

## Chapter 3 Fiscal Position and Outlook

The fiscal outlook for the Territory has been substantially revised downwards since the publication of the 2008-09 Budget and subsequent Mid-Year Report. This is due to the prevailing economic conditions experienced across the globe as a result of the Global Financial Crisis (GFC) that has affected both international and Australian economies. The Territory's 2009-10 Budget and fiscal strategy has been formulated in an environment of falling revenues and the Government's commitment to increase infrastructure to support Territory jobs and economic growth.

This chapter presents the updated financial projections for 2008-09 through to 2012-13, and an explanation of changes since the May 2008 Budget. It also includes the identification of possible risks to the Territory's Budget and Forward Estimates and the Territory's contingent liabilities, as required by the *Fiscal Integrity and Transparency Act* (FITA).

As outlined in earlier chapters the main focus is on the general government sector although commentary is provided on changes in other sectors since the 2008-09 Budget.

The key fiscal aggregates for general government are presented in Table 3.1.

### General Government

Table 3.1: Key Fiscal Aggregates

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
<b>GENERAL GOVERNMENT</b>					
<b>Operating Statement</b>					
Revenue	4 051	4 218	4 253	4 368	4 352
Expenses	3 951	4 002	4 137	4 246	4 273
<b>Net Operating Balance</b>	<b>100</b>	<b>215</b>	<b>116</b>	<b>122</b>	<b>79</b>
Net Acquisition of Non Financial Assets	216	468	340	247	129
<b>Fiscal Balance</b>	<b>- 116</b>	<b>- 253</b>	<b>- 224</b>	<b>- 125</b>	<b>- 50</b>
<b>Cashflow Statement</b>					
Operating Receipts	4 086	4 207	4 245	4 355	4 345
Operating Payments	3 662	3 720	3 861	3 979	4 015
Net Capital Payments	414	665	539	449	333
Superannuation earnings re-invested	27	24	24	25	27
<b>Cash Surplus (+) / Deficit (-)</b>	<b>- 17</b>	<b>- 201</b>	<b>- 180</b>	<b>- 98</b>	<b>- 30</b>
<b>Balance Sheet</b>					
Assets	7 901	8 257	8 687	9 087	9 332
Liabilities	5 383	5 433	5 712	5 894	5 965
Net Worth	2 518	2 824	2 975	3 193	3 367
<b>Net Debt</b>	<b>969</b>	<b>1 174</b>	<b>1 336</b>	<b>1 415</b>	<b>1 425</b>
Net debt to Revenue (%)	24	28	31	32	33
<b>Net Financial Liabilities</b>	<b>4 364</b>	<b>4 645</b>	<b>4 875</b>	<b>5 006</b>	<b>5 062</b>
Net Financial Liabilities to revenue (%)	108	110	115	115	116

Source: Northern Territory Treasury

The Territory's fiscal position in the budget year and the forward estimates has been significantly influenced by the global financial crisis that has affected the international and the Australian economies. The effects of the deepening crisis are

largely felt from 2009-10 onwards with 2009-10 and all forward years now projected to have worse outcomes than either at the time of the 2008-09 Budget or the 2008-09 Mid-Year Report published in November 2008.

As shown in Table 3.1, the net operating balance still remains in significant surplus in all years. However, the fiscal balance, which adjusts the operating balance by the net investment in capital spending, is in deficit throughout although is expected to improve by 2012-13, with the recovery in the economy. This projected outcome reflects the Territory's intention to stimulate the economy and protect Territory jobs by investing significantly in infrastructure across the Territory. This includes a substantial investment in infrastructure of \$1.3 billion predicted for 2009-10. The fiscal balance deficits through 2009-10 and 2010-11 also reflect declining revenues, predominantly in the form of GST revenue and a greater proportion of additional Commonwealth tied revenue being allocated for capital purposes. This also accounts for the higher operating surpluses in those years.

Consistent with the fiscal balance, the cash targets will be in deficit through 2009-10 and 2010-11 before trending to improvement by 2012-13. The Territory's aim to ensure that general government operating expenses are less than revenue, excluding Commonwealth tied funding, will ensure that deficits are kept to a minimum while the national economy is in decline. When the economy recovers and revenue growth returns to usual levels, this strategy will provide the capacity to fund capital spending and retire any debt incurred over the current economic cycle.

While the cash outcome and the accrual fiscal balance encompass both operational and capital spending, the difference between the two measures relates to non cash items and accrual timing differences between years. The most significant component of this relates to the Territory's superannuation liability with the operating statement reflecting the movement in the liability whereas the cash flow statement includes actual benefit payments made. As the overall liability is still rising, the accrual expense will be higher than the cash payments, resulting in a fiscal balance that is worse than the cash outcome. However, once the liability peaks, the situation will reverse. The Territory's liability is expected to peak in around 2015. Table 3.1 shows that the difference between the fiscal balance and the cash position each year is narrowing. After 2015, when cash payments begin to exceed the accrued expense, the fiscal balance will improve relative to the cash outcome.

Net debt is expected to increase in 2009-10 and all forward years as a consequence of the downturn in the economy affecting both investment returns and declining revenue. This, together with a significant investment in infrastructure in order to stimulate the Territory economy, means this measure will rise over the budget cycle. However the ratio of net debt to revenue remains lower than 2001-02 levels.

Net financial liabilities are also expected to rise over the budget cycle due to the flow-on effect of the increase in net debt combined with an increase in the valuation of the Territory's superannuation liability. However when measured as a ratio to revenue again they are predicted to be lower than 2001-02 levels.

Table 3.2 sets out the variations in general government estimates for 2008-09 and 2009-10 since the May 2008 Budget and the 2008-09 Mid-Year Report.

Table 3.2: Operating and Cash Flow Statements

	2008-09 Estimate	2009-10 Budget
	\$M	\$M
<b>Operating Balance</b>		
2008-09 Budget	141	201
2008-09 Mid-Year Report	75	173
2009-10 Budget	100	215
<b>Variation from 2008-09 Budget</b>	<b>- 41</b>	<b>14</b>
<b>Fiscal Balance</b>		
2008-09 Budget	- 51	- 20
2008-09 Mid-Year Report	- 137	- 48
2009-10 Budget	- 116	- 253
<b>Variation from 2008-09 Budget</b>	<b>- 65</b>	<b>- 233</b>
<b>Cash Outcome</b>		
2008-09 Budget	9	21
2008-09 Mid-Year Report	- 47	0
2009-10 Budget	- 17	- 201
<b>Variation from 2008-09 Budget</b>	<b>- 26</b>	<b>- 222</b>

Source: Northern Territory Treasury

Table 3.2 shows that a small cash deficit position of \$17 million is estimated for 2008-09, as Territory own-source revenues, largely mining royalties, have exceeded Mid-Year Report projections because of the provision of forward start contracts. This together with approved transfers of expenses of around \$40 million into 2009-10 has offset the reduction in GST revenue. However for 2009-10, the full effect of declining GST revenue and lower royalties results in a significant cash deficit.

While the operating result in the general government sector has declined in 2008-09, there is an improvement in 2009-10 due to the increasing allocation of additional revenue to capital payments rather than operating expenses.

In contrast to the surplus operating position, the fiscal balance and cash outcomes are in significant deficit positions in 2009-10, reflecting the increased investment being applied to infrastructure across the Territory.

### Changes Since May 2008 Budget

Table 3.3 sets out the material variations in both the fiscal balance and cash estimates for 2008-09 and 2009-10 since the May 2008 Budget.

For both 2008-09 and 2009-10, there have been significant movements in both revenue/receipts and expense/payments, particularly in relation to tied revenue received from the Commonwealth.

Table 3.3: Variations to the Cash Flow and Operating Statements since May 2008

	2008-09		2009-10	
	Accrual	Cash	Accrual	Cash
	\$M	\$M	\$M	\$M
<b>2008-09 BUDGET</b>	<b>- 50.7</b>	<b>9.3</b>	<b>- 20.2</b>	<b>21.2</b>
<b>REVENUE/RECEIPTS</b>				
<b>Revenue/Receipts - Policy</b>				
Payroll tax harmonisation			-1.3	- 1.3
Defer abolition of business property conveyance stamp duty			9.6	9.6
<b>Total Revenue/Receipts - Policy</b>			<b>8.3</b>	<b>8.3</b>
<b>Revenue/Receipts - Non Policy</b>				
Taxation	12.8	12.8	- 10.9	- 10.9
GST Revenue	- 161.8	- 161.8	- 210.6	- 210.6
Commonwealth Revenue	241.8	261.6	401.0	401.0
Interest Income	- 1.0	2.1	- 15.9	- 13.0
Mining Royalties	136.6	136.6	68.5	68.5
Agency Own Source Revenue	37.1	34.0	21.9	23.0
Income Tax Equivalents and Dividends	- 22.7	- 9.9	- 13.1	- 14.3
<b>Total Revenue/Receipts - Non Policy</b>	<b>242.8</b>	<b>275.4</b>	<b>241.1</b>	<b>243.7</b>
<b>TOTAL REVENUE/RECEIPTS</b>	<b>242.8</b>	<b>275.4</b>	<b>249.4</b>	<b>252.0</b>
<b>OPERATING EXPENSES/PAYMENTS</b>				
<b>Expenses/Payments - Policy</b>				
New Initiatives	35.7	35.7	46.2	46.2
Election Commitments	6.4	6.4	24.1	24.1
Additional efficiency dividend			- 8.9	- 8.9
<b>Total Expenses/Payments - Policy</b>	<b>42.1</b>	<b>42.1</b>	<b>61.4</b>	<b>61.4</b>
<b>Expenses/Payments - Non Policy</b>				
Transfers of expenditure between years	57.8	57.8	37.2	37.2
Commonwealth Payments	170.5	170.5	147.3	147.3
Employee entitlements	13.8	2.5	8.0	1.5
Interest	- 1.0	- 1.0	- 12.7	- 12.7
Depreciation	9.3		9.7	
Restructure of the former Territory Housing	- 11.3	- 11.3	- 10.5	- 10.5
Other	2.4	1.9	- 5.2	- 6.3
<b>Total Expenses/Payments - Non Policy</b>	<b>241.5</b>	<b>220.4</b>	<b>173.8</b>	<b>156.5</b>
<b>TOTAL EXPENSES/PAYMENTS</b>	<b>283.6</b>	<b>262.5</b>	<b>235.2</b>	<b>217.9</b>
<b>Net Capital Payments</b>				
New Initiatives	0.9	0.9	6.0	6.0
Transfer of capital payments between years	4.6	4.6	18.9	18.9
Commonwealth Payments	8.6	8.6	199.8	199.8
Capital Works Cash requirement			40.0	40.0
Transfer of sales of assets between years	18.7	18.7	- 12.2	- 12.2
Depreciation	- 9.3		- 9.7	
Restructure of the former Territory Housing	3.2	3.2	3.0	3.0
Other	- 2.2	3.2	1.2	1.2
<b>Total Net Capital Payments</b>	<b>24.5</b>	<b>39.2</b>	<b>247.0</b>	<b>256.7</b>
<b>TOTAL EXPENSES/PAYMENTS</b>	<b>308.1</b>	<b>301.7</b>	<b>482.2</b>	<b>474.6</b>
<b>TOTAL VARIATION</b>	<b>- 65.3</b>	<b>- 26.3</b>	<b>- 232.8</b>	<b>- 222.5</b>
<b>2009-10 BUDGET</b>	<b>- 116.0</b>	<b>- 17.0</b>	<b>- 253.0</b>	<b>- 201.4</b>

Source: Northern Territory Treasury

General government operating revenue (accrual) has increased from the May 2008 Budget by \$242.8 million in 2008-09 and \$249.4 million in 2009-10 with receipts (cash) increasing by \$275.4 million in 2008-09 and \$252.0 million in 2009-10. The difference between the cash and accrual movements in 2008-09 is largely due to the timing of tax equivalents and dividends received from government businesses and Commonwealth revenue accrued at the end of 2007-08.

The revenue-related policy variations are:

- payroll tax harmonisation measures with an increased cost to the budget of \$1.3 million from 2009-10; and
- stamp duty reinstatement of \$9.6 million in 2009-10 due to the deferral of the abolition of stamp duty on the non-land component of business conveyances until 1 July 2012, originally scheduled for abolition from 1 July 2009.

The main non-policy related variations to revenue since the May 2008 Budget are:

- upward revision of Territory taxation revenue of \$12.8 million in 2008-09, largely payroll tax-related despite the reduction in the rate from 6.2 per cent to 5.9 per cent. The increase has been driven by the combined result of the Territory's wages growth of 4.3 per cent and employment growth of 2.5 per cent in 2008-09. The 2009-10 taxation revenue is predicted to reduce by \$10.9 million largely related to stamp duty on commercial transactions due to the effect of the global financial crisis, and is further outlined in Chapter 6 of this Budget Paper;
- a reduction in GST revenue of \$161.8 million in 2008-09 and \$210.6 million in 2009-10 due predominantly to the deterioration in economic conditions experienced during 2008-09 reducing the expected national pool for distribution to states and jurisdictions. Further detailed explanations on the collection of GST revenue can be found in Chapter 2 and Chapter 5 of this Budget Paper;
- increased tied funding from the Commonwealth in the form of specific purpose payments (SPPs) and National Partnership agreements (NPs) of \$241.8 million in 2008-09 and \$401 million in 2009-10, largely related to health, education, housing and roads as shown in Table 3.4. Cash receipts in 2008-09 are higher due to large accruals recorded in 2007-08 for which the cash has been received in 2008-09;
- increased mining royalty revenue of \$136.6 million in 2008-09 to \$224.6 million due to increases in both the price and demand of commodities as reflected in pre-existing contract provisions. The 2009-10 estimate is an increase of \$68.5 million since the May 2008 Budget to \$160.5 million, a reduction on revised 2008-09 levels by \$64.1 million as the GFC affects global demand and prices for commodities;
- increases in agency revenue across most agencies, largely linked to increased expenditure commitments and reduced level of interest revenue in 2009-10 due to lower interest rates and cash balances across government; and
- reductions in tax equivalents and dividends in 2008-09 and 2009-10 largely related to the reduced profitability and dividend moratorium extension provided to the Power and Water Corporation for 2008-09 and future years to facilitate additional capital investment. The differences between cash and accrual amounts represent the timing of payments.

Table 3.4: Growth in Commonwealth Funding (excluding GST)

	2008-09	2009-10
	\$M	\$M
Northern Territory Emergency Response	26.7	17.5
Housing	18.4	50.9
Health	64.9	54.7
Education	68.8	182.9
National Network Roads	21.6	86.9
Other	41.4	8.1
<b>Total Increase</b>	<b>241.8</b>	<b>401.0</b>

Source: Northern Territory Treasury

General government expenses (accrual) have increased by \$283.6 million in 2008-09 and \$235.2 million in 2009-10, with payments (cash) increasing by \$262.5 million in 2008-09 and \$217.9 million in 2009-10. The variance between the cash and accrual movements are predominantly due to superannuation costs and depreciation.

The main expenditure-related policy variations include:

- funding for new and expanded initiatives and election commitments of \$42.1 million in 2008-09 and \$70.3 million in 2009-10, including across both years:
  - education related of \$10.7 million to enhance education opportunities to all children in remote communities and the Families as First Teachers program;
  - public safety of \$9.7 million to include Police Beats in shopping precincts, funding to address antisocial behaviour and additional resources for the Fire and Rescue Services;
  - health related of \$35 million for a range of initiatives to include complex care needs, e-Health, aero medical services and dental health expansion;
  - additional funding related to the provision of Indigenous Essential Services to remote communities of \$11.8 million;
  - funding provided for the support of the Darwin aviation hub of \$5 million;
  - Fibre Optic Project in Arnhem Land (Jabiru to Nhulunbuy) of \$6.8 million; and
  - other new and expanded initiatives totalling \$33.4 million in the areas of culture, community support and the environment.
- the above increases are partly offset by an increase in the efficiency dividend from 2009-10 of 1 per cent which had an impact of \$8.9 million in 2009-10.

Further information on the policy initiatives included in the Budget is provided in Chapter 4 of this Budget Paper.

The key non-policy variations are:

- net transfers of expenditure between years of \$57.8 million for 2008-09 and \$37.2 million for 2009-10, largely related to the delivery of Commonwealth-funded programs;
- expenditure requirements for Commonwealth SPP and NP funding have increased in line with revenue, with some timing differences between years;
- additional depreciation in 2008-08 and 2009-10 due to the recognition of completed infrastructure assets; and

- net effect of the restructure of the former Territory Housing with the establishment of a new government business division, NT Home Ownership, which was transferred to the Public Non Financial Corporation Sector with effect from 1 July 2008. All other business lines of the former Territory Housing have now merged with the Department of Local Government and Housing, due to the significant increases in the level of government funding provided for housing in remote areas and an increased emphasis on social housing.

There have also been some variations to net capital spending. The key variations are:

- policy decisions affecting capital payments of \$0.9 million in 2008-09 and \$6 million in 2009-10;
- additional capital works cash of \$40 million for capital works projects in 2009-10;
- transfer of capital payments between years largely related to the timing of delivery of Commonwealth funded programs;
- increased funding from the Commonwealth mainly related to essential road infrastructure and education as part of the Nation Building and Jobs Plan Stimulus package and increased capital projects in remote communities; and
- revised sale of asset estimates between years with sales in 2008-09 now expected in future years, primarily due to contractual delays and increases in land sales by the Land Development Corporation in forward years.

Further information on the Territory's Infrastructure Program can be found in *Budget Paper No. 4*.

## 2009-10 Budget and 2010-11 to 2012-13 Forward Estimates

### Basis of Forward Estimates

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

Agency forward estimates vary in line with the application of parameters (inflaters and deflators) to the budget year on a no policy change basis. New policy decisions and funding decisions linked to demand or cost growth also adds to each agency's budget and forward estimates. The main parameters used to adjust estimates are:

- wages – inflator;
- Consumer Price Index (CPI) – inflator; and
- efficiency dividend – deflator.

The wage inflator applied for employee costs in 2009-10 and over the forward estimates period is 3 per cent.

For 2009-10, a CPI factor of 4 per cent is applied to operational costs, being CPI growth in calendar year 2008 compared with calendar year 2007. Although it is recognised that there will be timing differences between the CPI factor used for budget purposes and CPI in the budget year, the method adopted provides for reliability and predictability for agencies and produces more stable outcomes over time. An estimate of 2.5 per cent is used for CPI over the forward estimates period.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and delivering services more efficiently, as is the

case with private sector enterprises. For key service delivery agencies with fixed staffing costs (police, health, education and correctional services), one-quarter of the dividend is applied. An efficiency dividend of 3 per cent has been applied in 2009-10 and 1 per cent from 2010-11 through to 2012-13.

A composite factor based on 75 per cent of the wages factor and 25 per cent of the CPI-based operational factor is applied to grants. Efficiency dividends are not applied to grants.

## Operating and Cash Flow Statement Forward Estimates

Table 3.5: Operating Revenue  
and Receipts

### Operating Revenue and Receipts

Table 3.5 presents operating revenue and receipts for 2009-10 to 2012-13.

	2009-10	2010-11	2011-12	2012-13
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
<b>Revenue</b>				
Taxation revenue	405	422	438	436
GST revenue	2 319	2 417	2 618	2 794
Current grants	763	715	703	615
Capital grants	305	265	158	56
Sales of goods and services	151	157	157	157
Interest income	57	57	59	61
Dividend and income tax equivalent income	21	23	43	41
Mining royalties income	160	161	161	161
Other	37	36	31	31
<b>Total Revenue</b>	<b>4 218</b>	<b>4 253</b>	<b>4 368</b>	<b>4 352</b>
Year on Year Percentage Increase (%)	4	1	3	0
<b>Receipts</b>				
Taxes received	405	422	438	436
Receipts from sales of goods and services	152	158	158	158
GST Receipts	2 319	2 417	2 618	2 794
Grants and subsidies received	1 067	980	861	671
Interest receipts	57	57	59	61
Dividends and income tax equivalents	17	21	37	41
Mining royalties income	160	161	161	161
Other receipts	30	28	23	23
Sales of non financial assets	65	55	55	55
<b>Total Receipts</b>	<b>4 272</b>	<b>4 299</b>	<b>4 410</b>	<b>4 400</b>
Year on Year Percentage Increase (%)	3	1	3	0

Source: Northern Territory Treasury

Total operating revenue and total receipts are projected to grow at an average of 1 per cent per annum over the forward estimates period. The reduced growth in the national GST pool, particularly in the early years, has meant that GST revenue growth over the forward estimates period is revised to grow at an average of 6.8 per cent, significantly lower than historic levels. Tied Commonwealth funding is estimated to fall by an average of 12 per cent per annum and the Territory's own-source revenue is increasing at around 2 per cent. Overall, growth in Territory untied revenue over the period is 5.6 per cent per annum.

Taxation revenue is the most significant component of the Territory's own-source revenue and is expected to grow by an average of 2.5 per cent over the forward estimates period. This growth is lower than previous years and is reflective of current economic conditions and Government commitments to payroll tax and stamp duty reductions and reforms. Further information on the Territory Government's tax reform initiatives can be found in Chapters 4 and 6 of this Budget Paper.

The majority of the Territory's revenue is from the Commonwealth in the form of GST revenue and tied funding in the form of SPPs and NPs. The significant decline in national GST collections during 2008-09 and predicted zero growth in 2009-10, a consequence of weak economic conditions, is expected to result in the Territory falling below the guaranteed minimum amount by around \$90 million in 2008-09. The Territory has forecast national GST collections to grow by 6 per cent per annum in 2010-11 and later years in line with the expected recovery of the national economy. The Territory's growth from 2010-11 in GST reflects the expected growth in the pool and an estimated increase in relativities to reflect the impact of the move to a per capita distribution of new SPPs, partially offset by a projected decline in the Territory's share of national population.

The growth in GST revenue is offset by a decline in SPPs and NPs. The decline in tied Commonwealth funding over the forward estimates is traditionally around 4-5 per cent per annum as many of these agreements are for fixed periods and are not included in the forward estimates beyond the life of the agreement. However the decline over the forward estimates in the Budget is significantly higher at around 12 per cent per annum, mainly attributed to the significant increase in capital funding in the earlier years. The increase is largely associated with remote Indigenous housing, which continues to provide new and upgraded housing in remote communities across the Territory, and the Nation Building and Jobs Plan stimulus package. Both of these peak in 2009-10 through 2010-11. It is expected that additional remote housing funding will be incorporated in future years following negotiations with the Commonwealth.

During each budget year, there are significant changes in Commonwealth funding estimates as certain agreements are finalised. These adjustments tend not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. However, timing differences in the receipt of tied revenue and its expenditure introduce a degree of volatility affecting actual outcomes, as mentioned previously in this chapter. The Intergovernmental Agreement on Federal Financial Relations has also changed the share of SPPs through a move to a per capita based distribution. Although this resulted in a fall in revenue, the decline in SPPs should be compensated by an increase in the Territory's share of GST revenue. This, together with further commentary on SPPs, is discussed in Chapter 5 of this Budget Paper.

Other own-source revenue includes sales of goods and services, interest, revenue from government trading entities and mining royalties. Both sales of goods and services and interest are projected to marginally increase over the forward years.

Revenue from government trading enterprises is expected to increase by 30 per cent over the forward estimates, due largely to the expected tax equivalents being received from the Power and Water Corporation by 2011-12 as they predict a return to a more financially sustainable position.

The balance of own-source revenue is mainly collected from mining royalties, which is expected to remain at a consistent level over the forward estimates at \$161 million. This reflects a fall of \$64 million between 2008-09 and 2009-10 due to lower estimates of commodity prices and mining production as global demand for commodities declines due to the GFC.

Further analysis of the effect of changing exchange rates, commodity prices and mining production on mining royalties is provided in the Statement of Risks section in this chapter.

The Cash Flow Statement also includes capital receipts. These are largely sales of vehicles and land and are at more usual levels from 2010-11 and forward estimate years. However in 2009-10 higher receipts are expected in line with the next stage of the residential component of the Darwin Waterfront and from 2011-12 amounts include increased land development, including light industrial land sales.

### Operating Expenses and Payments

Table 3.6 shows general government sector operating expenses and payments for 2009-10 and forward years.

Table 3.6: Operating Expenses and Payments

	2009-10	2010-11	2011-12	2012-13
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
<b>Expenses</b>				
Employee expenses	1 462	1 526	1 600	1 637
Superannuation expenses	277	270	269	269
Depreciation and amortisation	196	199	202	204
Other operating expenses	994	1 106	1 143	1 183
Interest expenses	120	127	136	137
Current grants	687	642	664	669
Capital grants	157	157	117	54
Subsidies and personal benefit payments	109	111	116	119
<b>Total Expenses</b>	<b>4 002</b>	<b>4 137</b>	<b>4 246</b>	<b>4 273</b>
Year on Year Percentage Increase (%)	1	3	3	1
<b>Payments</b>				
Payments for employees	1 657	1 724	1 810	1 858
Payments for goods and services	990	1 101	1 138	1 178
Grants and subsidies paid	953	909	896	842
Interest paid	120	126	136	137
Purchases of non financial assets	729	594	503	388
<b>Total Payments</b>	<b>4 449</b>	<b>4 455</b>	<b>4 483</b>	<b>4 403</b>
Year on Year Percentage Increase (%)	8	0	1	-2

Source: Northern Territory Treasury

Operating expenses and total payments are expected to grow at an average of 1 per cent over the forward estimate years. This is significantly lower than historical levels, albeit from a high base in 2008-09 and 2009-10 due to higher tied funding in those years.

As mentioned in Chapter 2 of this Budget Paper, a fiscal strategy objective is to ensure that growth in general government operating expenses, excluding

tied Commonwealth funding, is limited to less than revenue growth over the economic cycle. Overall growth in Territory funded expenditure, including GST but excluding tied Commonwealth funding, is 4.5 per cent per annum which is less than the associated revenue growth of 5.6 per cent mentioned earlier in this chapter. In addition, as can be seen from the table, the investment in infrastructure, representing both purchases of non-financial assets and capital grants, is greater than twice the level of depreciation on average over the budget cycle in line with this element of the fiscal strategy.

A small part of the growth over the forward estimates is attributed to the inclusion of a minimal contingency allowance in all forward estimate years. The inclusion of a contingency allowance is consistent with practices in other states and territories and represents an allowance, included in aggregate expenses, for:

- unexpected events that may occur in future years;
- costs of new policy decisions rising on implementation;
- commercial-in-confidence items that cannot be separately disclosed;
- decisions made too late for inclusion against individual agency estimates; and
- the provision for events and pressures that can be reasonably expected to affect budget estimates without having to re-set fiscal targets.

The downturn in the economy means that this contingency is lower than would normally be expected and will require agencies to largely meet new policy proposals through a reprioritisation of existing expenditure and efficiency gains. Over the forward estimates period, employee expenses including superannuation expenses and benefit payments are estimated to increase, on average, by around 3.6 per cent per annum. This reflects wages growth in agencies offset by the efficiency dividend. Agencies will be required to manage their forward estimates to ensure that efficiency dividends are achieved.

Underlying growth in other operating expenses continues to grow marginally due to the contingency allowance included and the CPI inflator included in agency budgets, offset by the efficiency dividend.

There is a decline in estimated current and capital grants, or grants and subsidies paid, reflecting both the level of tied funding from the Commonwealth, which is declining over the forward period and the fact that capital funding is largely spent on infrastructure rather than on operational items. The decline in Commonwealth tied funding over the forward years is offset by the application of parameters to Territory-funded grants.

As with receipts, the Cash Flow Statement includes capital payments. This element of the Cash Flow Statement is expected to remain high across the forward estimates, with a peak in 2009-10 of \$729 million. This is due to the Government's decision to increase infrastructure spending in order to stimulate the economy.

## Balance Sheet

Table 3.7 provides a summary of assets, liabilities and balance sheet measures for the general government sector.

Table 3.7: Balance Sheet

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total Assets	8 086	7 901	8 257	8 687	9 087	9 332
Financial Assets	2 671	2 271	2 143	2 223	2 363	2 468
Non Financial Assets	5 415	5 631	6 114	6 464	6 723	6 864
Total Liabilities	4 878	5 383	5 433	5 712	5 894	5 965
<b>Net Worth</b>	<b>3 208</b>	<b>2 518</b>	<b>2 824</b>	<b>2 975</b>	<b>3 193</b>	<b>3 367</b>
<b>Net Debt</b>	<b>887</b>	<b>969</b>	<b>1 174</b>	<b>1 336</b>	<b>1 415</b>	<b>1 425</b>
Net Debt to Revenue (%)	23	24	28	31	32	33
<b>Net Financial Liabilities</b>	<b>3 381</b>	<b>4 364</b>	<b>4 645</b>	<b>4 875</b>	<b>5 006</b>	<b>5 062</b>
Net Financial Liabilities to Revenue (%)	87	108	110	115	115	116

Source: Northern Territory Treasury

### Net Worth

Since the 2008-09 Budget, projected net worth for the general government sector has fallen in all forward years due to prevailing economic conditions that have resulted in:

- cash deficits in all years;
- increases in the value of the Territory's liabilities;
- projected decreases in the value of the Territory's financial assets; offset by
- a greater proportion of revenue streams being invested in non financial assets.

Since the introduction of accrual accounting in 2002-03, the Territory's net worth has risen in successive years to \$3208 million in 2007-08. This is largely the result of continued improvement in the valuation of the Territory's assets base as assessed by the Australian Valuation Office, together with six successive cash surpluses in the general government sector. Further valuation improvements on the Territory's asset base have not been factored into the forward estimates.

However, due to the economic downturn net worth is now not expected to exceed 2007-08 levels until 2012-13.

### Net Debt

The Territory is a developing economy compared with other states and territories and as a result, the Territory's current level of debt is relatively high compared with other jurisdictions.

Table 3.7 shows that in absolute terms net debt at the general government sector is estimated to rise from almost \$1 billion in 2008-09 to \$1.4 billion in 2012-13. When measured as a ratio to revenue it is expected to rise from 24 per cent in 2008-09 to 33 per cent by 2012-13. However this is still significantly lower than the 61 per cent recorded in 2001-02, a result of the six consecutive cash surpluses delivered up to 2007-08.

The increase in net debt encompasses both the downward revision to cash targets in all years together with a reduction in the net value of investments. As outlined in the 2008-09 Mid-Year Report, financial investments held by the Territory Government comprise a range of instruments including short term securities, fixed interest securities, fixed rate notes and equities. These financial assets are structured in separate portfolios to ensure that they meet the purpose for which the

investments have been designated. The majority of assets are held in short dated low risk investments to match the relatively short dated nature of their requirements. The returns on these investments to 31 March 2009 are 7.85 per cent, in line with the benchmark.

In the case of the Conditions of Service Reserve (COSR) these investments are managed by three external fund managers and relate to funds that have been set aside to fund the Territory Government's long term employee liabilities in future years. Accordingly these investments have a weighting to long term growth assets in order to match the long term nature of the liability.

Over the past five years to 30 June 2008, these funds have averaged annual returns of 11.66 per cent, 2.68 per cent in excess of benchmark and significantly in excess of the long-term target rate of return. With the sharpest fall in Australian equities seen in many decades, the value of the COSR has dropped from \$403.7 million at 30 June 2008 to \$318.6 million at 31 March 2009 and is forecast to remain at these levels throughout the latter part of 2008-09 and through 2009-10, before showing positive returns in line with a predicted upswing in market conditions.

These unrealised losses do not impact on the Territory Government's ability to meet its ongoing superannuation obligations as they are invested for the long term and are not expected to be drawn down for at least ten years. As with all such growth oriented investments it is expected that negative returns will be experienced from time to time, with actuarial expectations that this will occur approximately once in every six years over the cycle of the investment period.

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation, which is a major liability for the Territory and most jurisdictions. Table 3.7 shows that the level of net financial liabilities as a percentage of revenue is predicted to rise over the budget cycle. This is a direct result of the projected increase in net debt together with an increase in the valuation of the Territory's superannuation liability from the use of the 10 year bond rate, as discussed in Chapter 2 of this Budget paper.

Although increasing, as a ratio to revenue the projected 116 per cent in 2012-13 is still below the 133 per cent recorded in 2001-02.

## Non Financial Public Sector

### Operating and Cash Flow Forward Estimates

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

While this sector is commercial in nature it also receives contributions from general government in the form of community service obligations. This allows government to achieve community or social objectives that would otherwise not be undertaken on a purely commercial basis.

Table 3.8: Estimated  
Outcomes - Non Financial  
Public Sector

	2008-09 Estimate	2009-10 Budget	2010-11	2011-12	2012-13
			Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
<b>Operating Balance</b>					
2008-09 Budget	181	203	197	203	na
2009-10 Budget	126	221	119	174	128
<b>Variation from 2008-09 Budget</b>	<b>- 55</b>	<b>18</b>	<b>- 78</b>	<b>- 29</b>	<b>na</b>
<b>Fiscal Balance</b>					
2008-09 Budget	- 167	- 124	- 117	- 39	na
2009-10 Budget	- 270	- 462	- 443	- 247	- 190
<b>Variation from 2008-09 Budget</b>	<b>- 103</b>	<b>- 338</b>	<b>- 326</b>	<b>- 208</b>	<b>na</b>
<b>Cash Outcome</b>					
2008-09 Budget	- 128	- 86	- 80	- 21	na
2009-10 Budget	- 187	- 424	- 402	- 224	- 170
<b>Variation from 2008-09 Budget</b>	<b>- 59</b>	<b>- 338</b>	<b>- 322</b>	<b>- 203</b>	<b>na</b>

Source: Northern Territory Treasury

As shown in Table 3.8, the operating statement is in surplus in all years while the fiscal balance and cash outcomes are in deficit positions.

This represents both the flow-on effect of the general government outcomes together with the following specific items related to the PNFC sector:

- improved operating profitability of trading entities over the budget cycle, predominantly related to the Power and Water Corporation following recent tariff increases to assist in its return to financial sustainability and price path increases for the Darwin Port Corporation; and
- significant investments in infrastructure, including \$1.4 billion by the Power and Water Corporation together with the expansion of Port facilities that are largely funded by borrowings affecting both the cash and fiscal balance outcomes.

### Balance Sheet

Table 3.9 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

Table 3.9: Balance Sheet - Non Financial Public Sector

	2007-08 Outcome	2008-09 Estimate	2009-10 Budget	2010-11	2011-12	2012-13
				Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total Assets	8 548	8 715	9 278	9 938	10 457	10 849
Financial Assets	1 769	1 404	1 190	1 277	1 361	1 420
Non Financial Assets	6 779	7 312	8 088	8 661	9 096	9 429
Total Liabilities	5 341	6 197	6 454	6 962	7 265	7 482
<b>Net Worth</b>	<b>3 208</b>	<b>2 518</b>	<b>2 824</b>	<b>2 975</b>	<b>3 193</b>	<b>3 367</b>
<b>Net Debt</b>	<b>1 257</b>	<b>1 538</b>	<b>1 966</b>	<b>2 349</b>	<b>2 554</b>	<b>2 704</b>
Net Debt to Revenue (%)	30	34	42	49	52	55
<b>Net Financial Liabilities</b>	<b>3 804</b>	<b>4 975</b>	<b>5 467</b>	<b>5 916</b>	<b>6 171</b>	<b>6 370</b>
Net Financial Liabilities to Revenue (%)	89	110	116	124	126	130

Source: Northern Territory Treasury

Non financial public sector net debt comprises both the net debt of the general government and PNFC sectors and is often referred to as state or Territory debt. State debt encompasses the full call on capital markets of both the taxing sector of government and the often significant capital projects of trading entities that are largely funded through commercial borrowings.

The Territory's relative stage of economic development compared with other states and territories results in its debt levels remaining high.

Table 3.9 shows that in absolute terms net debt at the non financial public sector is also predicted to rise over the budget cycle as a flow on of the increase in general government debt together with the significant investment of \$1.4 billion in capital infrastructure and maintenance by the Power and Water Corporation over the period. Table 3.9 shows that when measured as a ratio to revenue it is expected to rise from 34 per cent in 2008-09 to 55 per cent by 2012-13. However this is still below the 67 per cent recorded in 2001-02, a result of the six consecutive general government cash surpluses delivered up to 2007-08.

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, consisting largely of unfunded superannuation. Table 3.9 shows that the level of net financial liabilities as a percentage of revenue for the non financial public sector is predicted to rise over the budget cycle. This is a direct result of the projected increase in net debt together with an increase in the valuation of the Territory's superannuation liability.

Although increasing, as a ratio to revenue the projected 130 per cent at the non financial public sector in 2012-13 is still marginally below the 131 per cent recorded in 2001-02.

Total public sector comprises all sectors of government to include general government, public non financial corporations and the public financial corporations sector. In the Territory, public financial corporations, that are entities that perform central banking functions, comprise both the Northern Territory Treasury Corporation and the Territory Insurance Office.

As required by the Uniform Presentation Framework financial data for the public financial corporation and total public sectors is only required for the final estimate year, being 2008-09, as shown in chapter 8 of this budget paper. For 2008-09 the Total Public Sector outcomes largely mirror that of the non financial public sector.

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

This statement outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities.

### Revenue

The largest risk to the Territory's forward estimates is variations in GST revenue. As GST revenue historically accounts for up to two-thirds of the Territory's total

## Total Public Sector

## Statement of Risks

### Goods and Services Tax Revenue

revenue, changes in estimates have a significant effect on the Government's funding capacity and budget outcome.

The estimation of GST revenue in any year is difficult, due to the volatility in the variables that determine the distribution of GST among the states. The risk to the key component variables of GST is discussed below.

**National GST collections** – the estimates for GST collections for 2008-09 to 2012-13 are based on the Commonwealth's most recent published advice and subsequent economic releases. The global financial crisis has impacted heavily on national GST collections with the economic slowdown affecting consumption growth and a shift in the nature of consumption from goods that attract GST to those that do not. The Territory estimates that national GST collections will fall by \$1 billion in 2008-09, with no growth anticipated for 2009-10 before returning to growth of 6.0 per cent per annum from 2010-11.

The extent and speed of the downturn in Australia has been greater than that previously anticipated and there is potential for greater declines than those estimated, particularly in the initial years of the forward estimates. Should the economy rebound as anticipated by 2010-11 there may be some upside risk to the projections in outer years.

An indication of the effect of a 1 per cent variation from these forecasts is estimated at  $\pm\$22$  million in 2009-10 and  $\pm\$28$  million in 2012-13. If a variation of this size occurred in each of the forward estimate years, the impact would be  $\pm\$101$  million by 2012-13.

**Territory's share of national population** – The Territory's population estimates to 2012-13 reflect the expected performance of the Territory's economy based on confirmed projects. There is significant upside risk should the Inpex or other major projects proceed in the short term. The effect of a 1 per cent variation in the Territory's population estimates is estimated at  $\pm\$21$  million in 2009-10 and  $\pm\$26$  million in 2012-13. The cumulative impact of a variation over each of the forward estimate years would be  $\pm\$95$  million by 2012-13.

**Territory's per capita relativity as assessed by the Commonwealth Grants Commission (the Commission)** – The Territory's per capita relativity for 2009-10 is 5.27065. The Territory has forecast future relativities based on the impact of changes to financial relations arising from the implementation of the Intergovernmental Agreement on Federal Financial Relations. These impacts arise during the transitional phase of changing the current distribution methodology of Specific Purpose Payments (SPPs) to a per capita distribution. While the direct share of SPPs received by the Territory is expected to decline, all other things being equal, this should be compensated through an increase in the Territory's share of GST revenue.

Every five or six years, the Commission undertakes a major review of its methodology for determining GST revenue. The Terms of Reference for the 2010 major review require the Commission to simplify its methodology. This means that the outcome is less certain than previous years. Considering this uncertainty there is potential scope for significant movement, either up or down, in the Territory's relativity. The approximate effect of a 1 per cent variation in relativity estimates is  $\pm\$21$  million in 2009-10 and  $\pm\$26$  million in 2012-13, with a cumulative effect to 2012-13 of  $\pm\$95$  million.

The changes to each of these variables can be either positive or negative and, if taken together, by 2012-13 could result in variations as high as \$291 million. The extent of the GFC and its impact on National GST collections illustrates the significance of such risks and clearly demonstrates the inherent volatility in the estimates.

A more detailed discussion of GST revenue is presented in Chapter 5 of this Budget Paper

#### Other Commonwealth Grants and Subsidies

The Intergovernmental Agreement on Federal Financial Relations has changed the nature of certain payments from the Commonwealth to the states and territories. SPPs in the areas of health, education, skills and workforce, disability and housing are now broader payments covering the full breadth of each functional area and are outcomes focused. Base funding has been increased and sector-specific indexation formulae have been developed. Agreements are now ongoing rather than requiring renegotiation every four years. The removal of input controls including matching and maintenance of effort requirements have significantly reduced the risks to budgets moving forward. However, the adequacy of indexation remains a key risk under the new arrangements.

NP agreements still contain many of the risks to states that existed under the previous financial arrangements. These risks include co-investment, input controls, application of national costs and potential withdrawal of seed funding.

The risks related to SPPs and NPs cannot be quantified.

#### Own-Source Revenue

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

It is difficult to accurately predict revenue collections into the future, particularly for the later years of the forward estimates. The most difficult source of revenue to forecast in the 2009-10 Budget is mining royalty revenue. Forecasting mineral royalty revenue is difficult because it is influenced by a number of factors, but predominantly mineral price, production levels and exchange rate conditions. The difficulty of estimating mining royalty revenue is evident in the revisions to the 2008-09 estimate due to the volatility in all three of the major influences listed above. Mining revenue forecasts rely on advice from mining companies of their expected estimated liability for the financial year. Unpredicted market changes in mineral prices, production or exchange rates will have a material impact on this forecast. For example, an Australian dollar to US Dollar exchange fluctuation of +1 Australian cent will impact on 2009-10 forecast royalty collections by approximately -3.5 per cent at current exchange rates and assuming there are no changes in other market and production conditions.

Forecasting conveyance stamp duty is also difficult because it is linked to activity in the property market. Although there is evidence that the growth in residential property market activity has eased, the extent and timing of any drop is difficult to predict and could have a significant impact on conveyance duty collections. In addition, the Territory has a relatively small conveyance duty base which includes valuable commercial properties including pastoral properties and mining projects.

These factors introduce significant variability in collections as a result of the impact of the duty collected from large commercial transactions.

In total, a variation of  $\pm 1$  per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$5.7 million for 2009-10.

### Expenses

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

The parameter for wages growth in all forward years is 3 per cent which has remained unchanged, with revised CPI of 4 per cent for 2009-10 and 2.5 per cent for all forward years. The efficiency dividend is 3 per cent in 2009-10 and 1 per cent in all forward years.

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

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

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

The Territory Government's Closing the Gap initiatives introduced in the 2008-09 Budget could present a risk to expense and capital spending estimates in future years due to the potential for significant additional investment and the flow-on effect to service delivery areas. Any additional amounts approved over and above the funding committed over the next five years may affect future budget outcomes.

## Contingent Liabilities

A contingent liability is a liability that the Government may be called on to meet at some future date if a specified event should occur. Contingent liabilities of the Territory may arise out of a range of circumstances, the most common of which are indemnities and guarantees contained in agreements executed by the Territory. Contingent liabilities may also arise as a result of undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity. Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential outcome of an actual liability should be quantified. Details of estimated amounts of material contingent liabilities as at 30 June 2008 resulting from guarantees or indemnities granted by the Territory, as published in the 2007-08 Treasurer's Annual Financial Report (TAFR), are presented in Table 3.10.

Table 3.10: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability as at 30 June 2008
	\$M NPV <sup>1</sup>
Amadeus Basin to Darwin Gas Pipeline	48
Pine Creek/McArthur River Electricity Purchase Agreements	73
Public Trustee Common Fund	33

<sup>1</sup> Future values discounted at a nominal 6.5 per cent discount rate, based on the bond rate prevailing at 30 June 2008. This will be reassessed in light of current market conditions for publication in the 2008-09 TAFR.

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

### Quantifiable Contingent Liabilities

#### Electricity, Gas and Water Supply

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

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

#### Amadeus Basin to Darwin Gas Pipeline

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

#### Electricity and Gas Supply to Pine Creek and McArthur River

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

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

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

### Statutory Contingent Liabilities

#### Public Trustee Act

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

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

### Unquantifiable Contingent Liabilities

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

**Transport**

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

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

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

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

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

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

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

**Health and  
Community Services**

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

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

**Government Administration**

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

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

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

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

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

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

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

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

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

**Negotiations not yet Finalised** Negotiations not yet finalised have the capacity to materially affect the updated financial projections and have the potential to affect revenues and expenses, as well as the Balance Sheet.

In March 2009, as part of its response to the GFC, the Commonwealth announced that, for a fee and subject to certain conditions, it would guarantee state and territory Australian dollar denominated debt issuances. The voluntary guarantee will be

structured in a similar way to the wholesale funding guarantee provided to banks. This will assist states to access the debt market and allow them to complete their borrowing programs in order to fund infrastructure projects.

Under the arrangement, the States and Territories are to provide the Commonwealth with a counter-indemnity that entitles the Commonwealth to seek recovery from states which have triggered the guarantee and would indemnify the Commonwealth against actions taken as a result of the guarantee. The agreement is still to be finalised and the likelihood of the Territory triggering the guarantee is very low.

#### Legal Proceedings

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