NORTHERN TERRITORY

MID-YEAR REPORT 2019-20

Contents

Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act 2001*, I certify that the financial projections included in the 2019-20 Mid-Year Report are based on government decisions that I was aware of, or were made available to me by the Treasurer, before 18 November 2019. The projections are presented in accordance with the Uniform Presentation Framework.

Craig Graham
Under Treasurer
18 November 2019

Chapter 1

Overview

The 2019-20 Mid-Year Report has been prepared in accordance with the *Fiscal Integrity and Transparency Act 2001* (FITA), which requires the Treasurer to prepare and publicly release a mid-year fiscal outlook report each year.

The 2019-20 Mid-Year Report provides an update on the fiscal and economic outlook for the Territory and includes material variations that have occurred since the 2019-20 Budget and their effect on the remainder of 2019-20 and the forward estimates.

Fiscal overview

The 2019-20 Mid-Year Report indicates a slightly improved position in 2019-20, but increasing debt and deficits by 2022-23 when compared to the 2019-20 Budget. This is largely a result of government's commitment to an additional $400 million towards a ship lift facility, together with further reductions in projected GST revenues.

The 2019-20 Mid-Year Report also incorporates the effect of new accounting standards on revenue, new tied Commonwealth funding, government decisions made since the 2019-20 Budget and the flow-on effect of the 2018-19 outcome.

Table 1.1 highlights the key fiscal aggregates for the general government sector and the non financial public sector for the 2019-20 Mid-Year Report.

Table 1.1: Key fiscal indicators and aggregates

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	$M	$M	$M	$M
General government sector				
Net operating balance	- 787	- 420	- 386	- 438
Non financial public sector				
Fiscal balance	**- 1 049**	**- 1 003**	**- 883**	**- 620**
Net debt	5 927	6 893	7 715	8 308
Net debt to revenue (%)	90	102	111	120

The key outcomes for the fiscal outlook presented in the 2019-20 Mid-Year Report are:

- a general government operating deficit of $787 million in 2019-20 and operating deficits averaging $414 million over the forward estimates
- a non financial public sector fiscal deficit of $1.05 billion in 2019-20 and reducing fiscal deficits projected over the forward estimates period
- net debt of $5.9 billion in 2019-20, increasing to $8.3 billion in 2022-23
- a net debt to revenue ratio of 90 per cent in 2019-20, rising to 120 per cent in 2022-23.

Further information on the comparison between the estimates contained in the 2019-20 Mid-Year Report and those forecast at the time of the 2019-20 Budget is provided in Chapter 2.

Economic overview

The Department of Treasury and Finance (DTF) has revised estimates for population, employment, unemployment and the consumer price index (CPI) for the 2019-20 financial year, mainly as a result of updated data since the 2019-20 Budget. Gross state product (GSP) and state final demand (SFD) estimates for 2019-20 remain unchanged from the 2019-20 Budget, as do all forecasts across the forward estimates, with the exception of downward revisions to CPI. Table 1.2 provides the latest actuals and updated forecasts for key economic indicators for the Territory.

Table 1.2: Key economic results and forecasts (%)

	2018-19		2019-20	2020-21	2021-22	2022-23
	Budget	Actual	Estimate		Forecast	
Gross state product[1]	- 0.2	- 1.5	6.3	4.1	2.9	2.5
State final demand[1]	- 9.4	- 16.2	- 1.7	0.3	2.4	2.2
Population[2]	- 0.7	- 0.7[e]	0.0	0.6	0.7	0.8
Employment[3]	- 1.6	- 3.4	- 2.0	0.7	0.9	1.0
Unemployment rate[4]	4.7	4.5	5.0	4.5	4.5	4.4
Consumer price index[3]	1.5	0.9	1.2	1.4	1.5	1.7
Wage price index[3]	1.8	2.1	1.5	1.5	1.6	1.8

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

Detail on the updated economic forecasts is provided in Chapter 3.

While the current reported results for the Territory's key economic indicators, along with the short-term outlook, reflect the generally soft economic conditions, there is upside to the Territory's medium-term economic outlook. In the medium term, economic activity will be supported by a range of economic enabling infrastructure, including the ship lift, NT Airports expansion, new Darwin waterfront precinct luxury hotel development, implementation of the Darwin City Deal and commencement of onshore gas exploration.

Chapter 2

Fiscal outlook and strategy

Overview

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

The full financial statements are presented in Chapter 4, with this chapter providing a comparison of the projections in the 2019-20 Mid-Year Report with those in the 2019-20 Budget, an assessment of the updated projections against the government's fiscal strategy objectives and targets as set in the 2019-20 Budget and an update on the potential effect of risks to the budget.

Fiscal outlook

Key fiscal indicators – operating statement

Table 2.1 presents the updated key general government and non financial public sector operating statement measures for 2019-20 through to 2022-23, compared to those published in the 2019-20 Budget.

Table 2.1: Key fiscal indicators – operating statement

	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance					
2019-20 Budget	- 727	- 632	- 615	- 512	- 383
2019-20 Mid-Year Report	**- 464**	**- 787**	**- 420**	**- 386**	**- 438**
Variation from 2019-20 Budget	263	- 155	195	126	- 55
Non financial public sector					
Fiscal balance					
2019-20 Budget	- 1 263	- 1 054	- 859	- 604	- 530
2019-20 Mid-Year Report	**- 875**	**- 1 049**	**- 1 003**	**- 883**	**- 620**
Variation from 2019-20 Budget	388	6	- 144	- 279	- 90

1 Actual outcome as per 2018-19 Treasurer's Annual Financial Report.

General government sector net operating balance

The net operating balance represents total revenue less total operating expenses, with capital spending only recognised in the fiscal balance. As shown in Table 2.1, the general government net operating balance is projected to be in deficit of $787 million in 2019-20 with operating deficits averaging $414 million over the forward estimates. While the general government net operating balance deficit is projected to increase in both 2019-20 and 2022-23, the net operating balance has improved in aggregate by a net $112 million across the budget and forward estimates when compared to the 2019-20 Budget.

The increased net operating balance deficits in 2019-20 and 2022-23 largely reflect:

- the carryover of operational expenses from 2018-19 of $69 million to 2019-20
- further reductions, averaging around $40 million per annum over the forward estimates, in the Territory's GST revenue, primarily as a result of a downward revision to the Territory's share of national population and national GST pool that flows through to all years. This is combined with reduced GST receipts in 2019-20 relating to the recovery of an overpayment of GST revenue in 2018-19.

The improvement to 2020-21 and 2021-22 is largely attributable to new tied Commonwealth funding for road projects that are recognised as revenue in the net operating balance but spent as capital and therefore improve the net operating balance but not the fiscal balance measure. Projects funded include the Adelaide River to Wadeye corridor upgrade and Alice Springs to Halls Creek corridor upgrade, Central Arnhem Road, Outback Way and Kakadu roads upgrades. These amounts more than offset the reduction in GST revenue in those years in the operating statement.

Non financial public sector fiscal balance

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

As shown in Table 2.1, the revised fiscal balance for 2019-20 is largely unchanged from that estimated in the 2019-20 Budget with a deficit of $1.05 billion. However, the projected fiscal balance deficits have increased across the forward estimates compared to 2019-20 Budget projections. This is largely a result of lower GST revenue described above, combined with new and revised timing of capital expenditure, predominantly reflecting the commitment for the construction of a $400 million ship lift facility.

Reconciliation with previous fiscal projections

Section 10(1)(f) of FITA requires the Territory Government to explain the factors and considerations that contributed to any material differences between the updated financial projections and the equivalent projections published in the last fiscal outlook report.

The following analysis addresses this requirement by explaining the variations between the updated projections in the 2019-20 Mid-Year Report from the most recent budget projections in the 2019-20 Budget. Variations have been categorised as policy and non-policy changes. Policy variations are the result of government decisions to implement new or expanded agency programs, or savings, efficiency or revenue measures, while non-policy variations are due to influences outside the government's control, such as the timing of receipts from the Commonwealth or changes in external economic conditions.

Table 2.2 summarises the effect of policy and non-policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget.

Table 2.2: Non financial public sector fiscal balance – policy and non-policy changes since the 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	$M	$M	$M	$M
2019-20 Budget	**- 1 054**	**- 859**	**- 604**	**- 530**
Policy changes	12	- 86	- 241	- 46
Non-policy changes	- 6	- 58	- 38	- 45
2019-20 Mid-Year Report	**- 1 049**	**- 1 003**	**- 883**	**- 620**

Policy changes since 2019-20 Budget

Table 2.3 highlights the effect of policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget.

Table 2.3: Policy changes since the 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	$M	$M	$M	$M
Operating commitments	- 11	- 1	- 1	- 1
Savings measures	23	15	11	5
Capital commitments		- 100	- 250	- 50
Total policy variations	**12**	**- 86**	**- 241**	**- 46**

Overall policy decisions have increased the fiscal deficit by $361 million since May 2019, predominantly as a result of government's capital commitments, partially offset by the implementation of a number of savings measures.

Operating commitments totalling $14 million largely include:

- $5 million in 2019-20 to support the 2021 Arafura Games
- $3.3 million in 2019-20 to implement actions of the Scientific Inquiry into Hydraulic Fracturing
- $2 million in 2019-20 for the development of a business case for new Darwin region water supply infrastructure.

Government has approved a number of savings measures to support budget repair. These have offset the impact of government's decision not to proceed with the commercialisation of the Land Titles Office at this time.

Capital commitments totalling $400 million reflect the construction of a ship lift facility.

Non-policy changes since 2019-20 Budget

Table 2.4 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget.

Table 2.4: Non-policy changes since the 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	$M	$M	$M	$M
GST revenue	- 63	- 38	- 39	- 44
Implementation of new revenue accounting standards	74	38	1	
Taxation and mining royalties	36			
Interest variations	3	12	20	22
Commonwealth and agency-related adjustments	- 56	- 70	- 20	- 23
Total non-policy variations	**- 6**	**- 58**	**- 38**	**- 45**

Overall non-policy variations have increased the fiscal deficit by $147 million since 2019-20 Budget and include:

- the further deterioration in GST revenue forecasts totalling $184 million across the budget cycle
- a one-off revenue improvement totalling $113 million in 2019-20 through to 2021-22 due to the implementation of new Australian accounting standards AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities, effective from 1 July 2019. More detail is provided later in this chapter
- additional one-off mining royalties, partially offset by a reduction in payroll tax revenue totalling $36 million in 2019-20
- improved interest variations totalling $57 million as a result of lower interest rate assumptions for the cost of new and refinanced borrowings across the forward estimates, reflective of current market conditions
- Commonwealth and agency-related adjustments of $169 million across the budget cycle. These are largely related to the carryover of expenses from 2018-19 and the revised timing of milestone payments between years for information and communications technology (ICT) systems to reflect the funding delivery schedules and contractual payments to suppliers. All major ICT projects are tracking to be delivered within approved budgets.

Operating revenue – forward estimates

Table 2.5 sets out the revised revenue projections for 2019-20 and the forward estimates. The effect of the new Australian accounting standards AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities as identified in Table 2.4 have been separately presented to provide a like-for-like comparison to the 2019-20 Budget.

Table 2.5: Non financial public sector – revenue

	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2019-20 Budget	6 641	6 654	6 650	6 882	7 067
2019-20 Mid-Year Report	6 725	6 563	6 787	6 947	6 952
Underlying 2019-20 Mid-Year Report[2]	**6 725**	**6 489**	**6 749**	**6 945**	**6 952**
Variation from 2019-20 Budget	84	- 164	99	63	- 115

1 Actual outcome as per 2018-19 Treasurer's Annual Financial Report.
2 Underlying 2019-20 Mid-Year Report excludes the effects of AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-for-Profit Entities.

As shown in Table 2.5, when compared to the 2019-20 Budget the underlying revenue projections in the 2019-20 Mid-Year Report, project total revenue to be lower in both 2019-20 and 2022-23, but higher in 2020-21 and 2021-22.

The lower amounts in 2019-20 and 2022-23 largely reflect the deterioration in GST revenue across all years combined with the removal of Commonwealth grants revenue and associated expenditure of $37 million per annum passed on to local councils in accordance with requirements of the new revenue accounting standards. Higher revenue estimates in 2020-21 and 2021-22 largely reflect new tied Commonwealth funding for road projects.

The average annual growth rate in underlying revenue projections from 2019-20 through to 2022-23 has improved to 2.3 per cent when compared to the 2 per cent projected in the 2019-20 Budget.

Taxation and royalty revenues

Taxation and royalty revenues are the most significant components of the Territory's own-source revenue and have been revised upwards by $36 million in 2019-20 when compared to budget projections.

The increase in 2019-20 is attributable to significantly higher mineral royalty receipts of $46 million received to date than forecast in the 2019-20 Budget. Forecasts are reliant on advice from mining companies of estimated liability regarding estimates of sales prices, production volumes and costs, and movements in the Australian dollar. Overall mining royalty forecasts are based on the mid-range of miners' forecasts, however, year-to-date receipts are much higher than expected and consistent with the upper range of miners' forecasts.

The 2019-20 increase in mining royalties has been offset by reduced payroll tax revenue of $10 million, reflecting lower than expected year-to-date receipts. Taxation and royalty receipts across the forward estimates will be reassessed in the 2020-21 Budget once updated information is available.

GST revenue

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

The Commonwealth released its 2018-19 Final Budget Outcome (FBO) in September 2019, which reported an overpayment of GST revenue in 2018-19 of $26 million, largely due to actual national GST pool collections being lower than the Commonwealth forecast in 2018-19. This overpayment is to be recovered by the Commonwealth in 2019-20 through an equivalent reduction to the Territory's GST revenue.

The reduced pool collections, coupled with the Territory's negative population growth experienced in 2018-19, have had a flow-on effect across the budget and forward estimates with an average reduction in GST revenue of $40 million per annum. There remains a significant downside risk to the Territory's GST revenue that will be considered as part of the development of the 2020-21 Budget when further information is available.

Other Commonwealth funding

The 2019-20 Mid-Year Report incorporates new Commonwealth funding for road projects in 2020-21 and 2021-22, including the Adelaide River to Wadeye corridor upgrade and Alice Springs to Halls Creek corridor upgrade, Central Arnhem Road, Outback Way and Kakadu roads upgrades.

The new Australian accounting standards AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities are effective from 1 July 2019 and apply to all not-for-profit entities.

AASB 1058 clarifies and simplifies income recognition requirements for not-for-profit entities in conjunction with AASB 15. Under AASB 15, revenue from agreements that have sufficiently specific performance obligations and transfer goods or services to the customer or a third-party beneficiary will now be recognised when or as performance obligations are satisfied, and not immediately on receipt as previously occurred.

As a result, the new accounting standards on revenue have largely removed the volatility between recognition of revenues in one year and corresponding expenditure in another affecting the budgeted and actual outcomes in a given year.

The impact of the new standards incorporated in the 2019-20 Mid-Year Report predominantly include:

- Re-recognition of $113 million in tied Commonwealth capital grants revenue received in prior years where performance obligations (expenditure) remained unsatisfied at 30 June 2019 but will be satisfied over the budget and forward estimates. This adjustment has improved both the net operating balance and fiscal balance aggregates.
- Removal of $37 million per annum of Commonwealth grants revenue that is passed on to local government councils for which the Territory merely acts as a 'post box'. This adjustment has not affected the net operating balance or fiscal balance aggregates as the removal in revenue has also had a corresponding removal of matching expenditure.
- Revised timing of previously budgeted grants revenue over the budget cycle to now match the timing of expenditure. This adjustment has not affected the fiscal aggregates in total over the budget cycle.

While the implementation of the new revenue standards has resulted in a one-off improvement to the fiscal balance of $113 million over the budget cycle, the variations have not affected the level of cash held by the Territory and consequently have not flowed on to any improvement in net debt or net debt ratios.

Given the volume of funding agreements across government agencies, assessments in line with new revenue recognition criteria will continue to progress in 2019-20, with any further adjustments to be reflected in the 2020-21 Budget and the 2019-20 Treasurer's Annual Financial Report (TAFR).

Operating expenses – forward estimates

Table 2.6 sets out the revised projections of total expenditures for 2019-20 and the forward estimates.

Table 2.6: Non financial public sector – expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcome[1]	Budget		Forward estimate	
	$M	$M	$M	$M	$M
Operating expenses					
2019-20 Budget	7 398	7 227	7 213	7 342	7 412
2019-20 Mid-Year Report	**7 138**	**7 333**	**7 178**	**7 284**	**7 355**
Variation from 2019-20 Budget	- 260	106	- 35	- 58	- 56
Net capital payments					
2019-20 Budget	1 087	1 187	980	824	852
2019-20 Mid-Year Report	**965**	**1 006**	**1 307**	**1 226**	**888**
Variation from 2019-20 Budget	- 122	- 181	326	403	35

1 Actual outcome as per 2018-19 Treasurer's Annual Financial Report.

Although operating expenses have increased in 2019-20, the forward estimates have decreased by on average $50 million per annum. The increase in operating expenses in 2019-20 since the 2019-20 Budget is largely due to the carryover of expenditure from 2018-19 combined with new government initiatives.

The decrease from 2020-21 reflects the implementation of recurrent savings measures, lower interest expenses and the removal of Commonwealth grants revenue and associated expenditure for local government councils in accordance with new accounting standards on revenue.

Annual average expenditure growth is projected to increase by 0.1 per cent over the budget and forward estimates period from the revised 2019-20 base, lower than the 0.9 per cent annual average growth estimated at budget time.

The basis of the expenditure parameters used remains unchanged from 2019-20 Budget. The main parameters used to adjust forward estimates are:

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

Net capital payments – forward estimates

Net capital payments comprise the purchases of non financial assets (incorporating the construction of assets) less sales of non financial assets as reported in the comprehensive operating statement. Variations to net capital payments reflect the revised delivery of key capital commitments resulting in payments fluctuating over the forward estimates to align with the revised timing of milestone payments. These timing variations largely reflect the carryover of capital expenditure from 2018-19 and 2019-20 into the forward estimates relating to the revised delivery of the Health Core Clinical Systems Renewal program and various road projects. Overall the net increase from 2018-19 to 2022-23 when compared to the 2019-20 Budget totals $461 million, predominantly the $400 million for the ship lift facility.

The Territory Government's headline figure for infrastructure expenditure is total infrastructure payments, as reported in Budget Paper No. 4 The Infrastructure Program.

Net capital payments differ from the total infrastructure payments measure as they exclude repairs and maintenance expenses and infrastructure-related grants.

Table 2.7 provides updated infrastructure payments, incorporating changes since the 2019-20 Budget. The lower estimated total infrastructure payments of $1.31 billion compared to the $1.45 billion in May 2019 is largely due to the revised timing of Commonwealth and Territory-funded projects, which will be delivered in future years, in line with project agreements.

Total infrastructure payment estimates have increased in future years, related to the additional Territory Government investment of $400 million for the construction of a ship lift facility and $160 million in new Commonwealth funding for major road projects.

Table 2.7: Total infrastructure payments for 2019-20

	2019-20 Budget		2019-20 Mid-Year Report	
	Program	Cash	Program	Cash
	$M	$M	$M	$M
Budget sector				
Capital works	1 996	803	2 029	671
Grants		148		151
Repairs and maintenance		201		187
Infrastructure-related payments		7		9
Total budget sector		**1 159**		**1 018**
Government owned corporations				
Capital works		208		209
Repairs and maintenance		81		81
Total government owned corporations		**289**		**290**
Total infrastructure payments		**1 448**		**1 308**

Key fiscal indicators – balance sheet

As shown in Table 2.8, net debt is now projected to be $8.3 billion by 2022-23, a $287 million increase compared to the 2019-20 Budget. The increase to net debt is largely driven by the higher fiscal balance deficits over the budget and forward estimates, partially offset by the improved outcome for 2018-19, as reported in the 2018-19 TAFR.

Table 2.8: Non financial public sector – net debt and net debt to revenue ratio

	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcome[1]	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2019-20 Budget	4 191	6 206	6 988	7 524	8 021
2019-20 Mid-Year Report	**3 807**	**5 927**	**6 893**	**7 715**	**8 308**
Variation from 2019-20 Budget	- 384	- 279	- 95	191	287
Net debt to revenue (%)					
2019-20 Budget	63	93	105	109	114
2019-20 Mid-Year Report	**57**	**90**	**102**	**111**	**120**
Variation from 2019-20 Budget	- 6	- 3	- 3	2	6

1 Actual outcome as per 2018-19 Treasurer's Annual Financial Report.

Fiscal strategy statement

The information provided in this section addresses the requirements under section 14 of FITA that mid-year fiscal outlook reports are required to provide updated information to allow the assessment of the government's fiscal performance against the fiscal strategy set out in its current fiscal strategy statement.

A plan to fix the budget

On 16 April 2019, the Territory Government released *A Plan to Fix the Budget*. The plan responds to recommendations made by the independent Fiscal Strategy Panel in its March 2019 final report, which recommended a package of interdependent reforms to support the Territory Government and agencies to achieve the necessary level of expenditure restraint to return the budget to surplus.

The government's plan comprised immediate savings and revenue measures identified through the 2019 root and branch review of government programs, and medium to long-term structural reforms to the Northern Territory Public Sector (NTPS).

Significant progress has been made on implementing the reforms with 22 recommendations implemented and a further 43 under way.

A new fiscal strategy was adopted in the 2019-20 Budget, and a Charter of Budget Discipline implemented to strengthen and return focus to the annual budget process.

Measures to contain public sector employee growth has included the implementation of a staffing cap for all agencies including a cap on executive contract officers and a wage freeze for executive contract officers and parliamentarians. An executive contract officer staffing cap, set at 52 positions below existing levels, was implemented effective 1 March 2019, with agencies given 12 months to achieve their targets. Staffing caps have been built into agency budgets, with agencies expected to manage staffing levels within the approved cap and employee expense budget.

A wage freeze for executive contract officers has been implemented, with indexation provisions in executive contracts for new and renewing staff removed in July 2019. Existing staff were requested to voluntarily agree to forgo salary increases for the next three years, but where they did not, their salaries will be frozen at 2019 levels upon contract renewal. A wage freeze on parliamentarians has also been implemented through the Remuneration Determination Tribunal process.

Infrastructure service delivery teams previously existing across agencies have been centralised within the Department of Infrastructure, Planning and Logistics (excluding from the Department of Local Government, Housing and Community Development due to specific infrastructure requirements relating to remote and urban housing assets).

The centralisation of corporate services programs is well progressed, with the majority of corporate services personnel and budgets now transferred to the Department of Corporate and Information Services.

Investment Territory has been established, within a restructured Department of Trade, Business and Innovation (DTBI), to consolidate responsibility for major projects and investment attraction activities including a refresh of the Territory's major project processes. DTBI is also progressing microeconomic and regulatory reforms to reduce red and beige tape, aimed at making the Territory a more attractive destination for investment capital.

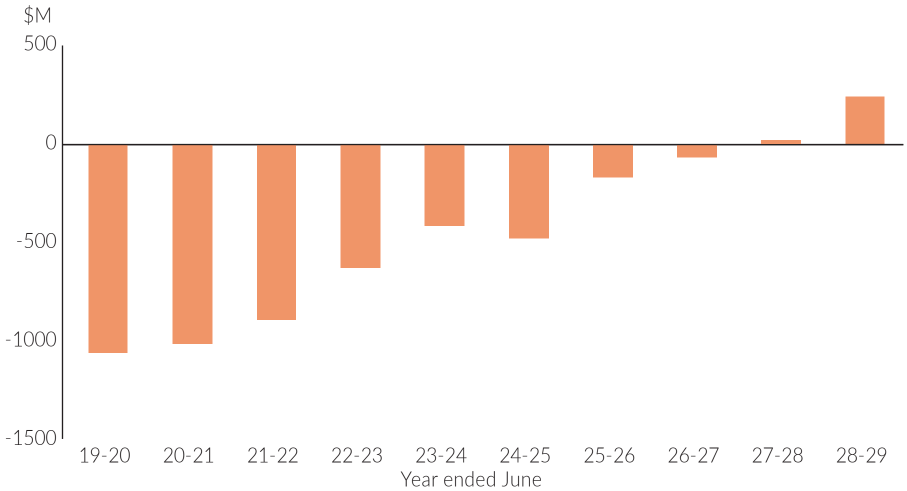
DTF, in conjunction with the Office of the Commissioner for Public Employment, is developing a framework to strengthen chief executive accountability. DTF continues to monitor agency expenditure to ensure emerging budget pressures and options to mitigate these are identified promptly and reported to the Budget Review Subcommittee for action.

Assessment of the updated fiscal outlook against the Fiscal Strategy Panel's projections

This section provides an assessment of the Territory's updated fiscal projections for the non financial public sector's fiscal balance in the 2019-20 Mid-Year Report with projections of the Fiscal Strategy Panel's final report.

The report identified that if expenditure growth was restrained over the forward estimates and projection period to 3 per cent per annum, reducing estimated expenditure by $11.2 billion over 10 years compared to a business-as-usual approach, the Territory would return to surplus by 2028-29.

Chart 2.1: 2019-20 Mid-Year Report non financial public sector fiscal balance projections



As shown in Chart 2.1, through reforms implemented by government and other non-policy adjustments, the Territory is projected to achieve a fiscal surplus in 2027-28, a year ahead of the projections in the Fiscal Strategy Panel's final report. The effect of the implementation of AASB 16 Leases from 1 July 2019 and as first reported in the 2019-20 Budget, have now been incorporated in the fiscal balance projections.

Assessment of updated fiscal outlook against the fiscal strategy

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

The analysis in this section is an assessment of the updated 2019-20 Mid-Year Report fiscal projections against the government's short and medium-term fiscal objectives, and targets as set in the 2019-20 Budget.

Principle 1: Sustainable service provision

Due to the Territory's small own-source revenue base, the Territory has limited ability to influence the level of revenue it can generate, however, it is able to directly influence expenditure growth. Accordingly, the fiscal strategy objectives in pursuit of sustainable service provision aim at containing expenditure growth, maintaining a financially sustainable public sector and achieving general government net operating surpluses to ensure debt is not passed on to future generations.

Ongoing objective and target: Territory-funded expense growth to be lower than total own-source and untied revenue growth in the general government sector over the budget cycle from the budget year

This objective specifically targets Territory controllable expenditure growth and excludes time-limited external funding that can distort growth rates over the forward estimates and ultimately tend not to affect the fiscal outcome as increases in revenue are generally matched by corresponding increases in expenditure. Lower growth in Territory-funded expenses than growth in total Territory own-source and untied revenues indicates the budget is on a path to achieving a general government operating balance surplus.

Table 2.9 shows that updated Territory-funded expense projections are expected to grow by an aggregate 8 per cent over the forward estimates, below own-source and untied revenue growth of 14.8 per cent over the same period, meeting this fiscal strategy objective.

Furthermore, despite downward revisions to own-source and untied revenues over the budget cycle, predominantly due to further reductions in GST revenue, Territory-funded expenses will similarly reduce as a result of government recurrent savings measures and improvements in interest expense assumptions.

Table 2.9: Territory-funded expense growth and own-source and untied revenue growth

	2019-20	2020-21	2021-22	2022-23	
	Budget	Forward estimate			Growth
	$M	$M	$M	$M	%
2019-20 Budget					
Territory-funded expenses[1]	4 757	4 718	4 771	5 115	7.5
Own-source and untied revenue	4 324	4 391	4 565	4 917	13.7
2019-20 Mid-Year Report					
Territory-funded expenses[1]	4 711	4 676	4 733	5 088	8.0
Own-source and untied revenue	4 250	4 360	4 532	4 880	14.8

1 Excludes carried over expenses from 2018-19 to enable a like-for-like comparison.

Ongoing objective and target: Maintain a sustainable public service by ensuring annual growth in Territory-funded employee expenses does not exceed the wages policy parameter plus the Territory's long-term annual population growth in any year over the budget and forward estimates period

Given the Northern Territory's public service accounts for approximately 40 per cent of the general government sector's total expenses, maintaining a financially sustainable public service is critical in containing expenditure growth to ensure the achievement of net operating balance surpluses.

This objective is premised on the economic concept of supply and demand by ensuring Territory-funded employee expense growth, being representative of supply, does not outpace population growth, representative of demand. Accordingly, the target of Territory-funded employee expense growth is not to exceed the wages policy parameter plus the Territory's long-term annual population growth of 1.4 per cent in any year over the budget and forward estimates period has been set to ensure this.

Table 2.10 highlights that updated projections for Territory-funded employee expense growth remain well below the wages policy parameter plus the Territory's 1.4 per cent long-term population growth and demonstrates that government is containing growth in the general government sector's single largest expenditure item.

Table 2.10: Territory-funded expense growth and wages policy growth

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	%	%	%	%
2019-20 Budget				
Territory-funded employee expense growth	- 1.9	0.1	0.9	1.8
Wages policy parameter plus long-term population growth	2.2	2.2	2.8	2.8
Variation	- 4.1	- 2.1	- 1.9	- 1.0
2019-20 Mid-Year Report				
Territory-funded employee expense growth	- 2.0	0.4	0.9	1.9
Wages policy parameter plus long-term population growth	2.2	2.2	2.8	2.8
Variation	- 4.2	- 1.8	- 1.9	- 0.9

Medium-term objective: Achieve a net operating balance surplus in the general government sector and maintain an improving net operating balance over the budget cycle

Target: Achieve a general government net operating balance surplus by 2027-28

While a general government sector net operating balance surplus is not achieved in the budget period as reported in the 2019-20 Mid-Year Report, constrained expenditure growth, assisted by new budget repair and savings measures already incorporated into the Budget, is anticipated to result in a return to balance by 2027-28.

Table 2.11 shows the net operating balance has improved by an aggregate $111 million over the budget cycle when compared to the 2019-20 Budget.

Table 2.11: General government sector – net operating balance

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	$M	$M	$M	$M
2019-20 Budget	- 632	- 615	- 512	- 383
2019-20 Mid-Year Report	**- 787**	**- 420**	**- 386**	**- 438**
Variation from 2019-20 Budget	- 155	195	126	- 55

Principle 2: Infrastructure for economic and community development

The government's principle of infrastructure for economic and community development directly satisfies the FITA principle of economic development and growth of the Territory economy.

Capital investment is essential to meet the Territory's social and economic needs. This is particularly relevant in periods of economic downturn, where short-term, countercyclical increases in infrastructure spending provide a stimulus to support economic recovery and sustain jobs in the Territory.

Ongoing objective and target: Average general government sector infrastructure investment not to fall below the level of average depreciation over the budget cycle and Territory-funded investment not to exceed twice the level of depreciation in any year

This fiscal strategy objective aims at striking an appropriate balance between maintaining public assets, supporting the economy and restraining expenditure growth.

As shown in Table 2.12, updated projections for the general government sector's infrastructure investment (comprising capital works, minor new works, and repairs and maintenance expenses) is consistent with the first element of this objective, with average infrastructure investment over the budget cycle of $1 billion per annum, well above average depreciation of $520 million per annum in the 2019-20 Mid-Year Report.

The second element of this objective has also been achieved with updated projections for Territory-funded infrastructure investment not exceeding twice the level of depreciation in any single year.

Table 2.12: General government sector – infrastructure investment to depreciation ratio

	2019-20	2020-21	2021-22	2022-23	
	Budget	Forward estimate			Average
2019-20 Budget					
Total infrastructure investment ($M)	1 007	843	775	864	872
Depreciation ($M)	521	519	513	503	514
Territory-funded infrastructure investment ($M)	638	593	548	527	577
Depreciation ($M)	521	519	513	503	514
Territory-funded infrastructure investment to depreciation ratio	**1.2**	**1.1**	**1.1**	**1.0**	**1.1**
2019-20 Mid-Year Report					
Total infrastructure investment ($M)	865	1 131	1 141	865	1 001
Depreciation ($M)	535	527	513	504	520
Territory-funded infrastructure investment ($M)	571	684	788	572	654
Depreciation ($M)	535	527	513	504	520
Territory-funded infrastructure investment to depreciation ratio	**1.1**	**1.3**	**1.5**	**1.1**	**1.3**

Short to medium-term objective: General government sector debt-funded infrastructure to be limited to projects with a positive economic return on investment

Target: 100 per cent of general government capital works projects (excluding ICT) with a value exceeding $30 million progressed in accordance with the Northern Territory Project Development Framework

This fiscal strategy objective links both FITA principles of prudent debt management and economic development and growth of the Territory economy by restricting new borrowings to projects with demonstrated positive economic return on investment. This will be achieved through ensuring all infrastructure investments exceeding $30 million are progressed in accordance with the Northern Territory Project Development Framework.

The Northern Territory Project Development Framework has recently been implemented and all new capital funding proposals submitted as part of developing the 2020-21 Budget, will be assessed under this framework.

Principle 3: Competitive tax environment

While the Territory's revenue base is small compared to other jurisdictions, taxation and own-source revenues provide the government with a reasonable degree of stability and predictability, as well as mitigating the risk of erosion of the Territory's revenue base. This stability provides consistent revenue stream, to fund government services, unlike the volatility experienced with GST revenue in recent years.

Furthermore, taxing policies can significantly influence private business investment and employment decisions. Consequently, competitive taxing policies play a critical role in the achievement of the FITA principle of maintaining employment, economic development and growth of the Territory economy.

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

Target: Territory taxation effort for the last assessed year by the CGC at least 90 per cent of the state average of 100 per cent

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

The fiscal strategy target aims to achieve an assessed taxation effort, a nationally recognised measure of the competitiveness of each jurisdiction's tax system, of at least 90 per cent in order to maximise revenue generation but remain competitive when compared to other states and territories.

This measure is a lagging indicator as the CGC updates the information annually based on the actual outcome of the previous year. Consequently, assessment of this element of the strategy has remained unchanged from the 2019-20 Budget with the Territory's 2017-18 total taxation effort assessed as 90 per cent, and therefore achieving this fiscal strategy target.

Ongoing objective: Generate own-source revenue efficiently

Target: Territory Revenue Office expenditure as a percentage of non financial public sector taxes and royalties less than 1 per cent

In order to maximise the capacity to allocate to service delivery and new initiatives, the collection of own-source revenue must be efficient through maintaining low direct operating costs. Accordingly, the fiscal strategy aims for the Territory Revenue Office operating expenditure to be less than 1 per cent of total taxes and royalties collected to ensure efficient revenue collection.

Table 2.13 demonstrates this element of the fiscal strategy remains achieved with updated projections for the Territory Revenue Office operating expenditure well below 1 per cent of total taxation and royalty revenue across the budget cycle.

Table 2.13: Territory Revenue Office expenditure to taxation revenue raised

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
2019-20 Budget				
Territory Revenue Office expenditure ($M)	6	5	5	5
Territory taxes and royalties ($M)	896	922	939	942
Expenditure to revenue (%)	**0.7**	**0.5**	**0.5**	**0.5**
2019-20 Mid-Year Report				
Territory Revenue Office expenditure ($M)	6	5	5	5
Territory taxes and royalties ($M)	932	922	939	942
Expenditure to revenue (%)	**0.6**	**0.5**	**0.5**	**0.5**

Principle 4: Prudent management of debt and liabilities

The assessment of prudent debt levels is subject to the judgement of the government. During periods of low economic growth and constrained revenues, it may be considered prudent to maintain higher levels of debt in order to maintain government expenditure and stimulate the economy. When economic growth and own-source revenues are strong, lower debt levels may be considered prudent as they present an opportunity for government to pay down debt while there is strong revenue growth and private sector investment. Consequently, prudent debt management cannot be explicitly defined but rather is an assessment made in developing a budget in light of the economic and fiscal conditions faced by the Territory at the time.

Persistent operating deficits result in government being required to borrow to fund its operations and subsequently may result in burdening future generations with debt relating to current periods. Similarly, fiscal balance deficits indicate a government's level of capital spending is in excess of its saving and likewise requiring additional borrowings.

Ongoing objective: Maintain or improve the Territory's credit rating

Target: Territory's credit rating of Aa2 (negative) or better

Excessive debt can lead to restrictions on government's capacity to maintain appropriate levels of service through increased borrowing costs and can impact investor confidence resulting in negative effects on the Territory economy. Consequently, the fiscal strategy objective aims at maintaining or improving the Territory's credit rating of Aa2 (negative) as per the 2019-20 Budget.

The Territory's credit rating was last assessed by Moody's credit rating agency in May 2019 following the release of the Territory's 2019-20 Budget. This assessment resulted in a downgrade to the credit rating from Aa2 (negative) to Aa3 (stable). Moody's noted the significant reforms and budget repair measures incorporated in the Territory's medium-term projections, though expressed concerns in the achievement of projected low expenditure growth and slippages in the Territory's capital program that would increase risk of additional debt.

Medium-term objective: The Territory's non financial public sector net debt to revenue ratio at or below 50 per cent

Net debt to revenue is a recognised measure to assess a jurisdiction's ability to repay its borrowings, with a high ratio indicating a lower ability to repay debt and a low ratio indicating a strong ability to repay debt.

The 2019-20 Budget fiscal strategy set a long-term objective of a net debt to revenue ratio target of 50 per cent.

Table 2.14 shows the non financial public sector's net debt to revenue ratio over the forward estimates.

Table 2.14: Non financial public sector – net debt to revenue

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	%	%	%	%
2019-20 Budget	93	105	109	114
2019-20 Mid-Year Report	**90**	**102**	**111**	**120**
Variation from 2019-20 Budget	- 3	- 3	2	6

As projected fiscal balance surpluses are achieved from 2027-28, government will have the capacity to retire debt and improve net debt ratios in the longer term in line with the stated objective.

Principle 5: Commercial management of government owned corporations

Government owned corporations operate on a commercial basis with the ability to recover most of their costs through charging consumers for the use of services. The Territory's government owned corporations are Power and Water Corporation, Territory Generation and Jacana Energy.

The Territory's debt levels and fiscal targets are materially impacted by the financial performance of the government owned corporations. Consequently, this fiscal strategy principle aims at strengthening their commercial sustainability, increasing accountability for financial and non-financial performance and reducing their reliance on government support.

Projections for government owned corporations are revised through each respective Statement of Corporate Intent (SCI). SCIs are prepared annually and form part of the Territory's budget development process. Consequently, assessment of the fiscal strategy objectives and targets within this fiscal strategy principle remain unchanged from the 2019-20 Budget.

As a result of recommendations in the Fiscal Strategy Panel's final report, future SCIs will accommodate greater financial and performance accountability with a formal working group established to oversee the implementation of these recommendations. Government owned corporations are in the process of developing their 2020-21 SCIs that will have regard to the principles and targets of the fiscal strategy.

Risks and contingent liabilities

As required under section 5(1)(d) and 10(1)(e) of FITA, each fiscal outlook report is required to contain a statement of risks, quantified as far as practicable, that could materially affect updated financial projections, including any contingent liabilities and related government negotiations that have yet to be finalised.

This section provides an update on risks and contingent liabilities since the 2019-20 Budget due to changes in revenue and expense estimates, and the likelihood of contingent liabilities becoming actual liabilities. Risks have been categorised in accordance with section 5(2) of FITA, risk of excessive debt, risk from the ownership of trading entities, risk of erosion of the Territory's revenue base, risk arising from the management of assets and liabilities, and other risks.

For more information on the Territory's risks and contingent liabilities, refer to Chapter 7 of the 2019-20 Budget: Risks and contingent liabilities, and Note 37 of the 2018-19 TAFR: Contingent assets and liabilities.

Sound fiscal management of risks

Risk of excessive debt

Debt can restrict government's capacity to maintain appropriate levels of service due to increased borrowing costs and impact investor confidence resulting in negative effects on the Territory economy. In accordance with the 2019-20 fiscal strategy, the Territory aims to mitigate these risks by constraining expenditure growth, improving revenue generation, reducing debt and maintaining or improving the Territory's credit rating.

Following the 2019-20 Budget, the Territory's credit rating was downgraded from Aa2 (negative) to Aa3 (stable) due to concerns about the Territory's ability to achieve constrained expenditure growth and avoid slippages in the capital program, which would increase risk of additional debt.

The Territory has implemented a Charter of Budget Discipline to strengthen the budget management process and return the budget to a surplus, along with other reforms to support the achievement of expenditure restraint, in order to improve the Territory's future credit rating assessment.

Risks from the ownership of trading entities

Low profitability and high capital requirements in commercial entities can pose risks to government in the form of lower returns or increased requirement for financial support, with the potential to materially impact the Territory's debt levels and fiscal targets.

The Territory's fiscal strategy now incorporates government owned corporations, with targets aimed at strengthening commercial sustainability and reducing reliance on government support. The government owned corporations comprise Power and Water Corporation, Territory Generation and Jacana Energy.

A working group has been established, chaired by DTF, to oversee the implementation of recommendations for greater financial and performance accountability to be incorporated into the government owned corporations' SCIs. The SCIs are prepared on an annual basis and form part of the Territory's budget development process.

Risk of erosion of the Territory's revenue base

GST revenue

Volatility in GST revenue represents the largest revenue risk for the Territory, being by far its largest revenue source. This is highlighted by recent trends that have reduced its share of total Territory revenues from around 50 per cent five years ago to now being only 41 per cent. This includes a further reduction of 1 per cent from the 2019-20 Budget arising from:

- a downward revision to the Territory's population growth rate in 2019-20, to reflect expectations of net interstate migration outflows as a result of subdued economic and labour conditions
- an overpayment of GST revenue to the Territory in 2018-19 of $26.4 million. This overpayment will be recovered by the Commonwealth through a reduction in GST payments to the Territory in 2019-20
- a downward revision to the national GST pool following lower collections in 2018-19 as reported in the Commonwealth's FBO.

Notwithstanding these revisions, there remains a significant downside risk to the Territory's GST revenue that will be further assessed as part of the development of the 2020-21 Budget, based on information available at that time. This is particularly in relation to how national collections are tracking against Commonwealth estimates in 2019-20 and the Territory's population growth compared to national growth.

National GST collections

As mentioned above actual national GST collections for 2018-19 were lower than estimated in the 2019-20 Budget, which has flowed through to a downward revision to projected national GST collections for 2019-20 and over the budget cycle. As a result, the cumulative impact to Territory GST revenue from variations to national GST collections of ±1 percentage point in each of the budget and forward estimates, has changed marginally from ±$300 million to ±$296 million, a decrease of $4 million from the 2019-20 Budget, but still represents a significant risk.

Territory's share of national population

The downward revision to the Territory's projected population share in 2019-20 has marginally reduced the cumulative impact of a ±1 percentage point variation in the estimate of the Territory's population growth rate over the budget and forward estimates from ±$296 million to ±$293 million, a decrease of $3 million from the 2019-20 Budget. However this still represents a significant risk to the Budget.

GST relativities

GST relativities for the Territory remain unchanged from the 2019-20 Budget. However, due to the GST adjustment in 2019-20, as a result of the 2018-19 GST overpayment, the cumulative impact of a ±1 per cent variation in the Territory's GST relativity in the budget year and each year of the forward estimates has changed from ±$115 million to ±$113 million, a decrease of $2 million from the 2019-20 Budget.

Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* sets out the Commonwealth's new system for distributing GST revenue among the states and territories, to be implemented over a six-year transition period from 2021-22 to 2026-27.

There are no changes to risks on transition to the new system, from the 2019-20 Budget.

Tied Commonwealth revenue

Tied Commonwealth revenue is provided under either the Intergovernmental Agreement on Federal Financial Relations (IGA), through specific purpose payments (SPPs), major funding arrangements and national partnership (NP) payments or Commonwealth own-purpose expenses.

Risks relating to tied Commonwealth revenue predominantly remain unchanged from the 2019-20 Budget, noting the major funding arrangements provided below continue to pose significant risks to jurisdictions:

- The National School Reform Agreement 2019-2023 and associated bilateral agreements, which forms part of the Commonwealth's Quality Schools Package, sets out national education reforms aimed at driving improved student outcomes and requirements for school funding contributions. Under these arrangements, Commonwealth funding for schools will be transitioned to a consistent rate across all jurisdictions, and states and territories are required to fund to set targets. The legislated funding and reform arrangements represent a significant financial risk to the Territory, due to the imposition of maintenance of effort requirements, scope for funding penalties where effort is not maintained and onerous indexation arrangements.
- The National Housing and Homelessness Agreement replaced the housing sector SPP and former NP Agreement on Homelessness in 2018-19. Funding under this arrangement is tied to housing outcomes targeted across the entire housing spectrum, rather than specific social housing and homelessness issues, and the legislation requires matched funding contributions for homelessness services, significantly reducing the Territory's expenditure flexibility.
- The National Health Reform (NHR) Agreement payments are predominantly based on either hospital activity or block funding for smaller hospitals. Each year, the Commonwealth Treasurer makes a formal determination on the amount of funding to be provided to the states and territories. The 2018-19 and 2019-20 determinations are anticipated to be made after February 2020 and 2021, respectively. This represents a significant risk as retrospective adjustments can be made to the level of Commonwealth health funding provided to the Territory, for which services have already been delivered.

As part of the NHR Agreement 2020-2025 negotiations, states and territories are seeking certainty around the methodology and process for the calculation of reconciliation payments to ensure once efficient activity has been delivered, funds are not retrospectively withdrawn. There is also a risk that the Territory's circumstances and level of service delivery will not be adequately recognised under the new arrangements.

Own-source revenue

The Territory raises own-source revenue from a range of sources. This mainly comprises taxes and revenue from mining royalties, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

The Territory's own-source revenue risks largely arise from changes to economic factors and indicators that directly affect Territory taxes and royalties, such as growth in wages, employment, average hours worked, commodity prices, market activity and exchange rates.

The 2019-20 fiscal strategy aims to reduce the risk of erosion to the Territory's revenue base by adopting taxing policies that maintain taxation at levels competitive with other jurisdictions, and encourage increased levels of business activity in the Territory while ensuring sufficient own-source revenue is generated to contribute to government's service delivery.

Risks relating to own-source revenue remain largely unchanged from the 2019-20 Budget.

Risk arising from the management of assets and liabilities

The Territory maintains a wide range of assets and liabilities, each subject to inherent risks, which are managed through the Territory's fiscal strategy objectives of prudent management of debt and liabilities, and infrastructure for economic and community development.

To mitigate these risks, the Territory's Financial Management and Accountability Framework governs the financial management of government resources (assets and liabilities). In addition, the Territory's investment assets and liabilities are administered by the Northern Territory Treasury Corporation (NTTC), the central financing authority for the Territory Government, which in turn is governed by an extensive risk management framework.

Risks relating to management of assets and liabilities remain largely unchanged from the 2019-20 Budget.

Local Jobs Fund

The Local Jobs Fund sets aside funds to provide finance or grants to private sector projects and entities.

To date no finance has been provided for private sector projects or entities under the Local Jobs Fund. As a result, the financial return to the Territory and associated risks of default and or loss of investment remains unknown at this time.

The fund aims to mitigate financial risks through a range of policies and governance statements, along with an expert investment committee to provide independent advice on investment proposals.

Risks to 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 expense estimates is budget pressures due to increased cost and demand for government services, and the inability to meet savings measures factored into agency budgets.

In accordance with the Fiscal Strategy Panel's final report: *A Plan for Budget Repair*, the forward estimates have been extended from 2022-23 (as reported in the 2019-20 Budget) to 2028-29, to provide a 10-year projection and align with the medium-term approach to budget repair.

The risks to the fiscal aggregates remain unchanged from those reported in the 2019-20 Budget. These risks continue to be mitigated through the Territory's fiscal strategy objectives, focused on ensuring government operates within its means and is supported by robust monitoring and reporting obligations within the Territory's Financial Management Framework, enabling the early identification of budget pressures.

Risks to economic forecasts

Territory economic forecasts are subject to a number of upside and downside risks and uncertainties. Economic conditions in the Territory also tend to be highly volatile due to the relatively small size of the Territory's economy, the impact of major projects and external factors such as changes in commodity prices, adverse weather conditions, movements in the Australian dollar, economic conditions nationally and Commonwealth policies (for example, migration). This volatility is often reflected in the available data, which can be subject to significant revisions.

The risks to economic forecasts remain largely unchanged from those reported in the 2019-20 Budget.

Contingent liabilities

Contingent liabilities are potential future costs to government that may arise from guarantees, indemnities, and legal and contractual claims, and hence constitute a risk to the Territory's financial position.

The Territory's contingent liabilities are predominantly unchanged from the 2019-20 Budget, however the Territory continues to monitor risks associated with contingent liabilities to ensure they are appropriately recognised.

Chapter 3

Economic outlook

Key economic indicators

Although the 2018-19 outcomes have been broadly in line with DTF estimates from the 2019-20 Budget, Territory SFD and employment each reported larger than anticipated declines, and GSP and CPI results were weaker than estimated. Consequently the estimates for population, employment, unemployment and CPI for the 2019-20 financial year have been revised to reflect updated data since the 2019-20 Budget. Table 3.1 provides the latest actuals and updated forecasts for key economic indicators for the Territory. Recent trends and factors underpinning the change in forecasts are discussed in the following sections.

Table 3.1: Key economic results and forecasts (%)

	2018-19		2019-20	2020-21	2021-22	2022-23
	Budget	Actual	Estimate		Forecast	
Gross state product[1]	- 0.2	- 1.5	6.3	4.1	2.9	2.5
State final demand[1]	- 9.4	- 16.2	- 1.7	0.3	2.4	2.2
Population[2]	- 0.7	- 0.7[e]	0.0	0.6	0.7	0.8
Employment[3]	- 1.6	- 3.4	- 2.0	0.7	0.9	1.0
Unemployment rate[4]	4.7	4.5	5.0	4.5	4.5	4.4
Consumer price index[3]	1.5	0.9	1.2	1.4	1.5	1.7
Wage price index[3]	1.8	2.1	1.5	1.5	1.6	1.8

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

More details on historical and current economic conditions in the Territory is provided through the Territory Economy website at nteconomy.nt.gov.au. This website is updated regularly with the latest economic data and analysis as it becomes available.

Economic activity

The Territory's headline measure of economic activity declined by 1.5 per cent in 2018-19, with total GSP of $26.1 billion. The reported outcome for 2018-19 was larger than the estimated decline of 0.2 per cent published in the 2019-20 Budget, primarily due to private investment falling more sharply than anticipated but also as a consequence of the upward revision to 2017-18 from 1.7 per cent to 2 per cent by the Australian Bureau of Statistics. The 2018-19 outcome also reflects the complexities associated with the INPEX liquefied natural gas (LNG) plant's operations, particularly the timing of the ramp up to full production, measurement and treatment of feedstock gas in national accounts, and the value of exports. Nationally, gross domestic product increased by 1.9 per cent over the same period.

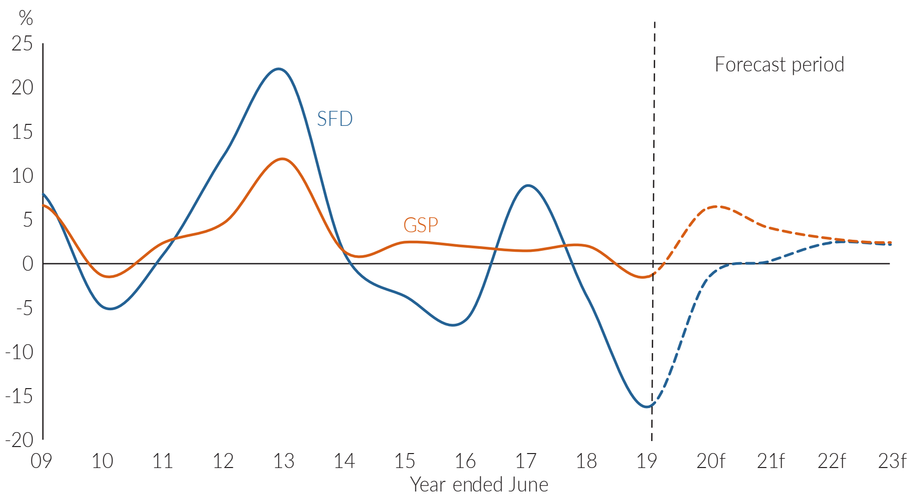
The annually reported GSP is the preferred measure of overall economic activity, rather than the quarterly reported SFD, particularly when comparing against other states and territories, as it is a broad measure of the total output of the Territory economy in each year. GSP measured on an expenditure basis is used to forecast and analyse Territory economic activity.

The main driver for the Territory economy in 2018-19 was net exports (up 117.9 per cent). The growth in net exports was driven by increases in export volumes, as well as a decline in imports. This mainly reflects the INPEX plant becoming operational and commencing production, accompanied by imports for the Ichthys LNG project declining from record high levels. Offsetting the growth in net exports was a decline in private investment (down 53.5 per cent), driven by non-dwelling construction (down 71.1 per cent), reflecting the completion of construction on the Ichthys LNG project.

The Ichthys LNG project has had a significant effect on the Territory economy with unprecedented levels of private business investment. Between 2011-12 and 2017-18, it is estimated there was an average of $5 billion per annum of additional investment to the Territory that has been attributed to the Ichthys LNG project. This level of additional investment from one project is equivalent in quantum to around one fifth of the Territory's total economy. This scale of investment is unprecedented in the Territory's history and has had a substantial impact on the Territory's relatively small economy. With construction of the project now complete, private investment is contracting from these unparalleled highs. This has resulted in a stronger than forecast decline in SFD, falling 16.2 per cent in 2018-19 compared to the 9.4 per cent decrease estimated in the 2019-20 Budget (Figure 3.1).

In 2018-19, total consumption decreased by 1 per cent, in contrast to the 2.6 per cent increase estimated in the 2019-20 Budget. The decline was driven by a 1.1 per cent decline in household consumption (mainly due to spending on hotels, cafés and restaurants) and a 0.8 per cent decrease in public consumption (mainly state and local government consumption). Total consumption expenditure accounts for 77.2 per cent of total SFD and 72.7 per cent of GSP. Over the past two decades, total consumption expenditure from the household and government sectors has contributed an average 2.6 percentage points to the Territory's economic growth. The reported outcome for 2018-19 where both sources of consumption expenditure detracted from economic growth is highly unusual, and has not occurred since the beginning of the time series.

Figure 3.1: Territory gross state product and state final demand annual percentage change[1]



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

Over the forward estimates, headline economic growth in the Territory is expected to be consistent with the forecasts in the 2019-20 Budget. With most of the decline in private investment related to the completion of construction associated with Ichthys LNG project being captured in 2018-19, SFD is estimated to decline by 1.7 per cent in 2019-20 before returning to modest growth across the forward estimates, again consistent with forecasts in the 2019-20 Budget. Large export volumes anticipated in 2019-20 and 2020-21 from the Ichthys LNG project are expected to support GSP growth. From 2020-21, the level of exports are expected to stabilise as the Ichthys LNG project reaches full production. Private investment levels are also expected to stabilise around this time as they return to pre-INPEX longer-term levels.

Over the short term, Territory SFD will continue to be supported by public investment by the Territory Government and defence infrastructure spending. In addition, investment from other smaller scale projects, such as construction of the Darwin luxury hotel and mining projects, are expected to help offset some of the declines in private investment and support growth in both GSP and SFD in the outer years of the forward estimates. Nevertheless, the size and scale of the decline of private investment related to the Ichthys LNG project is not expected to be offset through increased government spending or current private investment commitments.

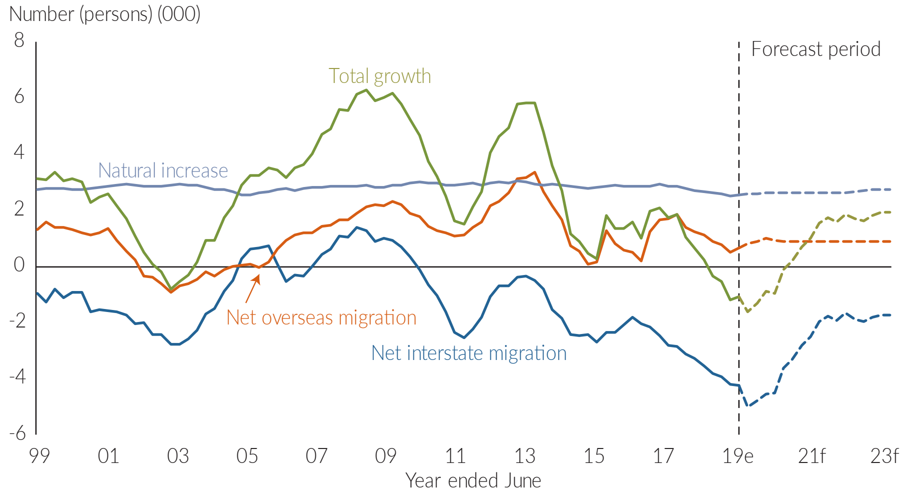
Over the medium to long term, development of the unconventional gas sector in the Territory may create significant employment opportunities and economic activity, although the impacts are largely beyond the current forecasting period. However, there is a significant pipeline of other projects that remain subject to final approvals or investment decisions, which are not yet included in the published economic forecasts. This includes projects with major project status from the Territory Government, which helps facilitate the regulatory approval processes. If realised, these projects are expected to support economic growth over the forward estimates.

Population

The Territory's population declined by 0.1 per cent in 2017-18. Since then, the rate of decline has continued into 2019. The latest available data for the March quarter 2019 indicated the Territory's population was flat at 245 562, but declined by 0.4 per cent in annual terms, down from growth of 0.1 per cent at the same time last year.

This was mainly an outcome of net interstate migration, which resulted in 4256 people leaving the Territory, partly offset by contributions from natural increase (2540 persons) and net overseas migration (654 persons). Consistent with current data and assumptions from the 2019-20 Budget, the Territory's population is expected to decline by 0.7 per cent in 2018-19 (Figure 3.2).

Figure 3.2: Components of Territory population growth (moving annual total)



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

Contracting labour market conditions have continued into 2019-20, mainly affected by a decline in full-time employment. With employment being a leading indicator of population flows, net interstate migration outflows are expected to persist, albeit to a lesser degree over this period, with the offset benefit from natural increase and overseas migration resulting in the Territory's population remaining flat in 2019-20. The departure of a number of workers reflects the completion of the Ichthys LNG project and the limited job opportunities in the economy. While a stable outcome is still well below the long-term trend, it is an improvement from the previous year.

From 2020-21 onwards, the Territory's population is estimated to begin to strengthen in line with an improvement in economic and labour conditions, as well as the end of negative effects from the completion of a major project, growing by 0.6 per cent, 0.7 per cent and 0.8 per cent, respectively. While net interstate migration is expected to begin to return towards more sustainable levels, abating as the largest detractor from population growth, it is still expected to keep growth levels subdued.

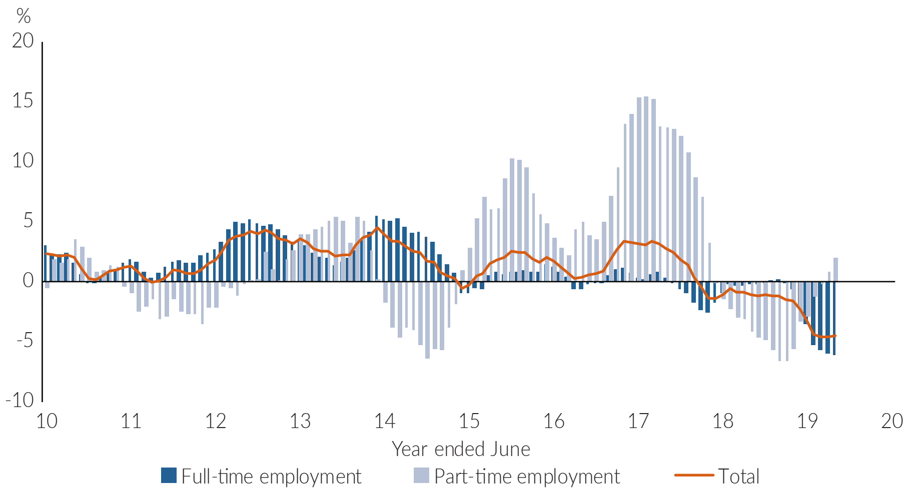
The 'Welcome to the Territory' incentives program as part of the Territory Government's 2018 to 2028 Population Growth Strategy has been available since November 2018. At the time of publication, there has been a modest response to the incentives.

Labour market

Employment

Resident employment in the Territory decreased by 3.4 per cent in 2018-19, a significant deterioration from the estimated 1.6 per cent decline in the 2019-20 Budget. This result was driven by a 3.5 per cent decline in full-time employment and a 2.9 per cent decrease in part-time employment (Figure 3.3). Over the last year, there has been a substitution from full-time to part-time employment for males, however female full-time employment has been steady, while female part-time employment has declined. Despite this development, the overall proportion of part-time employment has remained stable and was around one fifth of total employment in 2018-19. Significant declines in full-time employment have been particularly evident in the construction and mining sectors.

Figure 3.3: Territory employment change by status



Source: ABS Labour Statistics Cat. No. 6202.0

These soft labour market conditions are expected to persist in the economy in the short term, resulting in a revised forecast of a further decline of 2 per cent in 2019-20.

Based on the latest available data and underlying economic assumptions, Territory employment and unemployment forecasts over the forward estimates remain consistent with the 2019-20 Budget, reflecting below average private investment and associated activity.

Unemployment

Unemployment and labour force participation rates have deteriorated over the last year in the Territory, compared to the rest of Australia.

In 2018-19, the Territory's annual unemployment rate averaged 4.5 per cent, increasing from 4.2 per cent in 2017-18, to the third lowest rate of the jurisdictions following a period of below long-term average unemployment results. The rise in the unemployment rate has been coupled with a decline in the Territory's participation rate, which averaged 73.6 per cent in 2018-19 compared to an average of 75.8 per cent in 2017-18. Despite this decline, the Territory continues to have the highest participation rate of the jurisdictions.

Due to the completion of the Ichthys LNG project's construction phase, some workers have left the Territory for other employment opportunities or returned to their usual place of residence, therefore reducing employment and the overall size of the labour force, which is expected to have a limited impact on the unemployment rate over the forward estimates. The unemployment rate has been revised up to 5 per cent for 2019-20, reflecting current labour force data, however is forecast to average 4.6 per cent over the four years from 2019-20.

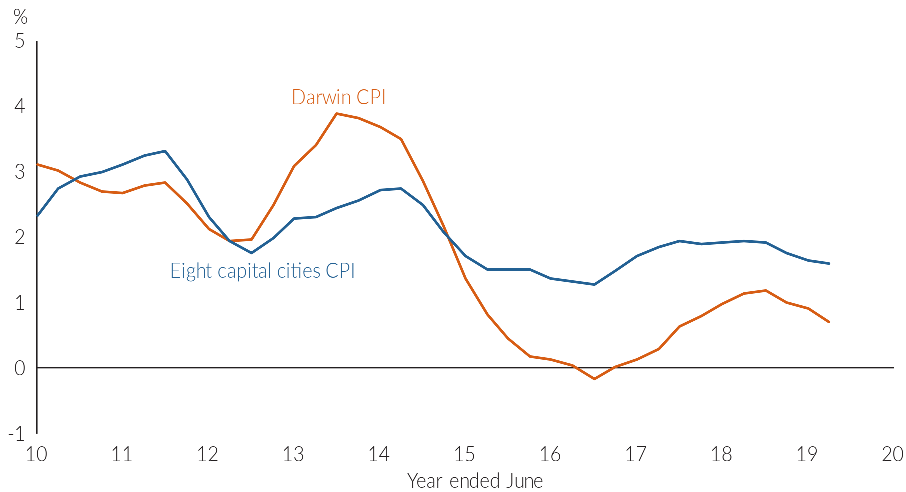
Consumer price index

The Darwin CPI grew by 0.9 per cent in 2018-19, remaining below long-term trends and below the 2019-20 Budget estimates due to weaker than anticipated food and non-alcoholic beverage prices (Figure 3.4). Alcohol and tobacco, education and health costs continued to be the main drivers of growth in the Darwin CPI. Partly offsetting growth in 2018-19 were declines in housing costs (mainly rents and electricity costs), which have been declining since 2015-16, and communication costs (mainly telecommunication costs).

The growth in the Darwin CPI, while lower than that experienced in the rest of Australia, broadly follows the national trend, with the eight capital cities CPI growth of 1.6 per cent in 2018-19. The eight capital cities CPI growth has been subdued, growing below both the 10-year average of 2.1 per cent and the Reserve Bank of Australia inflation target band of 2 to 3 per cent since 2014-15.

Recent data released for the September quarter 2019 reports year-on-year growth in the Darwin CPI at 0.7 per cent, while the eight capital cities CPI growth was 1.6 per cent. The forecasts of the Darwin CPI have been revised downwards from the 2019-20 Budget estimates, with a further weakening in population and employment conditions more conducive to a low inflation environment.

Figure 3.4: Year-on-year change in consumer price index, Darwin and eight capital cities



Source: ABS Consumer Price Index, Australia, Cat. No. 6401.0

Wage price index

In 2018-19, growth in the Territory's wage price index strengthened to 2.1 per cent from a record low of 1.3 per cent in 2017-18. This improvement reflects the delays in the finalisation and approval of the Northern Territory general public sector enterprise agreement, with public sector wages increasing by 2.9 per cent compared to the 1.6 per cent growth in private sector wages in 2018-19.

Over the medium term, wage growth in the Territory is expected to be moderate, in line with national expectations. This is due to prevailing weakness in the labour market and low inflation expectations, along with constrained public sector wage growth in line with implementation of *A plan to fix the budget*.

Based on the latest available data and underlying assumptions, Territory wage price forecasts remain consistent with the 2019-20 Budget.

Chapter 4

Uniform presentation framework

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

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

The *Fiscal Integrity and Transparency Act 2001* (FITA) requires that fiscal outlook reports be prepared in accordance with external reporting standards, including the Australian accounting standards or the UPF.

The tables in this chapter meet the Territory's reporting obligations under both the FITA and the UPF. For each sector of government, they include a:

- comprehensive operating statement
- balance sheet
- cash flow statement.

The financial statements include the 2019-20 Budget, revised 2019-20 estimate and 2020-21 to 2022-23 forward estimates. This section also includes the supplementary table for general government sector taxes.

Table 4.1

General government sector comprehensive operating statement

		2019-20	2019-20	2020-21	2021-22	2022-23
		Budget	Revised	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	539 633	529 633	581 952	613 386	636 944
	Current grants	4 037 023	4 003 514	4 086 062	4 260 581	4 287 954
	Capital grants	332 422	289 682	429 029	335 302	274 550
	Sales of goods and services	388 308	385 939	389 470	391 766	391 702
	Interest income	82 284	82 276	85 115	88 599	90 936
	Dividend and income tax equivalent income	78 069	78 069	76 166	81 909	87 615
	Other revenue	470 580	471 591	405 414	390 352	368 462
	TOTAL REVENUE	**5 928 319**	**5 840 704**	**6 053 208**	**6 161 895**	**6 138 163**
less	EXPENSES					
	Employee benefits expense	2 521 742	2 566 718	2 548 998	2 598 500	2 584 789
	Superannuation expenses					
	Superannuation interest cost	95 089	95 089	100 653	105 703	110 240
	Other superannuation expenses	249 486	279 797	246 080	247 374	239 300
	Depreciation and amortisation	521 266	535 172	527 480	513 449	504 098
	Other operating expenses	1 430 695	1 447 887	1 413 567	1 425 107	1 430 467
	Interest expenses	296 820	294 251	319 522	345 572	374 453
	Other property expenses					
	Current grants	1 048 776	1 039 986	1 021 381	1 020 631	1 029 872
	Capital grants	148 010	119 107	62 552	48 048	45 725
	Subsidies and personal benefit payments	248 767	249 767	232 743	243 120	257 069
	TOTAL EXPENSES	**6 560 651**	**6 627 774**	**6 472 976**	**6 547 504**	**6 576 013**
equals	**NET OPERATING BALANCE**	**- 632 332**	**- 787 070**	**- 419 768**	**- 385 609**	**- 437 850**
plus	Other economic flows – included in operating result	36 388	37 156	38 145	39 918	41 087
equals	OPERATING RESULT	- 595 944	- 749 914	- 381 623	- 345 691	- 396 763
plus	Other economic flows – other comprehensive income	161 272	127 351	143 510	162 889	149 760
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 434 672	- 622 563	- 238 113	- 182 802	- 247 003
	NET OPERATING BALANCE	- 632 332	- 787 070	- 419 768	- 385 609	- 437 850
less	Net acquisition of non financial assets					
	Purchases of non financial assets	990 947	803 912	1 129 402	1 067 950	743 103
	Sales of non financial assets	- 44 383	- 37 921	- 45 298	- 43 323	- 44 098
	less Depreciation	521 266	535 172	527 480	513 449	504 098
	plus Change in inventories					
	plus Other movements in non financial assets	- 38 962				
	equals Total net acquisition of non financial assets	386 336	230 819	556 624	511 178	194 907
equals	**FISCAL BALANCE**	**- 1 018 668**	**- 1 017 889**	**- 976 392**	**- 896 787**	**- 632 757**

Table 4.2

General government sector balance sheet

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	167 290	262 775	189 612	235 164	257 647
Advances paid	178 418	219 121	223 121	221 921	198 421
Investments, loans and placements	2 150 619	2 370 087	2 477 541	2 588 709	2 650 662
Receivables	324 034	446 199	438 009	440 217	436 607
Equity					
Investments in other public sector entities	2 301 710	2 247 429	2 298 252	2 368 454	2 425 527
Equity accounted investments					
Investments – shares	15 000	10 000	15 000	15 000	15 000
Other financial assets	18 603	21 301	22 793	24 389	26 097
Total financial assets	**5 155 674**	**5 576 912**	**5 664 328**	**5 893 854**	**6 009 961**
Non financial assets					
Inventories	12 340	13 952	13 952	13 952	13 952
Property, plant and equipment	16 516 052	16 303 685	16 738 772	17 186 073	17 364 043
Investment property	41 650	41 791	37 791	33 791	29 791
Other non financial assets	121 892	203 084	332 821	404 898	430 035
Total non financial assets	**16 691 934**	**16 562 512**	**17 123 336**	**17 638 714**	**17 837 821**
TOTAL ASSETS	**21 847 608**	**22 139 424**	**22 787 664**	**23 532 568**	**23 847 782**
LIABILITIES					
Deposits held	284 884	463 738	511 948	562 982	632 902
Advances received	256 098	279 098	269 150	258 505	246 997
Borrowing	6 427 439	6 447 203	7 403 184	8 364 237	8 975 294
Superannuation	3 528 792	4 079 650	3 976 963	3 874 276	3 771 589
Other employee benefits	667 275	676 844	676 844	676 844	676 844
Payables	239 764	246 510	248 564	249 516	248 951
Other liabilities	1 016 950	1 158 709	1 151 452	1 179 451	1 175 451
TOTAL LIABILITIES	**12 421 202**	**13 351 752**	**14 238 105**	**15 165 811**	**15 728 028**
NET ASSETS/(LIABILITIES)	**9 426 406**	**8 787 672**	**8 549 559**	**8 366 757**	**8 119 754**
NET WORTH	**9 426 406**	**8 787 672**	**8 549 559**	**8 366 757**	**8 119 754**
NET FINANCIAL WORTH[1]	- 7 265 528	- 7 774 840	- 8 573 777	- 9 271 957	- 9 718 067
NET FINANCIAL LIABILITIES[2]	9 567 238	10 022 269	10 872 029	11 640 411	12 143 594
NET DEBT[3]	**4 472 094**	**4 338 056**	**5 294 008**	**6 139 930**	**6 748 463**

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

Table 4.3

General government sector cash flow statement

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	539 633	529 633	581 952	613 386	636 944
Receipts from sales of goods and services	401 825	391 152	402 987	405 283	405 219
Grants and subsidies received	4 369 445	4 293 196	4 515 091	4 595 883	4 562 504
Interest receipts	82 284	82 276	85 115	88 599	90 936
Dividends and income tax equivalents	58 728	58 728	75 031	74 466	91 225
Other receipts	734 127	700 604	633 562	650 409	629 481
Total operating receipts	**6 186 042**	**6 055 589**	**6 293 738**	**6 428 026**	**6 416 309**
Cash payments for operating activities					
Payments for employees	- 2 863 447	- 2 938 734	- 2 892 861	- 2 948 707	- 2 931 459
Payment for goods and services	- 1 677 202	- 1 695 395	- 1 656 653	- 1 670 367	- 1 715 117
Grants and subsidies paid	- 1 406 591	- 1 408 860	- 1 316 676	- 1 311 799	- 1 332 666
Interest paid	- 295 111	- 293 465	- 318 352	- 344 177	- 373 493
Other payments					
Total operating payments	**- 6 242 351**	**- 6 336 454**	**- 6 184 542**	**- 6 275 050**	**- 6 352 735**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 56 309**	**- 280 865**	**109 196**	**152 976**	**63 574**
Cash flows from investments in non financial assets					
Sales of non financial assets	44 383	37 921	45 298	43 323	44 098
Purchases of non financial assets	- 990 947	- 803 912	- 1 129 402	- 1 067 950	- 743 103
Net cash flows from investments in non financial assets	**- 946 564**	**- 765 991**	**- 1 084 104**	**- 1 024 627**	**- 699 005**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 002 873**	**- 1 046 856**	**- 974 908**	**- 871 651**	**- 635 431**
Net cash flows from investments in financial assets for policy purposes[1]	- 27 000	- 28 500	- 19 000	- 8 800	13 500
Net cash flows from investments in financial assets for liquidity purposes	- 61 543	- 62 543	- 73 498	- 75 439	- 25 055
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 035 107	- 857 034	- 1 176 602	- 1 108 866	- 710 560
Net cash flows from financing activities					
Advances received (net)	- 9 232	- 9 232	- 9 948	- 10 645	- 11 508
Borrowing (net)	934 807	915 654	955 981	961 053	611 057
Deposits received (net)	13 245	9 218	48 210	51 034	69 920
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	938 820	915 640	994 243	1 001 442	669 469
NET INCREASE/DECREASE IN CASH HELD	- 152 596	- 222 259	- 73 163	45 552	22 483
Net cash flows from operating activities	- 56 309	- 280 865	109 196	152 976	63 574
Net cash flows from investments in non financial assets	- 946 564	- 765 991	- 1 084 104	- 1 024 627	- 699 005
CASH SURPLUS (+)/DEFICIT (-)	**- 1 002 873**	**- 1 046 856**	**- 974 908**	**- 871 651**	**- 635 431**
Future infrastructure and superannuation contributions/ earnings[2]	- 34 678	- 34 678	- 36 759	- 38 965	- 41 302
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 037 551**	**- 1 081 534**	**- 1 011 667**	**- 910 616**	**- 676 733**

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

Table 4.4

Public non financial corporation sector comprehensive operating statement

		2019-20	2019-20	2020-21	2021-22	2022-23
		Budget	Revised	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Current grants	189 782	189 032	171 672	181 251	193 404
	Capital grants	37 162	37 912	27 598	23 199	23 684
	Sales of goods and services	794 219	790 619	810 707	868 604	902 129
	Interest income	2 060	2 120	2 108	2 152	2 098
	Other revenue	75 142	36 180	35 669	37 226	37 639
	TOTAL REVENUE	1 098 365	1 055 863	1 047 754	1 112 432	1 158 954
less	EXPENSES					
	Employee benefits expense	127 046	127 046	124 240	123 893	133 614
	Superannuation expenses	16 934	16 934	16 934	16 934	16 934
	Depreciation and amortisation	197 786	197 786	186 459	182 859	182 463
	Other operating expenses	571 134	571 137	564 203	606 187	648 202
	Interest expenses	76 413	76 413	79 375	83 433	87 260
	Other property expenses	26 419	26 419	23 902	23 700	33 119
	Current grants	222	222	227	232	238
	Capital grants					
	Subsidies and personal benefit payments	1 273	1 273	1 287	1 318	1 351
	TOTAL EXPENSES	1 017 227	1 017 230	996 627	1 038 556	1 103 181
equals	NET OPERATING BALANCE	81 138	38 633	51 127	73 876	55 773
plus	Other economic flows – included in operating result	- 743	- 743	- 2 571	- 2 632	- 2 714
equals	OPERATING RESULT	80 395	37 890	48 556	71 244	53 059
plus	Other economic flows – other comprehensive income					
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	80 395	37 890	48 556	71 244	53 059
	NET OPERATING BALANCE	81 138	38 633	51 127	73 876	55 773
less	Net acquisition of non financial assets					
	Purchases of non financial assets	246 884	246 884	224 326	216 619	190 737
	Sales of non financial assets	- 6 606	- 6 606	- 1 906	- 14 932	- 1 932
	less Depreciation	197 786	197 786	186 459	182 859	182 463
	plus Change in inventories	- 5 462	- 13 912	5 244	842	1 726
	plus Other movements in non financial assets	54 089	15 127	12 317	12 589	12 588
	equals Total net acquisition of non financial assets	91 119	43 707	53 522	32 259	20 656
equals	FISCAL BALANCE	- 9 981	- 5 074	- 2 395	41 617	35 117

Table 4.5

Public non financial corporation sector balance sheet

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	149 660	292 926	319 841	347 488	392 486
Advances paid					
Investments, loans and placements		3	3	3	3
Receivables	153 657	179 052	178 272	181 332	183 400
Equity					
Investments in other public sector entities					
Equity accounted investments					
Investments – shares	3				
Other financial assets	7 351	7 351	6 585	5 794	4 978
Total financial assets	310 671	479 332	504 701	534 617	580 867
Non financial assets					
Inventories	192 418	179 345	184 589	185 431	187 157
Property, plant and equipment	3 870 712	3 684 541	3 733 576	3 765 375	3 784 557
Investment property					
Other non financial assets	8 599	17 308	16 551	16 169	15 916
Total non financial assets	4 071 729	3 881 194	3 934 716	3 966 975	3 987 630
TOTAL ASSETS	4 382 400	4 360 526	4 439 417	4 501 592	4 568 497
LIABILITIES					
Deposits held	799	839	839	839	839
Advances received					
Borrowing	1 892 002	1 890 294	1 924 708	1 926 467	1 955 559
Superannuation					
Other employee benefits	56 019	57 684	57 875	57 934	57 995
Payables	122 922	104 272	113 963	112 903	113 051
Other liabilities	30 899	90 543	88 522	94 513	90 142
TOTAL LIABILITIES	2 102 641	2 143 632	2 185 907	2 192 656	2 217 586
NET ASSETS/(LIABILITIES)	2 279 759	2 216 894	2 253 510	2 308 936	2 350 911
TOTAL EQUITY	2 279 759	2 216 894	2 253 510	2 308 936	2 350 911
NET FINANCIAL WORTH[1]	- 1 791 970	- 1 664 300	- 1 681 206	- 1 658 039	- 1 636 719
NET DEBT[2]	1 743 141	1 598 204	1 605 703	1 579 815	1 563 909

1 Net financial worth equals total financial assets minus total liabilities.
2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 4.6

Public non financial corporation sector cash flow statement

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Receipts from sales of goods and services	808 265	804 665	809 923	863 303	897 802
Grants and subsidies received	227 129	227 129	199 386	204 572	217 088
Interest receipts	2 060	2 120	2 108	2 152	2 098
Dividends and income tax equivalents					
Other receipts	5 761	5 761	23 352	24 697	25 106
Total operating receipts	**1 043 215**	**1 039 675**	**1 034 769**	**1 094 724**	**1 142 094**
Cash payments for operating activities					
Income tax equivalents paid	- 26 418	- 26 418	- 23 902	- 22 206	- 33 011
Payments for employees	- 153 151	- 153 159	- 150 791	- 150 500	- 160 219
Payment for goods and services	- 579 303	- 570 848	- 553 033	- 598 505	- 640 519
Grants and subsidies paid	- 1 495	- 1 495	- 1 514	- 1 550	- 1 589
Interest paid	- 76 015	- 76 014	- 79 764	- 83 244	- 87 038
Other payments					
Total operating payments	**- 836 382**	**- 827 934**	**- 809 004**	**- 856 005**	**- 922 376**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**206 833**	**211 741**	**225 765**	**238 719**	**219 718**
Cash flows from investments in non financial assets					
Sales of non financial assets	6 606	6 606	1 906	14 932	1 932
Purchases of non financial assets	- 246 884	- 246 884	- 224 326	- 216 619	- 190 737
Net cash flows from investments in non financial assets	**- 240 278**	**- 240 278**	**- 222 420**	**- 201 687**	**- 188 805**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 33 445**	**- 28 537**	**3 345**	**37 032**	**30 913**
Net cash flows from investments in financial assets for policy purposes[1]					
Net cash flows from investments in financial assets for liquidity purposes	742	742	766	791	816
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 239 536	- 239 536	- 221 654	- 200 896	- 187 989
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	33 876	33 876	34 414	1 759	29 092
Deposits received (net)					
Dividends paid	- 8 084	- 8 084	- 21 610	- 21 935	- 25 823
Other financing (net)	10 000	10 000	10 000	10 000	10 000
NET CASH FLOWS FROM FINANCING ACTIVITIES	35 792	35 792	22 804	- 10 176	13 269
NET INCREASE/DECREASE IN CASH HELD	3 089	7 997	26 915	27 647	44 998
Net cash flows from operating activities	206 833	211 741	225 765	238 719	219 718
Net cash flows from investments in non financial assets	- 240 278	- 240 278	- 222 420	- 201 687	- 188 805
Dividends paid	- 8 084	- 8 084	- 21 610	- 21 935	- 25 823
CASH SURPLUS (+)/DEFICIT (-)	**- 41 529**	**- 36 621**	**- 18 265**	**15 097**	**5 090**

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

Table 4.7

Non financial public sector comprehensive operating statement

		2019-20	2019-20	2020-21	2021-22	2022-23
		Budget	Revised	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	529 901	519 901	572 220	603 654	627 212
	Current grants	4 037 523	4 004 014	4 086 562	4 261 081	4 288 454
	Capital grants	351 333	308 593	437 261	338 669	277 925
	Sales of goods and services	1 118 721	1 113 145	1 136 762	1 196 953	1 230 548
	Interest income	82 527	82 519	85 334	88 793	91 105
	Dividend and income tax equivalent income	29 520	29 520	30 324	32 391	33 412
	Other revenue	504 352	505 363	438 675	425 170	403 693
	TOTAL REVENUE	**6 653 877**	**6 563 055**	**6 787 138**	**6 946 711**	**6 952 349**
less	**EXPENSES**					
	Employee benefits expense	2 648 788	2 693 764	2 673 238	2 722 393	2 718 403
	Superannuation expenses					
	Superannuation interest cost	95 089	95 089	100 653	105 703	110 240
	Other superannuation expenses	264 287	294 598	260 881	262 175	254 101
	Depreciation and amortisation	715 051	728 957	711 245	694 506	685 315
	Other operating expenses	1 931 967	1 949 555	1 907 012	1 959 734	2 006 689
	Interest expenses	371 146	368 517	396 827	426 907	459 686
	Other property expenses					
	Current grants	989 583	981 543	961 677	959 415	967 189
	Capital grants	90 797	100 106	43 186	28 216	25 416
	Subsidies and personal benefit payments	120 173	121 173	122 789	125 135	128 437
	TOTAL EXPENSES	**7 226 881**	**7 333 302**	**7 177 508**	**7 284 184**	**7 355 476**
equals	**NET OPERATING BALANCE**	**- 573 004**	**- 770 247**	**- 390 370**	**- 337 473**	**- 403 127**
plus	Other economic flows – included in operating result	35 645	36 413	35 574	37 286	38 373
equals	**OPERATING RESULT**	**- 537 359**	**- 733 834**	**- 354 796**	**- 300 187**	**- 364 754**
plus	Other economic flows – other comprehensive income	102 687	111 271	116 683	117 385	117 751
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 434 672**	**- 622 563**	**- 238 113**	**- 182 802**	**- 247 003**
	NET OPERATING BALANCE	**- 573 004**	**- 770 247**	**- 390 370**	**- 337 473**	**- 403 127**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	1 237 831	1 050 796	1 353 728	1 284 569	933 840
	Sales of non financial assets	- 50 989	- 44 527	- 47 204	- 58 255	- 46 030
	less Depreciation	715 051	728 957	711 245	694 506	685 315
	plus Change in inventories	- 5 462	- 13 912	5 244	842	1 726
	plus Other movements in non financial assets	15 127	15 127	12 317	12 589	12 588
	equals **Total net acquisition of non financial assets**	**481 456**	**278 527**	**612 840**	**545 239**	**216 809**
equals	**FISCAL BALANCE**	**- 1 054 460**	**- 1 048 774**	**- 1 003 210**	**- 882 712**	**- 619 936**

Table 4.8

Non financial public sector balance sheet

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	167 309	262 789	189 626	235 178	257 661
Advances paid	178 418	219 121	223 121	221 921	198 421
Investments, loans and placements	2 150 619	2 370 090	2 477 544	2 588 712	2 650 665
Receivables	461 781	604 664	595 364	595 255	598 344
Equity					
Investments in other public sector entities	21 631	30 215	44 211	58 909	73 973
Equity accounted investments					
Investments – shares	15 003	10 000	15 000	15 000	15 000
Other financial assets	25 954	28 652	29 378	30 183	31 075
Total financial assets	**3 020 715**	**3 525 531**	**3 574 244**	**3 745 158**	**3 825 139**
Non financial assets					
Inventories	204 758	193 297	198 541	199 383	201 109
Property, plant and equipment	20 377 639	19 979 101	20 465 917	20 946 819	21 145 217
Investment property	41 650	41 791	37 791	33 791	29 791
Other non financial assets	130 491	220 392	349 372	421 067	445 951
Total non financial assets	**20 754 538**	**20 434 581**	**21 051 621**	**21 601 060**	**21 822 068**
TOTAL ASSETS	**23 775 253**	**23 960 112**	**24 625 865**	**25 346 218**	**25 647 207**
LIABILITIES					
Deposits held	136 042	171 665	192 960	216 347	241 269
Advances received	256 098	279 098	269 150	258 505	246 997
Borrowing	8 309 996	8 328 052	9 320 930	10 285 466	10 926 827
Superannuation	3 528 792	4 079 650	3 976 963	3 874 276	3 771 589
Other employee benefits	723 294	734 528	734 719	734 778	734 839
Payables	350 947	341 202	352 947	352 839	352 422
Other liabilities	1 043 678	1 238 245	1 228 637	1 257 250	1 253 510
TOTAL LIABILITIES	**14 348 847**	**15 172 440**	**16 076 306**	**16 979 461**	**17 527 453**
NET ASSETS/(LIABILITIES)	**9 426 406**	**8 787 672**	**8 549 559**	**8 366 757**	**8 119 754**
NET WORTH	**9 426 406**	**8 787 672**	**8 549 559**	**8 366 757**	**8 119 754**
NET FINANCIAL WORTH[1]	- 11 328 132	- 11 646 909	- 12 502 062	- 13 234 303	- 13 702 314
NET FINANCIAL LIABILITIES[2]	11 349 763	11 677 124	12 546 273	13 293 212	13 776 287
NET DEBT[3]	**6 205 790**	**5 926 815**	**6 892 749**	**7 714 507**	**8 308 346**

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

Table 4.9

Non financial public sector cash flow statement

	2019-20	2019-20	2020-21	2021-22	2022-23
	Budget	Revised	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	529 901	519 901	572 220	603 654	627 212
Receipts from sales of goods and services	1 146 284	1 132 404	1 149 495	1 205 169	1 239 738
Grants and subsidies received	4 389 041	4 312 792	4 523 939	4 599 872	4 566 379
Interest receipts	82 527	82 519	85 334	88 793	91 105
Dividends and income tax equivalents	24 226	24 226	29 519	30 325	32 391
Other receipts	739 613	706 090	656 639	674 831	654 312
Total operating receipts	**6 911 592**	**6 777 932**	**7 017 146**	**7 202 644**	**7 211 137**
Cash payments for operating activities					
Payments for employees	- 3 006 866	- 3 082 153	- 3 033 844	- 3 089 475	- 3 081 946
Payment for goods and services	- 2 196 375	- 2 206 514	- 2 148 736	- 2 207 044	- 2 293 388
Grants and subsidies paid	- 1 200 553	- 1 202 822	- 1 127 652	- 1 112 766	- 1 121 042
Interest paid	- 369 039	- 367 332	- 396 046	- 425 323	- 458 504
Other payments					
Total operating payments	**- 6 772 833**	**- 6 858 821**	**- 6 706 278**	**- 6 834 608**	**- 6 954 880**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**138 759**	**- 80 889**	**310 868**	**368 036**	**256 257**
Cash flows from investments in non financial assets					
Sales of non financial assets	50 989	44 527	47 204	58 255	46 030
Purchases of non financial assets	- 1 237 831	- 1 050 796	- 1 353 728	- 1 284 569	- 933 840
Net cash flows from investments in non financial assets	**- 1 186 842**	**- 1 006 269**	**- 1 306 524**	**- 1 226 314**	**- 887 810**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 048 083**	**- 1 087 158**	**- 995 656**	**- 858 278**	**- 631 553**
Net cash flows from investments in financial assets for policy purposes[1]	- 17 000	- 18 500	- 9 000	1 200	23 500
Net cash flows from investments in financial assets for liquidity purposes	- 60 801	- 61 801	- 72 732	- 74 648	- 24 239
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 264 643	- 1 086 570	- 1 388 256	- 1 299 762	- 888 549
Net cash flows from financing activities					
Advances received (net)	- 9 232	- 9 232	- 9 948	- 10 645	- 11 508
Borrowing (net)	972 364	953 211	992 878	964 536	641 361
Deposits received (net)	10 156	1 221	21 295	23 387	24 922
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	973 288	945 200	1 004 225	977 278	654 775
NET INCREASE/DECREASE IN CASH HELD	- 152 596	- 222 259	- 73 163	45 552	22 483
Net cash flows from operating activities	138 759	- 80 889	310 868	368 036	256 257
Net cash flows from investments in non financial assets	- 1 186 842	- 1 006 269	- 1 306 524	- 1 226 314	- 887 810
CASH SURPLUS (+)/DEFICIT (-)	**- 1 048 083**	**- 1 087 158**	**- 995 656**	**- 858 278**	**- 631 553**
Future infrastructure and superannuation contributions/ earnings[2]	- 34 678	- 34 678	- 36 759	- 38 965	- 41 302
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 082 761**	**- 1 121 836**	**- 1 032 415**	**- 897 243**	**- 672 855**

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

Table 4.10

General government sector taxes

	2019-20 Budget	2019-20 Revised	2020-21 Forward estimate
	$M	$M	$M
Taxes on employers' payroll and labour force	**248**	**238**	**256**
Payroll taxes	248	238	256
Taxes on property	**77**	**77**	**104**
Stamp duties on financial and capital transactions	77	77	104
Taxes on the provision of goods and services	**136**	**136**	**140**
Taxes on gambling	85	85	89
Taxes on insurance	51	51	52
Taxes on the use of goods and performance of activities	**79**	**79**	**82**
Motor vehicle registration fees	79	79	82
TOTAL TAXES	540	530	582

Appendix A
Classification of entities in the Northern Territory

Total public sector

Non financial public sector

General government

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

Public non financial corporations

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

Public financial corporation

Northern Territory Treasury Corporation[2]

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

Appendix B

Glossary

Advances/advances paid

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

Agency

A unit of government administration, office or statutory corporation, nominated in an Administrative Arrangements Order for the purposes of the *Financial Management Act 1995* and including, where the case requires, a part or division (by whatever name called) of an agency.

Appropriation

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

Australian accounting standards

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

Australian Bureau of Statistics (ABS)

The ABS is a Commonwealth agency that coordinates statistical activities and collaborates with official bodies in the collection, compilation, analysis and distribution of statistics.

Capital grants

Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, cash is transferred to enable the recipient to acquire another asset, or the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit

Reported in the cash flow statement and measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid.

Commonwealth Grants Commission (CGC)

The CGC is a Commonwealth statutory body that makes recommendations to the Commonwealth Treasurer on how the revenues raised from GST should be distributed to the states and territories to achieve horizontal fiscal equalisation.

Commonwealth own-purpose expenses (COPE)

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

Comprehensive result

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

Consumer price index (CPI)

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.

Contingent liability

A potential financial obligation arising out of a condition, situation, guarantee or indemnity, the ultimate effect of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Current grants

Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

Finance lease

Lease agreements that transfer substantially all the risks and benefits relating to ownership of an asset from the lessor (legal owner) to the lessee (party using the asset).

Financial asset

Any asset that is:

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

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

Fiscal balance (net lending/borrowing)

Fiscal balance, also referred to as net lending/borrowing, is an operating statement measure that differs from the net operating balance as it includes spending on capital items but excludes depreciation. A net lending (or fiscal surplus) balance indicates a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit) position indicates that a government's level of investment is greater than its level of savings.

General government sector (GGS)

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

Generally Accepted Accounting Principles (GAAP)

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

Goods and services tax (GST) revenue

The Territory's share of nationally collected GST, based on the Territory's population share weighted by its GST relativity. Revenue-sharing relativities are determined by the Commonwealth Treasurer, informed by the recommendations of the CGC.

Government business division (GBD)

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

Government finance statistics (GFS)

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

Government owned corporation

An entity in which its objectives are to operate at least as efficiently as any corporate business and maximise sustainable return to government. The *Government Owned Corporations Act 2001* adopts the shareholder model of corporate governance. The Territory has three government owned corporations: Power and Water Corporation, Power Generation Corporation (Territory Generation) and Power Retail Corporation (Jacana Energy).

Grants

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

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

Grants for on-passing

All grants paid to one institutional sector (for example, a state general government) to be passed on to another institutional sector (for example, local government or a non-profit institution).

Gross domestic product (GDP)

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

Gross state product (GSP)

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

Guarantee

An undertaking to assume responsibility for the debt of, or performance obligations by another party should the party default.

Indemnity

A written undertaking to compensate, protect or insure another person or entity against future financial loss, damage or liability.

Interest expense

Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments and amortisation of discounts or premiums in relation to borrowing.

Intergovernmental agreement

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

National partnership agreements

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

National partnership payments

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

Net acquisition/(disposal) of non financial assets from transactions

Purchases (or acquisitions) of non financial assets less sales (or disposals) of non financial assets, less depreciation, plus changes in inventories and other movements in non financial assets.

Purchases and sales (or net acquisitions) of non financial assets generally include accrued expenses and payables for capital items. Purchases exclude non-produced assets and valuables, which are included in other movements in non financial assets.

Net cash flows from investments in financial assets (liquidity management purposes)

Cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes)

Cash receipts from liquidation or repayment of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disasters.

Net debt

Net debt measures a government's net stock of selected gross financial liabilities less financial assets.

Net debt equals sum of deposits held, advances received and borrowings, less the sum of cash and deposits, advances paid and investments, loans and placements.

Net financial liabilities

Total liabilities less financial assets, other than equity in public non financial corporations and public financial corporations. This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the public non financial corporation and public financial corporations sectors, it is equal to negative net financial worth.

Net financial worth

A measure of a government's net holdings of financial assets. It is calculated from the Uniform Presentation Framework balance sheet as financial assets minus liabilities. Net financial worth is a broader measure than net debt as it incorporates provisions (such as superannuation, but excludes depreciation and loss allowances), as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities.

Net operating balance

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

Net worth

Provides a relatively comprehensive picture of a government's overall financial position. It is calculated as total assets less total liabilities less shares and other contributed capital. It includes a government's non financial assets such as land and other fixed assets, which may be sold and used to repay debt, as well as its financial assets and liabilities including debtors, creditors and superannuation liabilities. Net worth also shows asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.

Non-budget sector entity

An entity in which the Territory has a controlling interest. The entity is consolidated at whole of government level but is not presented separately in the Territory's financial reports. Outside the scope of the *Financial Management Act 1995*, it is generally a statutory body that does not meet the definition of a general government sector entity, public non financial corporation or public financial corporation.

Non financial assets

Assets that are not financial assets, predominantly land and other fixed assets.

Non financial public sector (NFPS)

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

Non-for-profit entity

A legal or social entity created for the purpose of producing or distributing goods and services but not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it.

Operating result

A measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Other economic flows

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

Other operating expenses

The total value of goods and services used in production and use of goods acquired for resale. Goods and services acquired for use as direct in-kind transfer to households or as grants are excluded.

Other superannuation expenses

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

Payables

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

Public financial corporation (PFC)

Government-controlled entity that performs central bank functions, and or has the authority to incur liabilities and acquire financial assets in the market on its own account.

Public non financial corporations (PNFC)

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

Receivables

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

Sale of goods and services

Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and equipment, but excludes rental income from the use of non-produced assets such as land. User charges include sale of goods and services revenue.

Specific purpose payments

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

State final demand (SFD)

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

Superannuation interest cost

Interest cost is the increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement, as per the relevant accounting standard.

Tax equivalent regime

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

Uniform Presentation Framework (UPF)

A uniform reporting framework agreed by the Council on Federal Financial Relations to incorporate accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting. The UPF requires Commonwealth, state and territory governments to present a minimum set of budget and financial outcome information based on the GFS, according to an agreed format and specified reporting arrangements.

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