No. 144

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION

Mr Higgins to the Minister for Infrastructure, Planning and Logistics:

Annual Report – Land Development Corporation 2016

1. **Community service obligations have decreased from $7.96m in FY 15-16 to approximately $3m in FY 16-17, why is this so?**

The Land Development Corporation's (the Corporation) activities are not normally funded by Community Service Obligations (CSO) payments but rather by returns on commercial undertakings. The Corporation receives CSO funding to enable it to undertake non-commercial activities which it would not otherwise undertake. Therefore it is normal for a considerable degree of variability in CSO funding from year to year.

In 2015-16, the Corporation received CSO funding of $1.9M from the Department of Infrastructure, Planning and Logistics (DIPL) for projects, comprising $250,000 for the Tiwi Islands project, $1.35M for the Marine Industry Park project and $300,000 for Katherine Business Park project. The Corporation also received one-off CSO funding of $6.060M as compensation for providing a block of that value located at East Arm as part of the Kenbi land claim settlement.

In 2016-17, the Corporation received CSO funding of $3.005M comprising $2.090M for the Tiwi Islands project and $915,000 for the Marine Industry Park project.

2. **(a) Please provide detail on how assets are depreciated?**

The Corporation's assets are depreciated using the 'straight line' method (i.e. cost divided by useful life (years) then divided by 12 (months) for monthly depreciation amount).

(b) Please list the assumptions underpinning these calculations, and how were these assumptions arrived at?

The assumption underpinning the straight line depreciation method is that the assets usefulness declines evenly over its useful life.

The straight line method is consistent with Treasurer Directions A2.3.11 and has been mandated for all Northern Territory Government agencies as it provides consistency from a whole of government reporting perspective. It is also simple to use, well understood and widely adopted in both the public and private sectors.

3. **To quote the Annual Report:**
'*Derivative financial arrangements are also utilised to manage financial risks inherent in the management of these financial instruments. These arrangements include swaps, forward interstate agreements and other hedging instruments to manage fluctuations in interest or exchange rates'*.

(a) Please provide further information in relation to these instruments.

All of the Corporation's borrowings are from the Northern Territory Treasury Corporation (the NTTC) through fixed interest loans in accordance with the requirements of the *Land Development Corporation Act*.

Under the *Northern Territory Treasury Corporation Act*, the NTTC is able to enter into derivative financial arrangements such as swaps, options and forward rate agreements. However, the NTTC has not entered into these arrangements on behalf of their counterparties including the Corporation.

(b) How do these fit into the risk management strategy of the LDC?

The NTTC lends money to the Corporation in the form of fixed interest loans. The NTTC provides assistance to the Corporation in managing interest rate risk by highlighting gaps in the maturity profile of the Corporation's borrowings or large disproportionate exposures.

Therefore the Corporation faces minimal risk associated with interest rate fluctuations and has no exposure to the use of derivate financial arrangements as they are not currently used by the NTTC and even if they were the NTTC would bear this risk.

(c) Are they appropriate instruments for a publically funded organisation?

The use of these instruments is a matter for the NTTC.