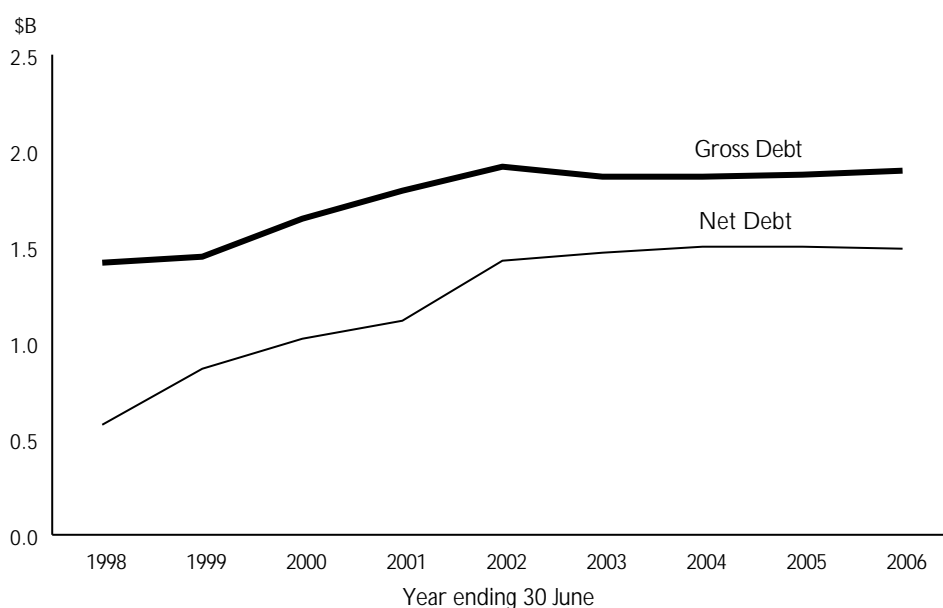
As shown in Table 5.1, Territory net debt is forecast to rise slowly until 2005 reflecting the effects of the Government's debt reduction strategy. However, gross debt is forecast to decline between 30 June 2002 and 30 June 2006. This reflects the financing of debt throughout the period by a mixture of borrowing and use of financial assets.

**TABLE 5.1: NORTHERN TERRITORY GROSS AND NET DEBT AT 30 JUNE – GENERAL GOVERNMENT**

	Gross Debt	Financial Assets	Net Debt
30 June 2002	1 911	486	1 426
30 June 2003	1 858	391	1 467
30 June 2004	1 857	363	1 493
30 June 2005	1 870	374	1 496
30 June 2006	1 892	408	1 484

As shown in Figure 5.8, the level of net debt is expected to plateau from 2002-03 with reductions in net debt forecast from 2005-06. Gross debt is also expected to plateau in 2002-03, following a reduction in gross debt caused by a corresponding reduction in financial assets.

**FIGURE 5.8: NORTHERN TERRITORY GROSS AND NET DEBT AT 30 JUNE – GENERAL GOVERNMENT**



## Interstate Comparisons

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

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

As some of the States that actively pursued asset sales in the past begin to incur deficits and increases in net debt, it remains to be seen whether this policy was an appropriate one. While these governments will incur higher interest charges, they will also incur service charges to the former entities they used to own. This would indicate that the asset sales policies of the States will only result in higher levels of expenditure than they would otherwise have incurred.

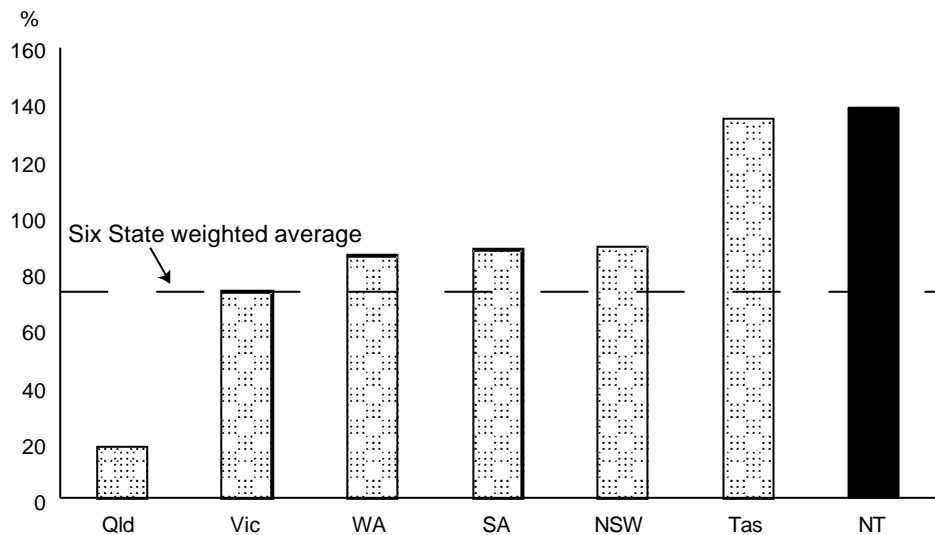
A broader assessment of government liabilities is the addition of employee liabilities to net debt. Employee liabilities include the Government’s unfunded superannuation liability and other liabilities to employees such as workers compensation and long service leave entitlements. In 2002-03, the Northern Territory Government’s employee liabilities are estimated to be \$1 726 million. When added to net debt, this liability represents \$3 193 million which the Northern Territory Government owes to its creditors and its employees. Therefore, any comparison of the Territory’s liability position must include employee liabilities.

When comparing the Territory’s net debt and employee liability position, a jurisdiction’s revenue capacity needs to be taken into account. This is especially important for the Territory as it has a high revenue capacity compared to other jurisdictions. Therefore, it is more relevant to compare the Territory by its ability to bear debt, and not by the level of its debt.

**NET DEBT AND EMPLOYEE LIABILITIES TO REVENUE**

As shown in Figure 5.9, the Territory has the highest level of net debt and employee liabilities of any jurisdiction. However, it has a level of net debt and employee liabilities similar to Tasmania. The Government’s debt reduction strategy is expected to reduce the Territory’s level of net debt and employee liabilities to more state-like levels.

**FIGURE 5.9: NET DEBT AND EMPLOYEE LIABILITIES TO TOTAL REVENUE – NON FINANCIAL PUBLIC SECTOR**



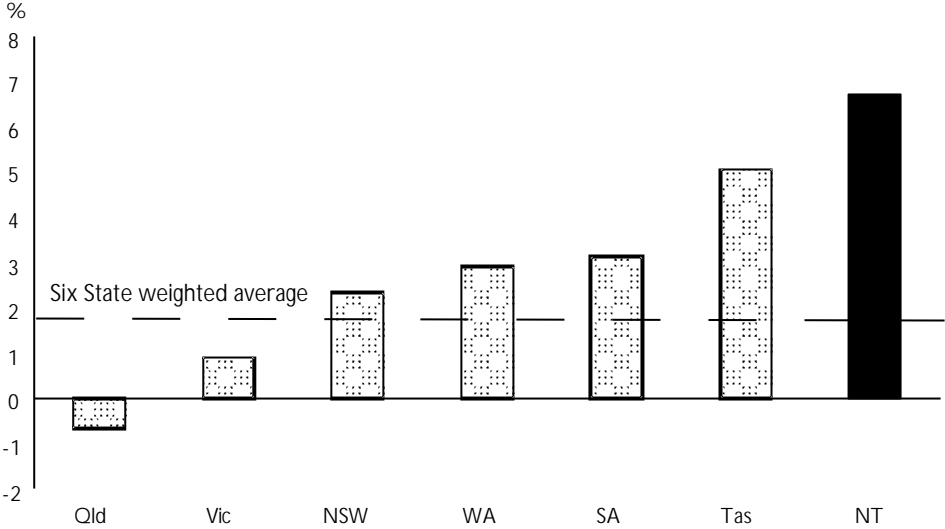
**NET INTEREST TO NET REVENUE**

Another measure of the burden of debt carried by the Territory and the six States is the ratio of net interest payments to net revenue. This removes interest receipts from both revenue and interest payments and is a better measure of the burden of debt.

Figure 5.10 shows that the Territory has the highest level of net interest payments to net revenue of any jurisdiction. While this measure reflects the Territory’s higher revenue capacity, it also demonstrates that the Territory has less flexibility than other jurisdictions in determining its own budget priorities due to its high level of interest payments. An

additional benefit of the Territory's debt reduction strategy will be lower interest payments on the Territory's debt and greater flexibility in the determination of its priorities.

**FIGURE 5.10: NET INTEREST TO NET REVENUE – NON FINANCIAL PUBLIC SECTOR**



## UNIFORM PRESENTATION FRAMEWORK

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Under the Uniform Presentation Framework (UPF), jurisdictions have agreed to publish information in a standard format in their budget papers. The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics (GFS). The UPF has been adopted by all governments to facilitate a better understanding of governments' budget papers and to provide a basis for meaningful comparisons of each government's financial results and projections.

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

The following tables set out the financial performance and position of the sectors that make up the Northern Territory public sector. Two sets of tables are included. Tables 6.1 to 6.6 consist of core tables that exclude the AustralAsia Railway Corporation (AARC). The materiality of railway-related transactions, particularly in respect of 2001-02, tends to detract from an accurate portrayal of the Territory's underlying position. The remaining tables have been prepared to comply with the requirements of the UPF and the *Fiscal Integrity and Transparency Act* and, therefore, include AARC in the figures shown.



Figure 1

**UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
GENERAL GOVERNMENT SECTOR OPERATING STATEMENT**

	Estimate 2001-02	Budget 2002-03	Forward Estimates		
	\$000	\$000	2003-04 \$000	2004-05 \$000	2005-06 \$000
<b>GFS Revenue</b>					
Taxation Revenue	224 296	226 924	232 738	233 747	231 862
Current Grants and Subsidies	1 644 138	1 796 897	1 867 456	1 884 207	1 991 685
Sales of Goods and Services	104 129	73 995	77 137	81 565	78 343
Capital Grants	89 744	84 449	68 915	68 803	68 924
Interest Income	10 195	13 947	14 919	14 934	14 954
Other	105 602	112 539	103 201	83 271	83 236
<b>Total Revenue</b>	<b>2 178 104</b>	<b>2 308 751</b>	<b>2 364 366</b>	<b>2 366 527</b>	<b>2 469 004</b>
<i>less</i>					
<b>GFS Expenses</b>					
Gross Operating Expenses	1 601 650	1 624 490	1 678 966	1 653 259	1 713 954
Depreciation	127 931	129 434	130 195	129 612	127 657
Employee Expenses	894 884	895 885	917 644	934 666	944 967
Other Operating Expenses	578 835	599 171	631 127	588 981	641 330
Nominal Superannuation Interest Expense	77 700	81 654	83 634	85 122	86 046
Other Interest Expense	147 849	154 490	152 745	152 657	152 962
Other Property Expenses					
Current Transfers	402 137	418 786	402 584	411 067	418 179
Capital Transfers	55 366	53 409	48 968	49 055	49 197
<b>Total Expenses</b>	<b>2 284 702</b>	<b>2 332 829</b>	<b>2 366 897</b>	<b>2 351 160</b>	<b>2 420 338</b>
<i>equals</i>					
<b>GFS Net Operating Balance</b>	<b>- 106 598</b>	<b>- 24 078</b>	<b>- 2 531</b>	<b>15 367</b>	<b>48 666</b>
<i>less</i>					
<b>Net Acquisition of Non Financial Assets</b>					
Gross Fixed Capital Formation	166 892	218 418	180 166	145 313	145 390
<i>less</i> Depreciation	127 931	129 434	130 195	129 612	127 657
<i>plus</i> Change in Inventories	- 48				
<i>plus</i> Other Movements in Non Financial Assets	- 1 884	- 1 472	- 1 472	- 1 472	- 1 472
<i>equals</i> Total Net Acquisition of Non Financial Assets	37 029	87 512	48 499	14 229	16 261
<i>equals</i>					
<b>GFS Net Lending/Borrowing (Fiscal Balance)</b>	<b>- 143 627</b>	<b>- 111 590</b>	<b>- 51 030</b>	<b>1 138</b>	<b>32 405</b>

Figure 2

UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
NON FINANCIAL PUBLIC SECTOR OPERATING STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>GFS Revenue</b>					
Taxation Revenue	220 492	222 994	228 795	229 790	227 544
Current Grants and Subsidies	1 644 138	1 796 897	1 867 456	1 884 206	1 991 674
Sales of Goods and Services	428 741	418 402	413 298	423 704	470 022
Capital Grants	89 744	84 449	68 915	68 803	68 924
Interest Income	23 032	26 378	28 223	27 372	27 117
Other	108 089	130 311	123 858	104 270	104 189
<b>Total Revenue</b>	<b>2 514 236</b>	<b>2 679 431</b>	<b>2 730 545</b>	<b>2 738 145</b>	<b>2 889 470</b>
<i>less</i>					
<b>GFS Expenses</b>					
Gross Operating Expenses	1 948 701	2 009 017	2 055 346	2 037 004	2 134 712
Depreciation	193 493	197 506	199 796	199 249	180 550
Employee Expenses	937 703	940 348	964 227	983 545	991 512
Other Operating Expenses	817 505	871 163	891 323	854 210	962 650
Nominal Superannuation Interest Expense	77 700	81 654	83 634	85 122	86 046
Other Interest Expense	194 445	204 415	204 359	202 958	202 997
Other Property Expenses					
Current Transfers	336 949	338 612	327 978	335 162	342 314
Capital Transfers	57 848	54 397	47 956	48 043	48 185
<b>Total Expenses</b>	<b>2 615 643</b>	<b>2 688 095</b>	<b>2 719 273</b>	<b>2 708 289</b>	<b>2 814 254</b>
<i>equals</i>					
<b>GFS Net Operating Balance</b>	<b>- 101 407</b>	<b>- 8 664</b>	<b>11 272</b>	<b>29 856</b>	<b>75 216</b>
<i>less</i>					
<b>Net Acquisition of Non Financial Assets</b>					
Gross Fixed Capital Formation	239 155	282 454	245 995	207 820	207 915
<i>less</i> Depreciation	193 493	197 506	199 796	199 249	180 550
<i>plus</i> Change in Inventories	- 4 576	5 652			
<i>plus</i> Other Movements in Non Financial Assets	- 1 884	- 1 472	- 1 472	- 1 472	- 1 472
<i>equals</i> Total Net Acquisition of Non Financial Assets	39 202	89 128	44 727	7 099	25 893
<i>equals</i>					
<b>GFS Net Lending/Borrowing (Fiscal Balance)</b>	<b>- 140 609</b>	<b>- 97 792</b>	<b>- 33 455</b>	<b>22 757</b>	<b>49 323</b>

Figure 3

**UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
GENERAL GOVERNMENT SECTOR BALANCE SHEET**

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Financial Assets					
Cash and Deposits	129 702	35 279	32 394	44 243	78 068
Advances Paid	36 686	36 209	35 732	35 255	34 778
Investments, Loans and Placements	319 255	319 255	294 933	294 933	294 933
Other Non Equity Assets	66 082	71 466	63 861	63 563	62 481
Equity	368 891	309 729	309 567	309 405	309 240
<i>Total financial Assets</i>	<i>920 616</i>	<i>771 938</i>	<i>736 487</i>	<i>747 399</i>	<i>779 500</i>
Non Financial Assets					
Land and Fixed Assets	3 331 285	3 275 837	3 194 787	3 098 263	3 003 382
Other Non Financial Assets	200	200	200	200	200
<i>Total Non Financial Assets</i>	<i>3 331 485</i>	<i>3 276 037</i>	<i>3 194 987</i>	<i>3 098 463</i>	<i>3 003 582</i>
<b>Total Assets</b>	<b>4 252 101</b>	<b>4 047 975</b>	<b>3 931 474</b>	<b>3 845 862</b>	<b>3 783 082</b>
<b>Liabilities</b>					
Deposits Held	162 868	166 519	167 143	184 383	207 776
Advances Received	118 335	117 518	116 672	115 851	115 004
Borrowing	1 630 107	1 573 557	1 573 163	1 569 764	1 569 365
Superannuation Liability	1 400 132	1 429 473	1 454 145	1 459 828	1 445 561
Other Employee Entitlements and Provisions	296 623	296 716	296 681	296 121	296 124
Other Non Equity Liabilities	52 601	50 585	49 952	49 395	48 885
<b>Total Liabilities</b>	<b>3 660 666</b>	<b>3 634 368</b>	<b>3 657 756</b>	<b>3 675 342</b>	<b>3 682 715</b>
<b>Net Worth</b>	<b>591 435</b>	<b>413 607</b>	<b>273 718</b>	<b>170 520</b>	<b>100 367</b>
Net Financial Worth (a)	-2 740 050	-2 862 430	-2 921 269	-2 927 943	-2 903 215
Net Debt (b)	1 425 667	1 466 851	1 493 919	1 495 567	1 484 366

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

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

Figure 4

UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
NON FINANCIAL PUBLIC SECTOR BALANCE SHEET

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Financial Assets					
Cash and Deposits	132 847	38 178	37 490	52 047	89 111
Advances Paid	219 385	212 637	206 552	200 466	194 380
Investments, Loans and Placements	317 569	317 949	293 627	293 627	293 627
Other Non Equity Assets	98 908	115 893	120 551	131 398	132 725
Equity	35 060	35 060	35 060	35 060	35 060
<i>Total Financial Assets</i>	<i>803 769</i>	<i>719 717</i>	<i>693 280</i>	<i>712 598</i>	<i>744 903</i>
Non Financial Assets					
Land and Fixed Assets	4 987 989	4 931 009	4 846 039	4 742 237	4 656 837
Other Non Financial Assets	200	200	200	200	200
<i>Total Non Financial Assets</i>	<i>4 988 189</i>	<i>4 931 209</i>	<i>4 846 239</i>	<i>4 742 437</i>	<i>4 657 037</i>
<b>Total Assets</b>	<b>5 791 958</b>	<b>5 650 926</b>	<b>5 539 519</b>	<b>5 455 035</b>	<b>5 401 940</b>
<b>Liabilities</b>					
Deposits Held	53 588	90 344	112 607	137 077	166 803
Advances Received	408 414	401 849	394 956	387 771	380 225
Borrowing	1 987 933	1 969 157	1 957 627	1 948 800	1 943 308
Superannuation Liability	1 400 132	1 429 473	1 454 145	1 459 828	1 445 561
Other Employee Entitlements and Provisions	324 099	327 898	332 061	335 707	335 710
Other Non Equity Liabilities	87 409	77 780	72 034	70 787	71 323
<b>Total Liabilities</b>	<b>4 261 575</b>	<b>4 296 501</b>	<b>4 323 430</b>	<b>4 339 970</b>	<b>4 342 930</b>
<b>Net Worth</b>	<b>1 530 383</b>	<b>1 354 425</b>	<b>1 216 089</b>	<b>1 115 065</b>	<b>1 059 010</b>
Net Financial Worth (a)	-3 457 806	-3 576 784	-3 630 150	-3 627 372	-3 598 027
Net Debt (b)	1 780 134	1 892 586	1 927 521	1 927 508	1 913 218

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

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

Figure 5

**UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT**

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	224 311	226 924	232 738	233 747	231 862
Receipts from Sales of Goods and Services	104 939	75 844	77 913	82 520	78 722
Grants/Subsidies Received	1 733 882	1 881 346	1 936 371	1 953 010	2 060 609
Other Receipts	92 595	111 443	117 302	90 040	91 381
<i>Total Receipts</i>	<i>2 155 727</i>	<i>2 295 557</i>	<i>2 364 324</i>	<i>2 359 317</i>	<i>2 462 574</i>
<b>Cash Payments for Operating Activities</b>					
Payment for Goods and Services	-1 502 213	-1 519 904	-1 534 885	-1 580 736	-1 612 324
Grants and Subsidies Paid	- 449 910	- 464 380	- 443 705	- 452 024	- 458 300
Interest Paid	- 148 218	- 154 696	- 152 953	- 152 861	- 152 815
Other Payments	- 7 807	- 36 815	- 81 155	- 30 984	- 84 016
<i>Total Payments</i>	<i>-2 108 148</i>	<i>-2 175 795</i>	<i>-2 212 698</i>	<i>-2 216 605</i>	<i>-2 307 455</i>
<b>Net Cash Flows from Operating Activities</b>	<b>47 579</b>	<b>119 762</b>	<b>151 626</b>	<b>142 712</b>	<b>155 119</b>
<b>Net Cash Flows from Investments in Non Financial Assets</b>					
Sales of Non Financial Assets	28 826	28 078	25 080	25 253	25 253
Purchases of Non Financial Assets	- 193 830	- 244 114	- 202 864	- 168 356	- 168 261
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>- 165 004</i>	<i>- 216 036</i>	<i>- 177 784</i>	<i>- 143 103</i>	<i>- 143 008</i>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes (a)</b>	<b>4 789</b>	<b>56 477</b>	<b>477</b>	<b>477</b>	<b>477</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>			<b>24 322</b>		
<b>Net Cash Flows from Financing Activities</b>					
Advances Received (net)	- 546	- 817	- 846	- 821	- 847
Borrowing (net)	105 256	- 57 460	- 1 304	- 4 309	- 1 309
Deposits Received (net)	1 677	3 651	624	17 240	23 393
Distributions Paid				- 347	
Other Financing (net)	812				
<i>Net Cash Flows from Financing Activities</i>	<i>107 199</i>	<i>- 54 626</i>	<i>- 1 526</i>	<i>11 763</i>	<i>21 237</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>- 5 437</b>	<b>- 94 423</b>	<b>- 2 885</b>	<b>11 849</b>	<b>33 825</b>
<b>Net Cash from Operating Activities and Investments in Non Financial Assets</b>	<b>- 117 425</b>	<b>- 96 274</b>	<b>- 26 158</b>	<b>- 738</b>	<b>12 111</b>
Finance Leases and Similar Arrangements (b)		910	910	738	910
<b>Surplus (+) / Deficit (-) (c)</b>	<b>- 117 425</b>	<b>- 95 364</b>	<b>- 25 248</b>	<b>0</b>	<b>13 021</b>

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

(b) Finance leases are deducted in compiling the surplus/deficit.

(c) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable.

Time series data created by splicing these measures together should therefore be used with caution.

Figure 6

UNIFORM PRESENTATION WITHOUT AUSTRALASIA RAILWAY CORPORATION  
NON FINANCIAL PUBLIC SECTOR CASH FLOW STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	220 362	222 994	228 795	229 790	227 544
Receipts from Sales of Goods and Services	431 643	406 539	407 396	413 929	467 512
Grants and Subsidies Received	1 733 882	1 881 346	1 936 371	1 953 010	2 060 609
Other Receipts	96 011	120 699	123 914	101 232	103 000
<i>Total Receipts</i>	<i>2 481 898</i>	<i>2 631 578</i>	<i>2 696 476</i>	<i>2 697 961</i>	<i>2 858 665</i>
<b>Cash Payments for Operating Activities</b>					
Payment for Goods and Services	-1 780 502	-1 846 120	-1 842 671	-1 891 226	-1 979 355
Grants and Subsidies Paid	- 386 562	- 384 515	- 367 411	- 374 429	- 380 705
Interest Paid	- 194 441	- 204 419	- 204 475	- 203 264	- 202 638
Other Payments	- 8 515	- 37 494	- 81 831	- 31 662	- 84 734
<i>Total Payments</i>	<i>-2 370 020</i>	<i>-2 472 548</i>	<i>-2 496 388</i>	<i>-2 500 581</i>	<i>-2 647 432</i>
<b>Net Cash Flows from Operating Activities</b>	<b>111 878</b>	<b>159 030</b>	<b>200 088</b>	<b>197 380</b>	<b>211 233</b>
<b>Net Cash Flows from Investments in Non Financial Assets</b>					
Sales of Non Financial Assets	44 449	50 432	47 937	48 547	48 547
Purchases of Non Financial Assets	- 272 716	- 321 004	- 282 050	- 244 657	- 244 580
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>- 228 267</i>	<i>- 270 572</i>	<i>- 234 113</i>	<i>- 196 110</i>	<i>- 196 033</i>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes (a)</b>	<b>11 528</b>	<b>6 748</b>	<b>6 085</b>	<b>6 086</b>	<b>6 086</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>		<b>- 380</b>	<b>24 322</b>		
<b>Net Cash Flows from Financing Activities</b>					
Advances Received (net)	- 6 009	- 6 565	- 6 893	- 7 185	- 7 546
Borrowing (net)	129 855	- 19 686	- 12 440	- 9 737	- 6 402
Deposits Received (net)	- 24 932	36 756	22 263	24 470	29 726
Distributions Paid				- 347	
Other Financing (net)	812				
<i>Net Cash Flows from Financing Activities</i>	<i>99 726</i>	<i>10 505</i>	<i>2 930</i>	<i>7 201</i>	<i>15 778</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>- 5 135</b>	<b>- 94 669</b>	<b>- 688</b>	<b>14 557</b>	<b>37 064</b>
<b>Net Cash from Operating Activities and Investments in Non Financial Assets</b>	<b>- 116 389</b>	<b>- 111 542</b>	<b>- 34 025</b>	<b>923</b>	<b>15 200</b>
Finance Leases and Similar Arrangements (b)		910	910	738	910
<b>Surplus (+) / Deficit (-) (c)</b>	<b>- 116 389</b>	<b>- 110 632</b>	<b>- 33 115</b>	<b>1 661</b>	<b>16 110</b>

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

(b) Finance leases are deducted in compiling the surplus/deficit.

(c) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF.

However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time series data created by splicing these measures together should therefore be used with caution.

Figure 7

UNIFORM PRESENTATION - NORTHERN TERRITORY  
GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

	Estimate	Budget	Forward Estimates		
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
	\$000	\$000	\$000	\$000	\$000
<b>GFS Revenue</b>					
Taxation Revenue	224 296	226 924	232 738	233 747	231 862
Current Grants and Subsidies	1 645 473	1 798 397	1 868 456	1 884 207	1 991 685
Sales of Goods and Services	104 041	73 912	77 053	81 480	78 343
Capital Grants	199 744	84 449	68 915	68 803	68 924
Interest Income	13 651	14 012	14 966	14 934	14 954
Other	105 614	115 539	105 201	83 441	83 236
<b>Total Revenue</b>	<b>2 292 819</b>	<b>2 313 233</b>	<b>2 367 329</b>	<b>2 366 612</b>	<b>2 469 004</b>
less					
<b>GFS Expenses</b>					
Gross Operating Expenses	1 604 349	1 634 844	1 681 755	1 653 259	1 713 954
Depreciation	127 986	129 489	130 250	129 612	127 657
Employee Expenses	895 789	896 951	918 731	934 666	944 967
Other Operating Expenses	580 574	608 404	632 774	588 981	641 330
Nominal Superannuation Interest Expense	77 700	81 654	83 634	85 122	86 046
Other Interest Expense	147 849	154 490	152 745	152 657	152 962
Other Property Expenses					
Current Transfers	400 696	417 286	401 584	411 067	418 179
Capital Transfers	55 366	53 409	48 968	49 055	49 197
<b>Total Expenses</b>	<b>2 285 960</b>	<b>2 341 683</b>	<b>2 368 686</b>	<b>2 351 160</b>	<b>2 420 338</b>
equals					
<b>GFS Net Operating Balance</b>	<b>6 859</b>	<b>- 28 450</b>	<b>- 1 357</b>	<b>15 452</b>	<b>48 666</b>
less					
<b>Net Acquisition of Non Financial Assets</b>					
Gross Fixed Capital Formation	453 612	236 418	180 166	145 313	145 390
<i>less</i> Depreciation	127 986	129 489	130 250	129 612	127 657
<i>plus</i> Change in Inventories	- 48				
<i>plus</i> Other Movements in Non Financial Assets	- 1 884	- 1 472	- 1 472	- 1 472	- 1 472
<i>equals</i> Total Net Acquisition of Non Financial Assets	323 694	105 457	48 444	14 229	16 261
equals					
<b>GFS Net Lending / Borrowing (Fiscal Balance)</b>	<b>- 316 835</b>	<b>- 133 907</b>	<b>- 49 801</b>	<b>1 223</b>	<b>32 405</b>

Figure 8

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC NON FINANCIAL CORPORATIONS SECTOR OPERATING STATEMENT

	Estimate <b>2001-02</b>	Budget <b>2002-03</b>	<b>2003-04</b>	Forward Estimates	
	\$000	\$000	\$000	<b>2004-05</b>	<b>2005-06</b>
<b>GFS Revenue</b>					
Current Grants and Subsidies	67 710	82 673	79 102	80 402	80 392
Sales of Goods and Services	398 646	419 660	411 424	417 433	411 283
Capital Grants					
Interest Income	16 826	16 085	15 244	14 594	14 597
Other	19 298	36 446	33 994	34 122	34 416
<b>Total Revenue</b>	<b>502 480</b>	<b>554 864</b>	<b>539 764</b>	<b>546 551</b>	<b>540 688</b>
less					
<b>GFS Expenses</b>					
Gross Operating Expenses	424 356	462 680	454 608	462 021	443 344
Depreciation	65 562	68 072	69 601	69 637	52 893
Employee Expenses	46 090	47 365	49 548	51 861	49 527
Other Operating Expenses	312 704	347 243	335 459	340 523	340 924
Other Interest Expense	50 585	53 579	53 554	52 457	52 469
Other Property Expenses	13 540	15 772	10 372	10 141	10 481
Current Transfers	6 326	6 431	6 439	6 455	6 856
Capital Transfers	2 482	988	988	988	988
<b>Total Expenses</b>	<b>497 289</b>	<b>539 450</b>	<b>525 961</b>	<b>532 062</b>	<b>514 138</b>
equals					
<b>GFS Net Operating Balance</b>	<b>5 191</b>	<b>15 414</b>	<b>13 803</b>	<b>14 489</b>	<b>26 550</b>
less					
<b>Net Acquisition of Non Financial Assets</b>					
Gross Fixed Capital Formation	72 263	64 036	65 829	62 507	62 525
<i>less</i> Depreciation	65 562	68 072	69 601	69 637	52 893
<i>plus</i> Change in Inventories	- 4 528	5 652			
<i>plus</i> Other Movements in Non Financial Assets					
<i>equals</i> Total Net Acquisition of Non Financial Assets	2 173	1 616	- 3 772	- 7 130	9 632
less					
<b>GFS Net Lending / Borrowing (Fiscal Balance)</b>	<b>3 018</b>	<b>13 798</b>	<b>15 575</b>	<b>21 619</b>	<b>16 918</b>



Figure 9

UNIFORM PRESENTATION - NORTHERN TERRITORY  
NON FINANCIAL PUBLIC SECTOR OPERATING STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>GFS Revenue</b>					
Taxation Revenue	220 492	222 994	228 795	229 790	227 544
Current Grants and Subsidies	1 645 473	1 798 397	1 868 456	1 884 206	1 991 674
Sales of Goods and Services	428 653	418 319	413 214	423 619	470 022
Capital Grants	199 744	84 449	68 915	68 803	68 924
Interest Income	26 488	26 443	28 270	27 372	27 117
Other	108 101	133 311	121 729	116 954	116 773
<b>Total Revenue</b>	<b>2 628 951</b>	<b>2 683 913</b>	<b>2 729 379</b>	<b>2 750 744</b>	<b>2 902 054</b>
less					
<b>GFS Expenses</b>					
Gross Operating Expenses	1 951 400	2 019 371	2 058 135	2 037 004	2 134 712
Depreciation	193 548	197 561	199 851	199 249	180 550
Employee Expenses	938 608	941 414	965 314	983 545	991 512
Other Operating Expenses	819 244	880 396	892 970	854 210	962 650
Nominal Superannuation Interest Expense	77 700	81 654	83 634	85 122	86 046
Other Interest Expense	194 445	204 415	204 359	202 958	202 997
Other Property Expenses					
Current Transfers	335 508	337 112	326 978	335 162	342 314
Capital Transfers	57 848	54 397	47 956	48 043	48 185
<b>Total Expenses</b>	<b>2 616 901</b>	<b>2 696 949</b>	<b>2 721 062</b>	<b>2 708 289</b>	<b>2 814 254</b>
equals					
<b>GFS Net Operating Balance</b>	<b>12 050</b>	<b>- 13 036</b>	<b>8 317</b>	<b>42 455</b>	<b>87 800</b>
less					
<b>Net Acquisition of Non Financial Assets</b>					
Gross Fixed Capital Formation	525 875	300 454	245 995	207 820	207 915
<i>less</i> Depreciation	193 548	197 561	199 851	199 249	180 550
<i>plus</i> Change in Inventories	- 4 576	5 652			
<i>plus</i> Other Movements in Non Financial Assets	- 1 884	- 1 472	- 1 472	- 1 472	- 1 472
<i>equals</i> Total Net Acquisition of Non Financial Assets	325 867	107 073	44 672	7 099	25 893
equals					
<b>GFS Net Lending / Borrowing (Fiscal Balance)</b>	<b>- 313 817</b>	<b>- 120 109</b>	<b>- 36 355</b>	<b>35 356</b>	<b>61 907</b>

Figure 10

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC FINANCIAL CORPORATIONS SECTOR OPERATING STATEMENT

	Estimate <b>2001-02</b>
	\$000
<b>GFS Revenue</b>	
Current Grants and Subsidies	
Sales of Goods and Services	115 138
Capital Grants	
Interest Income	220 976
Other	580
<b>Total Revenue</b>	<b>336 694</b>
less	
<b>GFS Expenses</b>	
Gross Operating Expenses	125 841
Depreciation	1 242
Employee Expenses	1 138
Other Operating Expenses	123 461
Other Interest Expense	178 804
Other Property Expenses	17 666
Current Transfers	25
Capital Transfers	
<b>Total Expenses</b>	<b>322 336</b>
equals	
<b>GFS Net Operating Balance</b>	<b>14 358</b>
less	
<b>Net Acquisition of Non Financial Assets</b>	
Gross Fixed Capital Formation	- 110
<i>less</i> Depreciation	1 242
<i>plus</i> Change in Inventories	
<i>plus</i> Other Movements in Non Financial Assets	
<i>equals</i> Total Net Acquisition of Non Financial Assets	- 1 352
equals	
<b>GFS Net Lending / Borrowing (Fiscal Balance)</b>	<b>15 710</b>

Figure 11

UNIFORM PRESENTATION - NORTHERN TERRITORY  
GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Financial Assets					
Cash and Deposits	130 657	37 417	34 661	46 510	80 335
Advances Paid	36 686	36 209	35 732	35 255	34 778
Investments, Loans and Placements	368 832	368 832	344 510	344 510	344 510
Other Non Equity Assets	118 518	98 902	63 797	63 499	62 417
Equity	1 362 417	1 320 628	1 340 225	1 363 216	1 400 766
<i>Total Financial Assets</i>	<i>2 017 110</i>	<i>1 861 988</i>	<i>1 818 925</i>	<i>1 852 990</i>	<i>1 922 806</i>
Non Financial Assets					
Land and Fixed Assets	3 740 981	3 703 478	3 622 373	3 525 849	3 430 968
Other Non Financial Assets	200	200	200	200	200
<i>Total Non Financial Assets</i>	<i>3 741 181</i>	<i>3 703 678</i>	<i>3 622 573</i>	<i>3 526 049</i>	<i>3 431 168</i>
<b>Total Assets</b>	<b>5 758 291</b>	<b>5 565 666</b>	<b>5 441 498</b>	<b>5 379 039</b>	<b>5 353 974</b>
<b>Liabilities</b>					
Deposits Held	162 868	166 519	167 143	184 383	207 776
Advances Received	118 335	117 518	116 672	115 851	115 004
Borrowing	1 655 107	1 598 557	1 598 163	1 594 764	1 594 365
Superannuation Liability	1 400 132	1 429 473	1 454 145	1 459 828	1 445 561
Other Employee Entitlements and Provisions	296 623	296 716	296 681	296 121	296 124
Other Non Equity Liabilities	80 240	78 224	49 991	49 434	48 924
<b>Total Liabilities</b>	<b>3 713 305</b>	<b>3 687 007</b>	<b>3 682 795</b>	<b>3 700 381</b>	<b>3 707 754</b>
<b>Net Worth</b>	<b>2 044 986</b>	<b>1 878 659</b>	<b>1 758 703</b>	<b>1 678 658</b>	<b>1 646 220</b>
Net Financial Worth (a)	-1 696 195	-1 825 019	-1 863 870	-1 847 391	-1 784 948
Net Debt (b)	1 400 135	1 440 136	1 467 075	1 468 723	1 457 522

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

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

Figure 12

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC NON FINANCIAL CORPORATIONS SECTOR BALANCE SHEET

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Financial Assets					
Cash and Deposits	115 274	81 923	62 481	57 959	54 865
Investments, Loans and Placements	181 013	175 122	169 514	163 905	158 296
Other Non Equity Assets	54 904	68 584	75 245	85 957	87 597
Equity	2	2	2	2	2
<i>Total Financial Assets</i>	<i>351 193</i>	<i>325 631</i>	<i>307 242</i>	<i>307 823</i>	<i>300 760</i>
Non Financial Assets					
Land and Fixed Assets	1 656 704	1 655 172	1 651 252	1 643 974	1 653 455
Other Non Financial Assets					
<i>Total Non Financial Assets</i>	<i>1 656 704</i>	<i>1 655 172</i>	<i>1 651 252</i>	<i>1 643 974</i>	<i>1 653 455</i>
<b>Total Assets</b>	<b>2 007 897</b>	<b>1 980 803</b>	<b>1 958 494</b>	<b>1 951 797</b>	<b>1 954 215</b>
<b>Liabilities</b>					
Deposits Held	2 849	2 849	2 849	2 849	2 849
Advances Received	290 079	284 331	278 284	271 920	265 221
Borrowing	357 826	395 600	384 464	379 036	373 943
Superannuation Liability					
Other Employee Entitlements and Provisions	41 063	47 000	45 798	49 773	50 113
Other Non Equity Liabilities	43 299	35 534	30 219	29 327	29 264
<b>Total Liabilities</b>	<b>735 116</b>	<b>765 314</b>	<b>741 614</b>	<b>732 905</b>	<b>721 390</b>
<b>Net Worth</b>	<b>1 272 781</b>	<b>1 215 489</b>	<b>1 216 880</b>	<b>1 218 892</b>	<b>1 232 825</b>
Net Financial Worth (a)	- 383 923	- 439 683	- 434 372	- 425 082	- 420 630
Net Debt (b)	354 467	425 735	433 602	431 941	428 852

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

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

Figure 13

**UNIFORM PRESENTATION - NORTHERN TERRITORY  
NON FINANCIAL PUBLIC SECTOR BALANCE SHEET**

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Financial Assets					
Cash and Deposits	133 804	40 318	34 764	61 835	111 483
Advances Paid	219 385	212 637	206 552	200 466	194 380
Investments, Loans and Placements	367 146	367 526	343 204	343 204	343 204
Other Non Equity Assets	151 344	143 329	120 487	131 334	132 661
Equity	89 636	105 139	34 891	34 891	34 891
<i>Total Financial Assets</i>	<i>961 315</i>	<i>868 949</i>	<i>739 898</i>	<i>771 730</i>	<i>816 619</i>
Non Financial Assets					
Land and Fixed Assets	5 397 685	5 358 650	5 273 625	5 169 823	5 084 423
Other Non Financial Assets	200	200	200	200	200
<i>Total Non Financial Assets</i>	<i>5 397 885</i>	<i>5 358 850</i>	<i>5 273 825</i>	<i>5 170 823</i>	<i>5 084 623</i>
<b>Total Assets</b>	<b>6 359 200</b>	<b>6 227 799</b>	<b>6 013 723</b>	<b>5 941 753</b>	<b>5 901 242</b>
<b>Liabilities</b>					
Deposits Held	53 588	90 344	112 607	137 077	166 803
Advances Received	408 414	401 849	394 956	387 771	380 225
Borrowing	2 012 933	1 994 157	1 982 627	1 973 800	1 968 308
Superannuation Liability	1 400 132	1 429 473	1 454 145	1 459 828	1 445 561
Other Employee Entitlements and Provisions	324 099	327 898	332 061	335 707	335 710
Other Non Equity Liabilities	115 048	105 419	72 073	70 826	71 362
<b>Total Liabilities</b>	<b>4 314 214</b>	<b>4 349 140</b>	<b>4 348 469</b>	<b>4 365 009</b>	<b>4 367 969</b>
<b>Net Worth</b>	<b>2 044 986</b>	<b>1 878 659</b>	<b>1 665 254</b>	<b>1 576 744</b>	<b>1 533 273</b>
Net Financial Worth (a)	-3 352 899	-3 480 191	-3 608 571	-3 593 279	-3 551 350
Net Debt (b)	1 754 600	1 865 869	1 905 670	1 893 143	1 866 269

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

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

Figure 14

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC FINANCIAL CORPORATIONS SECTOR BALANCE SHEET

	Estimate <b>2001-02</b>
	\$000
<b>Assets</b>	
Financial Assets	
Cash and Deposits	49 978
Investments, Loans and Placements	2 840 644
Other Non Equity Assets	173 724
Equity	66 365
<i>Total Financial Assets</i>	<i>3 130 711</i>
Non Financial Assets	
Land and Fixed Assets	2 851
Other Non Financial Assets	14 135
<i>Total Non Financial Assets</i>	<i>16 986</i>
<b>Total Assets</b>	<b>3 147 697</b>
<b>Liabilities</b>	
Deposits Held	224 526
Advances Received	326 059
Borrowing	2 118 771
Superannuation Liability	
Other Employee Entitlements and Provisions	20 707
Other Non Equity Liabilities	367 998
<b>Total Liabilities</b>	<b>3 058 061</b>
<b>Net Worth</b>	<b>89 636</b>
Net Financial Worth (a)	72 650
Net Debt (b)	- 221 266

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

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

Figure 15

UNIFORM PRESENTATION - NORTHERN TERRITORY  
GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	224 311	226 924	232 738	233 747	231 862
Receipts from Sales of Goods and Services	104 873	100 761	102 829	82 435	78 722
Grants and Subsidies Received	1 870 217	1 882 846	1 937 371	1 953 010	2 060 609
Other Receipts	95 814	113 008	120 849	90 125	91 381
<i>Total Receipts</i>	<i>2 295 215</i>	<i>2 323 539</i>	<i>2 393 787</i>	<i>2 359 317</i>	<i>2 462 574</i>
<b>Cash Payments for Operating Activities</b>					
Payment for Goods and Services	-1 502 567	-1 530 203	-1 565 219	-1 580 736	-1 612 324
Grants and Subsidies Paid	- 448 469	- 462 880	- 442 705	- 452 024	- 458 300
Interest Paid	- 148 218	- 154 696	- 152 953	- 152 861	- 152 815
Other Payments	- 7 807	- 36 815	- 81 155	- 30 984	- 84 016
<i>Total Payments</i>	<i>-2 107 061</i>	<i>-2 184 594</i>	<i>-2 242 032</i>	<i>-2 216 605</i>	<i>-2 307 455</i>
<b>Net Cash Flows from Operating Activities</b>	<b>188 154</b>	<b>138 945</b>	<b>151 755</b>	<b>142 712</b>	<b>155 119</b>
<b>Net Cash Flows From Investments in Non Financial Assets</b>					
Sales of Non Financial Assets	28 836	28 078	25 080	25 253	25 253
Purchases of Non Financial Assets	- 480 560	- 262 114	- 202 864	- 168 356	- 168 261
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>- 451 724</i>	<i>- 234 036</i>	<i>- 177 784</i>	<i>- 143 103</i>	<i>- 143 008</i>
<b>Net Cash Flows from Investments in Financial Assets For Policy Purposes (a)</b>	<b>4 789</b>	<b>56 477</b>	<b>477</b>	<b>477</b>	<b>477</b>
<b>Net Cash Flows from Investments in Financial Assets For Liquidity Purposes</b>	<b>- 6 570</b>		<b>24 322</b>		
<b>Net Cash Flows from Financing Activities</b>					
Advances Received (Net)	- 546	- 817	- 846	- 821	- 847
Borrowing (Net)	105 256	- 57 460	- 1 304	- 4 309	- 1 309
Deposits Received (Net)	1 677	3 651	624	17 240	23 393
Distributions Paid				- 347	
Other Financing (Net)	812				
<i>Net Cash Flows from Financing Activities</i>	<i>107 199</i>	<i>- 54 626</i>	<i>- 1 526</i>	<i>11 763</i>	<i>21 237</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>- 158 152</b>	<b>- 93 240</b>	<b>- 2 756</b>	<b>11 849</b>	<b>33 825</b>
<b>Net Cash From Operating Activities and Investments in Non Financial Assets</b>	<b>- 263 570</b>	<b>- 95 091</b>	<b>- 26 029</b>	<b>- 738</b>	<b>12 111</b>
Finance Leases and Similar Arrangements (b)		910	910	738	910
<b>Surplus (+) / Deficit (-) (c)</b>	<b>- 263 570</b>	<b>- 94 181</b>	<b>- 25 119</b>	<b>11 849</b>	<b>13 021</b>

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

(b) Finance leases are deducted in compiling the surplus/deficit.

(c) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF.

However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time series data created by splicing these measures together should therefore be used with caution.

Figure 16

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC NON FINANCIAL CORPORATIONS SECTOR CASH FLOW STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Cash Receipts from Operating Activities</b>					
Receipts from Sales of Goods and Services	401 445	405 898	404 746	406 703	409 650
Grants and Subsidies Received					
Other Receipts	87 741	112 228	106 593	107 307	107 432
<i>Total Receipts</i>	<i>489 186</i>	<i>518 126</i>	<i>511 339</i>	<i>514 010</i>	<i>517 082</i>
<b>Cash Payments for Operating Activities</b>					
Payment for Goods and Services	- 356 363	- 404 319	- 386 014	- 388 766	- 390 873
Grants and Subsidies Paid	- 4 362	- 2 808	- 2 808	- 2 808	- 2 808
Interest Paid	- 50 585	- 53 579	- 53 664	- 52 761	- 52 110
Other Payments	- 4 655	- 4 612	- 4 620	- 4 635	- 5 036
<i>Total Payments</i>	<i>- 415 965</i>	<i>- 465 318</i>	<i>- 447 106</i>	<i>- 448 970</i>	<i>450 827</i>
<b>Net Cash Flows from Operating Activities</b>	<b>73 221</b>	<b>52 808</b>	<b>64 233</b>	<b>65 040</b>	<b>66 255</b>
<b>Net Cash Flows from Investments in Non Financial Assets</b>					
Sales of Non Financial Assets	15 623	22 354	22 857	23 294	23 294
Purchases of Non Financial Assets	- 78 886	- 76 890	- 79 186	- 76 301	- 76 319
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>- 63 263</i>	<i>- 54 536</i>	<i>- 56 329</i>	<i>- 53 007</i>	<i>- 53 025</i>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes (a)</b>	<b>6 739</b>	<b>6 271</b>	<b>5 608</b>	<b>5 609</b>	<b>5 609</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>		<b>- 380</b>			
<b>Net Cash Flows from Financing Activities</b>					
Advances Received (Net)	- 5 463	- 5 748	- 6 407	- 6 364	- 6 699
Borrowing (Net)	24 599	37 774	- 11 136	- 5 428	- 5 093
Deposits Received (Net)					
Distributions Paid	- 8 961	- 13 540	- 15 771	- 10 372	- 10 141
Other Financing (Net)		- 56 000			
<i>Net Cash Flows from Financing Activities</i>	<i>10 175</i>	<i>- 37 514</i>	<i>- 32 954</i>	<i>- 22 164</i>	<i>- 21 933</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>26 872</b>	<b>- 33 351</b>	<b>- 19 442</b>	<b>- 4 522</b>	<b>- 3 094</b>
<b>Net Cash From Operating Activities and Investments in Non Financial Assets</b>	<b>997</b>	<b>- 15 268</b>	<b>- 7 867</b>	<b>1 661</b>	<b>3 089</b>
<b>Surplus (+) / Deficit (-) (b)</b>	<b>997</b>	<b>- 15 268</b>	<b>- 7 867</b>	<b>1 661</b>	<b>3 089</b>

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

(b) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF. However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time series data created by splicing these measures together should therefore be used with caution.



Figure 17

UNIFORM PRESENTATION - NORTHERN TERRITORY  
NON FINANCIAL PUBLIC SECTOR CASH FLOW STATEMENT

	Estimate	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06
	\$000	\$000	\$000	\$000	\$000
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	220 362	222 994	228 795	229 790	227 544
Receipts from Sales of Goods and Services	431 577	431 456	432 283	413 844	467 512
Grants and Subsidies Received	1 870 217	1 882 846	1 937 371	1 953 010	2 060 609
Other Receipts	99 230	122 264	123 361	113 831	115 584
<i>Total Receipts</i>	<i>2 621 386</i>	<i>2 659 560</i>	<i>2 721 810</i>	<i>2 710 475</i>	<i>2 871 249</i>
<b>Cash Payments for Operating Activities</b>					
Payment for Goods and Services	-1 780 895	-1 856 419	-1 873 005	-1 891 226	-1 979 355
Grants and Subsidies Paid	- 385 121	- 383 015	- 366 411	- 374 429	- 380 705
Interest Paid	- 194 441	- 204 419	- 204 475	- 203 264	- 202 638
Other Payments	- 8 515	- 37 494	- 81 831	- 31 662	- 84 734
<i>Total Payments</i>	<i>-2 368 972</i>	<i>-2 481 347</i>	<i>-2 525 722</i>	<i>-2 500 581</i>	<i>-2 647 432</i>
<b>Net Cash Flows from Operating Activities</b>	<b>252 414</b>	<b>178 213</b>	<b>196 088</b>	<b>209 894</b>	<b>223 817</b>
<b>Net Cash Flows from Investments in Non Financial Assets</b>					
Sales of Non Financial Assets	44 459	50 432	47 937	48 547	48 547
Purchases of Non Financial Assets	- 559 446	- 339 004	- 282 050	- 244 657	- 244 580
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>- 514 987</i>	<i>- 288 572</i>	<i>- 234 113</i>	<i>- 196 110</i>	<i>- 196 033</i>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes (a)</b>	<b>11 528</b>	<b>6 748</b>	<b>6 085</b>	<b>6 086</b>	<b>6 086</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>- 6 570</b>	<b>- 380</b>	<b>24 322</b>		
<b>Net Cash Flows from Financing Activities</b>					
Advances Received (Net)	- 6 009	- 6 565	- 6 893	- 7 185	- 7 546
Borrowing (Net)	129 855	- 19 686	- 12 440	- 9 737	- 6 402
Deposits Received (Net)	- 24 932	36 756	22 263	24 470	29 726
Distributions Paid				- 347	
Other Financing (Net)	812				
<i>Net Cash Flows from Financing Activities</i>	<i>99 726</i>	<i>10 505</i>	<i>2 930</i>	<i>7 201</i>	<i>15 778</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>- 157 889</b>	<b>- 93 486</b>	<b>4 688</b>	<b>27 073</b>	<b>49 648</b>
<b>Net Cash From Operating Activities and Investments in Non Financial Assets</b>	<b>- 262 573</b>	<b>- 110 359</b>	<b>38 025</b>	<b>13 437</b>	<b>27 784</b>
Finance Leases and Similar Arrangements (b)		910	910	738	910
<b>Surplus (+) / Deficit (-) (c)</b>	<b>- 262 573</b>	<b>- 109 449</b>	<b>- 37 115</b>	<b>14 175</b>	<b>28 694</b>

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

(b) Finance leases are deducted in compiling the surplus/deficit.

(c) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF.

However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time series data created by splicing these measures together should therefore be used with caution.

Figure 18

UNIFORM PRESENTATION - NORTHERN TERRITORY  
PUBLIC FINANCIAL CORPORATIONS SECTOR CASH FLOW STATEMENT

	Estimate <b>2001-02</b>
	\$000
<b>Cash Receipts from Operating Activities</b>	
Receipts from Sales of Goods and Services	115 146
Grants and Subsidies Received	
Other Receipts	221 971
<i>Total Receipts</i>	<i>337 117</i>
<b>Cash Payments for Operating Activities</b>	
Payment for Goods and Services	- 124 606
Interest Paid	- 186 749
Other Payments	- 25
<i>Total Payments</i>	<i>- 311 380</i>
<b><i>Net Cash Flows from Operating Activities</i></b>	<b><i>25 737</i></b>
<b>Net Cash Flows from Investments in Non Financial Assets</b>	
Sales of Non Financial Assets	119
Purchases of Non Financial Assets	- 9
<i>Net Cash Flows from Investments in Non Financial Assets</i>	<i>110</i>
<b><i>Net Cash Flows from Investments in Financial Assets for Policy Purposes (a)</i></b>	<b><i>6 037</i></b>
<b><i>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</i></b>	<b><i>- 130 058</i></b>
<b>Net Cash Flows from Financing Activities</b>	
Advances Received (Net)	- 16 444
Borrowing (Net)	111 884
Deposits Received (Net)	
Distributions Paid	- 13 688
Other Financing (Net)	
<i>Net Cash Flows from Financing Activities</i>	<i>81 752</i>
<b>Net Increase (Decrease) in Cash Held</b>	<b>- 16 422</b>
<b>Net Cash From Operating Activities and Investments in Non Financial Assets</b>	<b>12 159</b>
Finance Leases and Similar Arrangements (b)	13 688
<b>Surplus (+) / Deficit (-) (c)</b>	<b>25 847</b>

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

(b) Finance leases are deducted in compiling the surplus/deficit.

(c) Conceptually the surplus/deficit aggregate contained in the cash flow statement is the same as the deficit obtained under the cash UPF.

However, in practice, the process of deriving these aggregates differs so that the measures are not directly comparable. Time series data created by splicing these measures together should therefore be used with caution.

Figure 19

UNIFORM PRESENTATION - NORTHERN TERRITORY  
GENERAL GOVERNMENT SECTOR EXPENSES BY FUNCTION

	Estimate 2001-02	Budget
	\$000	\$000
General Public Services	268 403	282 728
Defence		
Public Order and Safety	238 738	238 834
Education	484 309	487 996
Health	432 696	427 320
Social Security and Welfare	66 912	65 841
Housing and Community Amenities	133 320	135 555
Recreation and Culture	102 272	109 735
Fuel and Energy	55 302	58 095
Agriculture, Forestry, Fishing and Hunting	67 609	67 132
Mining, Manufacturing and Construction	21 664	30 801
Transport and Communications	113 096	114 899
Other Economic Affairs	80 694	83 915
Other Purposes	220 945	238 832
<b>Total GFS Expenses</b>	<b>2 285 960</b>	<b>2 341 683</b>

Figure 20

UNIFORM PRESENTATION - NORTHERN TERRITORY  
STATE AND TERRITORY GENERAL GOVERNMENT SECTOR TAXES

	Estimate <b>2001-02</b>	Budget <b>2002-03</b>
	\$000	\$000
Taxes on Employers' Payroll and Labour Force	89 412	93 761
Taxes on Property		
Land Taxes		
Stamp Duties on Financial and Capital Transactions	41 903	35 027
Financial Institutions Transactions Taxes	9 649	8 285
Other		
<i>Total</i>	51 552	43 312
Taxes on the Provision of Goods and Services		
Excises and Levies		
Taxes on Gambling	33 059	33 918
Taxes on Insurance	15 720	16 820
<i>Total</i>	48 779	50 738
Taxes on Use of Goods and Performance of Activities		
Motor Vehicle Taxes	34 553	39 113
Franchise Taxes		
Other		
<i>Total</i>	34 553	39 113
<b>Total GFS Taxation Revenue</b>	<b>224 296</b>	<b>226 924</b>

Figure 21

UNIFORM PRESENTATION - NORTHERN TERRITORY  
2002-03 LOAN COUNCIL ALLOCATION

	Loan Council Allocation	Budget-time Estimate
	\$M	\$M
General Government Sector Cash Deficit	72	94
Public Non Financial Corporations Sector Cash Deficit	-4	15
Non Financial Public Sector Cash Deficit	68	109
<i>minus</i>		
Net Cash Flows from Investments in Financial Assets for Policy Purposes	24	7
<i>plus</i>		
Memorandum Items	-	-
<b>Loan Council Allocation</b>	<b>92</b>	<b>102</b>

## Notes:

(a) The tolerance limit applicable to the Loan Council Allocation (LCA) for 2002-03 is \$44 million. The revised estimate of \$102 million reflects a \$10 million increase which is within tolerance.

(b) The original LCA was based on the cash Uniform Presentation Framework. The revised estimate reflects the requirements of the accrual Uniform Presentation Framework. Whilst the two are essentially consistent, it is recognised that minor differences in the cash based deficit, compared to the accrual based numbers can be expected due to consolidation methodologies and accounting treatments.

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# APPENDIX: CLASSIFICATION OF ENTITIES IN THE NORTHERN TERRITORY PUBLIC SECTOR

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## **GENERAL GOVERNMENT**

Aboriginal Areas Protection Authority  
Auditor-General's Office  
AustralAsia Railway Corporation  
Batchelor Institute of Indigenous Tertiary Education  
Central Holding Authority  
Centralian College  
Construction Division\*  
Department of Business, Industry and Resource Development  
Department of Community Development, Sport and Cultural Affairs  
Department of Corporate and Information Services  
Department of Employment, Education and Training  
Department of Health and Community Services  
Department of Infrastructure, Planning and Environment  
Department of Justice  
Department of the Chief Minister  
Department of the Legislative Assembly  
Government Printing Office\*  
Information Technology Management Services\*  
Northern Territory Legal Aid Commission  
Northern Territory Police, Fire and Emergency Services  
Northern Territory Tourist Commission  
Northern Territory Treasury  
NT Fleet\*  
Office of the Commissioner for Public Employment  
Ombudsman's Office  
Territory Discoveries\*  
Territory Wildlife Parks\*  
Trade Development Zone Authority

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## **PUBLIC NON FINANCIAL CORPORATIONS**

Darnor Pty Ltd  
Darwin Bus Service\*  
Darwin Port Corporation\*  
Gasgo Pty Ltd  
Housing Business Services\*  
Power and Water Corporation\*\*

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## **PUBLIC FINANCIAL CORPORATIONS**

Northern Territory Treasury Corporation\*  
Territory Insurance Office

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\*Government Business Divisions

\*\*Incorporated as a Government Owned Corporation from 1 July 2002