Department of Treasury and Finance

Pre-Election Fiscal Outlook Report

18 August 2016

NORTHERN TERRITORY GOVERNMENT

August 2016

2016 Pre-Election Fiscal Outlook Report

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

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August 2016

Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in this Pre-Election Fiscal Outlook Report are based on Government decisions and other information relevant to financial projections available as at 15 August 2016. The projections are presented in accordance with the Uniform Presentation Framework.

Jodie Ryan

Jodie Ryan

Under Treasurer

17 August 2016

Treasurer's Advice

Chapter 1

Overview

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

The PEFO is required to include the same information disclosures as those for other financial reports and is based on the same external reporting standard, the Uniform Presentation Framework.

An additional requirement in the preparation of the PEFO is advice from the Treasurer as to whether the Government has entered into any commitments that could have material fiscal or economic consequences for the Territory that the Under Treasurer could not reasonably be expected to know about. The Treasurer's advice in this regard is included at the beginning of the PEFO and advises that there are no additional commitments.

The PEFO includes all policy and non-policy changes since the 2016-17 Budget was released on 24 May 2016 and provides an update of the consolidated financial information included in Budget Paper No. 2. A preliminary unaudited outcome for 2015-16 is also included, along with an assessment against the fiscal strategy, a statement of risks and discussion on the Territory's contingent liabilities.

In preparing the PEFO, consideration has also been given to new economic data that has been released since the 2016-17 Budget. Where there is updated data or commentary on other aspects of the 2016-17 Budget, as set out in Budget Paper No. 2, this has also been included.

Fiscal Outlook

Given the time elapsed since the 24 May Budget, there have been limited changes to the estimates, beyond the inclusion of the preliminary outcome for 2015-16, the carryover of expenditure from 2015-16 and any Cabinet decisions taken since the May 2016 Budget.

Although not resulting in a change to the forward estimates, since the Budget was handed down, Moody's Investors Services (Moody's) announced that the Territory's credit rating had been downgraded from Aa1 with a negative outlook, to Aa2 with a stable outlook. The downgrade was the result of weakening revenue projections, larger deficits, the expectation that demand pressures would make the low expense growth projections difficult to achieve and the continuing weakness in the Power and Water Corporation's financial performance. The effect of the downgrade is discussed in more detail in Chapter 2 of this PEFO.

Changes in estimated outcomes and financial risks to the estimates since the May 2016 Budget have been influenced by the following key factors:

- the 2015-16 preliminary outcome and the flow-on effect of timing differences to 2016-17 and the forward years, largely associated with Commonwealth-related funding;
- the announcement of the Royal Commission into the Child Protection and Youth Detention Systems of the Northern Territory;
- policy decisions since the 2016-17 Budget; and
- a one-off increase in mining royalties in 2016-17.

Table 1.1 highlights the key fiscal aggregates presented in the PEFO for the general government sector and the non financial public sector.

Table 1.1: Key Fiscal Indicators and Aggregates

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
Net operating balance - GGS	232	5	- 34	- 87	23
Fiscal balance - NFPS	**- 93**	**- 876**	**- 431**	**- 154**	**1**
Net debt - NFPS	1 847	2 665	3 023	3 118	3 094
Net debt to revenue - NFPS (%)	28	41	47	48	46

GGS: general government sector; NFPS: non financial public sector
Source: Department of Treasury and Finance

As highlighted in Table 1.1 the revised fiscal aggregates presented in the PEFO are:

- a general government operating surplus of $232 million in 2015-16 and a small $5 million surplus in 2016-17, with operating deficits continuing to be forecast in 2017-18 and 2018-19 before the operating balance returns back to a modest surplus in 2019-20;
- an improved non financial public sector fiscal balance deficit of $93 million in 2015-16. However, fiscal deficits continue to be forecast in 2016-17 through 2018-19 before returning to a balanced position in 2019-20;
- an improved net debt position in 2015-16 at $1.85 billion before increasing to $3.1 billion in 2018-19, largely consistent with May 2016 estimates; and
- a net debt to revenue ratio of 28 per cent for 2015-16, rising to 48 per cent by 2018-19.

Chapter 2 presents the details of the policy and non-policy changes since the May 2016 Budget Papers and discusses material changes in the PEFO estimates compared with the 2016-17 Budget.

Economic Outlook

Limited economic data has been released since the 2016-17 Budget was published. Where data has been released, it continues to support the economic outlook published in the 2016-17 Budget, including the estimate for moderate growth in 2015-16.

The preliminary estimate by the Australian Bureau of Statistics (ABS) of state final demand (SFD) for 2015-16 will not be available until September 2016, with gross state product (GSP) for 2015-16 not available until November 2016. Since the 2016-17 Budget was published the ABS has released revised estimates for the value of construction work done in the Territory over the past few years, resulting in upward revisions to historical data, particularly for engineering construction work done. Therefore the most recent year-to-date growth rates for construction work done has been revised downwards. These revisions are expected to flow through to revised estimates for both SFD and GSP, presenting a potential downside risk to forecasts. However, until the SFD and GSP revisions are released, it is not possible to measure how they will affect the Territory's economic growth forecast over the short term.

The ABS released December quarter 2015 population data in June 2016, indicating that the Territory's estimated resident population increased by 0.3 per cent in 2015, slightly lower than the 0.6 per cent estimated in the 2016-17 Budget. Similarly, the ABS also released June quarter 2016 labour force data in July 2016, indicating that employment in the Territory grew by 1.3 per cent in 2015-16, slightly lower than the 1.5 per cent estimated in the 2016-17 Budget. The average annual unemployment rate was 4.2 per cent, slightly below the 4.6 per cent estimate. In July 2016, the ABS also released June quarter 2016 data for the Darwin consumer price index, which showed that prices in the Territory increased by 0.1 per cent in 2015-16, slightly above the 0.3 per cent decline estimated in the 2016-17 Budget. Wage price index data for the June quarter 2016 was released in August 2016 and was consistent with the 2016-17 Budget estimate of 2.2 per cent growth for 2015-16. Given the actual results received to date have been only marginally different to the estimates, the associated forecasts for 2016-17 onwards remain unchanged from those published in the 2016-17 Budget.

Table 1.2 shows the updated key economic indicators to account for actuals released since the 2016-17 Budget.

Table 1.2: Territory Key Economic Indicators (%)

	2014-15a	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f
Gross state product[1]	10.5	2.1[e]	1.5	5.0	4.1	3.8
State final demand[1]	8.3	- 5.4[e]	- 2.3	- 1.8	3.9	3.7
Population[2]	0.1	0.3	1.0	1.0	1.3	1.5
Employment[3]	- 0.6	1.3	0.3	0.7	0.7	0.8
Unemployment rate[4]	4.2	4.2	4.4	4.4	4.7	4.7
Darwin consumer price index[3]	1.4	0.1	0.7	1.6	2.1	2.6
Wage price index[3]	2.6	2.2	1.9	2.3	2.5	2.7

a: actual e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, 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

A discussion on the economic outlook is presented in Chapter 4 of this report.

Chapter 2

Fiscal Outlook

Overview

As required by the FITA, this chapter presents:

- an assessment of the preliminary outcome for 2015-16;
- updated financial estimates for 2016-17 and the three forward estimate years to 2019-20; and
- the policy and non-policy changes since the 2016 Budget.

The updated financial projections have been largely influenced by the revised timing of expenditure across years and policy decisions taken since the 2016-17 Budget. These are discussed below while all of the policy and non-policy changes that have occurred since the 2016-17 Budget are summarised in Table 2.4.

Policy Changes

Table 2.1 highlights the effect on the fiscal balance of policy variations since May 2016.

Table 2.1 Effect on Fiscal Balance – Policy Changes since May 2016

	2016-17	2017-18	2018-19	2019-20
	Budget	Forward Estimate		
	$M	$M	$M	$M
Policy changes				
Costs associated with the Royal Commission	7.0			
Remote services programs	30.1			
Darwin Squash Centre expansion	4.5			
Weather event in Alice Springs	2.2			
AFL games in the Northern Territory	1.1	2.1		
2017 Rugby League World Cup quarter final	1.5			
Support for the gas industry	0.8	0.8	0.8	
Additional leased accommodation	0.1	0.1	0.1	0.1
Additional expenditure	**47.3**	**3.0**	**0.9**	**0.1**

Source: Department of Treasury and Finance

The funding decisions taken since the May 2016 Budget are listed in Table 2.1, with the majority of the effect of these decisions being on the 2016-17 outcomes. One of these decisions is additional funding of $7 million to meet the cost of establishing a number of dedicated teams to support the work that will be required as a result of the Royal Commission into the Child Protection and Youth Detention Systems of the Northern Territory, announced by the Prime Minister on 26 July 2016.

Although not yet included in the Budget, the Chief Minister has committed to contributing up to 50 per cent of the Commonwealth's total cost of conducting the Royal Commission. The cost of the commitment is not yet included in the estimates as it has not been finalised, however early indications are that the total cost could be around $50 million. There will also be costs arising as a result of the outcome of the Royal Commission, which is expected to make recommendations about legal, cultural, administrative and management reforms to ensure there is appropriate treatment of children and young persons in detention. The Royal Commission has been asked to report back by 31 March 2017.

The costs of implementing any recommendations arising from the Royal Commission are likely to be substantial, however, they are unquantifiable at the time of publishing the PEFO and as such are not included in the revised fiscal projections. To the extent that the Territory's contribution to conducting the review, together with costs associated with any remedial action, exceeds the capacity set aside for new policy decisions of government explained later in this chapter, the costs will affect the revised projections contained in this PEFO.

Another significant policy decision affecting the 2016-17 outcome is the additional expenditure commitment of $30 million for remote essential services projects. As highlighted in the 2015-16 Mid-Year Report, the Territory received an up-front payment of $154 million from the Commonwealth in 2015-16, being eight years of funding for the delivery of municipal and essential services (MES) under the former National Partnership Agreement on Stronger Futures in the Northern Territory. While the up-front payment improved the 2015-16 operating and fiscal balances, these funds were in lieu of around $20 million in annual revenue through to 2022-23 that remain budgeted to be spent in all forward years. Accordingly, the decision to re-invest an additional portion of the up-front proceeds of the MES funding into one-off projects, as well as maintaining the $20 million ongoing recurrent expenditure, is a cost to the Budget and contributes to the worsening of the 2016-17 fiscal balance.

Other policy changes affecting 2016-17 are increased funding of $4.5 million to expand the Darwin Squash Centre and $2.2 million to repair the damage to government infrastructure from the June 2016 hail storm in Alice Springs.

There is also $3.1 million over two years to continue to support AFL games and $1.5 million to host the 2017 Rugby League World Cup quarter final being played in the Territory. A further $2.5 million over three years has been approved for the Department of Mines and Energy, $2 million of which is to be provided to the Gas Industry Social and Environment Research Alliance to establish a Northern Territory Regional Research Alliance Agreement between various energy companies and the Commonwealth Scientific and Industrial Research Organisation to enable research into gas development issues in the Beetaloo sub-basin and Amadeus basin.

Timing Changes

In addition to the policy changes described above, the 2016-17 Budget and forward estimates have been affected by a number of timing differences, largely related to tied funding for Commonwealth programs and one-off Cabinet decisions for 2015-16 that were not finalised. The timing relates to both operational and capital spending and will affect the fiscal outcomes in 2016-17 and 2017-18.

Funding totalling $77.3 million has been carried over from 2015-16, with $60.8 million affecting 2016-17 and $16.5 million affecting 2017-18. The carryover includes:

- $32.3 million relating to Commonwealth and external funding for capital and operational purposes to be utilised in 2016-17;
- $28.5 million for one-off Cabinet decisions, not finalised in 2015-16, to be utilised in 2016-17; and
- $16.5 million for Commonwealth and external funding to be utilised in 2017-18.

Further details on these variations are provided later in this chapter.

General Government Sector Net Operating Balance

Table 2.2 highlights the movements in the general government operating balance and compares the updated projections with those published at the time of the May 2016-17 Budget. The updated projections incorporate the key variations described above.

Table 2.2: General Government Sector - Net Operating Balance

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
2016-17 Budget	242	70	- 19	- 56	23
2016 PEFO	**232**	**5**	**- 34**	**- 87**	**23**
Variation from Budget	- 10	- 65	- 15	- 31	0

Source: Department of Treasury and Finance

As shown in Table 2.2, the unaudited general government operating surplus for 2015-16 is estimated to be $232 million compared to the $242 million surplus projected at the time of the May 2016 Budget.

The $10 million worsening since the 2016 May Budget is due to:

- a net decrease in revenue of $32 million reflecting lower than anticipated receipts from GST revenue, tax and dividends, and tied Commonwealth funding, largely offset by:
- a net decrease in total operating expenses of $21.9 million due to:
  - $77.3 million carry forward of expenditure from 2015-16 into 2016-17 and 2017-18 described above, partially offset by:
  - $55.6 million in increased employee expenses in the health sector combined with an increase in grants and subsidies across agencies.

The carry forward of expenditure and new policy decisions account for the lower operating balance surplus projected for 2016-17, with the effect reduced to some extent by a higher estimate of mining royalties for 2016-17, as advised by royalty payers. There have also been some non-policy changes to expenditure in 2017-18 and 2018-19, resulting in a deterioration in the operating balance deficits in those years. However the operating balance surplus for 2019-20 remains unchanged from that projected at the time of the 2016 May Budget.

Non Financial Public Sector Fiscal Balance

The general government sector excludes public non financial corporations, such as the Power and Water Corporation (PWC), Territory Generation and Jacana Energy. Therefore the fiscal balance measure is assessed at the non financial public sector to ensure the financial performance of these entities is reflected in the Territory's fiscal targets and outcomes.

Table 2.3 Non Financial Public Sector – Fiscal Balance

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
2016-17 Budget	- 153	- 794	- 413	- 148	12
2016 PEFO	**- 93**	**- 876**	**- 431**	**- 154**	**1**
Variation from Budget	60	- 82	- 18	- 6	- 11

Source: Department of Treasury and Finance

As shown in Table 2.3, the fiscal balance, which includes net investment in capital spending, is now projected to be a $93 million deficit in 2015-16, an improvement of $60 million when compared to the May 2016 Estimate. The improvement was less than the carryover of expenditure due to the lower than expected revenue results across both the general government and non financial public sectors.

The increased deficits in 2016-17 through to 2018-19 largely incorporate the changes affecting the lower operating results described above, along with some timing differences related to capital spending. A balanced position is projected in 2019-20, a worsening of $11 million when compared to the surplus projected in the May 2016 Budget, due to lower land sales related to revised arrangements for the final stage of the Darwin Waterfront Redevelopment.

Policy and Non-Policy Changes Since the May 2016 Budget

Table 2.4 sets out the key revenue and expense-related variations that contributed to the movements in the 2015-16 and 2016-17 fiscal balance since the May 2016 Budget was delivered.

Table 2.4: Variations to the Non Financial Public Sector's Fiscal Balance since May 2016

	2015-16	2016-17
	$M	$M
2016-17 BUDGET	**- 153.5**	**- 793.8**
REVENUE		
Revenue – non policy		
Taxation	- 2.5	
GST revenue	- 8.4	
Tied Commonwealth revenue	- 16.9	7.2
Mining royalties	- 1.4	21.8
Agency own-source revenue	- 44.5	1.0
Total revenue – non policy	**- 73.7**	**30.0**
TOTAL REVENUE	**- 73.7**	**30.0**
OPERATING EXPENSES		
Expenses – policy		
New initiatives		47.3
Total expenses – policy		**47.3**
Expenses – non policy		
Commonwealth expenses and transfers between years and to capital	- 77.3	48.8
Depreciation	19.0	
Other	- 44.7	- 1.1
Total expenses – non policy	**- 103.0**	**47.7**
TOTAL OPERATING EXPENSES	**- 103.0**	**95.0**
Net capital payments		
Net acquisitions of non financial assets and transfer between years	- 82.6	16.8
Sales	23.2	
Depreciation	- 19.0	
Other	47.6	
Total net capital payments	**- 30.8**	**16.8**
TOTAL EXPENSES	**- 133.8**	**111.8**
TOTAL VARIATION	**60.1**	**- 81.8**
2016 PEFO	**- 93.4**	**- 875.6**

Source: Department of Treasury and Finance

In total, the policy and non-policy changes present a net fiscal balance improvement of $60.1 million in 2015-16 and a worsening of $81.8 million in 2016-17. The key policy and non-policy changes are discussed in further detail below.

Revenue Changes

The non-policy revenue-related variations since the 2016-17 Budget result in a decrease of $73.7 million in 2015-16 and an increase of $30 million in 2016-17. The main changes are:

- a reduction of $8.4 million in GST revenue in 2015-16 related to lower than anticipated national GST revenue collections;
- revised timing of tied Commonwealth funding for various National Partnership (NP) agreements resulting in a reduction of $16.9 million in 2015-16 and an increase of $7.2 million in 2016-17;
- a one-off increase in mining royalties of $21.8 million in 2016-17, based on the latest advice by royalty payers; and
- a $44.5 million reduction in agency own-source revenue in 2015-16 primarily related to lower than anticipated revenue for PWC and Territory Generation.

Expense Changes

Non financial public sector operating expenses are $103 million lower in 2015-16, but $95 million higher in 2016-17, when compared to the 2016-17 Budget.

With regards to policy-related expense variations, new and expanded initiatives total $47.3 million in 2016-17 and include:

- $30.1 million for a range of remote services programs across the Territory. Key initiatives include:
  - $10.7 million for Municipal and Essential Services Jobs, which replaces the former Commonwealth funded NT Jobs program. The Municipal and Essential Services Jobs program offers funding for 137 full-time equivalent positions for Aboriginal employees delivering services across the Territory;
  - $2 million for the increase in contractual arrangements for Ilpeye Ilpeye;
  - $1.4 million additional funding to replace morgues at Kalkarindji, Ngukurr, Numbulwar and Alpurrurulam to be co-located with health centres;
  - $2 million to install a common effluent drain system to address septic overflow issues at Weemol;
  - $1.4 million for plant and equipment for use across more than 100 homelands;
  - $2.6 million for water security, waste and sewerage projects, including new pumps, bore casings, water tanks, rubbish tips, septic and septic upgrades to more than 50 homelands;
  - $5.4 million for power projects including the installation or upgrade of new solar, generator, fuel or grid connections to around 60 homelands; and
  - $1.4 million for housing upgrades or major structural repairs on more than 50 houses across 12 homelands;
- $1.1 million to support AFL games to be held in the Territory;
- $7 million for Territory Government task forces associated with the Royal Commission into Child Protection and Youth Detention Systems in the Territory;
- $4.5 million to support the expansion of facilities at the Darwin Squash Centre; and
- $2.2 million in additional repairs and maintenance funding to address damage caused by the June 2016 hail storms in Alice Springs.

The non-policy expense variations are a decrease of $103 million in 2015-16 and an increase of $47.7 million in 2016-17 due to the following:

- Commonwealth payments and transfers between years and to capital resulting in a reduction in expenses of $77.3 million in 2015-16 and an increase in 2016-17 of $48.8 million, with the items carried over into 2016-17 including:
  - $8.6 million for various municipal and essential services projects across remote areas;
  - $8.6 million for the Regional Economic Infrastructure Fund and Improving Strategic Local Roads Infrastructure Program;
  - $7.7 million for various Commonwealth and externally funded programs for VET reform, NP on Northern Territory Remote Aboriginal Investment and Community Benefit Fund grants;
  - $7.2 million for various education programs including: Universal Access to Early Childhood Education; Trade Training Centres; Remote School Attendance; and Global School Budgets;
  - $5.8 million related to the NP on Northern Territory Remote Aboriginal Investment targeted at community safety programs;
  - $3.5 million for sporting programs funded through the Boosting our Economy package;
  - $2 million for Health's Core Clinical Systems; and
  - $5.9 million for various Commonwealth and Territory-funded programs across agencies;
- a $44.7 million reduction in 2015-16 in other expenses due predominantly to PWC's lower expenses in line with lower revenues, offset by:
- a $19 million increase in 2015-16 in depreciation expenses.

Net Capital Payments Changes

There have also been variations to net capital spending resulting in a reduction of $30.8 million in 2015-16 and an increase of $16.8 million in 2016-17. The lower payments in 2015-16 reflect lower than anticipated infrastructure expenditure offset by lower land sales and an increase in inventories and gifted essential service assets to PWC. Unspent remote Indigenous housing property and tenancy management funding from 2015-16 has been carried into 2016-17 and redirected to capital activities, which largely accounts for the increase in capital payments in 2016-17.

2016-17 Budget and 2017-18 to 2019-20 Forward Estimates

Basis of Forward Estimates

In accordance with the FITA, five years of estimates are maintained and used by Government, both as a policy and an operational tool. The Budget and forward estimates provides the framework within which agencies plan and Government's fiscal strategy is developed.

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

The basis of the parameters used, including the allocation of a contingency allowance, remains unchanged from the May 2016 Budget. The main parameters used to adjust forward estimates are:

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

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

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

- Commonwealth-funded programs with expenditure based on agreed timing known at the time financial publications are released. These are subject to possible future timing variations as infrastructure plans are more fully developed;
- continuation over the forward estimates of those ongoing Territory-funded infrastructure programs at usual program levels (for example, Territory roads and minor new works programs); and
- capacity of $300 million in total over the forward estimate period to support new or increased infrastructure projects.

The following sections provide an analysis of the key changes in revenue and expenses/payments, over the Budget and forward estimates that have occurred since the May 2016 Budget.

Operating Revenue

Table 2.5 presents the updated revenue projections for the non financial public sector by component for 2016-17 onwards.

Table 2.5: Non Financial Public Sector – Revenue

	2016-17	2017-18	2018-19	2019-20
	Budget	Forward Estimate		
	$M	$M	$M	$M
2016 PEFO				
Revenue				
Taxation revenue	577	596	612	629
GST revenue	3 263	3 306	3 474	3 698
Current grants	982	961	871	904
Capital grants	385	204	42	21
Sales of goods and services	1 045	1 112	1 166	1 210
Interest income	88	90	92	94
Dividend and income tax equivalent income	12	10	7	7
Mining royalties income	153	132	132	132
Other	72	68	71	74
Total revenue	**6 577**	**6 478**	**6 467**	**6 769**
Year-on-year percentage increase (%)	- 2.0	- 1.5	- 0.2	4.7
2016-17 Budget	**6 547**	**6 477**	**6 466**	**6 768**
Variation from Budget	30	1	1	1

Source: Department of Treasury and Finance

Total operating revenue is projected to increase by an average of 1 per cent over the forward estimates period, slightly lower than the 1.1 per cent projected in May 2016, due to the one-off $21.8 million increase in the 2016-17 mining royalty estimate.

The $30 million increase in 2016-17 largely relates to the increase in mining royalties and the revised timing of Commonwealth-tied funds. Total revenue from 2017-18 to 2019-20 is generally consistent with that published in the May 2016 Budget.

The most significant component of the Territory's own-source revenue is taxation revenue, which is expected to grow by an average of 2.9 per cent per annum over the forward estimates, unchanged from the May 2016 Budget.

Apart from some timing differences in 2015-16 and 2016-17, the estimates of tied Commonwealth funding are largely unchanged from the May 2016 Budget. The estimates reflect the fact that most agreements are for fixed periods and are not included in the forward estimates until they are renegotiated. Therefore, the Budget and forward estimates do not include the revenue, or associated expenditure, announced by the Commonwealth Government in the lead up to the Federal election. Once formal agreements are signed the budget will be updated accordingly. However, the inclusion of these tied Commonwealth funding agreements tend not to affect the fiscal outcomes over time as increases in revenue are generally matched by increases in expenditure, although timing differences may occur between years.

The forecast growth of GST collections for 2016-17 and forward years has not been revised since the Territory's 2016-17 Budget, as the parameters used to estimate the Territory's GST revenue remain unchanged. All other categories of revenue remain unchanged over the forward estimates period.

Operating Expenses/Payments

Table 2.6 sets out the revised expense and payment projections for 2016-17 and the forward estimates.

Table 2.6: Non Financial Public Sector – Expenditure

	2016-17	2017-18	2018-19	2019-20
	Budget	Forward Estimate		
	$M	$M	$M	$M
2016 PEFO				
Expenses				
Employee expenses	2 279	2 321	2 354	2 425
Superannuation expenses	351	348	349	351
Depreciation and amortisation	521	530	532	537
Other operating expenses	1 973	2 013	2 073	2 107
Interest expenses	276	284	295	302
Current grants	883	842	811	862
Capital grants	140	32	7	13
Subsidies and personal benefit payments	133	138	142	144
Total operating expenses	**6 556**	**6 508**	**6 563**	**6 741**
Year-on-year percentage increase (%)	2.5	- 0.7	0.8	2.7
Add:				
Net capital payments	1 392	906	565	538
Total expenses/payments	**7 948**	**7 414**	**7 128**	**7 279**
2016-17 Budget	**7 837**	**7 396**	**7 121**	**7 267**
Variation from Budget	111	18	7	12

Source: Department of Treasury and Finance

Total operating expenditure is projected to increase by an average of 0.9 per cent over the forward estimates period, slightly lower than the 1.4 per cent growth estimated in May 2016. This is due to the higher base in 2016-17 as a result of the inclusion of the carryover of expenditure from 2015-16 and the one-off policy decisions mentioned earlier in this chapter.

Variations to payments since the 2016-17 Budget largely affect 2016-17, with the changes in the forward estimates being the result of some minor policy and non-policy changes, revised timing of expenditure and the transfer of payments from capital to operating.

Included in operating expenditure estimates are the usual inflators and deflators as described earlier in this chapter. Also included is a contingency reserve of around 1 per cent of operating expenses in all forward estimate years, which is consistent with that used in the 2016-17 Budget. The reserve allows for a level of unforeseen changes to revenue and expenses to be managed within existing projections, as well as incorporating $30 million ongoing per annum to support new and expanded recurrent initiatives in the forward years. In order to achieve projected outcomes, any operational expenditure above these amounts would need to be fully offset by additional savings and or increased revenue.

The low expenditure growth over the forward estimates was a factor in Moody's assessment of the Territory's credit rating, noting that demand pressures in health and education may make these low growth projections difficult to achieve. However, key expense components, such as employee expenses and other operating expenses, are projected to grow by an average of 2.1 per cent and 2.3 per cent per annum, respectively. The balance of the expenditure components shown in Table 2.6 are relatively flat or declining over the forward estimates, with a portion of the low expense growth forecasts attributable to the reduction in Commonwealth funding. Regardless, the projected fiscal outcomes will be difficult to achieve if expenditure growth does not remain below revenue growth.

As outlined in the revenue section, in line with normal practice, the forward estimates do not include either the revenue or related expenditure for Commonwealth-funded programs for which the agreements are not yet finalised. Similarly no ongoing funding is incorporated in the forward estimates for any time-limited funding agreements due to cease and for which the continuation of funding has yet to be renegotiated. A significant example of this is the NP Agreement on Remote Housing, which concludes at the end of 2017-18. The services currently delivered under this agreement include property and tenancy management expected to be required to be maintained on an ongoing basis after the completion of the NP. The absence of further funds coming from the Commonwealth would affect the projections contained in this report.

In accordance with the FITA, the PEFO includes forward estimates up to 2019-20. Accordingly there is the potential for fiscal aggregates beyond the forward estimates period to be affected by commitments already made. These could take the form of recurrent costs not expected to crystallise until later in the forward estimates period; recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding; or recurrent costs associated with new capital infrastructure, which are not fully incorporated into forward years as their completion falls either close to or outside of the forward estimates period. For example, on 7 August 2016, the Territory Government announced a select tender process for the provision of office accommodation for the Department of Health. The tender process is not expected to be finalised until October 2017 and therefore timing and costs for the provision of accommodation are unknown at this time and not reflected in the fiscal projections.

With regards to net capital payments, timing variations related to capital investment in infrastructure and revised estimates for sales from land release programs have resulted in revised net capital payments for 2016-17 and the forward estimates.

The forward estimates include, in total, capacity of $300 million to support new or increased infrastructure projects, in addition to the capital projects already approved on the capital and forward works programs.

Key Fiscal Indicators – Balance Sheet

The key measures for the balance sheet are net debt and the resulting net debt to revenue ratio.

As shown in Table 2.7, net debt is marginally lower than projected in all years, when compared to the 2016 May Budget, but is still expected to increase from 2016-17 in line with the revised fiscal balance outcomes projected in the 2016 PEFO. The $124 million improvement in 2015-16 is reflective of the $60 million improvement in the fiscal balance in that year combined with an overall improvement in net financial liabilities. As a result, net debt is now projected to be $1.85 billion in 2015-16, rising to $3.1 billion by 2018-19.

The net debt to revenue measure remains largely unchanged since the 2016 May Budget. The net debt to revenue ratio is expected to peak at 48 per cent in 2018-19 before reducing to 46 per cent in 2019-20, consistent with Budget estimates.

Table 2.7: Non Financial Public Sector – Net Debt and Net Debt to Revenue Ratio

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
Net debt					
2016-17 Budget	1 971	2 707	3 048	3 137	3 101
2016 PEFO	**1 847**	**2 665**	**3 023**	**3 118**	**3 094**
Variation from Budget	- 124	- 42	- 25	- 19	- 7
Net debt to revenue (%)					
2016-17 Budget	29	41	47	49	46
2016 PEFO	**28**	**41**	**47**	**48**	**46**
Variation from Budget	- 1	0	0	- 1	0

Source: Department of Treasury and Finance

Northern Territory Credit Rating

On 3 August 2016, Moody's issued a press release stating it had downgraded the long-term issuer and senior unsecured debt ratings of the Northern Territory Treasury Corporation (NTTC), backed by the Northern Territory Government, from Aa1 to Aa2 and changed the outlook from negative to stable.

The Moody's downgrade was assessed using the most recent available financial and economic information published in the May 2016 Budget and the 2014-15 Treasurer's Annual Financial Report. The ratings downgrade reflects:

- the worsening in fiscal balance outcomes due to lower revenues and Government decisions to increase spending;
- the challenge of achieving the low level of expenditure growth across the forward estimates;
- continued weak financial performance of the PWC; and
- above-average debt burden as a result of the cash deficits and non-self-supporting operations of PWC.

As a result of the downgrade in the Territory's credit rating it is estimated that the Territory's cost of borrowing could increase by up to 20 basis points. At current levels of outstanding debt this has the potential for a financial impact across the next five years of approximately $14 million, as the additional interest cost/risk premium that would be incurred in comparison to retaining the Aa1 credit rating. However recent experience suggests that investors have already factored the downgrade into their pricing offers and this, combined with lower absolute rates following recent market movements, means the forward estimates for borrowing costs have been left unchanged from Budget estimates.

Moody's has identified factors that could lead to a future upgrade in the Territory's credit rating, including a commitment to improving the fiscal position leading to sizeable surpluses, a significant reduction in the Territory's debt burden and improvements to PWC's financial performance.

Moody's has also identified the factors that could lead to a further downgrade, including significant increases in projected deficits as a result of further revenue weakness along with a lack of a strengthening of Government's resolve to bring the budget back to a balanced position over the medium term.

Superannuation Liabilities

While not forming part of net debt calculations, there has been a significant increase in net financial liabilities since the May 2016 Budget. The increase is a direct result of an increase in the valuation of the Territory's superannuation liability related to the use of the 30 June 2016 10-year bond rate to calculate the present value of the liability, as required by accounting standards. The 10-year bond rate at 30 June 2016 was 2 per cent, significantly lower than the 3.5 per cent used in the May 2016 Budget.

The reduction in the bond rate to historically low levels reflects recent global market conditions and increases the liability by around $500 million to $4.2 billion in 2015-16, compared to $3.7 billion at the time of the Budget. The bond rates used for 2016-17 and the forward years have also been adjusted from those used at budget time. As a result, the liability, although still reducing over the forward estimates, is higher than the estimates contained in the May 2016 Budget. The final liability for 2015-16, incorporating complete actuarial advice, will be reported in the 2015-16 Treasurer's Annual Financial Statements.

Chapter 3

Fiscal Strategy Assessment

The FITA requires that the PEFO includes an assessment of the Government's fiscal strategy targets against the updated fiscal projections included in the report.

The Territory's fiscal strategy primary objective was to return the Territory Budget to a fiscal balance by 2017-18. However, at the time of formulating the 2016-17 Budget, the Government took the decision to invest in a range of infrastructure projects and this, combined with in excess of $1 billion in revenue reductions over the budget cycle, resulted in the Government delaying the target of eliminating the fiscal balance deficit by two years to 2019-20.

This chapter provides an assessment of the updated fiscal position against each of the components of the fiscal strategy.

Key Fiscal Indicators

The key indicators against which the Government's adherence to its fiscal policy can be measured and assessed are the:

- non financial public sector's fiscal balance;
- general government sector's net operating balance;
- Territory's taxation effort compared with other jurisdictions;
- rate of return earned on capital employed by government owned corporations; and
- non financial public sector's net debt to revenue ratio.

Key fiscal target: by 2017-18 the fiscal imbalance in the Territory's non financial public sector is to be eliminated

The fiscal balance is an operating statement measure that differs from the net operating balance as it includes spending on capital items but excludes depreciation. A fiscal surplus indicates that a government has sufficient capacity to finance all of its capital spending. A fiscal deficit position indicates that a government's level of capital investment is greater than its level of savings and prolonged deficits will result in a government being required to borrow to fund its capital investment.

As highlighted in the 2014-15 Treasurer's Annual Financial Report, the Government achieved this element three years before its stated target. However, in the May 2016 Budget, as a result of the significant reductions in revenues and a range of policy decisions taken, the Government delayed the return to surplus by two years to 2019-20.

The reductions in GST and own-source revenues totalled $1 billion over the forward estimates, with the total variation to the fiscal balance around $1.4 billion worse than projected in the 2015-16 Budget. The PEFO continues to project fiscal deficits from 2015-16 to 2018-19 before returning to a balanced position in 2019-20 (Table 2.3).

Given that the economic conditions and revenue projections remain unchanged since the May 2016 Budget, the ability to achieve a fiscal surplus in 2019-20 will continue to be challenging for the next term of government.

Associated fiscal outcome: by 2016-17, the Territory's general government sector is achieving a net operating surplus

The net operating balance is measured by the general government sector's total annual revenues less its total annual operating expenses (including annual depreciation, a non-cash expense). A net operating deficit indicates that total annual operating expenses exceed total annual revenues.

Operating surpluses have been achieved since 2013-14, resulting in the Government meeting this element of the strategy three years ahead of the fiscal strategy target. Although an operating surplus is still projected for 2016-17, consistent with the May 2016 Budget, operating deficits are projected for 2017-18 and 2018-19 before a return to surplus in 2019-20 (Table 2.2).

This assessment remains largely unchanged from the May 2016 Budget. To ensure a surplus can be achieved in 2019-20, it will be essential that expenditure growth remains below revenue growth and there continues to be a focus on maintaining service delivery improvements.

Associated fiscal outcome: by 2016-17, taxation effort in the Territory's general government sector is more on par with the average effort of the states

Taxation effort assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below the Australian average of 100 per cent. This measure is a lagging indicator as the Commonwealth Grants Commission (CGC) updates the information annually based on the actual outcome of the previous year. The Territory's taxation effort has improved from 88 per cent in 2013-14 to 104 per cent in 2014-15, the latest year assessed by the CGC, and remains unchanged since the Budget. However, taxation revenues are projected to be lower in 2015-16 and all forward years than in 2014-15 and therefore it is expected the Territory's taxation effort will moderate back to, or below, the average of the states at the next update.

Associated fiscal outcome: by 2016-17, the Territory's government owned corporation is moving towards commercial rates of return on capital employed

Upon the initial implementation of this fiscal measure in the 2013-14 Budget, the Territory had only one government owned corporation, the Power and Water Corporation (PWC). However, as a result of the utilities reform agenda, PWC was separated into three distinct entities, Territory Generation, Jacana Energy and PWC. In order to provide a more accurate assessment against this element of the fiscal strategy, the three entities are consolidated to remove transactions between each other.

The commercial rate of capital employed associated with this target is 6 per cent. In the 2016-17 Budget the government owned corporations average rate of return was projected to be around 4 per cent across the forward estimate period. This estimate remains unchanged for the 2016 PEFO.

Given the recent downgrade in the Territory's credit rating was, in part, due to the continued weak financial performance of PWC, this element of the strategy will continue to require close monitoring.

Associated fiscal outcome: by 2020, the Territory's non financial public sector net debt as a percentage of revenue is returning towards 60 per cent

This element of the fiscal strategy continues to be achieved well before the 2020 stated target. The net debt to revenue ratio for the non financial public sector is projected to be 41 per cent in 2016-17 and, while increasing over the forward estimates to 48 per cent in 2018-19 (Table 2.7), remains well below the 60 per cent target.

Maintaining this element of the fiscal strategy is contingent on all other elements of the strategy being met and further improving over time.

Conclusion

Although the majority of the elements of the fiscal strategy have been met ahead of time, the 2016-17 Budget and this PEFO project a return to a deficit position in the forward estimates, which is inconsistent with the fiscal strategy. A return to surplus is still projected for 2019-20, however this will be difficult to achieve if revenues decline further and expenditure efficiency and saving measures factored into the forward estimates are not achieved.

The commencement of a new term of government and recent changes to fiscal parameters affecting the Territory and its economy would indicate that the development of the 2017-18 Budget would be an appropriate time to review the Territory's fiscal strategy. Notwithstanding, given the influence the government owned corporations have on the Territory's fiscal outcomes, and flow-on affects to the Territory's credit rating, as recently assessed by Moody's, focus on the Territory's fiscal balance at the non financial public sector should be maintained for the medium term.

Chapter 4

Economic Outlook

The 2016-17 Budget included a detailed assessment of the Territory economy and outlined a range of economic forecasts underlying the Budget estimates and forecasts. The data released since the 2016-17 Budget in May broadly supports the forecasts included in the 2016-17 Budget Papers and continues to indicate a slowing in the Territory economy from recent levels of record economic growth (Table 4.1).

Table 4.1: Territory Key Economic Indicators (%)

	2014-15a	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f
Gross state product[1]	10.5	2.1[e]	1.5	5.0	4.1	3.8
State final demand[1]	8.3	- 5.4[e]	- 2.3	- 1.8	3.9	3.7
Population[2]	0.1	0.3	1.0	1.0	1.3	1.5
Employment[3]	- 0.6	1.3	0.3	0.7	0.7	0.8
Unemployment rate[4]	4.2	4.2	4.4	4.4	4.7	4.7
Darwin consumer price index[3]	1.4	0.1	0.7	1.6	2.1	2.6
Wage price index[3]	2.6	2.2	1.9	2.3	2.5	2.7

a: actual e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, 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

Economic conditions in the Territory tend to be highly volatile due to the relatively small size of the Territory's economy and this is often reflected in the available data, which can be subject to significant revisions. The availability, range of sources and volatility of data for the Territory's economy presents an underlying risk to forecasts, particularly in relation to the reporting of capital expenditure for major projects. Some data is confidentialised, making it difficult to report when actual expenditure occurs. There are also difficulties associated with the measurement of interstate trade flows, and other complexities associated with the balancing item of gross state product (GSP), the components of which are not published publicly by the Australian Bureau of Statistics (ABS).

State Final Demand and Gross State Product

GSP is the preferred measure of overall economic activity, especially when comparing against other states and territories, as it is a broad measure of the value added to the Territory economy in each year. It is estimated annually by the ABS, with the 2015-16 result due for release in November 2016.

State final demand (SFD) is a major component of GSP. It comprises private and public consumption and investment. The ABS publish quarterly estimates of SFD and, since the 2016-17 Budget was delivered in May, the ABS has released its 2016 March quarter estimates of SFD, which showed a decline in private investment. The decrease, although slightly larger than anticipated, is in line with the expected return to historical levels of private investment, following the record levels seen over recent years as a result of the significant impact of large, resource-based projects undertaken in the Territory.

The 2016 June quarter SFD estimates are expected to be released by the ABS in early September. It is anticipated that this release will include revisions to historical SFD results for the Territory, mainly affecting estimates of private investment. The potential revisions to SFD are due to revised estimates for the value of construction work done in the Territory over the past few years. This resulted in upward revisions to historical data, particularly for engineering construction work done, with the most recent year-to-date growth rates being revised downwards. This is expected to flow through to revised estimates for both SFD and GSP, presenting a potential downside risk to forecasts. However, until these revisions are released, it is not possible to reliably measure how they will affect the Territory's economic growth forecasts over the short term.

Population

The ABS released December quarter population data in June 2016, showing that the Territory's estimated resident population increased by 0.3 per cent in 2015, up from 0.1 per cent in 2014 and slightly lower than the 0.6 per cent estimated in the 2016-17 Budget. The subdued population growth over 2014 and 2015 resulted from record low levels of net interstate migration and declines in net overseas migration from historically high levels in 2012 and 2013. Results in recent years are likely due to the closure of some mines as a result of a downturn in commodity prices and a moderation in residential building activity.

The forecasts for population growth between 2016 and 2019 remain unchanged from those contained in the 2016-17 Budget. The labour demands of the Ichthys LNG project are expected to determine variations to resident population growth from 2016 to 2018, as the project transitions from a construction workforce to a smaller production and export workforce. As a result, population growth of 1.0 per cent per annum is forecast over 2016 and 2017, before transitioning to 1.5 per cent around 2019, slightly below the long-term average of 1.6 per cent.

Labour Market

In the 2016-17 Budget, resident employment growth for 2015-16 was estimated to increase by 1.5 per cent, from a 0.5 per cent decline in 2013-14. Data subsequently released by the ABS for 2015-16 reported employment growth of 1.3 per cent, largely consistent with the 2016-17 Budget estimate. The unemployment rate was estimated to average 4.6 per cent in 2015-16, with actual data released by the ABS reporting an average of 4.2 per cent in the year, remaining one of the lowest of all jurisdictions.

Employment growth, as forecast in the 2016-17 Budget, is anticipated to remain moderate in the forward years, driven by small-scale construction and strengthening growth in consumption, as the Ichthys LNG project moves into the operational phase. The Territory's unemployment rate is forecast to return to historical trend levels in the medium term.

Consumer Price Index

The 2016-17 Budget forecast the year-on-year Darwin consumer price index (CPI) to moderate to -0.3 per cent in 2015-16. This reflected the impact of declining fuel prices, lower rents and moderation of housing costs. Since the 2016-17 Budget, the ABS released the 2016 June quarter Darwin CPI, which shows inflation was 0.1 per cent for 2015-16. This was relatively consistent with 2016-17 Budget forecasts and confirms the current expectation regarding moderate growth in prices over the forward estimates. As a result, forecasts for the Darwin CPI from 2016-17 remain consistent with those published in the 2016-17 Budget.

Wage Price Index

The release of the June quarter 2016 wage price index by the ABS shows that the Territory's wage price index moderated to 2.2 per cent in 2015-16, consistent with the estimate published in the 2016-17 Budget. This reflects a decline, from 2.6 per cent in the previous year, mainly due to spare capacity in the national labour market as a result of a slowdown in resource-based activity in the overall economy, along with subdued inflation. In the medium term, wage growth in the Territory is expected to remain subdued, in line with national expectations, with a key factor of Territory wage growth being a reduction in labour demand as construction of the Ichthys LNG project is completed and transitions to the operational phase in 2017-18.

Chapter 5

Risks to the Updated Financial and Economic Projections

The FITA requires the PEFO to 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. Many of the risks identified at the time of the May 2016 Budget are largely unchanged and are restated for the 2016 PEFO below. Additional risks or liabilities that have become apparent since the 2016-17 Budget are also identified.

Risks to the Budget

Revenue

GST Revenue

Volatility in GST revenue represents the largest revenue risk for the Northern Territory, with GST revenue accounting for about 50 per cent of the Territory's total revenue. The risk was clearly evident in the context of the development of the 2016-17 Budget where GST revenue was reduced by $145 million in the Budget year and around $750 million over the budget cycle, when compared to previous estimates. These changes in GST revenue estimates have significantly affected the Territory's fiscal capacity in all years.

The Territory's GST entitlement is dependent on three parameters: national GST collections; the Territory's share of the national population; and GST relativities as determined by the Commonwealth Treasurer based on recommendations from the Commonwealth Grants Commission (CGC). The parameters used to inform the May 2016 Budget remain unchanged for the 2016 PEFO.

There are many variables that influence each of these parameters, adding to the complexity of forecasting GST revenue for the Territory over the Budget and forward estimates period. In comparison to the Territory Budget, the Commonwealth has adopted different GST parameter estimates that reflect higher growth in the GST pool, maintaining the Territory's GST relativity at 2016-17 levels and a lower national population share. This reflects the difficulties in accurately estimating GST revenue over the forward estimates. When taken in aggregate, the Territory's GST revenue estimates are more conservative than the Commonwealth's.

The method by which GST is distributed is raised from time to time by the larger states, with the intent generally being a move away from the current approach of providing each state with the capacity to provide the average level of services to one that provides them with a minimum GST share or a per capita-based GST share.

The Prime Minister recently proposed a review of the GST distribution system with the aim of looking to significantly change the system, in order to address Western Australia's long-standing complaint that it is not receiving enough GST revenue. The proposal includes a relativity floor, which would set a minimum share of the GST pool for states whose recommended relativities fall below a given level. This proposal would be a movement away from a horizontal fiscal equalisation-based GST distribution, would have significant financial implications for the Territory and would result in the Territory being unable to deliver services at current standards unless substantial fiscal deficits are maintained on an ongoing basis.

National GST Collections – The Territory's estimates of national GST collections in 2016-17 and over the forward estimates period are informed by the Commonwealth's latest published advice and forecasts of national economic indicators and are unchanged from the 2016-17 Budget.

The Territory's GST revenue is directly affected by variations in national GST collections. A ±1 percentage point change in the GST collections growth rate is estimated to have a ±$31 million impact on the Territory's GST revenue in 2016-17. If variations of ±1 percentage point occurred in each of the Budget and forward estimates years, the cumulative impact on Territory GST revenue is about ±$336 million.

Territory's Share of National Population – The Territory's population is estimated to increase by 1.0 per cent in each of 2016-17 and 2017-18. Over the forward estimates period the Territory's population is estimated to increase to the long-term average of 1.5 per cent by 2019-20, unchanged since the 2016-17 Budget.

Overall, the Territory's population is expected to grow at a slower rate than nationally over the Budget and forward estimates period. Estimates of the Territory's population growth relative to the national rate influence the Territory's share of the national population and therefore affect forecasts of the Territory's GST revenue. The effect of a ±1 percentage point variation in the Territory's forecast population growth is estimated at ±$31 million in 2016-17, all other things equal. 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 period is about ±$332 million.

GST Relativities – The CGC is responsible for recommending GST relativities, which are updated each year to incorporate new data and changes in states' fiscal capacities. In its 2016 Update, the CGC recommended a significant decrease in the Territory's GST relativity from 5.57053 in 2015-16 to 5.28450 in 2016-17.

Predicting future relativities is the most difficult aspect of estimating future GST revenue. The allocation of relativities is a zero sum game, therefore if one or more jurisdictions receive an increase in their relativity, the others must receive a decrease. For this reason the Commonwealth has kept the 2016-17 relativity flat for all jurisdictions for all forward estimate years. However, given there is an expectation that Western Australia's relativity will continue to move back to 1, there is an expectation that the Territory's relativity will continue to decrease. On that basis the Territory has projected an average annual decrease to the relativity of 1.1 per cent.

The impact of a 1 per cent variation in the Territory's GST relativity is around ±$31 million per annum. A ±1 percentage point variation in the Territory's GST relativity in each year of the forward estimates period would have a cumulative effect of around ±$130 million.

The above analysis examines the effect of variations in estimates of each parameter in isolation. However, these parameters often interact and, as a result, variations in each parameter could have a compounding or offsetting effect on GST revenue estimates.

Other Commonwealth Grants and Subsidies

Commonwealth funding is provided under either the Intergovernmental Agreement on Federal Financial Relations (IGA) through specific purpose payments (SPPs), National Health Reform (NHR) payments, Students First – A Fairer Funding Agreement for Schools payments and National Partnership (NP) payments, or through Commonwealth own-purpose expenses (COPEs) provided directly to agencies.

The IGA affords flexibility of expenditure across the relevant sector for SPPs (in 2016-17 provided for skills and workforce, disability and housing sectors) without input controls, co-investment and maintenance of effort requirements. These payments are ongoing and are indexed on a sector-specific basis, providing a degree of certainty for the Territory's budgeting, although adequacy of indexation in terms of capturing cost growth remains an ongoing risk.

NHR payments are predominantly based on either hospital activity or 'block funding' for smaller hospitals in recognition of their circumstances. A risk remains that the Territory's circumstances will not be adequately recognised in the funding arrangements, therefore potentially affecting the adequacy of Commonwealth funding.

NP agreements continue to include many risks to states including co-investment, input controls, burdensome reporting and administrative arrangements, and potential withdrawal of funding. The expiry of NP agreements, which by their nature are time limited, also potentially poses a risk to the Territory's Budget, particularly where funding has raised service delivery expectations.

Funding associated with 19 NP agreements, including schedules under agreements, totalling $38.7 million are due to expire by the end of 2016-17. Should the funding under these agreements not be renewed or rolled into an existing SPP, the Territory would need to either reduce service delivery levels or provide additional funding. In addition, timing of Commonwealth decisions regarding the treatment of expiring NP agreements and their funding is critical to ensure continuity of service delivery or allow for alternative approaches to be considered should funding not be available. Another significant example of an expiring NP is the NP Agreement on Remote Housing, which concludes at the end of 2017-18. The services currently delivered under this agreement include property and tenancy management expected to be required to be maintained on an ongoing basis after the completion of the NP. In the absence of further funds coming from the Commonwealth, this would affect the updated projections contained in this Report.

The Commonwealth has not committed to funding arrangements for health and hospitals or school education beyond 2019-20. With uncertainty around the long-term funding arrangements for these core service areas, there is a significant risk of reduced tied funding levels to all states and territories. Additionally, if future Commonwealth reform agendas are introduced that may affect delivery and funding arrangements for core government services and not adequately recognise the needs of the Territory, there is a risk that funding for these services may be insufficient to continue the current level of services, requiring either budget reprioritisation or a reduction in the scope of services provided.

Own-Source Revenue

The amount of revenue received from Territory taxes and royalties is dependent on the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions made about the performance of the various 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.

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

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

Forecasting conveyance stamp duty is also difficult because it is linked to activity in the property market. The extent and timing of any market changes in terms of property prices and transaction levels is difficult to predict and can have a significant effect on conveyance duty collections. In addition, the Territory has a relatively small conveyance duty base, which includes valuable commercial properties such as 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 ±1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about $7 million for 2016-17.

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 the expense estimates is increasing budget pressure due to increased cost and demand influences.

Future enterprise bargaining agreements represent a risk to the Budget to the extent that the outcome of negotiations is over and above amounts currently factored into the forward estimates.

The 2016-17 Budget included an increase to the efficiency dividend in all years, from 1 per cent to 2 per cent in 2016-17, 3 per cent in 2017-18 and then 2 per cent in both 2018-19 and 2019-20. These efficiencies together with approved savings measures remain unchanged for the 2016 PEFO, and if agencies are unable to find savings and efficiencies to this extent, the achievement of the efficiency dividends and savings measures represents a risk to the Budget and forward estimates.

In accordance with the FITA, the 2016 PEFO includes forward estimates up to 2019-20. There is the potential for the fiscal aggregates beyond the forward estimates period to be affected by existing commitments. These could either take the form of recurrent costs not expected to crystallise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding, or capital infrastructure for which the associated recurrent costs are not fully incorporated into forward years as their completion falls either close to or outside of the forward estimates period. For example, as part of the 2016 Budget the Territory announced net additional funding of $25 million per annum ongoing from 2018-19 to operate the Palmerston Regional Hospital. This level of funding is premised on the assumption that the current activity-based funding arrangement (that is, activity growth funded by the Commonwealth at 45 per cent of the national efficient price) will continue. Any change to either the overall cost to operate the hospital or the Commonwealth funding methodology will affect the level of the Territory's funding contribution and thus the projections contained in the PEFO.

Royal Commission into the Child Protection and Youth Detention Systems of the Northern Territory

As outlined in Chapter 2, a Royal Commission into Child Protection and Youth Detention Systems was announced by the Prime Minister on 26 July 2016. The Commission is expected to report by 31 March 2017. The Territory's contribution to the Commonwealth to conduct the Royal Commission and the cost of implementing any recommendations that arise from the Royal Commission are likely to be substantial. These costs are unquantifiable at the time of publishing the PEFO and as such are not included in the revised fiscal projections, but are likely to affect the fiscal aggregates contained in the PEFO.

Government Owned Corporations

Power and Water Corporation (PWC) has now been structurally separated into three government owned corporations, PWC, Territory Generation and Jacana Energy. While it is expected that this reform will result in future operational efficiencies, there is a risk of higher costs in the short term as each entity focuses on business improvements.

The PEFO contains preliminary unaudited outcomes for the three government owned corporations in 2015-16. The forward projections from 2016-17 onwards are consistent with each Statement of Corporate Intent (SCI). The 2015-16 outcome has resulted in lower revenues and associated expenditures than estimated in SCI's for 2015-16, however updated information regarding the Budget and forward estimates is not yet available. Therefore, any further significant variations between the preliminary and final audited outcomes for 2015-16 together with any flow-on effects to SCI assumptions and estimates from 2016-17 onwards represent a risk to the PEFO estimated outcomes.

In addition, all three government owned corporations have incorporated future efficiencies into their 2016-17 SCIs. If they are unable to achieve these efficiency targets there is a further risk to the Budget.

Risks to Economic Forecasts

Economic forecasts published in the Northern Territory Economy book 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 and this is often reflected in the available data, which can be subject to significant revisions.

The availability, range of sources and volatility of data for the Territory's economy presents an underlying risk to forecasts, particularly in relation to the reporting of capital expenditure for major projects. Some data is confidentialised, making it difficult to report when actual expenditure occurs. There are also difficulties associated with the measurement of interstate trade flows and other complexities associated with the balancing item of GSP, the components of which are not published publicly.

Most significant for Territory forecasts is the timing of the Ichthys liquefied natural gas (LNG) project. Given the size of the project, it has been factored into current forecasts based on publicly available information, including timing of completion and anticipated commencement of production. However, any delays in the transition of the project from construction to the production and export phase has potential to influence a range of economic indicators, particularly GSP growth, employment and population forecasts.

There are also a range of other major projects not included in the Territory's economic forecasts, given the uncertainty around final investment decisions, timing, levels of proposed expenditure and other impacts on the economy, including projects such as the Northern Gas Pipeline, the Darwin luxury hotel development, Project Sea Dragon and some initiatives outlined in the 2016 Defence White Paper.

The Territory economy is heavily exposed to changes in the global economy. Movements in global commodity prices can have significant impacts on the viability of mining activity in the Territory, as experienced in recent years. Global oil prices can also affect the cost of living and doing business in the Territory, not only regarding the price of automotive fuel for consumers, but also transport costs, as well as others goods and services.

Movements in the Australian dollar against other currencies (mainly the United States dollar) will influence the cost of the Territory's imports and the competitiveness of Territory goods and services exports, largely affecting industries such as tourism, agriculture, and mining and manufacturing.

Economic conditions in other Australian jurisdictions also present risks to the Territory's economic forecasts. This includes effects on the labour market and interstate migration flows. The relative labour market conditions in other jurisdictions can affect the availability of labour in the Territory.

Interest rate movements also present an uncertainty for the Territory economy, particularly influencing business, residential property and household consumption and investment.

Adverse weather conditions and natural disasters (such as cyclones, flooding, drought and climate variability) are also key risks to many of the Territory's economic forecasts and have the potential to place upward pressure on food prices due to effects on agricultural production across the country.

Contingent Liabilities

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

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

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

Quantifiable and unquantifiable contingent liabilities remain unchanged since the May 2016 Budget.

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

Quantifiable Contingent Liabilities

Details of estimated amounts of remaining material quantifiable contingent liabilities as at 30 June 2015, resulting from guarantees or indemnities granted by the Territory, are presented in Table 5.1.

Table 5.1: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability as at 30 June 2015
	$M
Public Trustee Common Fund 1	32

Source: Department of Treasury and Finance

The Public Trustee Common Fund 1, which had a reported total of $32 million as at 30 June 2015, is government guaranteed.

Under section 97 of the *Public Trustee Act*, the Treasurer indemnifies the Common Fund against any deficiencies in money available to meet claims on it. The Common Fund is 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 Fund is invested according to the directions issued by an Investment Board.

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

Unquantifiable Contingent Liabilities

Unquantifiable contingent liabilities exist, 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 provided in support of the Adelaide to Darwin railway project.

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

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

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

Prior to the long-term lease of the Port of Darwin, the railway corridor interfacing the port was owned by Darwin Port Corporation (DPC), which leased the facilities to the concession holder. As part of the restructure of the port arrangements, the railway corridor was transferred to the Territory and leased to the concession holder. There are contingent liabilities that arise out of any loss or claim incurred or suffered as a result of the Territory's failure to comply with its environmental obligation contained in the lease. The lease contains similar indemnities given by the lessee with respect to contamination caused by the lessee and a failure to comply with its environmental obligations. To the extent that DPC had contingent liabilities prior to the Port of Darwin transaction, the Territory Government has the same contingent liabilities now.

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

The 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.

The Territory has assumed DPC's indemnity in relation to certain remedial works at East Arm Port. The indemnity covers third-party claims, loss, damage, cost and expenses that may be incurred or sustained by Shell arising out of any breach of the Territory's obligation under the agreement, or in connection with any failure of defect in the integrity of the bunker lines, as well as rectification of damage to the wharf. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Contingent considerations in relation to the long-term lease of the Port of Darwin are considered unlikely and consequently no contingent liabilities have been disclosed at this time. The Territory will continue to assess any risks under the arrangement and determine whether any future disclosure is required.

Health and Community Services

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

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

There are no reportable contingent liabilities in this category.

Government Administration

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

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

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

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

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

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

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

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

Except for the terrorism indemnity, which is unquantifiable, there are no reportable contingent liabilities in this category.

Secure Facilities

The Territory has contingent liabilities in this category that relate to indemnities and guarantees provided in support of the Darwin Correctional Precinct that was constructed and is operated under a public private partnership agreement.

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

Finance

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

There are no reportable contingent liabilities in this category.

Property and Business Services

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

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

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

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

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

Chapter 6

Uniform Presentation Framework

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

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

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

The financial statements include the preliminary unaudited 2015-16 outcome, the updated 2016-17 Budget and 2017-18 to 2019-20 forward estimates.

Table 6.1

General Government Sector Comprehensive Operating Statement

		2015-16	2016-17	2017-18	2018-19	2019-20
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	609 912	586 893	605 403	621 549	638 265
	Current grants	4 349 313	4 245 449	4 266 900	4 344 081	4 601 663
	Capital grants	330 528	370 982	190 499	34 705	15 615
	Sales of goods and services	421 586	380 981	405 393	409 027	408 795
	Interest income	88 084	88 037	89 704	92 209	94 330
	Dividend and income tax equivalent income	68 891	53 426	61 295	47 885	93 360
	Other revenue	274 565	195 419	172 996	172 761	171 610
	TOTAL REVENUE	**6 142 879**	**5 921 187**	**5 792 190**	**5 722 217**	**6 023 638**
less	**EXPENSES**					
	Employee benefits expense	2 135 113	2 171 903	2 225 387	2 262 764	2 335 926
	Superannuation expenses					
	Superannuation interest cost	138 337	133 639	129 094	128 080	128 080
	Other superannuation expenses	220 842	203 062	204 476	206 149	207 711
	Depreciation and amortisation	322 535	331 062	330 946	328 956	327 636
	Other operating expenses	1 440 987	1 492 840	1 501 862	1 516 946	1 565 412
	Interest expenses	234 704	211 608	214 525	226 071	229 321
	Other property expenses					
	Current grants	950 594	940 671	901 930	871 977	924 021
	Capital grants	250 425	170 621	49 800	25 565	32 064
	Subsidies and personal benefit payments	217 576	260 526	268 526	242 724	250 455
	TOTAL EXPENSES	**5 911 113**	**5 915 932**	**5 826 546**	**5 809 232**	**6 000 626**
equals	**NET OPERATING BALANCE**	**231 765**	**5 255**	**- 34 356**	**- 87 015**	**23 012**
plus	Other economic flows – included in operating result	- 2 626	31 626	32 502	33 962	34 918
equals	**OPERATING RESULT**	**229 140**	**36 881**	**- 1 854**	**- 53 053**	**57 930**
plus	Other economic flows – other comprehensive income	- 1 077 413	186 662	166 653	226 316	240 025
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 848 274**	**223 543**	**164 799**	**173 263**	**297 955**
	NET OPERATING BALANCE	**231 765**	**5 255**	**- 34 356**	**- 87 015**	**23 012**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	741 727	1 142 310	766 130	462 889	374 710
	Sales of non financial assets	- 48 610	- 84 874	- 69 723	- 62 117	- 62 117
	less Depreciation	322 535	331 062	330 946	328 956	327 636
	plus Change in inventories	1 923				
	plus Other movements in non financial assets	- 48 363				
	equals **Total net acquisition of non financial assets**	**324 143**	**726 374**	**365 461**	**71 816**	**- 15 043**
equals	**FISCAL BALANCE**	**- 92 377**	**- 721 119**	**- 399 817**	**- 158 831**	**38 055**

Table 6.2

General Government Sector Balance Sheet

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	603 848	163 337	42 974	79 066	81 825
Advances paid	172 826	156 021	141 795	124 480	110 352
Investments, loans and placements	2 204 600	1 914 618	1 906 262	1 964 241	2 025 191
Receivables	311 247	300 675	312 135	311 944	337 032
Equity					
Investments in other public sector entities	2 527 550	2 548 732	2 541 905	2 522 636	2 523 441
Investments - other	16 251	16 249	16 249	16 249	16 249
Other financial assets					
Total financial assets	**5 836 321**	**5 099 632**	**4 961 320**	**5 018 616**	**5 094 090**
Non financial assets					
Inventories	13 470	13 468	13 468	13 468	13 468
Property, plant and equipment	13 728 816	14 470 809	14 851 890	14 939 326	14 939 903
Investment property	109 694	98 694	87 694	76 694	65 694
Other non financial assets	122 460	122 439	122 419	122 399	122 379
Total non financial assets	**13 974 440**	**14 705 410**	**15 075 471**	**15 151 887**	**15 141 444**
TOTAL ASSETS	**19 810 761**	**19 805 042**	**20 036 791**	**20 170 503**	**20 235 534**
LIABILITIES					
Deposits held	372 510	331 076	343 090	355 301	379 174
Advances received	288 364	277 784	269 798	261 218	251 986
Borrowing	3 097 394	3 088 945	3 281 818	3 448 888	3 440 064
Superannuation	4 200 654	4 041 654	3 882 654	3 644 153	3 405 653
Other employee benefits	572 945	576 932	577 932	577 932	577 932
Payables	202 619	202 793	203 841	204 012	203 771
Other liabilities	781 165	761 585	788 586	816 664	816 664
TOTAL LIABILITIES	**9 515 651**	**9 280 769**	**9 347 719**	**9 308 168**	**9 075 244**
NET ASSETS/(LIABILITIES)	**10 295 110**	**10 524 273**	**10 689 072**	**10 862 335**	**11 160 290**
Contributed equity					
Accumulated surplus/(deficit)	2 018 339	2 241 318	2 412 944	2 605 476	2 902 626
Reserves	8 276 771	8 282 955	8 276 128	8 256 859	8 257 664
NET WORTH	**10 295 110**	**10 524 273**	**10 689 072**	**10 862 335**	**11 160 290**
NET FINANCIAL WORTH[1]	- 3 679 330	- 4 181 137	- 4 386 399	- 4 289 552	- 3 981 154
NET FINANCIAL LIABILITIES[2]	6 206 879	6 729 869	6 928 304	6 812 188	6 504 595
NET DEBT[3]	**776 994**	**1 463 829**	**1 803 675**	**1 897 620**	**1 853 856**

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

Table 6.3

General Government Sector Cash Flow Statement

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	588 599	586 893	605 403	621 549	638 265
Receipts from sales of goods and services	446 394	312 369	337 281	340 422	340 383
Grants and subsidies received	4 681 043	4 616 431	4 457 399	4 378 786	4 617 278
Interest receipts	86 345	88 037	89 704	92 209	94 330
Dividends and income tax equivalents	100 194	73 888	56 812	55 999	68 272
Other receipts	496 127	419 824	397 537	397 526	394 987
Total operating receipts	**6 398 702**	**6 097 442**	**5 944 136**	**5 886 491**	**6 153 515**
Cash payments for operating activities					
Payments for employees	- 2 487 825	- 2 476 922	- 2 540 591	- 2 587 023	- 2 668 111
Payment for goods and services	- 1 697 569	- 1 678 561	- 1 640 115	- 1 655 471	- 1 723 403
Grants and subsidies paid	- 1 354 265	-1 371 652	-1 220 256	-1 140 266	- 1 206 540
Interest paid	- 234 773	- 211 760	- 214 526	- 226 277	- 229 433
Other payments					
Total operating payments	**- 5 774 432**	**- 5 738 895**	**- 5 615 488**	**- 5 609 037**	**- 5 827 487**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**624 270**	**358 547**	**328 648**	**277 454**	**326 028**
Cash flows from investments in non financial assets					
Sales of non financial assets	48 610	84 874	69 723	62 117	62 117
Purchases of non financial assets	- 743 778	- 1 142 310	- 766 130	- 462 889	- 374 710
Net cash flows from investments in non financial assets	**- 695 168**	**- 1 057 436**	**- 696 407**	**- 400 772**	**- 312 593**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 70 899**	**- 698 889**	**- 367 759**	**- 123 318**	**13 435**
Net cash flows from investments in financial assets for policy purposes[1]	427 072	1 809	14 226	17 315	14 128
Net cash flows from investments in financial assets for liquidity purposes	168 796	317 017	36 269	- 28 606	- 30 621
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 99 300	- 738 610	- 645 912	- 412 063	- 329 086
Net cash flows from financing activities					
Advances received (net)	- 37 951	- 10 583	- 7 986	- 8 580	- 9 232
Borrowing (net)	- 616 957	- 8 448	192 873	167 070	- 8 824
Deposits received (net)	123 412	- 41 416	12 014	12 211	23 873
Other financing (net)	2				
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 531 495	- 60 447	196 901	170 701	5 817
NET INCREASE/DECREASE IN CASH HELD	- 6 526	- 440 510	- 120 363	36 092	2 759
Net cash flows from operating activities	624 270	358 547	328 648	277 454	326 028
Net cash flows from investments in non financial assets	- 695 168	- 1 057 436	- 696 407	- 400 772	- 312 593
CASH SURPLUS (+)/DEFICIT (-)	**- 70 899**	**- 698 889**	**- 367 759**	**- 123 318**	**13 435**
Future infrastructure and superannuation contributions/earnings[2]	- 22 263	- 24 441	- 25 907	- 27 461	- 29 109
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 93 162**	**- 723 330**	**- 393 666**	**- 150 779**	**- 15 674**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 70 899	- 698 889	- 367 759	- 123 318	13 435
Acquisitions under finance leases and similar arrangements	- 3 114				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 74 013	- 698 889	- 367 759	- 123 318	13 435

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

Table 6.4

Non Financial Public Sector Comprehensive Operating Statement

		2015-16	2016-17	2017-18	2018-19	2019-20
		Unaudited	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	599 635	577 054	595 569	611 817	628 533
	Current grants	4 348 881	4 245 449	4 267 400	4 344 581	4 602 163
	Capital grants	347 986	385 211	203 925	42 432	20 560
	Sales of goods and services	1 000 315	1 044 867	1 112 401	1 166 157	1 210 147
	Interest income	88 085	88 037	89 704	92 209	94 330
	Dividend and income tax equivalent income	24 132	11 679	9 677	6 697	7 085
	Other revenue	304 874	224 697	199 581	202 920	205 835
	TOTAL REVENUE	6 713 909	6 576 994	6 478 257	6 466 813	6 768 653
less	EXPENSES					
	Employee benefits expense	2 249 112	2 279 243	2 320 844	2 353 755	2 425 176
	Superannuation expenses					
	Superannuation interest cost	138 337	133 639	129 094	128 080	128 080
	Other superannuation expenses	231 914	217 802	219 407	220 918	222 480
	Depreciation and amortisation	522 592	521 152	529 626	532 176	536 642
	Other operating expenses	1 795 988	1 973 359	2 013 098	2 073 085	2 107 051
	Interest expenses	297 537	276 000	283 915	295 029	302 440
	Other property expenses					
	Current grants	898 016	882 877	842 623	811 116	861 564
	Capital grants	138 314	139 705	31 641	6 952	12 986
	Subsidies and personal benefit payments	122 512	132 695	137 599	141 936	144 438
	TOTAL EXPENSES	6 394 322	6 556 472	6 507 847	6 563 047	6 740 857
equals	**NET OPERATING BALANCE**	**319 587**	**20 522**	**- 29 590**	**- 96 234**	**27 796**
plus	Other economic flows – included in operating result	- 44 168	19 259	20 983	23 915	30 962
equals	**OPERATING RESULT**	**275 419**	**39 781**	**- 8 607**	**- 72 319**	**58 758**
plus	Other economic flows – other comprehensive income	- 1 123 693	183 762	173 406	245 582	239 197
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 848 274**	**223 543**	**164 799**	**173 263**	**297 955**
	NET OPERATING BALANCE	**319 587**	**20 522**	**- 29 590**	**- 96 234**	**27 796**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	983 183	1 478 084	976 392	628 772	601 753
	Sales of non financial assets	- 48 610	- 85 900	- 69 877	- 63 476	- 63 476
	less Depreciation	522 592	521 152	529 626	532 176	536 642
	plus Change in inventories	12 227	6 344	5 275	5 290	5 305
	plus Other movements in non financial assets	- 11 177	18 740	19 228	19 729	19 965
	equals **Total net acquisition of non financial assets**	**413 032**	**896 116**	**401 392**	**58 139**	**26 905**
equals	**FISCAL BALANCE**	**- 93 445**	**- 875 594**	**- 430 982**	**- 154 373**	**891**

Table 6.5

Non Financial Public Sector Balance Sheet

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	603 872	163 360	42 997	79 089	81 848
Advances paid	172 826	156 021	141 795	124 480	110 352
Investments, loans and placements	2 204 600	1 914 618	1 906 262	1 964 241	2 025 191
Receivables	454 999	435 219	437 603	447 488	454 547
Equity					
Investments in other public sector entities	21 627	21 631	21 631	21 631	21 631
Investments - other	16 253	16 252	16 252	16 252	16 252
Other financial assets					
Total financial assets	**3 474 177**	**2 707 101**	**2 566 540**	**2 653 181**	**2 709 821**
Non financial assets					
Inventories	209 023	215 365	220 640	225 930	231 235
Property, plant and equipment	17 116 626	18 018 544	18 431 222	18 500 237	18 537 746
Investment property	109 694	98 694	87 694	76 694	65 694
Other non financial assets	187 333	198 177	181 905	170 251	169 897
Total non financial assets	**17 622 676**	**18 530 780**	**18 921 461**	**18 973 112**	**19 004 572**
TOTAL ASSETS	**21 096 853**	**21 237 881**	**21 488 001**	**21 626 293**	**21 714 393**
LIABILITIES					
Deposits held	122 321	116 736	118 053	119 165	124 172
Advances received	288 364	277 784	269 798	261 218	251 986
Borrowing	4 417 605	4 504 208	4 726 276	4 905 346	4 935 522
Superannuation	4 200 654	4 041 654	3 882 654	3 644 153	3 405 653
Other employee benefits	624 716	630 130	632 428	633 767	635 137
Payables	320 832	335 138	336 966	341 738	342 877
Other liabilities	827 252	807 958	832 754	858 571	858 756
TOTAL LIABILITIES	**10 801 743**	**10 713 608**	**10 798 929**	**10 763 958**	**10 554 103**
NET ASSETS/(LIABILITIES)	**10 295 110**	**10 524 273**	**10 689 072**	**10 862 335**	**11 160 290**
Contributed equity					
Accumulated surplus/(deficit)	3 112 155	3 341 347	3 506 220	3 679 486	3 977 464
Reserves	7 182 955	7 182 926	7 182 852	7 182 849	7 182 826
NET WORTH	**10 295 110**	**10 524 273**	**10 689 072**	**10 862 335**	**11 160 290**
NET FINANCIAL WORTH[1]	- 7 327 566	- 8 006 507	- 8 232 389	- 8 110 777	- 7 844 282
NET FINANCIAL LIABILITIES[2]	7 349 193	8 028 138	8 254 020	8 132 408	7 865 913
NET DEBT[3]	**1 846 993**	**2 664 729**	**3 023 073**	**3 117 919**	**3 094 289**

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 6.6

Non Financial Public Sector Cash Flow Statement

	2015-16	2016-17	2017-18	2018-19	2019-20
	Unaudited	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	579 443	577 054	595 569	611 817	628 533
Receipts from sales of goods and services	954 926	998 311	1 042 723	1 088 483	1 131 081
Grants and subsidies received	4 697 299	4 630 658	4 471 325	4 387 013	4 622 725
Interest receipts	86 346	88 037	89 704	92 209	94 330
Dividends and income tax equivalents	36 129	20 246	11 678	9 678	6 697
Other receipts	515 325	432 238	407 059	410 121	411 412
Total operating receipts	**6 869 468**	**6 746 544**	**6 618 058**	**6 599 321**	**6 894 778**
Cash payments for operating activities					
Payments for employees	- 2 616 224	- 2 599 739	- 2 651 846	- 2 693 609	- 2 772 925
Payment for goods and services	- 1 992 009	- 2 168 197	- 2 150 167	- 2 209 392	- 2 268 725
Grants and subsidies paid	- 1 118 224	- 1 155 111	-1 011 863	- 960 004	- 1 018 988
Interest paid	- 297 966	- 276 104	- 283 924	- 295 239	- 302 562
Other payments					
Total operating payments	**- 6 024 424**	**- 6 199 151**	**- 6 097 800**	**- 6 158 244**	**- 6 363 200**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**845 044**	**547 393**	**520 258**	**441 077**	**531 578**
Cash flows from investments in non financial assets					
Sales of non financial assets	48 610	85 900	69 877	63 476	63 476
Purchases of non financial assets	- 985 234	- 1 478 084	- 976 392	- 628 772	- 601 753
Net cash flows from investments in non financial assets	**- 936 625**	**- 1 392 184**	**- 906 515**	**- 565 296**	**- 538 277**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 91 581**	**- 844 791**	**- 386 257**	**- 124 219**	**- 6 699**
Net cash flows from investments in financial assets for policy purposes[1]	484 203	16 809	14 226	17 315	14 128
Net cash flows from investments in financial assets for liquidity purposes	168 796	317 017	36 269	- 28 606	- 30 621
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 283 625	- 1 058 358	- 856 020	- 576 587	- 554 770
Net cash flows from financing activities					
Advances received (net)	- 37 951	- 10 583	- 7 986	- 8 580	- 9 232
Borrowing (net)	- 555 366	86 604	222 068	179 070	30 176
Deposits received (net)	25 364	- 5 566	1 317	1 112	5 007
Other financing (net)	2				
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 567 952	70 455	215 399	171 602	25 951
NET INCREASE/DECREASE IN CASH HELD	- 6 533	- 440 510	- 120 363	36 092	2 759
Net cash flows from operating activities	845 044	547 393	520 258	441 077	531 578
Net cash flows from investments in non financial assets	- 936 625	-1 392 184	- 906 515	- 565 296	- 538 277
CASH SURPLUS (+)/DEFICIT (-)	**- 91 581**	**- 844 791**	**- 386 257**	**- 124 219**	**- 6 699**
Future infrastructure and superannuation contributions/earnings[2]	- 22 263	- 24 441	- 25 907	- 27 461	- 29 109
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 113 844**	**- 869 232**	**- 412 164**	**- 151 680**	**- 35 808**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 91 581	- 844 791	- 386 257	- 124 219	- 6 699
Acquisitions under finance leases and similar arrangements	- 4 059				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 95 639	- 844 791	- 386 257	- 124 219	- 6 699

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