Northern Territory Government

Pre-Election Fiscal Outlook Report

August 2012

2012 Pre-Election Fiscal Outlook Report

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

Table of Contents

Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in this Pre-Election Fiscal Outlook report are based on Government decisions, additional information advised by the Treasurer on 8 August, and other information relevant to financial projections available as at 13 August. The projections are presented in accordance with the Uniform Presentation Framework.

Jennifer Prince

Under Treasurer

15 August 2012

Treasurer's Advice

TREASURER

Parliament House
State Square
Darwin NT 0800
minister.lawrie@nt.gov.au

GPO Box 3146
Darwin NT 0801
Telephone: 08 8901 4047
Facsimile: 08 8901 4169

Ms Jennifer Prince
Under Treasurer
GPO Box 1974
DARWIN NT 0801

Dear Under Treasurer

RE: REQUIREMENT TO RELEASE PRE-ELECTION FISCAL OUTLOOK REPORT

Thank you for your letter of 7 August 2012.

I can advise that the Territory Government publicly announced two new joint funding agreements with the Australian Government on Friday 3 August:

- $106M Regional Roads Productivity Package – including a $16 M contribution from the Territory Government to roads upgrades across six key roads.
- $103M Tiger Brennan Drive Duplication – including a $33M contribution from the Territory Government, incorporating $13M already programmed.

These funding commitments have been incorporated into the Henderson Government's election commitments.

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

Yours sincerely

DELIA LAWRIE
08 AUG 2012

Northern Territory Government

Chapter 1 Overview

The publication of a Pre-Election Fiscal Outlook report (PEFO) is a requirement of the *Fiscal Integrity and Transparency Act* (FITA) and provides for the release of updated financial estimates for the budget year plus three forward years within 10 days of the issue of a writ for a Northern Territory general election.

The PEFO includes the same information disclosures as that required for other financial reports and is based on the same external reporting standard, the Uniform Presentation Framework, as agreed by all Australian jurisdictions.

An additional requirement in the preparation of the PEFO is advice from the Treasurer as to whether the Government has entered into any commitments that could have material fiscal or economic consequences for the Territory and that the Under Treasurer could not reasonably be expected to know about.

The PEFO includes all policy and non-policy changes since the most recently published financial report, the 2012-13 Budget. It presents up-to-date financial information, which for 2011-12 is the preliminary unaudited outcome, along with updated information for the 2012-13 Budget year and the 2013-14 to 2015-16 forward estimates for the general government and non financial public sectors. The final audited outcome for 2011-12 will not be available until after September 2012 and will be included in the 2011-12 Treasurer's Annual Financial Statements, expected to be tabled in Parliament in October 2012.

The PEFO provides an update of the consolidated financial information included in the 2012-13 Budget Paper No. 2, released on 1 May 2012. It includes the most recent data on the Territory's fiscal position, the Territory's contingent liabilities and statement of risks and an assessment against the fiscal strategy.

The PEFO provides an updated assessment of the Northern Territory economy taking into account data that has been released since the 2012-13 Budget. The economic assumptions upon which the 2012-13 Budget was based remain largely unchanged. This report also provides an update on the Territory's population following the outcome of the 2011 Census, which was released by the Australian Bureau of Statistics (ABS) in June 2012 and the associated Estimated Resident Population (ERP) determination.

The 2012-13 Budget Paper No. 2 included detailed discussion on the broader issues relating to 2012 Budget Initiatives, Commonwealth grants, Territory own-source revenue and the economic outlook. Where information has changed, updated data or commentary has been included in the PEFO.

Updated Financial Projections

In the three months since the 2012 Budget was handed down there has been minimal change in national economic conditions although uncertainty in the global economy, driven largely by events in Europe, has continued to dampen consumer and business confidence in Australia. As a consequence, assumptions around the growth in the Territory's largest revenue source, GST revenue, remain unchanged from Budget time, although updated population data has been included as discussed below.

The Territory economy continues to grow in line with estimates at the time of the 2012-13 Budget. Taxation collections for stamp duty and payroll tax were slightly higher in the last quarter of 2011-12 than estimated. The growth parameters used in the PEFO for own-source revenue are unchanged from those used in the 2012-13 Budget but they have been applied to the higher 2011-12 collections base. Global conditions continue to negatively influence royalty collections and this has been reflected in the PEFO.

In addition to the preliminary 2011-12 Outcome, the PEFO provides an update on the financial projections for the 2012-13 Budget and 2013-14 to 2015-16 forward estimates. Changes in estimated outcomes since the May 2012 Budget have been influenced by the following key factors:

- the 2011-12 preliminary outcome and the flow-on effect of timing differences to 2012-13 and the forward years, largely for Commonwealth-related and capital purposes;
- the effect of the new ERP determination following the 2011 Census has resulted in an increase in the Territory's share of the national population and as a consequence will increase the Territory's GST funding;
- increased taxation revenues, largely stamp duties and payroll tax, associated with higher levels of activity in the last quarter of 2011-12;
- reduced mining royalties, based on 2012-13 half-yearly collections; and
- policy decisions since the 2012-13 Budget, predominantly related to the 'My New Home' and 'HOMESTART EXTRA' housing assistance packages.

Chapter 2 presents the details of the policy and non-policy changes since the May 2012 Budget Papers and discusses material changes in the PEFO estimates compared with the 2012-13 Budget. This chapter also includes an update on the Territory's contingent liabilities as well as a statement of risks, as required by the FITA.

Tables 1.1 and 1.2 compare the key aggregates in the PEFO and the 2012-13 Budget.

Table 1.1: General Government Sector – Estimated Outcomes

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Operating balance					
2012-13 Budget	166	- 163	- 158	- 154	- 147
2012-13 PEFO	**224**	**- 108**	**- 144**	**- 153**	**- 139**
Variation	58	55	14	1	8
Underlying fiscal balance					
2012-13 Budget	- 546	- 490	- 408	- 349	- 285
2012-13 PEFO	**- 418**	**- 567**	**- 470**	**- 366**	**- 261**
Variation	128	- 77	- 62	- 17	24
Underlying cash outcome					
2012-13 Budget	- 491	- 449	- 373	- 317	- 278
2012-13 PEFO	**- 419**	**- 509**	**- 417**	**- 328**	**- 254**
Variation	72	- 60	- 44	- 11	24

1 Underlying cash and fiscal balance exclude Darwin Correctional Facility.
Source: Northern Territory Treasury

For 2011-12, all fiscal aggregates are significantly improved from the estimate presented in the 2012-13 Budget due to:

- increased GST of $13 million as a result of slightly higher parameters in the Commonwealth Budget for population and national GST collections;
- increased taxation revenue of $18 million as a result of higher than anticipated collections in the last quarter of 2011-12;
- unexpected additional Commonwealth funding of $51 million received late in the financial year; and
- the timing of expenditure between 2011-12 and future years.

The PEFO estimates show an improved operating balance in all years. The improvement in 2012-13 is higher than other years as it includes the effect of the new ERP determination for December 2011 on GST revenue for both 2011-12 and 2012-13, with the additional payments in respect of both years expected to be received by the Territory in 2012-13. The Territory is now expected to receive $87 million more in GST revenue in 2012-13 than estimated at the time of the May 2012 Budget. However this is partially offset by the timing of operational expenditure related to tied Commonwealth funding received at the end of 2011-12.

The net increase in revenue has improved the fiscal balance and cash outcome, although the improvement has been offset by the effect of new policy decisions and the timing of capital expenditure related to revenues received in 2011-12, which will worsen the cash and fiscal balance deficits from 2012-13.

Compared with the 2012 Budget, the effect of these changes on the fiscal balance and the cash outcome is a deterioration in 2012-13 through to 2014-15, with a slight improvement in 2015-16. When 2011-12 and 2012-13 are considered together, there is a small improvement of $12 million in the underlying cash outcome.

Table 1.2: General Government Sector – Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
Net debt ($M)					
2012-13 Budget	1 689	2 174	3 095	3 381	3 627
2012-13 PEFO	**1 627**	**2 173**	**3 139**	**3 436**	**3 658**
Variation	- 62	- 1	44	55	31
Net debt to revenue (%)					
2012-13 Budget	35	48	66	71	74
2012-13 PEFO	**33**	**47**	**66**	**71**	**74**
Variation	- 2	- 1	0	0	0
Net financial liabilities ($M)					
2012-13 Budget	5 444	5 760	6 525	6 864	7 137
2012-13 PEFO	**5 738**	**5 782**	**6 609**	**6 964**	**7 214**
Variation	294	22	84	100	77
Net financial liabilities to revenue (%)					
2012-13 Budget	113	127	140	144	146
2012-13 PEFO	**116**	**124**	**140**	**145**	**145**
Variation	3	- 3	0	1	- 1

Source: Northern Territory Treasury

Net debt for 2011-12 improved from the 2012-13 Budget Estimate due to the lower cash deficit recorded in the preliminary outcome. Net debt increases marginally from 2013-14 onwards compared with the Budget due to the higher GST and own-source tax revenue being offset by the costs associated with the new policy decisions and lower mining royalties. By 2015-16 net debt is estimated to be $3658 million, an increase of $31 million compared to the May 2012 estimate. The net debt to revenue ratio for 2015-16 is consistent with the May 2012 estimate at 74 per cent.

In absolute terms net financial liabilities are expected to be slightly higher due to the flow-on affect of the net debt position, the preliminary actuarial estimates of the Territory's superannuation liabilities and the effect of the lower ten-year bond rate at 30 June 2012. As a proportion of revenue, net financial liabilities are estimated to be 145 per cent in 2015-16, compared with 146 per cent in the May 2012 estimate.

Further detail on the updated financial projections is included in Chapter 2 of this report.

Economic Indicators

Since the 2012-13 Budget was published, although limited economic data has been released, it broadly supports the economic outlook included in the 2012 Budget.

The preliminary estimate by the ABS of gross state product (GSP) for 2011-12 will not be available until November 2012. Components of GSP are tracking with forecasts, with the exception of the business investment component of state final demand, which has been affected by progress payments for major project work, much of which is being undertaken overseas. These progress payments will be offset by a balancing item adjustment when GSP is published by the ABS in November 2012, with no material impact on the Budget forecast for GSP expected.

The My New Home and HOMESTART EXTRA products are intended to increase demand and purchasing capacity for home purchasers. While unlikely to have a material impact in 2012, these initiatives are expected to flow through to economic growth through higher investment in 2013-14 but with more immediate price impacts later in 2012-13. Consequently, the estimate of the consumer price index for 2013 has been increased from 3.2 per cent to 3.4 per cent.

The release of the new ERP series by the ABS in June 2012, based on the 2011 Census, resulted in an increase in the Territory's population compared to estimates used in the 2012-13 Budget. Conversely, the new population estimates for Australia were lower than those based on the 2006 Census and as a consequence the Territory's share of national population increased and improves the Territory's share of GST revenue. Despite the underestimation of the Territory population since 2006 that was revealed by the 2011 Census, the population growth rate for 2011 and forecasts for 2012 and 2013 are unaffected and hence unchanged from the 2012-13 Budget.

Table 1.3 shows that minor variations have been made to the 2011-12 indicators as a result of actual information received, however there have been no changes to 2012-13 forecasts included in the 2012-13 Budget.

Table 1.3 Key Economic Indicators

	2007-08	2008-09	2009-10	2010-11	2011-12	2011-12	2012-13
	Actual				Estimate	Actual	Forecast
	%	%	%	%	%	%	%
Gross State Product[1]	7.0	4.5	1.3	1.6	2.4	n.a	3.9
State Final Demand[2]	6.7	8.7	- 5.5	- 0.5	3.7	n.a	9.3
Employment	6.1	4.4	2.5	2.0	0.8	0.5	2.0
Unemployment Rate	4.4	3.6	3.4	2.9	3.7	4.1	3.2
Population[3]	2.5	2.6	2.3	0.9	0.8	0.8	1.6
Darwin CPI[4]	3.4	4.0	2.8	2.8	2.8	2.8	2.1

1 Year ended June, year-on-year percentage change, inflation adjusted.
2 Not adjusted for overseas progress payments related to INPEX.
3 As at December, annual percentage change.
4 As at December, year-on-year percentage change.
Source: Northern Territory Treasury

A discussion on the economic outlook is presented in Chapter 3 of this report.

Fiscal Strategy

The FITA requires the Treasurer to set out a fiscal strategy with each Budget. The PEFO assesses progress against the 2012-13 fiscal strategy included in the May 2012 Budget. A discussion of the fiscal strategy is presented in Chapter 4 of this report.

Uniform Presentation Framework

Chapter 5 meets the Territory's reporting obligations under both the FITA and the Uniform Presentation Framework and includes financial statements for the general government and non financial public sectors for the preliminary 2011-12 outcome and the updated 2012-13 Budget and 2013-14 to 2015-16 forward estimates.

Chapter 2 Fiscal Position and Outlook

As required by the *Fiscal Integrity and Transparency Act* (FITA), this chapter presents:

- a detailed assessment of the preliminary outcome for 2011-12;
- updated financial estimates for 2012-13 and the three forward estimate years to 2015-16;
- a high-level analysis of the major policy and non-policy changes since the 2012 Budget; and
- an update on the statement of risks to the financial projections, and the Territory's contingent liabilities.

Fiscal Outlook

There are a number of key changes that have resulted in material variations in the financial estimates since the 2012-13 Budget. These can be grouped into three main areas relating to:

- revised untied revenue projections, including increased GST revenue as a result of a higher Territory share of the national population following the 2011 Census, higher Territory taxation revenue in 2011-12, predominantly stamp duties and payroll tax that flow through to 2012-13 and the forward estimates, offset by lower mining royalties from 2012-13;
- policy decisions since the 2012-13 Budget, predominantly the housing assistance packages; and
- the timing of expenditure across years, largely related to Commonwealth revenue received in 2011-12.

The three areas are discussed below while all of the policy and non-policy changes that have occurred since the 2012-13 Budget are summarised in Table 2.4.

Changes in Untied Revenue

Table 2.1 highlights the effect of the key changes in untied revenue since May 2012.

Table 2.1: Effect on Cash Outcome – Untied Revenue Changes since May 2012

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Untied revenues					
GST revenue	13	87	55	58	61
Taxation receipts	18	16	16	17	17
Mining royalties	2	- 15	- 28	- 28	- 28
Additional revenue	**33**	**88**	**43**	**47**	**50**

Source: Northern Territory Treasury

GST remains the Territory's largest source of untied revenues. Estimates of the Territory's GST revenue in all years have been revised to include Commonwealth Budget estimates for 2011-12, and to incorporate recent information on state and territory populations following the 2011 Census.

The Commonwealth's 2012 Budget included a slightly higher estimate for the Territory's GST revenue than the Territory's Budget. As a result, the Territory received $13 million more GST revenue in 2011-12 than was estimated. In June 2012, the ABS released its Australian Demographic Statistics, December 2011, which for the first time was benchmarked to the 2011 Census. The population determination made in June 2012 was in respect of December 2011 and will have a significant effect for 2012-13 and all forward estimate years, rising to $61 million by 2015-16. The higher amount of $87 million in 2012-13 includes payments in respect of the 2011-12 year that are expected to be received in 2012-13.

The Territory's main own-source revenues are in the form of taxation. The largest components of Territory taxes are stamp duties and payroll tax, which were higher in 2011-12 than anticipated at Budget time due to increased economic activity in the last quarter. Growth parameters consistent with those used in the 2012-13 Budget have been applied to the higher base resulting in ongoing increases of $16-17 million from 2012-13.

In contrast, mining royalties continue to be constrained by low commodity prices and the high Australian dollar that resulted in a downward revision to royalty estimates at the time of the 2012-13 Budget. Half year collections for 2012-13 indicate that this position has deteriorated further and accordingly the estimate of mining royalties has been revised down by $15 million in 2012-13 and $28 million from 2013-14, more than offsetting the increased taxation revenue estimates.

Policy Changes

Table 2.2 highlights the effect on the cash outcome of policy variations since May 2012.

Table 2.2 Effect on Cash Outcome – Policy Changes since May 2012

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Policy changes					
Housing assistance packages		59	68	27	15
Other		5	6	5	3
Additional expenditure	**0**	**64**	**74**	**32**	**18**

Source: Northern Territory Treasury

The most significant policy change to the Budget and forward estimates is the effect of the housing assistance packages, My New Home and HOMESTART EXTRA, announced on 25 July 2012.

My New Home is a deposit assistance scheme that will operate for two years. It has minimal effect on the fiscal aggregates, as additional borrowings and interest costs will be offset by additional financial assets and interest revenue in the form of a loan to home owners. However, as the Territory will act as second mortgagee there is a risk that the rate of delinquent loans will rise. This risk will be increased if there is a change in market conditions including increases in interest rates from the low levels currently being experienced. Due to the infancy of the scheme resulting in a lack of reliable data, no additional provision for delinquent loans has been factored into the forward estimates at this stage, although the situation will need to be monitored closely, including for an extended period after the scheme has closed.

HOMESTART EXTRA broadens the current HOMESTART NT scheme by increasing the Government's equity share to 50 per cent, or a maximum of $200 000, up from 30 per cent or a maximum of $75 000. In contrast to the My New Home scheme, the HOMESTART EXTRA scheme will result in an additional cost to the Budget from the increased equity share affecting the Territory's cash outcome, the fiscal balance and net debt positions. The most significant effect is expected to occur in 2012-13 and 2013-14 where the take-up rate is estimated to be at its highest level.

Estimates of the take up of the HOMESTART EXTRA scheme have been based on historic data, housing market conditions and known initial applications for the new scheme. The estimates are based on 380 successful applicants in 2012-13 and 2013-14, with an average house price of $450 000, and a government equity share of between $160 000 and $180 000 or 80 to 90 per cent of the available maximum equity of $200 000. To the extent that the estimated take up of the scheme is higher or lower than expected, the budget projections will either worsen or improve respectively.

The proposed scheme is likely to place upward pressure on property prices at the lower end of the market as a result of the increase in demand generated by the higher number of prospective purchasers and the significantly enhanced purchasing capacity of clients. Changes to scheme parameters to accommodate future market changes are Government decisions. Accordingly parameter changes have not been assumed in the forward estimate years.

Other policy changes in Table 2.2 include increased funding for additional apprentices and trainees and the extension of the BuildBonus scheme to 31 December 2012.

Timing Changes

In addition to the key revenue and policy changes described above, the 2012-13 Budget and forward estimates have been affected by a number of timing differences, largely related to additional tied Commonwealth revenue received late in 2011-12. The additional revenue was for both operational and capital purposes and will affect outcomes in particular years, but have limited impact across the forward years in aggregate. The changes included provide for carryover of associated expenditure obligations, however the timing of these amounts may vary when agency outcomes for 2011-12 are finalised later in the year.

The timing differences include a transfer of capital expenditure of $33 million from 2011-12 to 2012-13 for the Remote Indigenous Housing program in line with construction program activity and bringing forward of payments to Land Development Corporation (LDC) for housing under the National Rental Affordability Scheme to provide certainty for the construction program.

Further detail on these variations since the 2012-13 Budget are provided later in this chapter.

Fiscal Aggregates

Table 2.3 below presents the key fiscal aggregates for the general government sector included in the PEFO and incorporates the key variations described above.

Table 2.3: General Government Sector – Key Fiscal Aggregates

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Cashflow statement					
Operating receipts	5 186	4 909	4 988	5 069	5 225
Operating payments	4 672	4 710	4 826	4 919	5 089
Net capital payments	915	691	559	458	369
Superannuation earnings re-invested	- 18	- 17	- 18	- 20	- 21
Underlying cash surplus (+) / deficit (-)	**- 419**	**- 509**	**- 417**	**- 328**	**- 254**
Operating statement					
Revenue	4 926	4 658	4 725	4 807	4 961
Expenses	4 701	4 766	4 869	4 959	5 100
Net operating balance	**224**	**- 108**	**- 144**	**- 153**	**- 139**
Net acquisition of non financial assets	643	459	326	213	122
Underlying fiscal balance	**- 418**	**- 567**	**- 470**	**- 366**	**- 261**
Balance sheet					
Assets	14 573	14 730	15 782	16 123	16 459
Liabilities	7 517	7 091	7 964	8 324	8 671
Net worth	7 057	7 639	7 818	7 800	7 788
Net debt	**1 627**	**2 173**	**3 139**	**3 436**	**3 658**
Net debt to revenue (%)	33	47	66	71	74
Net financial liabilities	**5 738**	**5 782**	**6 609**	**6 964**	**7 214**
Net financial liabilities to revenue (%)	116	124	140	145	145

1 Underlying cash and fiscal balance exclude Darwin Correctional Facility.
Source: Northern Territory Treasury

As shown in Table 2.3 the underlying cash and fiscal balance outcomes remain in deficit in all years with the net operating balance projected to be in deficit from 2012-13. Both the cash and fiscal balance deficits reduce over the forward years.

The untied revenue variations result in an improved operating balance position from that projected in the 2012-13 Budget. The operating balance improvement does not flow through to the cash deficit and fiscal balance as the increases in revenue are offset by the effect of the HOMESTART EXTRA package.

Net debt has increased from 2013-14, compared to the 2012-13 Budget estimates, largely as a result of the new policy initiatives offsetting the revenue improvements. By 2015-16 it is estimated that net debt will be $3658 million, an increase of $31 million compared to May 2012.

The significant increase in net financial liabilities in 2011-12 from the May 2012 Budget is a direct result of an increase in the valuation of the Territory's superannuation liability related to the use of the 30 June 2012 ten-year bond rate to calculate the present value of the liability. The ten-year bond rate at 30 June 2012 was at an unprecedented low of 3.1 per cent, which compares to 4.25 per cent used in the May 2012 Budget. This change in the bond rate increases the liability by $345 million in 2011-12. The bond rates used for 2012-13 (5 per cent) and the forward years (the long term rate of 5.7 per cent) are consistent with those used at budget time. The other increase in the superannuation liability is related to the preliminary actuarial advice regarding the liability. The final liability for 2011-12, incorporating complete actuarial advice, including the triennial review for the Commonwealth and Police Supplementary Benefit schemes, will be reported in the 2011-12 Treasurer's Annual Financial Statements.

Net financial liabilities in 2015-16 are $7214 million, $77 million higher than the $7137 million projected in May 2012 due largely to the increase of $49 million in the valuation of the Territory's superannuation liability resulting from preliminary actuarial advice, together with the increase of $31 million in net debt.

Table 2.4 sets out changes in the fiscal balance and cash outcome for 2011-12 and 2012-13, since the 2012-13 Budget.

Table 2.4: Variations to the Cash Flow and Operating Statements since May 2012

	2011-12		2012-13	
	Accrual	Cash	Accrual	Cash
	$M	$M	$M	$M
2012-13 BUDGET	**- 546.1**	**- 491.4**	**- 489.8**	**- 449.3**
REVENUE/RECEIPTS				
Revenue/receipts – policy				
Interest income			5.2	5.2
Total revenue/receipts – policy			**5.2**	**5.2**
Revenue/receipts – non policy				
Taxation	17.7	16.5	15.5	15.5
GST revenue	13.0	13.0	87.0	87.0
New/expanded Commonwealth revenue	50.8	54.1	4.4	4.4
Interest income	5.0	5.2		
Mining royalties	2.0	2.0	- 15.0	- 15.0
Income tax equivalents and dividends	- 5.7	0.8		
Miscellaneous revenue/agency own-source revenue	24.8	14.0	10.0	10.0
Total revenue/receipts – non policy	**107.6**	**105.6**	**101.9**	**101.9**
TOTAL REVENUE/RECEIPTS	**107.6**	**105.6**	**107.1**	**107.1**
OPERATING EXPENSES/PAYMENTS				
Expenses/payments – policy				
New and expanded initiatives			11.1	11.1
Total expenses/payments – policy			**11.1**	**11.1**
Expenses/payments – non policy				
Commonwealth payments and transfers between years and to capital	33.2	44.5	41.1	41.1
Employee entitlements	6.5			
Depreciation	9.2			
Total expenses/payments – non policy	**48.9**	**44.5**	**41.1**	**41.1**
TOTAL OPERATING EXPENSES/PAYMENTS	**48.9**	**44.5**	**52.2**	**52.2**
Net capital payments				
New and expanded initiatives			59.0	59.0
Transfers between years and from operational	- 78.1	- 16.4	71.9	55.0
Depreciation	9.2			
Other			1.0	1.0
Total net capital payments	**- 68.9**	**- 16.4**	**131.9**	**115.0**
TOTAL EXPENSES/PAYMENTS	**- 20.0**	**28.1**	**184.1**	**167.2**
Future infrastructure and superannuation contributions/earnings		- 5.1		0.4
TOTAL VARIATION	**127.6**	**72.4**	**- 77.0**	**- 59.7**
2012-13 PEFO	**- 418.5**	**- 419.0**	**- 566.8**	**- 509.0**

Source: Northern Territory Treasury

General government operating revenue (accrual) has increased from the May 2012 Budget by $107.6 million in 2011-12 and $107.1 million in 2012-13 with receipts (cash) increasing by $105.6 million in 2011-12 and $107.1 million in 2012-13. There is minimal difference between revenue and receipts in both years.

The revenue-related policy change since the May 2012 Budget is the effect of additional interest revenue received ($5.2 million in 2012-13) on the increased loans to borrowers as a result of the new housing assistance packages.

The main non-policy variations to revenue since the May 2012 Budget are:

- Increased taxation revenue of $17.7 million and receipts of $16.5 million in 2011-12, largely due to higher stamp duty receipts of $11 million and payroll tax of $6 million. Increased stamp duties are a result of increased residential transaction volumes and a moderate increase in average transaction values in the last quarter of 2011-12, consistent with the recovery of median house prices, while payroll tax increases are a result of continued wage and employment growth amongst larger employers. These increases have also improved 2012-13 and forward estimates.
- An increase in GST revenue estimates of $13 million in 2011-12, based on Commonwealth 2012 Budget estimates, and $87 million in 2012-13 due primarily to the new ERP determination for December 2011, which increases the Territory’s share of the national population. Additional revenue in respect of the higher population share in 2011-12 and 2012-13 is expected to be received in 2012-13 and will also flow through to the forward estimates.
- Additional tied revenue from the Commonwealth of $50.8 million, received late in 2011-12, that will be spent over 2012-13 and 2013-14. These amounts include health and education-related programs together with Indigenous essential services, the Alice Springs Transformation Plan and funding for cadastral surveys.
- Mining royalties are estimated to reduce by $15 million in 2012-13, reflecting lower than expected mining royalty payments in 2012-13 and recent advice by royalty-paying miners that future profitability levels on which royalty estimates are made are likely to be lower than previously advised. These decreases flow through to the forward estimates.

The increase in general government operating expenses (accrual) and operating and capital payments (cash) are due to timing between years and the effect of new policy decisions.

General government operating expenses (accrual) have increased from the May 2012 Budget by $48.9 million in 2011-12 and $52.2 million in 2012-13, with payments (cash) increasing by $44.5 million in 2011-12 and $52.2 million in 2012-13.

The main policy-related variations in 2012-13 include:

- HOMESTART EXTRA – the more generous provisions and anticipated increase in demand will require additional borrowings to support the scheme and will result in a subsequent increase in interest expenses estimated to be $5.7 million for 2012-13; other costs of the scheme are included in variations to capital payments and explained below.
- Increased apprentice and trainee numbers – additional funding for apprentices and trainees, with $1.3 million in 2012-13.
- BuildBonus – the extension of the scheme to 31 December 2012 has resulted in an estimated additional cost of $1.4 million in 2012-13.

The main non-policy expense/payment variations relate to expenditure associated with tied Commonwealth funding, with $33.2 million in 2011-12 and $41.1 million in 2012-13. These largely relate to the delivery of Commonwealth-funded programs that will be spent in a later year than when the funding was received.

The variations to net capital spending include:

- HOMESTART EXTRA results in an estimated increase in capital payments of $59 million in 2012-13 due to the increase in the Government's equity share to 50 per cent, capped at $200 000, and an increase in the estimated number of properties purchased in 2012-13. More details are provided elsewhere in this chapter; and
- the revised timing of Commonwealth-funded expenditure and the transfer of capital payments from operational resulting in a $78.1 million reduction in 2011-12 and an increase of $71.9 million in 2012-13, largely related to timing between years including the Remote Indigenous Housing program. The difference between capital expenses of $78.1 million and payments of $16.4 million in 2011-12 is largely due to the accelerated payment of $40 million to the LDC to provide certainty in the construction of affordable housing dwellings approved under the National Rental Affordability Scheme.

Basis of Forward Estimates

In accordance with the FITA, up to five years of estimates are maintained and used by Government, both as a planning and an operational tool. This provides the framework for agencies' planning and also provides the basis for the Government's fiscal strategy.

Agency budgets are developed from a forward estimate model consistent with that used in other jurisdictions. These estimates are maintained and adjusted by inflator and deflator factors as necessary and form the basis for Government resource and policy decisions during the Budget development phase. New policy decisions and funding decisions linked to anticipated demand changes are added to each agency's base and then flow through to adjusted estimates for the forthcoming year.

The basis of the parameters used, including the allocation of a contingency allowance, remains unchanged from the 2012-13 Budget. The parameters used to adjust estimates are:

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

The flow-on effects of savings measures that have been applied over the past three Budgets remain unchanged and include increased efficiency dividends, a reprioritisation of 2 per cent of output appropriation and the application of agency staffing caps.

A contingency amount of around 1 per cent per annum ongoing of operating expenses is also included in the forward estimates. This incorporates capacity for unforseen items in the form of a $30 million annual allocation towards Treasurer's Advance, together with $20 million ongoing per annum set aside for new and expanded recurrent initiatives over and above the savings measures already incorporated into the forward estimates.

Capital expenditure over the forward estimates is forecast on the following basis:

- Commonwealth-funded programs with expenditure based on agreed timing known at the time financial publications are released; these are subject to possible future timing variations as infrastructure plans are more fully developed;
- continuation over the forward estimates of those ongoing Territory-funded infrastructure programs at usual program levels (for example, Territory roads, Minor New Works programs); and
- a reserve of $30 million in 2013-14 and $50 million in both 2014-15 and 2015-16 available to support new or increased infrastructure works.

The following sections set out the fiscal components presented in the PEFO for 2012-13 to 2015-16, with an analysis of the key changes in revenue/receipts and expenses/payments over the forward estimates since the May 2012 Budget.

Revenue/Receipts

Table 2.5 presents the updated financial projections by revenue/receipt type for 2012-13 and the forward years.

Table 2.5: General Government Sector – Operating Revenue and Receipts

	2012-13	2013-14	2014-15	2015-16
	Budget	Forward Estimates		
	$M	$M	$M	$M
Revenue				
Taxation revenue	425	441	458	476
GST revenue	2 791	2 922	3 098	3 284
Current grants	773	731	672	686
Capital grants	211	168	109	59
Sales of goods and services	207	207	212	199
Interest income	64	72	75	76
Dividend and income tax equivalent income	49	48	47	45
Mining royalties income	103	103	103	103
Other	35	34	33	33
Total revenue	**4 658**	**4 725**	**4 807**	**4 961**
Year-on-year percentage increase (%)		1	2	3
Receipts				
Taxes received	425	441	458	476
Receipts from sales of goods and services	252	252	257	244
GST receipts	2 791	2 922	3 098	3 284
Grants and subsidies received	984	898	781	745
Interest receipts	64	72	75	76
Dividends and income tax equivalents	40	50	49	47
Mining royalties income	103	103	103	103
Other receipts	251	250	249	249
Sales of non financial assets	73	64	67	60
Total receipts	**4 982**	**5 051**	**5 136**	**5 285**
Year-on-year percentage increase (%)		1	2	3

Source: Northern Territory Treasury

Total operating revenue and receipts are projected to increase by an average of 2.1 per cent over the forward estimates period, slightly lower than the 2.5 per cent projected in May 2012, due to the extra GST payment in 2012-13 in respect of the 2011-12 year and the reduction in royalty estimates. Over the forward estimates period the Territory's growth in total untied revenue, which includes GST, is 4.92 per cent per annum.

Estimates of the Territory's GST revenue in 2012-13 and forward years have been revised since the Territory's 2012-13 Budget to incorporate recent information on state and territory populations and the updated 2011-12 GST estimates.

In June 2012, the ABS released its Australian Demographic Statistics, December 2011, which for the first time was benchmarked to the 2011 Census. The updated ABS population figures show that the Territory's share of the Australian population in 2011-12 was 1.0336 per cent, compared with 1.0157 per cent estimated in the 2012-13 Budget. The increase in the Territory's share of the national population will increase estimates of GST revenue to the Territory in 2012-13 (including a payment in respect of 2011-12) and the forward years.

For the 2012 PEFO, the Territory has used the Commonwealth's 2012-13 Budget estimates of the 2011-12 GST national collections, which were $100 million higher than the Territory's 2012-13 Budget estimates. The Commonwealth estimates were used as the basis of final payments in 2011-12. The forecast growth of GST collections for 2012-13 and forward years has not been revised from the Territory's 2012-13 Budget, as the estimates of the economic indicators that underlie GST revenue forecasts have not changed over this period. However, the growth rates have been applied to the slightly higher ($100 million) 2011-12 GST pool base.

The estimated impact of upward revisions to the Territory's share of the national population and the GST collections in 2011-12 is a $34 million increase in the Territory's GST revenue, most of which is expected to be provided to the Territory in 2012-13 as part of the usual adjustments that occur each year when GST payments are finalised in respect of the previous year.

Table 2.6 shows the parameters used to estimate the Territory's GST revenue in the May 2012 Budget and the 2012 PEFO. In 2012-13, the Territory is expected to receive $2791 million in GST revenue, an increase of $87 million from the estimate in the 2012-13 Budget. The increase in 2012-13 is primarily due to the upward revision to the estimates of the Territory's share of the national population and the effect of the 2011-12 Budget adjustment payment.

Table 2.6: Territory GST Revenue Parameter Estimates

	2011-12	2012-13	2013-14	2014-15	2015-16
National GST collections ($M)					
2012-13 Budget	45 500	48 000	50 500	53 000	55 500
2012-13 PEFO	45 600	48 100	50 600	53 100	55 600
Territory GST relativity					
2012-13 Budget	5.35708	5.52818	5.52818	5.52818	5.52818
2012-13 PEFO	5.35708	5.52818	5.52818	5.52818	5.52818
Territory share of total population (%)					
2012-13 Budget	1.0157	1.0170	1.0246	1.0353	1.0483
2012-13 PEFO	1.0336	1.0349	1.0425	1.0534	1.0667
Territory GST revenue ($M)[1]					
2012-13 Budget	2 494	2 704	2 867	3 040	3 223
2012-13 PEFO	2 507	2 791	2 922	3 098	3 284
Variation	**13**	**87**	**55**	**58**	**61**

1 Includes balancing adjustments for the over/underpayment of GST revenue to the Territory.
Source: Northern Territory Treasury

The estimates of tied Commonwealth funding are largely unchanged from the May 2012 Budget, and reflect the fact that most agreements are for fixed periods and not included in the forward estimates until they are renegotiated. Accordingly, the Budget and forward estimates will not include the revenue, or associated expenditure, in relation to recent commitments announced by the Commonwealth until formal agreements are signed. Although the Stronger Futures National Partnership agreement has been signed since the 2012-13 Budget, the Implementation Plans that will determine the timing and quantum of payment flows are yet to be finalised. The inclusion of these tied Commonwealth funding agreements tend not to affect the fiscal outcome over time as increases in revenue are generally matched by increases in expenditure, however timing differences may occur between years.

The most significant component of the Territory's own-source revenue is taxation revenue, which is expected to grow by an average of 4 per cent per annum over the forward estimates. Although this is unchanged from the May 2012 Budget, it is from a slightly higher base due to the improved level of stamp duties and payroll tax receipts in the last quarter of 2011-12.

The remainder of own-source revenue is mainly mining royalties. These have been revised downwards in the PEFO by $15 million in 2012-13 and $28 million ongoing from 2013-14, from the reduced estimates at the time of the 2012 Budget. This is as a result of continuing currency fluctuations and commodity prices affecting miners' profitability and 2012-13 half-yearly collections.

Expenses/Payments

Table 2.7 sets out the revised projections for expenses and payments for 2012-13 and the forward years.

Table 2.7: General Government Sector – Operating Expenses and Payments

	2012-13	2013-14	2014-15	2015-16
	Budget	Forward Estimates		
	$M	$M	$M	$M
Expenses				
Employee expenses	1 801	1 821	1 852	1 883
Superannuation expenses	299	311	320	331
Depreciation and amortisation	226	230	244	247
Other operating expenses	1 233	1 282	1 319	1 383
Interest expenses	188	230	283	300
Current grants	810	796	752	764
Capital grants	66	55	40	36
Subsidies and personal benefit payments	142	145	149	155
Total expenses	**4 766**	**4 869**	**4 959**	**5 100**
Year-on-year percentage increase (%)		2	2	3
Payments				
Payments for employees	2 032	2 081	2 134	2 188
Payments for goods and services	1 495	1 544	1 575	1 645
Grants and subsidies paid	994	974	936	955
Interest paid	188	227	274	301
Purchases of non financial assets	764	623	525	430
Total payments	**5 474**	**5 449**	**5 444**	**5 518**
Year-on-year percentage increase (%)		0	0	1

Source: Northern Territory Treasury

Total operating expenditure is projected to increase by an average of 2.3 per cent over the forward estimates period, slightly lower than the 2.4 per cent growth estimated in May 2012.

Variations to payments across the forward years since the 2012-13 Budget predominantly relate to policy changes for the new housing assistance packages and timing changes largely related to tied Commonwealth funding received in 2011-12, that will increase spending in 2012-13 and 2013-14. Apart from these there are no other significant variations to expenses or payments since May 2012.

My New Home is a deposit assistance scheme that will operate for two years and has minimal effect on the fiscal aggregates as additional borrowings will be offset by additional financial assets in the form of loans to home owners. The additional borrowing requirement for My New Home has been based on a take up of around 200 loans in each of the two years.

HOMESTART EXTRA broadens the current HOMESTART NT scheme by increasing the Government's equity share to 50 per cent, or a maximum of $200 000, from 30 per cent, or a maximum of $75 000. The forward estimates include an estimated increase in capital payments of $59 million in 2012-13 and $68 million in 2013-14, falling to $15 million by 2015-16. These increases result from the cost of the Government's higher equity share and an increase in the estimate of the number of properties purchased to 380 in 2012-13 and 2013-14. HOMESTART EXTRA also increases the interest-free fee assistance loan, provided under the previous scheme, by $5000 to $15 000.

The estimates for HOMESTART EXTRA are based on previous increases in take up rates experienced when the scheme has been markedly altered and considers other factors such as prevailing market conditions including interest rates, housing price movements and market access. The estimates included in the PEFO for HOMESTART EXTRA will vary to the extent that the actual take-up is different to the estimates. Actual take up will be closely monitored and updated estimates will be included in the 2012-13 Mid-Year Report if required.

In the future, the Territory should obtain a cash return on its equity share once properties are sold, which will reduce net debt and improve the cash outcome at that time. This improvement will be moderated to the extent that the turnover is offset by new equity purchases. The timing and amount of the Territory's return will be influenced by both future market conditions and government policy in relation to the parameters of the scheme. However it is unlikely that a material number of mortgage discharges will occur over the forward estimates period. The forward estimates do not incorporate any significant change in previously forecast exits from the scheme.

Included in operating expenditure estimates are the usual inflators and deflators as described earlier in this chapter. This includes a contingency reserve in all forward estimate years. This reserve is consistent with that used in the 2012-13 Budget and with the practices in other jurisdictions. This reserve incorporates an amount to support new and expanded recurrent initiatives of $20 million ongoing per annum over the forward years. In order to achieve projected outcomes any additional operational expenditure above these amounts would need to be fully offset by additional savings or increased revenue.

On the capital side, the forward estimates include a reserve of $30 million in 2013-14 and $50 million in both 2014-15 and 2015-16, available to support new or increased infrastructure works, in addition to the normal ongoing program levels. However this available capacity needs to be considered in light of recent indications that project costs may increase by around 10 per cent per annum as a result of the expected increase in construction industry costs flowing from major project enterprise agreements.

As outlined in the revenue section, in line with normal practice the forward estimates do not include either the revenue or related expenditure for Commonwealth-funded programs for which the agreements, including relevant implementation plans that trigger payments, are not yet finalised.

In accordance with the FITA, the PEFO includes forward estimates up to 2015-16. Accordingly there is the potential for fiscal aggregates beyond the forward estimates period to be affected by commitments already made. These could either take the form of recurrent costs that are not expected to crystallise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding or recurrent costs associated with new capital infrastructure, which are not fully incorporated into forward years as their completion falls either close to or outside of the forward estimates period. An example is the Palmerston Hospital that is scheduled to be fully operational in the last quarter of 2015-16. Although one quarter of operational funding is included in 2015-16, the first full year of operational costs will be in 2016-17, outside the current forward estimates period.

Non Financial Public Sector – Estimated Outcomes

The non financial public sector comprises both the general government and the public non financial corporation (PNFC) sectors of government. The PNFC sector comprises trading entities that are primarily engaged in the production of goods and services at prices that aim to recover costs and fund capital acquisitions through either borrowings or retained profits. In the case of the Territory, this sector includes the Power and Water Corporation (PWC) and its subsidiaries as well as LDC, Darwin Port Corporation (DPC) and Darwin Bus Service.

Table 2.8: Non Financial Public Sector – Estimated Outcomes

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
Operating balance					
2012-13 Budget	99	- 216	- 222	- 227	- 239
2012-13 PEFO	**180**	**- 185**	**- 229**	**- 231**	**- 231**
Variation	81	31	- 7	- 4	8
Underlying fiscal balance					
2012-13 Budget	- 824	- 767	- 620	- 538	- 499
2012-13 PEFO	**- 652**	**- 867**	**- 702**	**- 561**	**- 475**
Variation	172	- 100	- 82	- 23	24
Underlying cash outcome					
2012-13 Budget	- 760	- 756	- 600	- 510	- 497
2012-13 PEFO	**- 556**	**- 839**	**- 665**	**- 526**	**- 472**
Variation	204	- 83	- 65	- 16	25

1 Underlying cash and fiscal balance exclude Darwin Correctional Facility.
Source: Northern Territory Treasury

As shown in Table 2.8, the fiscal balance and cash outcomes are in deficit from 2011-12 and the operating balance is in deficit from 2012-13, as forecast at the time of the 2012-13 Budget.

The changes since the May 2012 Budget are predominantly due to the flow-on effect of the general government sector variations discussed earlier in this chapter, together with timing differences associated with the preliminary 2011-12 outcome, including the investment in infrastructure by PWC and its subsidiaries.

Table 2.9: Non Financial Public Sector – Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
Net debt ($M)					
2012-13 Budget	2 852	3 581	4 647	5 127	5 591
2012-13 PEFO	**2 659**	**3 471**	**4 603**	**5 099**	**5 540**
Variation	- 193	- 110	- 44	- 28	- 51
Net debt to revenue (%)					
2012-13 Budget	53	69	87	94	100
2012-13 PEFO	**49**	**66**	**86**	**93**	**98**
Variation	- 4	- 3	- 1	- 1	- 2
Net financial liabilities ($M)					
2012-13 Budget	6 644	7 202	8 099	8 627	9 120
2012-13 PEFO	**6 914**	**7 226**	**8 205**	**8 757**	**9 225**
Variation	270	24	106	130	105
Net financial liabilities to revenue (%)					
2012-13 Budget	123	139	152	158	163
2012-13 PEFO	**127**	**138**	**153**	**160**	**163**
Variation	4	- 1	1	2	0

Source: Northern Territory Treasury

Table 2.9 shows that, in absolute terms, net debt for the non financial public sector is predicted to rise over the budget cycle, consistent with the increase in the general government debt. When measured as a ratio to revenue, net debt is expected to be 98 per cent by 2015-16, down from 100 per cent estimated in the 2012-13 Budget.

Table 2.9 shows that the level of net financial liabilities as a percentage of revenue for the non financial public sector is predicted to rise over the forward estimates to 163 per cent by 2015-16. As with the general government sector the rate of increase for both net debt and net financial liabilities slows over the forward years in line with the reducing deficit position.

Statement of Risks

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

This statement outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities. Additional risks or liabilities that are apparent since the 2012-13 Budget are also identified.

Revenue

Goods and Services Tax Revenue

Volatility in GST revenue represents the largest revenue risk for the Territory. GST revenue usually accounts for about 60 per cent of the Territory's total revenue, and therefore changes in GST estimates have a significant impact on the Territory's funding capacity and budget outcome.

The Territory's GST entitlement is dependent on three parameters: national GST collections, the Territory's share of the national population and GST relativities as recommended by the Commonwealth Grants Commission (CGC). There are many variables that influence each of these parameters, adding to the complexity of forecasting GST revenue to the Territory over the forward estimates period.

National GST Collections

Estimates of national GST collections in 2012-13 and over the forward estimates period are based on the Commonwealth's most recent published advice and national economic indicators.

Forecast growth in national GST collections for 2012-13 onwards remain unchanged from those included in the 2012-13 Budget, albeit from a slightly higher 2011-12 base.

The Territory's GST revenue is directly impacted by variations in national GST collections. A ±1 per cent change in the amount of national GST collections is estimated to have a ±$28 million impact on the Territory's GST revenue in 2012-13. If variations of this size occurred in each of the budget and forward estimates years, the cumulative impact on Territory GST revenue would be ±$121 million.

Territory's Share of National Population

The Territory's population growth rate is expected to increase in 2012, following the commencement of a number of major construction projects including the INPEX workers' village and processing facilities. As a consequence, the Territory's share of the national population is expected to increase over the forward estimates period, with forecasts of population growth in the Territory above the forecast national average increase.

In June 2012, the ABS released updated population data, which was for the first time benchmarked to the 2011 Census of Population and Housing. The updated ABS ERP determination for December 2011 increased the Territory's share of the national population to 1.0336 per cent, compared with 1.0157 per cent estimated at the time of the 2012-13 Budget. The increase in the Territory's share of the national population has a positive impact on the estimates of the Territory's GST revenue and has been included in the PEFO estimates.

The effect of a 0.1 percentage point variation in the Territory's forecast population share is estimated at ±$3 million in 2012-13. The cumulative impact of a 0.1 percentage point variation in the population growth rate in each of the forward estimate years would be ±$23 million by 2015-16.

GST Relativities

The CGC is responsible for determining GST relativities. The CGC updates GST relativities each year but it does not forecast relativities for forward years. The CGC has recommended the relativities that will be used to distribute GST revenue between the states in 2012-13. Compared to 2011-12, the Territory's GST relativity has increased from 5.35708 to 5.52818 in 2012-13, thereby increasing the Territory's share of GST revenue. This has not changed since the 2012-13 Budget.

Due to the complexity and the large number of variables that are used to determine GST relativities, the Territory's budget forecasts hold relativities constant over the forward estimates period.

The approximate impact of a 1 per cent variation in the Territory's GST relativity is ±$26 million with a cumulative impact over the forward estimates period of ±$114 million.

In March 2011, the Prime Minister announced the Review of GST Distribution, which is examining whether the current GST distribution process will ensure that Australia is best placed to respond to future challenges and will make recommendations on whether the GST distribution process could be made more efficient, equitable, simple, predictable and stable.

The results of the Review are not yet known, and it is unclear which, if any, of the Review recommendations will be adopted by the Commonwealth. Notwithstanding, the Review presents a significant revenue risk to the Territory, given the Territory's reliance on GST revenue for about 60 per cent of its total revenue. The Review Panel is expected to submit its Final Report to the Commonwealth Treasurer in October 2012.

Other Commonwealth Grants and Subsidies

Commonwealth funding is provided under either the Intergovernmental Agreement on Federal Financial Relations (IGA-FFR) through Special Purpose Payments (SPPs), National Health Reform Payments (NHRPs) and National Partnership (NP) payments or through Commonwealth Own Purpose Expenses (COPE) provided directly to agencies. The IGA-FFR affords flexibility of expenditure across the relevant sector for the SPPs (which in 2012-13 are provided for the education, skills and workforce, disability and housing sectors) without input controls, matching and maintenance of effort requirements. These payments are not time limited and are indexed on a sector-specific basis. These arrangements provide a degree of certainty for the Territory's budgeting, although adequacy of indexation in terms of capturing cost growth remains an ongoing risk.

In 2012-13 NHRPs replaced the National Healthcare SPP. Although payments for the first two years will be the same as if the National Healthcare SPP continued, from 2014-15, payments will predominantly be made on the basis of hospital activity. While the Territory will receive some payments as 'block funding' in recognition of its small hospitals, it is currently unclear if the Territory's circumstances will be adequately recognised in the funding methodology, which is still under development, potentially impacting on the adequacy of Commonwealth funding.

While an improvement on previous funding agreements, and less prescriptive than COPE funding agreements, NP agreements continue to contain many risks to states including co-investment, input controls, application of national costs, burdensome reporting and administrative arrangements and potential withdrawal of seed funding. Expiry of NP agreements (which by nature are time limited) also potentially poses a risk to the Territory's Budget, particularly where funding supports service provision.

In addition, with the potential budget issues prevailing at the Commonwealth level, there is a further risk to all state and territory tied and untied funding of reduced funding levels if these funds are used to achieve a Commonwealth Budget surplus.

The risks related to SPPs, NHRPs, NPs and COPEs cannot be quantified, however remain unchanged from the time of the 2012-13 Budget.

Own-Source Revenue

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

It is difficult to accurately predict revenue collections into the future, particularly for the later years of the forward estimates. The most difficult source of revenue to forecast is mining royalty revenue because it is influenced by mineral prices, production levels and exchange rate conditions.

Mining revenue forecasts rely on advice from mining companies of their expected or estimated liability for the financial year. Unpredicted market changes in mineral prices, production or exchange rates will have a material impact on this forecast.

Forecasting conveyance stamp duty is also difficult because it is linked to activity in the property market. For example, there was strong growth in the residential property market activity prior to 2010-11, followed by a slowing in transaction volumes in 2011, with some recovery in transaction levels in 2012. The extent and timing of a market change or a return to stronger growth is difficult to predict and could have a significant impact on conveyance duty collections. In addition, the Territory has a relatively small conveyance duty base, which includes valuable commercial properties including pastoral properties and mining projects. Duty on any large commercial transactions also introduces significant variability in collections.

In total, a variation of ±1 per cent to the parameters used to forecast Territory taxes and royalties would effect revenue by about $5 million for 2012-13.

Expenses and Payments

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

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

A further risk is in relation to any future enterprise bargaining agreements. The outcome of future enterprise bargaining agreements over and above amounts currently factored into the forward estimates will increase budgetary pressures.

As outlined earlier in this chapter, minimal capacity exists in the forward estimates to respond to budget pressures, over the capacity already factored into forward estimates. In addition, the capital contingency reserve included in the forward estimates needs to be considered in light of recent indications that capital construction project costs could increase by around 10 per cent per annum as a result of the expected increase in construction industry wages.

In accordance with the FITA, the PEFO includes forward estimates up to 2015-16. There is the potential for fiscal aggregates beyond the forward estimates period to be affected by existing commitments. These could either take the form of recurrent costs that are not expected to crystallise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding, or capital infrastructure for which the associated recurrent costs are not fully incorporated into forward years as their completion falls either close to or outside of the forward estimates period.

Housing Assistance Packages

The Territory Government announced two new housing assistance packages on 25 July 2012. The PEFO includes the estimated affects on additional capital spending, borrowings, interest payments and net debt of each scheme and has been prepared using the best information available. However, there are a number of influences that could materially affect these estimates.

The HOMESTART EXTRA scheme significantly enhances the previous HOMESTART NT scheme by increasing the Territory's equity contribution to 50 per cent, up to a maximum of $200 000, up from 30 per cent and a cap of $75 000. There is also a $5000 increase in the fee assistance of a no interest loan to a total of $15 000.

The estimated take-up rates of the new HOMESTART EXTRA scheme have been based on historical growth rates experienced in times of previous significant revisions to shared equity scheme parameters and an average equity share of less than the maximum allowable. If the actual take up of the scheme varies or there is a change in the shared equity component from the estimates, the costs could vary significantly from those included in the PEFO. A change in the take-up rate or the average shared equity component of ±10 per cent would equate to a variation of ±$6 million per annum.

Shared equity schemes have been reviewed annually to assess whether parameter changes are required because of changes in market conditions, including house prices, interest rates and household incomes. The effect of future parameter changes on the new scheme is unquantifiable at this time but is likely to be material.

The My New Home initiative is in place for two years and provides access to a no-deposit loan of up to $750 000 for new dwellings with the Territory providing 20 per cent of the loan without the requirement for mortgage insurance. Estimates for interest revenue and expenses associated with the My New Home initiative have been included in the PEFO. Given that purchasers will be borrowing up to 100 per cent of the value of a dwelling there is a risk that there will be an increase in the number of delinquent loans as a result of implementing the new scheme. As the risk is not quantifiable at this time, no additional provisions for delinquent loans have been factored into the forward estimates. However, this will need to be closely monitored during 2012-13 and over the forward estimates period.

Contingent Liabilities

A contingent liability is a liability that the Government may be called on to meet at some future date if a specified event should occur. Contingent liabilities of the Territory may arise out of a range of circumstances, the most common of which are indemnities and guarantees contained in agreements executed by the Territory. Contingent liabilities may also arise as a result of undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity.

Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential extent of the actual liability should be quantified.

Material contingent liabilities of the Territory are defined as guarantees and indemnities with potential exposure greater than $5 million and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable material contingent liabilities of the Territory are outlined below and remain relatively unchanged since the 2012-13 Budget.

There is one material change in the Territory's contingent liabilities since the 2012-13 Budget associated with the housing assistance packages.

As at the date of this report, no transaction or event of a material nature has occurred that would crystallise the contingent liabilities reported in this section.

Quantifiable Contingent Liabilities

Details of estimated amounts of material contingent liabilities as at 30 June 2011 resulting from guarantees or indemnities granted by the Territory, as published in the 2010-11 Treasurer's Annual Financial Report (TAFR), are presented in Table 2.10. These amounts will be updated as part of the 2011-12 TAFR, in line with usual practices.

Table 2.10: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contigent Liability as at 30 June 2011
	$M NPV[1]
Pine Creek/McArthur River electricity purchase agreements	43
Public Trustee common funds	28

1 Future values discounted at a nominal 5.3 per cent discount rate.
Source: Northern Territory Treasury

Electricity, Gas and Water Supply

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

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

Electricity and Gas Supply to Pine Creek and McArthur River Mine

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

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

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

Statutory Contingent Liabilities

Public Trustee Act

Under section 97 of the *Public Trustee Act*, the Treasurer indemnifies the Common Funds against any deficiencies in money available to meet claims on it. The Common Funds are a repository for all monies received by the Public Trustee on behalf of estates, trusts or persons, and earns interest.

Money to the credit of the Common Funds is invested according to the directions issued by an Investment Board.

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

Unquantifiable Contingent Liabilities

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

Transport

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

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

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

- joint guarantee of the obligations of AARC; and
- indemnities granted in relation to title over the railway corridor (title is secure but the indemnity continues).

DPC has leased facilities at the Darwin Port to the concession holder, interfacing the port and the railway. There are contingent liabilities that arise out of the performance of the facilities.

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

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

DPC has an agreement that indemnifies the other party against any claim, loss, damage, liability, cost and expense that may be incurred or sustained by Shell arising out of any breach of DPC's obligation under the agreement or in connection with any failure or defect in the integrity of the bunker lines.

The Territory has provided an indemnity to DPC in relation to certain remedial works at East Arm Port. The indemnity covers third-party claims that may be made against DPC as well as rectification of damage to the wharf or other DPC property caused by carrying out the remedial works. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Health and Community Services

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

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

Government Administration

Where the Territory has invited the participation of private sector persons and Government officers on boards of Government owned or funded companies, the Territory may grant indemnities to the board members to cover them for any losses that may result from good faith actions.

These indemnities are generally consistent with cover available through Directors and Officers Insurance and the policy of issuing an indemnity rather than purchasing commercial insurance is in line with the Government's self-insurance arrangements.

In relation to corporations established in accordance with the *Government Owned Corporations Act* an indemnity given by the Territory to board members is limited to actions arising from compliance with a direction issued by the shareholding minister or the portfolio minister pursuant to the Act.

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

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

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

Where the Territory is engaged in legal proceedings and disputes due to the wide variety and nature of these cases and the uncertainty of any potential liability, no value can be attributed to these cases. In addition, the attribution of value to those cases also has the potential to prejudice the outcome of the proceedings and disputes.

The Government has indemnified private sector insurers who provide workers compensation insurance in the Territory. The indemnity covers insurers for losses that arise as a result of acts of terrorism.

Secure Facilities

The Territory has contingent liabilities in this category that relate to indemnities and guarantees that have been provided in support of the new secure facilities project that will be conducted under a public private partnership agreement.

The Territory has indemnified the proponent for losses arising from uninsurable risks. Except for this indemnity, which is unquantifiable, there are no other reportable contingent liabilities in this category.

Housing Assistance Packages

The My New Home scheme includes a deposit guarantee provided by the Territory for off the plan purchases of dwellings. This form of financing, whereby the Territory is guaranteeing the 10 per cent deposit for the dwelling, amounts to a contingent liability which would be realised should the purchaser default on the contractual obligations. To the extent that potential purchasers change their circumstances in the time between committing to the off the plan purchase and settlement, the Government could be liable for the 10 per cent deposit to developers. Given the scheme is in its infancy, the contingent liability is considered to be unquantifiable at this time.

Finance

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

There are no reportable contingent liabilities in this category.

Property and Business Services

Agreements for leases or licences of property, plant or equipment generally contain standard indemnity provisions, similar to those commonly found in commercial leases, covering the lessor or licensor for any losses suffered as a result of the lease or licence arrangement. The contingent liabilities resulting from the indemnities are unquantifiable.

The granting of a concession to Darwin Cove Convention Centre Pty Ltd gives rise to contingent liabilities associated with:

- discriminatory changes in law;
- environmental clean-up costs;
- incentive payments to the operator if performance targets established for the centre are exceeded; and
- negotiated payments to the operator in the early years of the centre's operation.

For the categories listed above, neither the probability nor the amount that the Territory might be called upon to pay at some future date can be determined reliably. As a result these items are regarded as contingent liabilities, where the existence of an actual liability in the future will be confirmed only by the occurrence of uncertain future events that lie outside the control of the Territory.

A contingent asset also arises as a consequence of the concession arrangement. A Territory Availability Payment (TAP) is recognised as a liability on the general government sector and whole of government balance sheets. However, the Territory has the right to recover up to 75 per cent of that liability if the operator should not achieve certain performance criteria. The part of the TAP that might be subject to abatement is classified as a contingent asset because neither the probability of such a recovery nor the amount that might be recovered can be determined reliably.

Chapter 3 Economic Outlook

The 2012-13 Budget included a detailed assessment of the Territory economy and outlined the range of economic forecasts underlying the Budget estimates and forecasts. All data that has been released since the 2012-13 Budget has been reviewed to determine whether the 2012 Budget forecasts require updating. The data that has been released broadly supports the forecasts included in the 2012-13 Budget Papers.

Table 3.1: Key Economic Indicators

	2007-08	2008-09	2009-10	2010-11	2011-12	2011-12	2012-13
	Actual				Estimate	Actual	Forecast
	%	%	%	%	%	%	%
Gross state product[1]	7.0	4.5	1.3	1.6	2.4	n.a	3.9
State final demand[2]	6.7	8.7	- 5.5	- 0.5	3.7	n.a	9.3
Employment	6.1	4.4	2.5	2.0	0.8	0.5	2.0
Unemployment rate	4.4	3.6	3.4	2.9	3.7	4.1	3.2
Population[3]	2.5	2.6	2.3	0.9	0.8	0.8	1.6
Darwin CPI[4]	3.4	4.0	2.8	2.8	2.8	2.8	2.1

1 Year ended June, year-on-year percentage change, inflation adjusted.
2 Not adjusted for overseas progress payments related to INPEX.
3 As at December, annual percentage change.
4 As at December, year-on-year percentage change.
Source: Northern Territory Treasury

State Final Demand and Gross State Product

State final demand (SFD) is a major component of GSP. It comprises private and public consumption and investment. The ABS publish quarterly estimates of SFD and since the 2012-13 Budget was delivered in May, the ABS has released its March quarter 2012 estimates of SFD, which showed a substantial increase in private investment. This increase is understood to be largely associated with progress payments for modules being constructed overseas for the INPEX Ichthys project. The estimate of SFD for 2011-12 included in the 2012-13 Budget has not been adjusted reflecting uncertainty around the timing and quantum of progress payments in the March and June quarters of 2012.

GSP is a broad measure of the value added to the Territory economy in each year. It is estimated annually by the ABS, with the 2011-12 estimate due for release in November 2012. ABS has indicated that in compiling GSP estimates it will make an offsetting adjustment to Territory imports to account for the overseas progress payments noted above. As such there should be no material impact on the GSP estimates published in the 2012-13 Budget.

Economic growth in the Territory continues to be driven by private sector investment in large projects. Most components of private business investment are forecast to report robust growth in 2012-13, in line with expectations at Budget time. These include: purchases of new machinery and equipment; new engineering construction; non-residential structures and buildings; and residential construction.

The introduction of the My New Home and HOMESTART EXTRA housing products are expected to bring forward residential construction however, due to lead times in construction, are unlikely to have a material impact on GSP until 2013-14 when building activity is anticipated to be stronger.

As a consequence SFD and GSP forecasts from the 2012-13 Budget remain unchanged at 3.7 per cent and 2.4 per cent, respectively for 2011-12 and 9.3 per cent and 3.9 per cent, respectively in 2012-13 (Table 3.1).

Employment

In the 2012-13 Budget, resident employment growth for 2011-12 was estimated to moderate to 0.8 per cent, from 2.0 per cent in 2010-11, reflecting the completion of several key projects in the year. Data subsequently released by the ABS for 2011-12 reported employment growth of 0.5 per cent, largely consistent with the 2012-13 Budget estimates (Table 3.1). The unemployment rate was estimated to average 3.7 per cent in 2011-12 and actual data released by the ABS reported an average of 4.1 per cent in the year, also largely consistent with 2012-13 Budget estimates.

Employment growth was forecast in the 2012-13 Budget to strengthen to 2.0 per cent as economic activity gains momentum following the commencement of major projects, including the new Darwin Correctional Facility, the Marine Supply Base and the INPEX Ichthys project. Data released since the May Budget does not support revision to the 2012-13 employment growth forecast. The new housing packages are anticipated to result in additional construction although lead times mean that the impact on employment is unlikely to be evident before 2013-14.

Consumer Price Index

The 2012-13 Budget forecasts the Darwin CPI to moderate to 2.1 per cent in 2012. This reflects the ongoing impact of the high exchange rate and some excess capacity in the economy prior to the increase in activity associated with the commencement of large projects. Since the Budget, the ABS has released the June quarter 2012 CPI, which shows that inflation is on target to achieve the 2012 forecast.

In 2013 inflation is forecast to strengthen to 3.4 per cent. This forecast has been adjusted from the 2012-13 Budget forecast of 3.2 per cent to reflect expected upwards pressure on house prices arising from increased demand and purchasing capacity as a result of the My New Home and HOMESTART EXTRA products. The forecasts include the impact of the carbon tax estimated at 0.7 per cent in 2012-13, unchanged from the time of the 2012-13 Budget.

Population

The 2012-13 Budget estimated population growth of 0.8 per cent in 2011. Subsequent release of demographic data by the ABS has confirmed this estimate, which captures the effects of the relocation of the 7th Royal Australian Regiment (and dependents) from Darwin to Adelaide. The Budget forecast growth to strengthen to 1.6 per cent in 2012 and to 2.2 per cent in 2013 reflecting the development of major projects, particularly the construction of the INPEX Ichthys project.

The estimates for population growth in 2012 and 2013 remain unchanged from those contained in the 2012-13 Budget.

On 20 June 2012, the ABS released preliminary ERP figures based on the 2011 Census. These ERPs replaced previously released estimates based on the 2006 Census. The new ERPs increased estimates of the Territory's population while for Australia there was a substantial decrease.

In the 2012-13 Budget, the estimates used for the Territory and Australian population as at 31 December 2011 were based on the 2006 Census. For the Territory, a population estimate of 231 253 was used, which was 1112 less than the new ABS estimate of 232 365. For Australia, the new estimate is a decrease of 285 258 from 22 767 475 to 22 482 217. As a result the Territory's share of the national population increased from 1.0157 per cent to 1.0336 per cent. This affects the Territory's share of GST revenue as discussed in chapters 1 and 2.

Chapter 4 Fiscal Strategy Assessment

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

The fiscal strategy currently in place was developed as part of the 2009-10 Budget in response to the GFC, and remained unchanged in the 2012-13 Budget. The objective of the strategy was, in the short term, to ameliorate the effects of the GFC by investing significantly in infrastructure. This was to be underpinned by the requirement for fiscal discipline through the target of growth in untied expenditure not exceeding growth in untied revenue. The objective over the medium term was to provide a long-term, stable and resilient economy combined with a sustainable fiscal position to provide the capacity to respond to short-term less favourable economic conditions.

The subdued national economic conditions that had affected the Territory's fiscal position at the time of the 2012-13 Budget are unchanged. While there has been some improvement since May 2012 in the Territory's estimated GST revenue, this is largely related to the Territory's share of the national population rather than an increase in growth in GST national collections, which would indicate a more sustained improvement in this revenue source.

Own-source revenue estimates have been varied for the PEFO, although the expected increases in payroll tax and stamp duty on conveyances have been more than offset by a reduction in mining royalty estimates. Expenses and payments have also varied since the 2012-13 Budget as a result of recent policy decisions and the effect of timing differences across years.

In this context the remainder of this chapter provides an assessment of the updated fiscal position against the components of the fiscal strategy.

Sustainable Service Provision

Target: Expenditure growth not to exceed revenue growth, excluding tied Commonwealth funding

The target of sustainable service delivery requires that growth in operating expenses is less than growth in operating revenue, excluding tied Commonwealth funding. The financial data in the PEFO shows untied expenditure growth of 3.63 per cent, compared to untied revenue growth of 4.92 per cent over the forward estimates, which is consistent with the fiscal strategy.

Table 4.1: General Government Sector – Net Operating Balance

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2012-13 Budget	166	- 163	- 158	- 154	- 147
2012-13 PEFO	**224**	**- 108**	**- 144**	**- 153**	**- 139**
Variation	58	55	14	1	8

Source: Northern Territory Treasury

Table 4.1 compares the updated net operating balance for the general government sector since the 2012-13 Budget and highlights the effect of the improved GST. The improvement is greater in 2012-13 as it includes the additional GST revenue associated with the population increase for both 2011-12 and 2012-13. The increased GST is offset by Commonwealth-funded timing differences and the reduction in mining royalties over the forward estimates.

Table 4.2: General Government – Underlying Cash Outcome

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2012-13 Budget	- 491	- 449	- 373	- 317	- 278
2012-13 PEFO	**- 419**	**- 509**	**- 417**	**- 328**	**- 254**
Variation	72	- 60	- 44	- 11	24

1 Underlying cash outcome excludes Darwin Correctional Facility.
Source: Northern Territory Treasury

Table 4.2 compares the updated cash outcome for the general government sector to the 2012-13 Budget and shows that for all years the cash outcome remains in a deficit position. The estimated deficit is lower for 2011-12 and 2015-16 but higher from 2012-13 to 2014-15.

While GST revenue increases have improved the operating result, the cash and fiscal balance outcomes are influenced by the effect of policy decisions, largely related to the recently approved housing assistance packages. These policy decisions have a greater effect in 2012-13 and 2013-14 in line with the anticipated peak of take up of the scheme, together with the timing of capital expenditure associated with tied Commonwealth funding received in 2011-12.

The savings measures included in the past three budgets remain unchanged in the PEFO, however if revenue growth does not improve over the forward estimates, additional measures will be required to respond to ongoing demand pressures. Restrictions on expenditure growth will need to be maintained over an extended period to enable the Territory Budget to return to both operating and cash surpluses and provide the capacity to meet future capital spending requirements and the retirement of additional debt accumulated since 2010-11.

There is also the potential for fiscal aggregates beyond the forward estimates period to be affected by existing or future commitments. If this occurs, it is unlikely that a return to surplus will be achieved without significantly improved revenues and/or additional savings measures.

Infrastructure for Economic and Community Development

Target: Maintain infrastructure investment at appropriate levels

Infrastructure investment is essential for the delivery of the Territory's social and economic objectives. The short-term strategy commits to spending at least twice the level of depreciation expense on capital infrastructure, on average, over the current economic cycle to support service delivery and business growth in the Territory.

As foreshadowed in the 2012-13 Budget, private sector investment started to increase in 2011-12 and is set to increase further in 2012-13 on the back of a number of major resource projects. The most significant of these is the $34 billion Ichthys project sponsored by INPEX and Total. To limit the extent of government and private sector competition for scarce construction-related resources, the level of capital spending in the 2012-13 Budget was reduced over the forward estimates.

The variations to capital investment in the PEFO is due to the timing of capital spending across years and the increased equity purchases associated with the expansion of the HOMESTART EXTRA scheme.

Table 4.3 presents the estimates for capital investment for 2011-12 to 2015-16 compared with the May 2012 Budget. The Government's capital investment comprises purchases of non financial assets (including construction and capital items) and capital grants to non government organisations. It excludes repairs and maintenance, which are classified as operational expenses.

Table 4.3: General Government Sector – Capital Investment

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2012-13 Budget					
Purchases of non financial assets	1 003	655	571	518	451
Capital grants	103	66	55	40	36
Total	**1 106**	**721**	**626**	**558**	**487**
2012-13 PEFO					
Purchases of non financial assets	987	764	623	525	430
Capital grants	76	66	55	40	36
Total	**1 063**	**830**	**678**	**565**	**466**
Variation from 2012-13 Budget					
Purchases of non financial assets	- 16	109	52	7	- 21
Capital grants	- 27				
Total	**- 43**	**109**	**52**	**7**	**- 21**

1 Excludes Darwin Correctional Facility.
Source: Northern Territory Treasury

Table 4.4: General Government Sector – Capital Investment to Depreciation Ratio

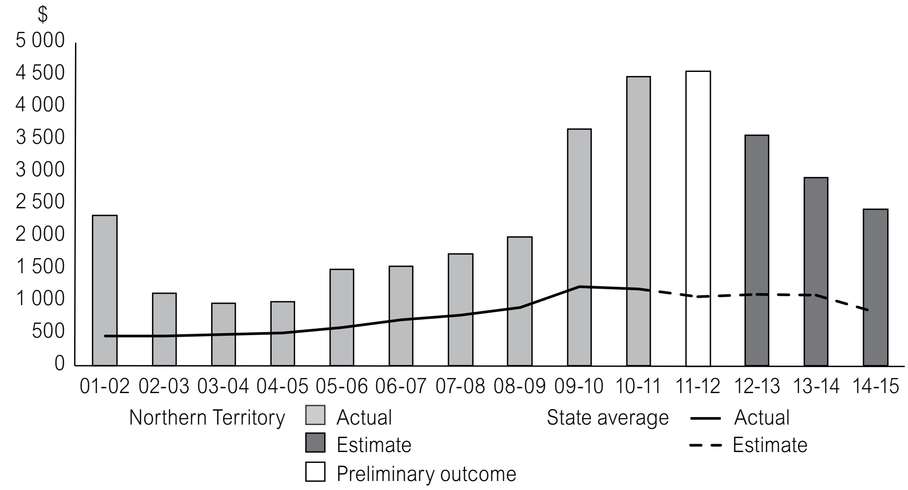
	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2012-13 Budget					
Total capital investment	1 106	721	626	558	487
Depreciation	219	226	230	244	247
Capital investment to depreciation ratio	**5.0**	**3.2**	**2.7**	**2.3**	**2.0**
2012-13 PEFO					
Total capital investment	1 063	830	678	565	466
Depreciation	229	226	230	244	247
Capital investment to depreciation ratio	**4.6**	**3.7**	**2.9**	**2.3**	**1.9**
Variation from 2012-13 Budget					
Total capital investment	- 43	109	52	7	- 21
Depreciation	10				
Capital investment to depreciation ratio	**- 0.4**	**0.5**	**0.2**	**0.0**	**- 0.1**

1 Excludes Darwin Correctional Facility.
Source: Northern Territory Treasury

As shown in tables 4.3 and 4.4, investment in infrastructure, although reducing over the forward years, continues to be in excess of the fiscal strategy target of spending twice depreciation levels on average. The variations since the 2012-13 Budget relate to changes in timing of expenditure between years, largely for Commonwealth funding and the increased equity investment under the HOMESTART EXTRA scheme.

Chart 4.1 illustrates that the Territory's capital investment per capita since 2001-02 is significantly higher than the average of the states.

Chart 4.1: General Government Sector – Territory Capital Investment Per Capita



Source: State and Territory budget and outcome reports.

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

Similar to the cash outcome, the underlying fiscal balance remains in deficit over the budget cycle, with a deficit of $567 million in 2012-13, improving to a projected deficit of $261 million in 2015-16, as shown in Table 4.5.

The change since the 2012-13 Budget is largely in line with the change in the cash outcome except for 2011-12 where there is a more pronounced improvement in the fiscal balance due to the accelerated payment to LDC for the National Rental Affordability Scheme. These amounts are recognised in full in the Cash Flow Statement in 2011-12 but will be recognised over the next three years in the accrual fiscal balance as the dwellings are completed. The accelerated payment provides LDC with certainty in the construction of affordable housing in the new suburbs of Zuccoli and Johnston, and a new development in Maluka Drive in Palmerston.

Table 4.5: General Government – Underlying Fiscal Balance

	2011-12	2012-13	2013-14[1]	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2012-13 Budget	- 546	- 490	- 408	- 349	- 285
2012-13 PEFO	**- 418**	**- 567**	**- 470**	**- 366**	**- 261**
Variation	128	- 77	- 62	- 17	24

1 Underlying fiscal balance excludes Darwin Correctional Facility.
Source: Northern Territory Treasury

Competitive Tax Environment

Target: Ensure Territory taxes and charges are competitive with the average of the states and territories

Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. A measure of the competitiveness of the Territory's tax system is taxation effort as assessed by the CGC.

CGC's analysis of 'tax capacity and effort' assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below average and whether tax rates applied are above or below the states' average. Table 4.6 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2010-11, the latest year assessed by the CGC, and is unchanged from the 2012-13 Budget.

Table 4.6: Northern Territory Revenue – Raising Capacity and Effort 2010-11

	Capacity[1]	Effort[2]
	%	%
Total taxation	86	78
Total own-source revenue	94	90

1 Northern Territory's capacity to raise revenue compared with the Australian average.
2 Northern Territory's revenue effort compared with the Australian average, given the capacity available.
Note: Australian average = 100 per cent
Source: Commonwealth Grants Commission 2012 Update

Table 4.6 shows that the Territory's capacity to raise revenue is below the Australian average. That is, if the Territory applied the average rates of tax to its tax base, the revenue the Territory could raise would be less than the national average on a per capita basis.

The Territory is assessed as having lower than average effort for taxation (largely payroll tax, land tax, stamp duty on conveyances, insurance taxation and motor taxes), reflective of the Territory's fiscal strategy of ensuring taxes are competitive with the average of the jurisdictions. The lower than average taxation effort is mainly a result of no land tax and having the lowest total motor vehicle taxes in Australia.

Prudent Management of Debt and Liabilities

Target: Reduce debt to pre-GFC levels once the economy rebounds

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

Consistent with the Budget time estimates, the Territory's debt position is projected to worsen over the forward estimates period. Over time, the sustainable service provision target of limiting expenditure growth should assist in providing the capacity to reduce debt. This will require the continuation of budget improvement measures to ensure that once revenues rebound expenditure continues to be restricted. The current target is to reduce debt by 5 per cent of the increase per annum, when the capacity exists to do so.

The measures of net debt and net financial liabilities for the general government sector provide the means of assessing the Territory's performance against this element of the fiscal strategy.

Table 4.7: General Government – Net Debt

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
Net debt ($M)					
2012-13 Budget	1 689	2 174	3 095	3 381	3 627
2012-13 PEFO	**1 627**	**2 173**	**3 139**	**3 436**	**3 658**
Variation	- 62	- 1	44	55	31
Net debt to revenue (%)					
2012-13 Budget	35	48	66	71	74
2012-13 PEFO	**33**	**47**	**66**	**71**	**74**
Variation	- 2	- 1	0	0	0

Source: Northern Territory Treasury

Net debt remains broadly consistent with the estimates presented in the 2012-13 Budget, with the net debt to revenue ratio unchanged from 2013-14 onwards.

Notwithstanding, the cash and associated net debt position has been influenced by the effect of policy decisions since the 2012-13 Budget, and have offset the improvement from additional GST revenue. The policy decisions predominantly relate to the HOMESTART EXTRA housing assistance package and the associated increase in equity shares, particularly in 2012-13 and 2013-14, in line with the enhancements and anticipated higher take up of the scheme. In the future the Territory should obtain a cash return on its equity share once properties are sold, which should reduce net debt and improve the cash outcome at that time. This improvement will be moderated to the extent that the sales are offset by further equity purchases. The timing and amount of the return will be influenced by both future market conditions and government policy in relation to the parameters of the scheme.

Table 4.7 shows that in absolute terms net debt is estimated to rise from $1.6 billion in 2011-12 to around $3.6 billion in 2015-16. When measured as a ratio to revenue, it is expected to rise from 33 per cent in 2011-12 to 74 per cent by 2015-16.

Net debt includes the value of the Conditions of Service Reserve (COSR). COSR includes funds that have been set aside for the Territory Government's long-term employee liabilities. COSR investments are managed by three external fund managers on the basis that there is a weighting to long-term growth assets in order to match the long-term nature of the liability.

As at 30 June 2012 the COSR is valued at approximately $435 million. The combined long term investments held in the COSR returned -0.39 per cent in 2011-12, consistent with the benchmark return of -0.40 per cent. Although short-term performance has declined in 2011-12, the fund has managed to outperform its benchmark over a 3, 5, 7 and 10-year time frame, which more closely reflects the investment term for these funds.

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation, a significant liability for the Territory and most jurisdictions. The Territory cannot influence the level of its future superannuation liabilities. The schemes to which the liabilities relate are closed and any variation to the liability is a result of factors outside the Territory's control such as longevity or long-term bond rates.

Table 4.8: General Government Sector – Net Financial Liabilities

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
Net financial liabilities ($M)					
2012-13 Budget	5 444	5 760	6 525	6 864	7 137
2012-13 PEFO	**5 738**	**5 782**	**6 609**	**6 964**	**7 214**
Variation	294	22	84	100	77
Net financial liabilities to revenue (%)					
2012-13 Budget	113	127	140	144	146
2012-13 PEFO	**116**	**124**	**140**	**145**	**145**
Variation	3	- 3	0	1	- 1

Source: Northern Territory Treasury

Table 4.8 highlights that the level of net financial liabilities as a percentage of revenue is largely unchanged from the estimates presented in the 2012-13 Budget. The significant increase in 2011-12 from the May 2012 Budget is a direct result of an increase in the valuation of the Territory's superannuation liability related to a lower ten-year bond rate used to calculate the present value of the liability. The Commonwealth ten-year bond rate used in calculating the superannuation liability is 3.1 per cent for 2011-12, 5 per cent for 2012-13 and returns to 5.7 per cent over forward years in line with the anticipated return to the long-term average rate.

When recorded as a proportion of revenue it is estimated that net financial liabilities will be 145 per cent in 2015-16, down from 146 per cent since May 2012.

Conclusion

The FITA requires the Territory's fiscal strategy to be reviewed annually. The commencement of a new Government and recent changes to fiscal parameters that are affecting the Territory and its economy would indicate that the development of the 2013-14 Budget would be an appropriate time to review the Territory's fiscal strategy.

Chapter 5 Uniform Presentation Framework

Under the Uniform Presentation Framework (UPF), jurisdictions have agreed to publish information in a standard format in their financial reports. The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics (GFS) as well as AASB 1049. The UPF has been adopted by all governments to facilitate a better understanding of governments' financial statements and to provide a basis for meaningful comparisons of each government's financial results and projections.

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

The tables in this chapter meet the Territory's reporting obligations under both the FITA and the UPF. They include an Operating Statement, Balance Sheet and Cash Flow Statement for the general government and non financial public sectors.

The financial statements include the preliminary unaudited 2011-12 outcome, the updated 2012-13 Budget and 2013-14 to 2015-16 forward estimates.

Table 5.1

General Government Sector Comprehensive Operating Statement

		2011-12	2012-13	2013-14	2014-15	2015-16
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	403 017	424 706	441 136	458 391	476 038
	Current grants	3 508 955	3 564 063	3 652 523	3 769 863	3 970 180
	Capital grants	479 284	210 792	167 617	108 978	58 536
	Sales of goods and services	214 043	207 077	207 204	211 623	199 207
	Interest income	67 996	63 975	71 912	74 789	76 475
	Dividend and income tax equivalent income	32 805	49 280	48 176	47 351	44 995
	Other	219 738	137 620	136 426	135 700	135 520
	TOTAL REVENUE	**4 925 837**	**4 657 513**	**4 724 994**	**4 806 695**	**4 960 951**
less	**EXPENSES**					
	Employee benefits expense	1 794 398	1 800 665	1 820 500	1 851 777	1 883 366
	Superannuation expenses					
	Superannuation interest cost	106 894	90 512	137 762	159 113	160 597
	Other superannuation expenses	197 723	208 944	173 091	160 808	169 925
	Depreciation and amortisation	228 568	226 102	230 341	244 224	247 257
	Other operating expenses	1 175 890	1 233 288	1 282 491	1 318 843	1 383 370
	Interest expenses	166 240	188 218	229 763	282 847	300 410
	Other property expenses	2 059				
	Current grants	802 576	810 251	795 520	752 091	763 651
	Capital grants	75 656	65 852	54 859	40 330	35 915
	Subsidies and personal benefit payments	151 468	141 720	144 898	149 314	155 266
	TOTAL EXPENSES	**4 701 472**	**4 765 552**	**4 869 225**	**4 959 347**	**5 099 757**
equals	**NET OPERATING BALANCE**	**224 365**	**- 108 039**	**- 144 231**	**- 152 652**	**- 138 806**
plus	Other economic flows – included in operating result	- 737 290	590 697	228 250	24 686	19 456
equals	**OPERATING RESULT**	**- 512 925**	**482 658**	**84 019**	**- 127 966**	**- 119 350**
plus	Other economic flows – other non-owner changes in equity	7 551	98 781	94 850	109 221	107 648
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 505 375**	**581 439**	**178 869**	**- 18 745**	**- 11 702**
	NET OPERATING BALANCE	**224 365**	**- 108 039**	**- 144 231**	**- 152 652**	**- 138 806**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	946 689	780 748	640 860	530 063	429 642
	Sales of non financial assets	- 71 941	- 72 622	- 63 728	- 66 728	- 60 228
	less Depreciation	228 568	226 102	230 341	244 224	247 257
	plus Change in inventories	- 1 038				
	plus Other movements in non financial assets	- 2 304	- 23 313	474 054	- 5 739	
	equals **Total net acquisition of non financial assets**	**642 837**	**458 711**	**820 845**	**213 372**	**122 157**
equals	**FISCAL BALANCE**	**- 418 472**	**- 566 750**	**- 965 076**	**- 366 024**	**- 260 963**

Totals on financial statements may not add due to rounding.

Table 5.2

General Government Sector Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	383 578	157 029	106 332	105 588	169 797
Advances paid	168 548	262 156	359 319	373 555	369 303
Investments, loans and placements	1 035 858	702 401	720 763	717 783	757 471
Receivables	190 394	187 911	168 639	162 331	160 071
Equity					
Investments in other public sector entities	2 484 726	2 643 519	2 820 369	2 929 590	3 037 238
Investments – other	100	100	100	100	100
Other financial assets					
Total financial assets	**4 263 204**	**3 953 116**	**4 175 522**	**4 288 947**	**4 493 980**
Non financial assets					
Inventories	9 156	9 157	9 157	9 157	9 157
Property, plant and equipment	10 241 352	10 653 737	11 420 666	11 627 372	11 749 613
Investment property	55 607	110 700	173 393	194 686	203 379
Other non financial assets	4 165	3 780	3 396	3 012	2 628
Total non financial assets	**10 310 280**	**10 777 374**	**11 606 612**	**11 834 227**	**11 964 777**
TOTAL ASSETS	**14 573 485**	**14 730 490**	**15 782 134**	**16 123 174**	**16 458 757**
LIABILITIES					
Deposits held	804 223	241 298	221 765	231 380	253 462
Advances received	268 414	414 080	574 278	611 137	618 233
Borrowing	2 142 553	2 639 676	3 529 039	3 790 773	4 083 266
Superannuation	3 492 756	2 965 245	2 791 455	2 817 494	2 833 716
Other employee benefits	545 884	564 491	574 343	582 343	588 343
Payables	147 175	147 457	150 132	163 880	163 802
Other liabilities	115 895	118 865	122 875	126 665	130 135
TOTAL LIABILITIES	**7 516 900**	**7 091 112**	**7 963 887**	**8 323 672**	**8 670 957**
NET ASSETS/(LIABILITIES)	**7 056 585**	**7 639 378**	**7 818 247**	**7 799 502**	**7 787 800**
Contributed equity					
Accumulated surplus/(deficit)	960 379	1 448 184	1 532 203	1 404 237	1 284 887
Reserves	6 096 207	6 191 194	6 286 044	6 395 265	6 502 913
NET WORTH	**7 056 585**	**7 639 378**	**7 818 247**	**7 799 502**	**7 787 800**
NET FINANCIAL WORTH[1]	- 3 253 695	- 3 137 996	- 3 788 365	- 4 034 725	- 4 176 977
NET FINANCIAL LIABILITIES[2]	5 738 422	5 781 515	6 608 734	6 964 315	7 214 215
NET DEBT[3]	**1 627 206**	**2 173 468**	**3 138 668**	**3 436 364**	**3 658 390**

1 Net financial worth equals total financial assets minus total liabilities.
2 Net financial liabilities equals the sum of total liabilities less total financial assets excluding investments in other public sector entities.
3 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 5.3

General Government Sector Cash Flow Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	399 766	424 616	441 005	458 116	475 888
Receipts from sales of goods and services	255 781	252 138	252 265	256 684	244 268
Grants and subsidies received	3 991 588	3 774 855	3 820 140	3 878 841	4 028 716
Interest receipts	68 203	63 944	71 884	74 771	76 467
Dividends and income tax equivalents	25 467	40 275	49 831	48 619	47 413
Other receipts	445 158	353 621	352 375	352 217	352 115
Total operating receipts	**5 185 963**	**4 909 449**	**4 987 500**	**5 069 248**	**5 224 867**
Cash payments for operating activities					
Payments for employees	- 2 002 444	- 2 032 096	- 2 081 309	- 2 134 245	- 2 188 330
Payment for goods and services	- 1 478 269	- 1 495 366	- 1 543 529	- 1 574 817	- 1 644 858
Grants and subsidies paid	- 1 014 746	- 994 465	- 974 286	- 935 951	- 954 787
Interest paid	- 165 039	- 187 890	- 227 088	- 274 383	- 300 578
Other payments	- 11 537				
Total operating payments	**- 4 672 033**	**- 4 709 817**	**- 4 826 212**	**- 4 919 396**	**- 5 088 553**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**513 930**	**199 632**	**161 288**	**149 852**	**136 314**
Cash flows from investments in non financial assets					
Sales of non financial assets	71 941	72 622	63 728	66 728	60 228
Purchases of non financial assets	- 986 689	- 763 859	- 623 084	- 524 730	- 429 642
Net cash flows from investments in non financial assets	**- 914 747**	**- 691 237**	**- 559 356**	**- 458 002**	**- 369 414**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 400 817**	**- 491 605**	**- 398 068**	**- 308 150**	**- 233 100**
Net cash flows from investments in financial assets for policy purposes[1]	- 49 443	- 157 413	- 179 163	- 14 236	4 252
Net cash flows from investments in financial assets for liquidity purposes	- 200 636	342 771	- 8 494	13 434	- 28 614
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 164 826	- 505 879	- 747 013	- 458 804	- 393 776
Net cash flows from financing activities					
Advances received (net)	21 991	145 497	160 198	36 859	7 096
Borrowing (net)	321 300	497 123	394 363	261 734	292 493
Deposits received (net)	504 918	- 562 925	- 19 533	9 615	22 082
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	848 209	79 695	535 028	308 208	321 671
NET INCREASE/DECREASE IN CASH HELD	197 313	- 226 552	- 50 697	- 744	64 209
Net cash flows from operating activities	513 930	199 632	161 288	149 852	136 314
Net cash flows from investments in non financial assets	- 914 747	- 691 237	- 559 356	- 458 002	- 369 414
CASH SURPLUS (+)/DEFICIT (-)	**- 400 817**	**- 491 605**	**- 398 068**	**- 308 150**	**- 233 100**
Future infrastructure and superannuation contributions/earnings[2]	- 18 152	- 17 392	- 18 436	- 19 543	- 20 715
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 418 969**	**- 508 997**	**- 416 504**	**- 327 693**	**- 253 815**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 400 817	- 491 605	- 398 068	- 308 150	- 233 100
Acquisitions under finance leases and similar arrangements			- 495 000		
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 400 817	- 491 605	- 893 068	- 308 150	- 233 100

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

Table 5.4

Non Financial Public Sector Comprehensive Operating Statement

		2011-12	2012-13	2013-14	2014-15	2015-16
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	395 226	415 967	432 198	449 249	466 896
	Current grants	3 508 955	3 564 063	3 652 523	3 769 863	3 970 180
	Capital grants	479 314	210 792	167 617	108 978	58 536
	Sales of goods and services	700 663	777 496	822 914	862 346	866 825
	Interest income	68 051	64 035	71 912	74 789	76 475
	Dividend and income tax equivalent income	30 984	41 146	38 597	38 161	37 721
	Other	249 940	174 750	172 913	173 307	174 385
	TOTAL REVENUE	**5 433 132**	**5 248 249**	**5 358 674**	**5 476 693**	**5 651 018**
less	**EXPENSES**					
	Employee benefits expense	1 886 877	1 894 969	1 926 471	1 962 456	2 003 840
	Superannuation expenses					
	Superannuation interest cost	106 894	90 512	137 762	159 113	160 597
	Other superannuation expenses	205 176	219 853	184 260	172 242	181 359
	Depreciation and amortisation	363 800	367 948	385 652	410 425	424 209
	Other operating expenses	1 548 362	1 703 234	1 765 628	1 808 020	1 873 749
	Interest expenses	239 077	274 059	328 352	393 004	425 064
	Other property expenses	2 044				
	Current grants	759 801	756 935	740 809	695 948	706 038
	Capital grants	52 818	42 402	37 998	23 048	18 201
	Subsidies and personal benefit payments	87 877	82 909	80 848	83 915	89 404
	TOTAL EXPENSES	**5 252 727**	**5 432 821**	**5 587 780**	**5 708 171**	**5 882 461**
equals	**NET OPERATING BALANCE**	**180 406**	**- 184 572**	**- 229 106**	**- 231 478**	**- 231 443**
plus	Other economic flows – included in operating result	- 741 343	589 148	226 392	23 459	18 167
equals	**OPERATING RESULT**	**- 560 937**	**404 576**	**- 2 714**	**- 208 019**	**- 213 276**
plus	Other economic flows – other non-owner changes in equity	55 562	176 863	181 583	189 274	201 574
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 505 375**	**581 439**	**178 869**	**- 18 745**	**- 11 702**
	NET OPERATING BALANCE	**180 406**	**- 184 572**	**- 229 106**	**- 231 478**	**- 231 443**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	1 232 814	1 135 456	935 640	807 675	734 526
	Sales of non financial assets	- 76 273	- 72 748	- 63 854	- 66 854	- 60 354
	less Depreciation	363 800	367 948	385 652	410 425	424 209
	plus Change in inventories	26 547	- 661	- 4 208	- 8 195	- 19 163
	plus Other movements in non financial assets	13 353	- 11 313	486 354	6 869	12 923
	equals **Total net acquisition of non financial assets**	**832 641**	**682 786**	**968 280**	**329 070**	**243 723**
equals	**FISCAL BALANCE**	**- 652 235**	**- 867 358**	**- 1 197 386**	**- 560 548**	**- 475 166**

Table 5.5

Non Financial Public Sector Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	383 608	157 058	106 361	105 617	169 826
Advances paid	168 548	262 156	359 319	373 555	369 303
Investments, loans and placements	1 035 858	702 401	720 763	717 783	757 471
Receivables	207 192	225 239	230 809	235 912	238 921
Equity					
Investments in other public sector entities	293 107	318 062	352 710	383 999	416 640
Investments – other	103	103	103	103	103
Other financial assets					
Total financial assets	**2 088 417**	**1 665 019**	**1 770 065**	**1 816 969**	**1 952 264**
Non financial assets					
Inventories	115 943	115 283	111 075	102 880	83 717
Property, plant and equipment	13 429 564	14 237 896	15 295 024	15 776 929	16 193 953
Investment property	112 950	172 443	243 636	271 729	295 422
Other non financial assets	19 131	21 270	20 885	20 500	23 296
Total non financial assets	**13 677 589**	**14 546 892**	**15 670 620**	**16 172 038**	**16 596 388**
TOTAL ASSETS	**15 766 005**	**16 211 911**	**17 440 685**	**17 989 007**	**18 548 652**
LIABILITIES					
Deposits held	577 405	88 765	86 579	93 962	107 941
Advances received	268 414	414 080	574 278	611 137	618 233
Borrowing	3 400 891	4 089 754	5 128 393	5 591 114	6 110 282
Superannuation	3 492 756	2 965 245	2 791 455	2 817 494	2 833 716
Other employee benefits	593 315	612 651	625 925	635 784	643 721
Payables	193 961	193 863	185 812	200 822	204 257
Other liabilities	182 678	208 175	229 996	239 192	242 702
TOTAL LIABILITIES	**8 709 420**	**8 572 533**	**9 622 438**	**10 189 505**	**10 760 852**
NET ASSETS/(LIABILITIES)	**7 056 585**	**7 639 378**	**7 818 247**	**7 799 502**	**7 787 800**
Contributed equity					
Accumulated surplus/(deficit)	1 580 319	1 987 518	1 984 804	1 776 785	1 563 509
Reserves	5 476 266	5 651 860	5 833 443	6 022 717	6 224 291
NET WORTH	**7 056 585**	**7 639 378**	**7 818 247**	**7 799 502**	**7 787 800**
NET FINANCIAL WORTH[1]	- 6 621 004	- 6 907 514	- 7 852 373	- 8 372 536	- 8 808 588
NET FINANCIAL LIABILITIES[2]	6 914 111	7 225 576	8 205 083	8 756 535	9 225 228
NET DEBT[3]	**2 658 696**	**3 470 984**	**4 602 807**	**5 099 258**	**5 539 856**

1 Net financial worth equals total financial assets minus total liabilities.
2 Net financial liabilities equals the sum of total liabilities less total financial assets excluding investments in other public sector entities.
3 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 5.6

Non Financial Public Sector Cash Flow Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	391 718	415 967	432 198	449 249	466 896
Receipts from sales of goods and services	783 477	834 579	887 400	911 578	912 781
Grants and subsidies received	3 991 796	3 780 455	3 820 140	3 878 841	4 028 716
Interest receipts	68 258	64 004	71 884	74 774	76 470
Dividends and income tax equivalents	24 980	36 694	40 806	38 165	38 161
Other receipts	474 520	375 978	373 439	373 994	374 632
Total operating receipts	**5 734 748**	**5 507 677**	**5 625 867**	**5 726 601**	**5 897 656**
Cash payments for operating activities					
Payments for employees	- 2 102 585	- 2 139 091	- 2 197 578	- 2 257 064	- 2 320 899
Payment for goods and services	- 1 877 398	- 1 993 134	- 2 031 294	- 2 054 484	- 2 115 774
Grants and subsidies paid	- 885 498	- 858 888	- 838 664	- 797 127	- 813 598
Interest paid	- 237 394	- 273 424	- 327 613	- 383 908	- 424 516
Other payments	- 12 759	- 1 868	- 5 623	- 102	- 369
Total operating payments	**- 5 115 635**	**- 5 266 405**	**- 5 400 772**	**- 5 492 685**	**- 5 675 156**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**619 114**	**241 272**	**225 095**	**233 916**	**222 500**
Cash flows from investments in non financial assets					
Sales of non financial assets	76 273	72 748	63 854	66 854	60 354
Purchases of non financial assets	- 1 232 814	- 1 135 456	- 935 640	- 807 675	- 734 526
Net cash flows from investments in non financial assets	**- 1 156 541**	**- 1 062 708**	**- 871 786**	**- 740 821**	**- 674 172**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 537 427**	**- 821 436**	**- 646 691**	**- 506 905**	**- 451 672**
Net cash flows from investments in financial assets for policy purposes[1]	- 28 189	- 93 608	- 97 163	- 14 236	4 252
Net cash flows from investments in financial assets for liquidity purposes	- 200 636	342 771	- 8 494	13 434	- 28 614
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 385 366	- 813 545	- 977 443	- 741 623	- 698 534
Net cash flows from financing activities					
Advances received (net)	21 991	145 497	160 198	36 859	7 096
Borrowing (net)	456 936	688 863	543 639	462 721	519 168
Deposits received (net)	484 100	- 488 639	- 2 186	7 383	13 979
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	963 027	345 721	701 651	506 963	540 243
NET INCREASE/DECREASE IN CASH HELD	196 775	- 226 552	- 50 697	- 744	64 209
Net cash flows from operating activities	619 114	241 272	225 095	233 916	222 500
Net cash flows from investments in non financial assets	- 1 156 541	- 1 062 708	- 871 786	- 740 821	- 674 172
CASH SURPLUS (+)/DEFICIT (-)	**- 537 427**	**- 821 436**	**- 646 691**	**- 506 905**	**- 451 672**
Future infrastructure and superannuation contributions/ earnings[2]	- 18 152	- 17 392	- 18 436	- 19 543	- 20 715
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 555 579**	**- 838 828**	**- 665 127**	**- 526 448**	**- 472 387**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 537 427	- 821 436	- 646 691	- 506 905	- 451 672
Acquisitions under finance leases and similar arrangements			- 495 000		
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 537 427	- 821 436	- 1 141 691	- 506 905	- 451 672

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