

# Overview

The 2009-10 Budget is an accrual output-based budget prepared in accordance with the Territory's fiscal management legislation and framework.

*Budget Paper No. 3* provides detailed information on the budgets of agencies and government business divisions in the Northern Territory budget sector, and focuses on the services and outputs delivered across Government. The information provided in *Budget Paper No. 3* encompasses:

- agency expenses and appropriation amounts;
- agency profiles and budget highlights;
- description of variation between years;
- output statements for agencies and business line statements for government business divisions, including performance measures and estimates;
- accrual financial statements (Operating Statement, Balance Sheet and Cash Flow Statement);
- community service obligation payments to government business divisions and government owned corporations; and
- a summary of revenue received by the Central Holding Authority, agencies and government business divisions.

The legislative basis for the 2009-10 Budget and the Territory's financial management framework is explained below.

## Legislative Basis

Two principal Acts combine to form the framework for the management of the Territory's financial resources and ensure that the range of accountability requirements are satisfied:

- *Fiscal Integrity and Transparency Act* – whole of government reporting requirements; and
- *Financial Management Act* – agency and government business division accountability requirements.

These Acts are supplemented by the annual *Appropriation Act*, which provides legal authority for the Government's funding decisions.

### *Fiscal Integrity and Transparency Act*

The *Fiscal Integrity and Transparency Act* requires the reporting of the budget and forward estimates on the basis of external reporting standards. The reporting standard used in the Northern Territory is the Uniform Presentation Framework as agreed by states, territories and the Commonwealth. This is based on AASB 1049 Whole of Government and General Government Sector Financial Reporting. The 2009-10 Budget is presented in accordance with the *Fiscal Integrity and Transparency Act*.

### *Financial Management Act*

The *Financial Management Act* provides a financial framework within which the Territory Government as a whole, agencies and government business

divisions operate and manage resources. *Budget Paper No. 3* covers agencies and government business divisions that are subject to the *Financial Management Act* and included in the Territory's budget sector.

The *Financial Management Act* provides the rules that govern the monitoring and management of the budgets for each agency and government business division during the year. In this regard, the *Financial Management Act* specifies accountability and approval requirements for budget variations in situations where unforeseen circumstances arise during the year, or where Government functions are redistributed between agencies.

The *Financial Management Act* also specifies agency and government business division internal control requirements, asset safeguarding, financial transaction and bank account rules, and financial reporting obligations.

Effective from 1 January 2009, the *Financial Management Act* has been amended to accommodate the revised funding arrangements that arose from the new Intergovernmental Agreement on Federal Financial Relations. These changes are discussed later in this chapter.

The Power and Water Corporation is not included in *Budget Paper No. 3*. It is a government owned corporation (GOC) and is subject to the financial provisions of the *Government Owned Corporations Act*, not the *Financial Management Act*.

For reference, a list of Northern Territory Government Ministers and their respective Ministerial portfolios, as they apply from 5 May 2009, is provided at the end of this overview.

## Financial Management Framework

The Territory's financial management framework is based on outputs and the accrual methodology for budgeting, accounting and reporting, with performance management as a central tenet. The use of an accrual output-based framework ensures the Territory's financial management systems are contemporary and consistent with the frameworks of other jurisdictions across Australia.

## Agencies – Outputs and Performance Measures

Although the framework provides a uniform approach for the 2009-10 Budget, concepts continue to evolve and be implemented by agencies. Agencies have reviewed both output structures and performance measures and made modifications where appropriate to align these with changes in functions and activities as a result of some administrative rearrangements during 2008-09. The main change was the transfer of functions of the former Department of Business, Economic and Regional Development to the Department of the Chief Minister, and the newly formed Departments of Business and Employment and of Regional Development, Primary Industry, Fisheries and Resources. In addition, the public housing elements of Territory Housing have been consolidated with the Department of Local Government and Housing, with the government business division being responsible for home purchase assistance. For all those agencies where changes have been made, the 2008-09 estimates have been backcast to 1 July 2008 to enable comparisons with the 2009-10 Budget.

For each agency output, performance measures are recorded in the categories of:

- quantity – relates to the number or amount of services provided and is generally a volume measurement, except for policy and advisory services where the overall capacity to provide the service is more meaningful;
- quality – relates to the calibre of an output and generally reflects service standards based on client need; and
- timeliness – relates to the time taken to produce the output and provides an indication of the service or processing speed and efficiency.

Performance estimates are specified for each measure in *Budget Paper No. 3*. During the year, actual performance is measured and assessed against the specified estimates by agencies. Agency annual reports will record actual performance against estimates published in *Budget Paper No. 3* and will provide explanations of significant variations.

## Government Businesses – Business Lines and Performance

Although GBDs are expected to operate on a commercial basis, they remain subject to the financial framework and accountabilities contained in the *Financial Management Act*, with the chief executive officer of a GBD accountable to the responsible Minister for financial performance.

Commercial practices that have been implemented for GBDs are:

- the requirement to fully attribute costs and to be subject to similar government taxes (including tax equivalents), fees and charges as privately owned businesses;
- adoption of efficient pricing methods which account for costs;
- identification and budget funding of community service obligation payments to compensate GBDs for undertaking non-commercial activities at the direction of Government; and
- performance monitoring.

GBDs are required, where appropriate, to disaggregate income and expense information by business line. An operating surplus/deficit before income tax is also provided by business line.

A statement is provided concerning the GBDs' expected performance in the Budget year, relative to the current year, along with performance measures for each business line. As with agencies, GBDs will report on actual outcomes against their business lines and performance measures in their annual reports.

Government owned business activities are required to comply with competitive neutrality principles to ensure that privately owned businesses can compete effectively and to minimise any commercial advantages accruing as a result of Government ownership.

The Territory Government has established a formal mechanism to allow private sector businesses to make competitive neutrality complaints against GBDs. Northern Territory Treasury is responsible for managing competitive neutrality complaints. If a complaint is upheld, appropriate action to ensure

compliance with competitive neutrality principles is determined on a case-by-case basis.

In an administrative rearrangement effective from 1 July 2008, Territory Housing changed from being a government business division (GBD) to being part of the Department of Local Government and Housing. The home ownership business line of the former Territory Housing is now the GBD NT Home Ownership.

## Accruals

Under an accrual framework, income (revenue and gains) and expenses are recorded in the period in which they occur, even though no cash may have been received or paid. Accrual accounting includes transactions where no cash is exchanged, such as transactions involving the creation of obligations to pay or rights to receive cash in the future. Accrual accounting also records transactions relating to the cost of using assets in the production of outputs, which is known as depreciation expense and is a non-cash cost.

## Appropriation Arrangements

Appropriation is provided to fund agencies and this is their main income and cash source. Prior to this Budget there were two types of appropriation for agencies – output appropriation and capital appropriation. In the 2009-10 Budget a new appropriation has been added, being Commonwealth appropriation. This is the result of the Intergovernmental Agreement on Federal Financial Relations agreed by the Council of Australian Governments in late 2008 and effective from 1 January 2009.

All three appropriation types are designated in the *Appropriation Act* as 'Purposes' as they reflect a purpose for providing funds, and are shown separately on financial statements.

## Intergovernmental Agreement on Federal Financial Relations

The Intergovernmental Agreement (IGA) on Federal Financial Relations provides an overarching framework for the Commonwealth's financial relations with the states and territories (the states). It aims to improve the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the states and providing them with increased flexibility in the way they deliver services. It provides a clearer specification of roles and responsibilities of each level of government and standardised and more transparent performance reporting, with a focus on the achievement of outcomes, efficient service delivery and timely public reporting.

The IGA is supported by new National Agreements – National Healthcare Agreement, National Education Agreement, National Agreement for Skills and Workforce Development, National Disability Agreement, National Affordable Housing Agreement and the National Indigenous Reform Agreement – against which the states receive payments for five Specific Purpose Payments (SPPs) to be spent in the key service delivery sectors of healthcare, schools, skills and workforce development, disability services and affordable housing. These five SPPs replace more than 90 that were previously in place.

The IGA also introduces a new form of payment, the National Partnership (NP) payment, to support the delivery of specified outputs or projects, to facilitate

reforms or to reward those states that deliver on nationally significant reforms or achieve service delivery improvements.

Only Commonwealth own-purpose expenses (COPEs), which are direct financial transfers from the Commonwealth to state and territory agencies, remain outside the purview of the IGA. However COPEs may form part of National Agreements or National Partnerships where they contribute to mutually agreed objectives.

Under the IGA, SPP and NP payments are made by the Commonwealth Treasury to state treasuries, in a manner similar to arrangements for GST payments. In the Northern Territory these payments are now received by Treasury on behalf of the Central Holding Authority (CHA) and then on-passed to relevant agencies as Commonwealth appropriation.

The new IGA payment arrangements commenced from 1 January 2009, with transition provisions supporting a mix of approaches during the first six months of 2009. Consequently, the 2008-09 estimate for the Commonwealth appropriation received by agencies represents, at most, six months of Commonwealth funding, with any other Commonwealth funding for 2008-09 being identified as grant revenue.

## Changes to the *Financial Management Act*

The *Financial Management Act* (FMA) has been amended in order to accommodate the new payment arrangements from 1 January 2009. The *Appropriation (Additional to 2008-2009) Bill* is also being introduced to facilitate the transition to the new arrangements, and provides the legislative authority to on-pass the Commonwealth revenue received through the CHA by way of Commonwealth appropriation to the relevant agencies.

The amendments followed from the requirement to increase the appropriation to agencies from the CHA as a result of the new payment arrangements. Under these arrangements the CHA receives the SPP and NP payments and on-passes them to agencies as Commonwealth appropriation, whereas previously such payments would have been made directly to agencies. While the FMA does have a provision to increase appropriation through the financial year by up to 5 per cent of total appropriations, the different nature and magnitude of the new appropriation suggested an alternative approach. The definition of Purpose in the FMA was amended to explicitly include a new Purpose representing the new Commonwealth appropriation. In addition, the amendments allow Commonwealth appropriation to be excluded in the calculation of total appropriation when applying the 5 per cent rule, thus distinguishing future increases in Commonwealth appropriation from increases in other appropriations. A new provision has been introduced in the FMA to authorise the Treasurer to vary Commonwealth appropriation in accordance with changes in Commonwealth funding.

## 2008-09 Estimate

The estimates information presented in this Budget Paper for the 2008-09 year reflects the approved revised 2008-09 Budget. This is determined from the original 2008-09 Budget, as tabled in May 2008, adjusted for the Government's new policy decisions and responses to demand changes that have occurred during the year. The budget variations are approved in

accordance with the requirements of the *Financial Management Act*, with formal variation instruments then tabled in the Territory Parliament.

## 2009-10 Budget

The 2009-10 Budget has been developed from the forward estimates model, with inflator and deflator factors applied and additional funding incorporated for initiatives approved in the budget development process.

Specifically in relation to the 2009-10 Budget, the parameters applied are:

- CPI – 4 per cent, being Darwin CPI growth in 2008;
- wages – 3 per cent; and
- efficiency dividend – 3 per cent for most agencies, with exceptions for agencies with high fixed staff costs, which have a dividend of 0.75 per cent applied. These agencies include the Department of Health and Families, the Department of Education and Training, Northern Territory Police, Fire and Emergency Services and the Correctional Services component of the Department of Justice. A 2 per cent dividend has been applied to small agencies with less than 30 staff.

## Agency Budget Presentation

Agencies and government business divisions are presented in the order set out in the Administrative Arrangements Order to apply from 1 July 2009, with the following information provided for each.

## Expenses and Appropriation Summary

This summary table depicts expenses for each output group (or business line for government business divisions) that equate to total expenses as recorded in the Operating Statement. Output appropriation, capital appropriation and appropriation of Commonwealth revenue, as specified in the *2009-10 Appropriation Act*, are also identified as well as the number of full-time equivalent staff in 2009-10.

## Agency Profile

A narrative description of the agency's key functional responsibilities and major emerging or strategic management issues for 2009-10 is provided.

## Budget Highlights

The Budget Highlights sub-section provides a snapshot of the significant policy initiatives, main features of the agency's budget and important capital projects funded in the Budget. The focus is on identifying important resource issues relating to the agency's key functional responsibilities and strategic issues, as well as recording additional funding for initiatives in 2009-10.

## Outputs, Business Lines and Performance

For agencies, this sub-section begins with a table showing output costs that reconcile to the output group and total expense figures in the summary table. An explanation of the key variations in output costs between 2008-09 and 2009-10 follows the table, broadly in output order.

For government business divisions, this sub-section describes financial performance linked to the summary table and focuses on key variations between the years.

Detailed information on each output is then provided in the form of output statements (business line statements for government business divisions). These statements describe all output groups, related outcomes and outputs within the output group. Performance measures are listed for every output, with estimates identified for each measure. For comparative purposes, where available, performance estimates for the 2008-09 year are provided.

To enable meaningful comparisons where measures have changed, agencies and business divisions have recast performance measures and estimates to be on a basis consistent with information presented for 2009-10. Where measures have been modified and 2008-09 data is not available, no estimate is reported.

## Financial Statements

A set of financial statements – Operating Statement, Balance Sheet and Cash Flow Statement – is presented on an accrual basis for each agency and government business division for both 2008-09 and 2009-10.

**Operating Statement** – presents an agency's expenses, revenues, gains and net result. It excludes expenditure and receipts of a capital nature, as these only impact the Balance Sheet and Cash Flow Statement. With appropriation covering only cash costs, most agencies will show a deficit due to their depreciation and amortisation expenses being unfunded. Agencies may also show a surplus or deficit in relation to the transfer of expenditure between years due to the treatment of these timing differences in the Accounting Standards. Therefore, where a receipt is received in one year but not spent until the following financial year, a surplus will be shown in the first year and a deficit in the second. This surplus or deficit is either offset or increased by the depreciation expense.

**Balance Sheet** – presents an agency's expected assets and liabilities and records the net assets, or equity, of the agency at the end of the year. Deficits (as recorded in the Operating Statement) will reduce the equity position over time, while surplus results will increase equity.

**Cash Flow Statement** – presents the movement of cash into and out of an agency during the financial year. The statement also reconciles to the agency's cash account at the end of the year, which is reported in the Balance Sheet.

## Community Service Obligations

The Community Service Obligations (CSO) section of the Budget paper details the CSO payments made to GBDs or GOCs. These payments reflect activities undertaken by GBDs and GOCs to enable the Territory Government to achieve identifiable community or social objectives, not otherwise achievable if left to economic or market forces.

The requirement for CSOs is reviewed on an annual basis.

## Revenue

The Revenue section of this Budget paper provides a detailed breakdown of the revenue for Northern Territory Government agencies, business divisions and the Central Holding Authority (CHA). Each revenue category is described and key variations summarised.

Revenue is also reported in *Budget Paper No. 2* where the whole of government financial performance is presented. Unlike the presentation in *Budget Paper No. 3* which provides total revenue by entity, the *Budget Paper No. 2* presentation consolidates transactions between Territory Government entities. As an example of the impact of the different presentation, all agencies pay payroll tax to the CHA and this would be reported as CHA income in *Budget Paper No. 3*, but the payment by agencies and receipt by the CHA would offset each other in the *Budget Paper No. 2* presentation.

All estimates for revenue from the Commonwealth reflect best estimates as at the time of publication. With the Commonwealth Budget to be tabled after the Territory Budget, any new or changed payments subsequently announced will be incorporated as part of the 2009-10 Mid-Year Report. Details of Commonwealth revenue provided to the Territory are recorded in the Revenue section of this Budget Paper with a comprehensive discussion on the main Commonwealth revenue sources provided in *Budget Paper No. 2*.

## Ministerial Portfolios

### The Hon. P. R. Henderson, MLA

Chief Minister

Minister for Police, Fire and Emergency Services

Minister for Major Projects, Employment and Economic Development

Minister for Education and Training

Minister for Climate Change

Minister for Territory-Federal Relations

Minister for Multicultural Affairs

### The Hon. D. P. Lawrie, MLA

Treasurer

Minister for Justice and Attorney-General

Minister for Planning and Lands

Minister for Infrastructure

### Dr C. B. Burns, MLA

Minister for Business

Minister for Tourism

Minister for Trade

Minister for Asian Relations

Minister for Defence Support

### The Hon. K. Vatskalis, MLA

Minister for Health

Minister for Primary Industry, Fisheries and Resources

Minister for Racing, Gaming and Licensing

Minister for Alcohol Policy

### The Hon. D. R. Knight, MLA

Minister for Housing

Minister for Local Government

Minister for Essential Services

Minister for Public Employment

## **The Hon. M. B. A. McCarthy, MLA**

Minister for Children and Families  
Minister for Child Protection  
Minister for Statehood  
Minister for Senior Territorians  
Minister for Young Territorians  
Minister for Women's Policy  
Minister assisting the Chief Minister on Multicultural Affairs and Education

## **The Hon. A. Anderson, MLA**

Minister for Natural Resources, Environment and Heritage  
Minister for Parks and Wildlife  
Minister for Arts and Museums  
Minister for Indigenous Policy

## **Mr K. R. Hampton, MLA**

Minister for Regional Development  
Minister for Sport and Recreation  
Minister for Information, Communications and Technology Policy  
Minister assisting the Chief Minister on Major Projects and Economic Development  
Minister for Central Australia

## **The Hon. G. F. McCarthy, MLA**

Minister for Transport  
Minister for Correctional Services