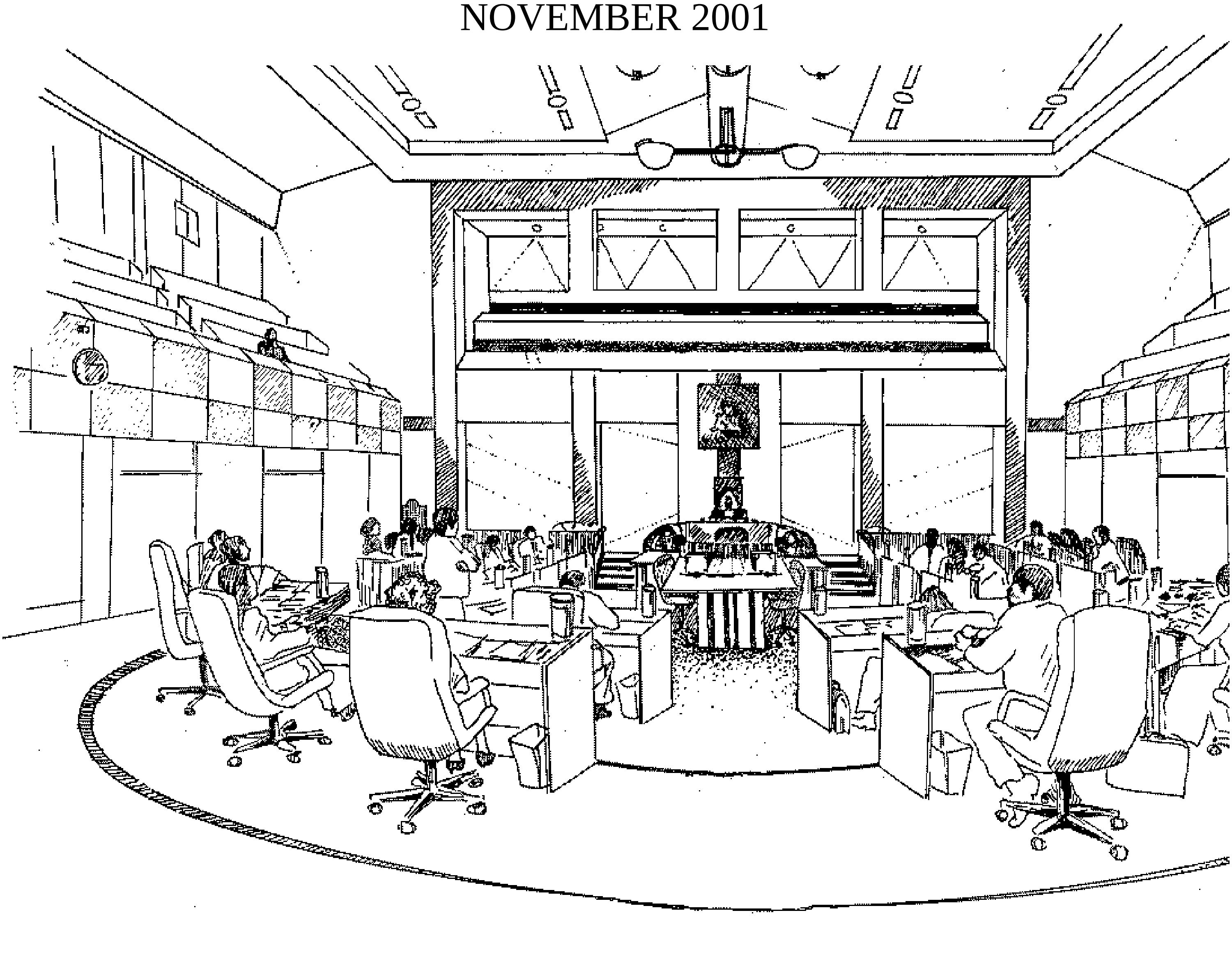
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

ANALYSIS OF THE 2000/01 TREASURER'S ANNUAL FINANCIAL STATEMENT

REPORT TO THE LEGISLATIVE ASSEMBLY
NOVEMBER 2001



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Providing independent analysis

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The Auditor-General's powers and responsibilities are established by the Northern Territory's Parliament, the Legislative Assembly, in the Audit Act. The Auditor-General is required to report to the Legislative Assembly at least once per year on any matters arising from the exercise of the auditing powers established in that Act.

In doing so, the Auditor-General is providing information to the Parliament to assist its review of the performance of the Executive government, particularly the government's responsibility for the actions of the public sector entities which administer its financial management and performance management directives. The Parliament has a responsibility to conduct this review as the representative of the people of the Northern Territory.

The Auditor-General is also able to report to management of public sector entities on matters arising from the conduct of audits.

Reports provided to Parliament and public sector managers should be recognised as a useful source of independent analysis of Government information, and of the systems and controls underpinning the delivery of that information.

The Auditor-General is assisted by personnel of the Northern Territory Auditor-General's Office who plan projects for conduct by private sector authorised auditors.

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NORTHERN TERRITORY

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The cover of the Report depicts an artist's impression of sittings of the Northern Territory Legislative Assembly. In that forum, information provided by the Auditor-General can be used to support questions and debates.

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The Honourable The Speaker of the Legislative Assembly
Parliament House
Darwin NT 0800

27 November 2001

Madam,

I request that you table this report today in the Legislative Assembly. It contains comments and analysis arising from my audit of the 2000/01 Treasurer's Annual Financial Statement.

The Report is provided so that Members of the Legislative Assembly have available to them a source of independent analysis about information in the Treasurer's Annual Financial Statement. The Statement is the audited section of the wider scope Treasurer's Annual Financial Report. This was tabled in the Legislative Assembly on 23 October 2001.

My analysis can also assist the Public Accounts Committee in its duty to examine the accounts of the receipts and expenditure of the Northern Territory, and each statement and report tabled as required by the Financial Management Act.

Yours sincerely

Iain Summers

Iain Summers
Auditor-General for the Northern Territory

Overview

Net Debt as measured by the Uniform Presentation Framework

- **Net Debt, as measured by the Uniform Presentation Framework (UPF), increased by $122 million to $1.42 billion.**
- **However, $61 million of the financial assets included in the UPF net debt calculation accrues to the other participant in the AustralAsia Railway Corporation, and will not be available to the Northern Territory to offset gross debt.**

Refer pages 29 to 31 for further comments

Change in Net Worth

- **Total liabilities increased by $398 million, compared with a $191 million increase last year.**
- **The impact of that increase on the Government's Net Worth cannot be reliably determined, in the absence of an audited value of the Government's infrastructure assets.**

Refer pages 34 to 36 for further comments

Comparison of 2000/01 actual outcome with original budget

- **The underlying increase in the Net Debt in the Government's Budget (Public Account) scope was $116 million.**
- **As well, a $25 million loan made in the year to the AustralAsia Railway Corporation was written down to $400,000. This further reduced the value of the Territory's financial assets, so that the total decline in the Territory's financial assets for the year becomes $140 million.**
- **New borrowings of $182 million funded the $140 million decline, with the remaining $42 million retained in the cash balances of the Government.**
- **The $116 million increase in net debt, compared to the budgeted increase of $45 million, was primarily due to $70 million of additional recurrent expenditures. At current interest rates, interest expense of $4.3 million will be incurred each year on the borrowings required for those additional recurrent expenditures, until the Government's debt levels can be reduced by $70 million.**

Refer pages 9 to 17 for further comment

Overview

Comparison of 2000/01 actual outcome and estimated actuals

- **While the actual underlying increase in the Net Debt in the Government's Budget (Public Account) scope for 2000/01 was $116 million, the underlying deficit which was estimated for presentation to the Legislative Assembly in May 2001 was $149 million.**
- **The major contributor to the $33 million lower deficit was the $36 million over-estimate on capital transactions.**
- **However, over-estimates in interest expense and current grants and subsidies masked a $30 million under-estimate in final consumption expenditure.**
- **$14 million of the $30 million under-estimate in final consumption expenditure was caused by reductions made to the estimates prepared by two Agencies. Both subsequently required funding to reinstate those amounts to meet the normal operational commitments which had been forecast in their estimates**.

Refer pages 18 to 22 for further comments

Fiscal management performance measures

- **An opportunity now exists for the new Government to adopt better fiscal management performance measures. These should be aligned with the parameters used in the annual budget.**

Refer pages 23 to 28 for further comments

Accountability for Capital Works expenditure

- **The Government should provide a more comprehensive accountability for capital works expenditure. This should reconcile the announced capital works budget with the cash allocation to projects and to Agency capital items provisions, and subsequently identify and report where variations occur in the actual capital outlays.**

Refer pages 14 to 16 for further comments

Entities referred to in this Report

The following entities are referred to in substantive audit comments in the Report. Entity representatives were invited to provide responses on those matters for inclusion in this Report. These and other entities may also have been referred to in incidental ways in other parts of this Report.

Northern Territory Treasury, as the Agency responsible for preparation of the Treasurer's Annual Financial Statement, was also invited to provide comments on the Report as a whole.

None of the entities invited to comment have provided responses for inclusion in the Report.

The entities in this Report are those units of administration in existence at 30 June 2001. Administrative Arrangements Orders of 13 November 2001 restructured and renamed a number of the units of administration identified in this Report.

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Background to the analysis of the Statement

The Treasurer's Annual Financial Statement is the shaded section in the larger document entitled the Treasurer's Annual Financial Report which was tabled in the Legislative Assembly on 23 October 2001. Only the information in the shaded section is audited.

The Treasurer has identified that this Annual Financial Report is compiled with the principal objective of providing reliable, meaningful and useful financial information to the Northern Territory community. The Members of the Legislative Assembly represent the Territory community in scrutinising this performance information, and have the opportunity to directly question the Government about its financial stewardship and management.

However, the Auditor-General can, and should, play a role in providing an analysis of the information presented to Members in the Report, and in particular in the audited Financial Statement section. There are limited other opportunities for Members to obtain the comments of an independent observer who has access to Government records and information.

The Legislative Assembly, through the Financial Management Act, requires that the Treasurer accounts for the Government's stewardship of the financial resources made available to it each year through the budget allocations in the Appropriation Act. While Section 9 of the Financial Management Act sets out broad areas to be reported upon, it allows the Treasurer discretion in how those matters will be reported. In the Preface to the Statement the Treasurer identifies more detail of how the reporting occurs.

A new Government took office on 27 August 2001. The disclosures in this year's Treasurer's Annual Financial Statement are a noticeable improvement over previous years. However, more can still be done to improve the financial management performance information provided to Members of the Legislative Assembly.

The Financial Management Act requires the Treasurer to present the Statement to the Legislative Assembly, together with the audit report which has been issued to the Treasurer by the Auditor-General.

The Audit Act requires me to perform my duties in accordance with recognised professional standards and practices. Auditing Standards require me to make reference in my audit opinion on general purpose financial statements where adoption of a legislated reporting framework does not provide the information expected by an Australian Accounting Standard.

Accordingly, my audit opinion issued on 19 October 2001 had two elements. One refered to compliance with the legislated requirements, the other to the non-compliance with Australian Accounting Standard AAS 31, "Financial Reporting by Governments".

Background to the Analysis of the Statement

My analysis in this Report draws on my audit work when forming that audit opinion, and seeks to help readers understand:

- what is the financial position of the Northern Territory?
- how was that financial position achieved?
- how does that financial position compare with the original budget and with subsequent estimates provided to the Legislative Assembly?

My analysis can also assist the Public Accounts Committee in its duty to examine the accounts of the receipts and expenditure of the Northern Territory and each statement and report tabled pursuant to the Financial Management Act and the Audit Act. This duty is established by the Legislative Assembly under Standing Order 21(A).

Public Account Scope

Comparison of 2000/01 actual outcome with original budget

KEY ISSUES

- **The underlying increase in Net Debt in the Government's Budget (Public Account) scope was $116 million.**
- **As well, a $25 million loan made in the year to the AustralAsia Railway Corporation was written down to $400,000. This further reduced the value of the Territory's financial assets, so that the total decline in the Territory's financial assets for the year becomes $140 million.**
- **New borrowings of $182 million funded the $140 million decline, with the remaining $42 million retained in the cash balances of the Government.**
- **The $116 million increase in net debt, compared to the budgeted increase of $45 million, was primarily due to $70 million of additional recurrent expenditures. At current interest rates, interest expense of $4.3 million will be incurred each year on the borrowings required for those additional recurrent expenditures, until the Government's debt levels can be reduced by $70 million.**
- **The Government should provide a more comprehensive accountability for capital works expenditure. This should reconcile the announced capital works budget with the cash allocation to projects and to Agency capital items provisions, and subsequently identify and report where variations occur in the actual capital outlays.**

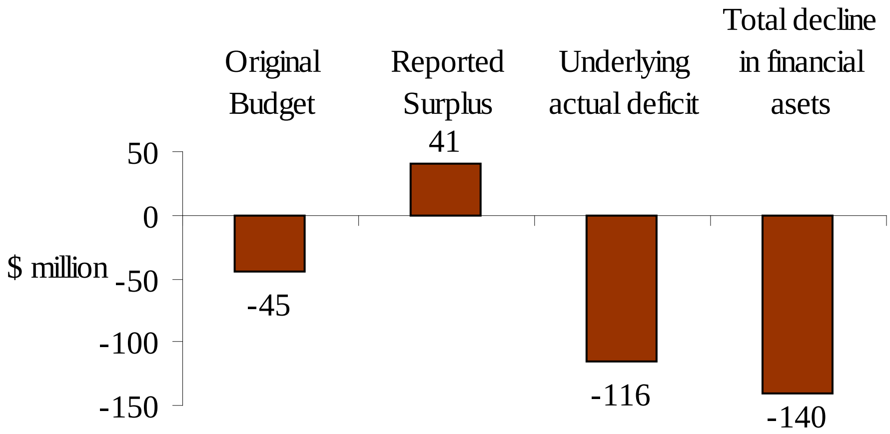
Movement in Net Debt

An increase in net debt arises when outlays from the Public Account exceed receipts into the Public Account. This does not include any loans made or repaid, since these are included in the financial assets from which net debt is financed.

The 2000/01 Budget, when adopted by the Legislative Assembly in May 2000, approved an increase in net debt of $45 million more outlays than receipts.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

The following chart compares the actual underlying outcome with the original budget:



An adjustment to the reported result was necessary

The reported actual outcome was a surplus of $41 million. However, that result includes the effect of transferring $156.7 million from the Government's Conditions of Service Trust into the Public Account scope. Since this is not a receipt of externally sourced income for the Government, its inclusion masks the underlying result arising from external transactions, and so should be adjusted out.

Reported surplus	$40.8m
Less Conditions of Service Trust balance	$156.7m
Underlying deficit	$(115.9m)
Rounded to	*($116m)*

Using this more comparable measurement basis, the actual $116 million deficit outcome should be used when comparing actual results with the original budgeted deficit of $45 million.

As well, a $25 million loan made in the year to the AustralAsia Railway Corporation was written down to $400,000. This further reduced the value of the Territory's financial assets, so that the decline in the Territory's financial assets position for the year becomes $140 million.

Underlying deficit	$(115.9m)
Less Loss in the year in the value of the loan	$(24.6m)
Total decline in the Government's financial assets position	$(140.5m)

More explanation about these adjustments is provided on page 16.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

How was the increase in net debt financed?

The increase in net debt for the year of $116 million was able to be financed from the new borrowings obtained in the year of $183 million. The remainder of the borrowings were available to finance the $25 million loan made to the AustralAsia Railway Corporation, leaving a balance of almost $42 million of the borrowings retained within the Public Account. The following table illustrates the allocation of the borrowings:

	$ million
Underlying net debt increase	(116)
Borrowings obtained	183
Borrowings available after financing the net debt increase	67
less loans made	(25)
Excess of borrowings over the requirements in the year	42
Public Account Balance as at 1 July 2000	236
Public Account balance before the following receipt	278
Receipt of Conditions of Service Trust Balance	157
Public Account balance as at 30 June 2001	$435m

All amounts are rounded to the nearest $1 million

What were the borrowings applied to?

The $116 million underlying deficit arose from:

	$ million
• The deficit budgeted for the 2000/01 year	(45)
• Additional recurrent operational expenditure	(70)
• Additional recurrent grants and subsidies	(16)
• Shortfall in Territory sourced revenue	(19)
	(150)
These were partly offset by:	
• Capital under-expenditure	2
• Lower interest expense	12
• Additional special purpose grants from the Commonwealth Government	20
Underlying Deficit	**($116m)**

All amounts are rounded to the nearest $1 million

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

Were borrowings needed to fund capital expenditure?

Borrowings were obtained to meet the $43 million settlement of the legal dispute over the Darwin to Katherine Transmission Line. The Line was then acquired as a capital asset of the Power and Water Authority. However, although the $43 million is classified as capital expenditure, total capital expenditure still fell short of the original budget. In effect, those borrowings were then available to meet other needs of Government, since the original capital budget was not completely used.

Indeed, since $42 million of the borrowings obtained in the year were not used at all and remained in the Public Account, and since the capital expenditure budget was not fully used, it is reasonable to conclude that the borrowings which were used were applied to meeting the additional recurrent expenditure needs. The unused $42 million is almost equivalent to the $43 million borrowing obtained for the Darwin to Katherine Transmission Line settlement.

Main causes of the variations between actual outcome and original budget

As shown in the Table on page 11, the major variation between the original budget and the final outcome is the additional $70 million in recurrent expenditure. This is termed Final Consumption Expenditure in the summary Schedule 1.1 of the Treasurer's Annual Financial Statement.

What were the major contributions to the increase in Final Consumption Expenditure?

There is no comprehensive system within Government to capture the major causes of Budget variations at a whole of Government perspective. Schedule 1.8A in the Treasurer's Annual Financial Statement identified for the first time this year new allocations approved for most Agencies. However, as illustrated by the adjustments shown in Schedule 1.8A, actual expenditure can differ, so an analysis based only on approved allocation variations may not provide the most accurate indication of final expenditure variations. Information from within Agencies is needed to build the most reliable indication of the causes. The audit analysis on page 13 draws on information obtained within Agencies, as well as from the Treasurer's Annual Financial Statement.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

What were the major contributions to the increase in Final Consumption Expenditure (continued)?

While a variety of matters contributed to the $70 million of additional Final Consumption Expenditure, the most substantial contributions were:

- $16 million of additional superannuation outlays, of which $13 million was for costs of the Commonwealth Superannuation Scheme (CSS). While the CSS liabilities were adjusted upwards in the year as a result of an actuarial review, a primary cause of the overall unbudgeted increases in superannuation continues to be linked to the extent of retrenchments which occur, including those arising this year from the implementation of IT outsourcing arrangements and the further reductions in Central Office positions in the Department of Education;

- $8.3 million from transferring into the Public Account scope recoverable works outlays previously recorded in the Transport and Works Accountable Officer's Trust Account;

- $8 million additional funding required by the Department of Education to meet its personnel costs, including retrenchment costs, but as well, the normal costs of its operational staffing levels;

- $6.6 million expended by Territory Health Services on a variety of operational needs, including $1.4 million for the Chronic Diseases program, $1.3 million for legal advice and the settlement of legal claims, $1.2 million for unbudgeted superannuation costs, and almost $1 million for repairs to flood damaged property;

- $5.6 million for the reinstated payment of fuel and liquor subsidies;

- $4.8 million for funding of Crimes Victims assistance by the Northern Territory Attorney-General's Department. Because this is funded through Treasurer's Advance, the approximately $4 million to $5 million consistently required each year is not being included in the calculation of the expected Budget outcome when this is announced;

- $3 million advance to the Northern Territory's Nominal Insurer for unfunded Workers Compensation following the collapse of the HIH Insurance Company;

- $3 million in net costs, incurred by the ITMS Government Business Division of the Department of Corporate and Information Services, arising from the implementation of IT outsourcing in the year;

- $2.8 million of legal expenses for the litigation with NT Power Pty Ltd;

- $2.5 million for a settlement to developers to relocate a Prawn Farm development from the Shoal Bay area; and

- $2.2 million of infrastructure upgrades by Police, Fire and Emergency Services.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

The average interest rate on borrowings of the Government during the year was 6.1%. At that interest rate, the $70 million of additional, debt funded recurrent outlays for the year will continue to incur interest of $4.3 million each year, until such time as the Government is able to reduce debt levels by the $70 million.

Capital expenditure analysis

After adjusting for the effect of the balance of the Conditions of Service Trust in capital receipts, capital expenditure was $250.6 million which compares to the original budget of $252 million.

This is after including as capital expenditure both the $43 million payment in settlement of a legal dispute over the Darwin to Katherine Transmission Line, and the $3.6 million acquisition of Owen Springs Station. Neither of these payments were provided for in the original 2000/01 Budget, even though the purchase of Owen Springs Station was announced in that budget.

The Darwin to Katherine Transmission Line was subsequently valued at $39 million by the Power and Water Authority, with the balance identified by that entity as legal settlement costs, but the total $43 million was disclosed in Schedule 1.1 of the Treasurer's Annual Financial Statement as a capital outlay. Because the asset was "second hand" it was not disclosed in the New Fixed Assets category.

To properly assess the capital transactions result requires an analysis of the elements contributing to the overall budget variation. The following table illustrates these elements:

	Budget	**Actual**	**Variance**
	$ million	**$ million**	**$ million**
Capital Expenditure			
comprising:			
New Fixed Assets	232	224	(8)
Capital Grants	99	193	93
Other Net Expenditure	(79)	(324)	(244)
Total	**252**	**93**	**(159)**

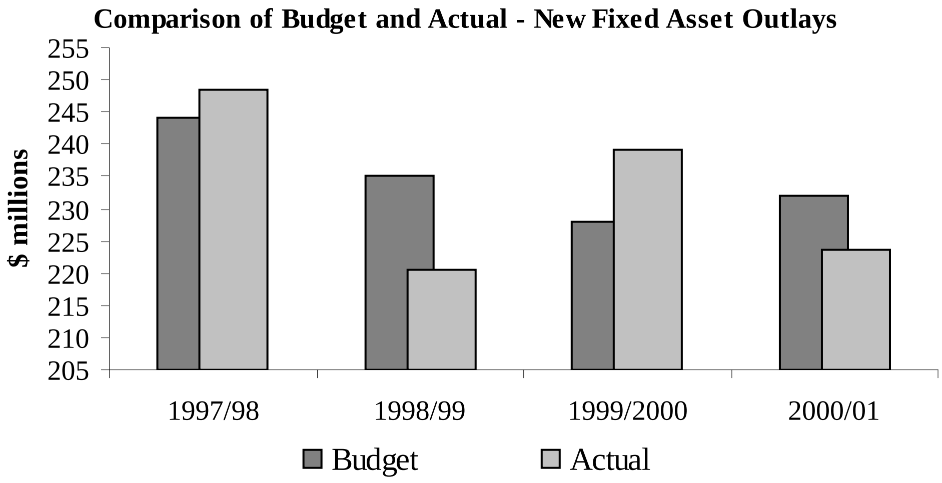
All amounts are rounded to the nearest $1 million

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

Capital expenditure analysis (continued)

New Fixed Assets

The trend in new fixed assets actual outlays in comparison with budget is illustrated in the following chart.



There is still no comprehensive analysis produced by the Government to account for variations between Budget and actual outcomes for new fixed assets expenditure, or perhaps as importantly, between estimates and actual results. There is great interest in the Government's capital works program from private sector businesses, yet sufficient Government accountability for actual performance in capital works delivery is still not being provided.

Information obtained from audit analysis indicated that operational delays occurred in capital projects for Royal Darwin Hospital, Girraween Primary School, and Stage 2 of the East Arm Port, although this then allowed funds to be available for unbudgeted flood repairs. As well, $5.3 million of expenditure budgeted for the Darwin Correctional Centre did not proceed, due to delays in the design of the project.

There is no concise reporting at the whole of Government level of this type of information about the capital works program. A more comprehensive accountability for capital works should be provided by Government. This should reconcile the announced capital works budget with the cash allocation to projects and to Agency capital items provisions, and subsequently identify and report where variations occur in the actual capital outlays.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

Capital expenditure analysis (continued)

Capital grants and other capital payments and receipts

For both capital grants and capital receipts, it is necessary to adjust out the impact of both the Alice Springs to Darwin Railway funding and the transfer of the Conditions of Service Trust to better compare the actual result with the original budget. The following tables illustrate these adjustments.

	Budget $ million	Actual $ million
Capital Grants		
Railway funding	50	140
Other grants	49	53
Total	**99**	**193**
Other net expenditure, including capital receipts		
Darwin-Katherine Transmission Line payment	-	43
Railway funding receipt	(50)	(165)
Other receipts	(29)	(44)
Receipt of Conditions of Service Trust balance	-	(157)
Total	**(79)**	**(323)**

All amounts are rounded to the nearest $1 million

This analysis shows that while the $165 million was received into the Public Account for Railway funding, only $140 million of that was paid as grants funding to the AustralAsia Railway Corporation. The effect of this is to contribute a $25 million "surplus" to the measurement of the actual Budget outcome. The $25 million difference was disclosed as an Advance paid, which falls outside of the calculation of the Budget outcome in the Economic Transactions Format. The $25 million was a loan to the AustralaAsia Railway Corporation, but this was then written down to a value assessed as collectable at 30 June 2001 of only $400,000.

This illustrates why the full impact of the Railway transactions in the year on the financial position of the Public Account requires the $24.6 million write-down to be added to the $116 million underlying deficit calculation.

Public Account Scope
Comparison of 2000/01 actual outcome with original budget

Analysis of Revenues

Revenues in total were at similar levels to the original budget, but this was achieved through additional Commonwealth Government sourced revenues compensating for an under-achievement of Northern Territory sourced revenues, as illustrated in the following table:

	Budget $ million	Actual $ million	Variance $ million
Territory Revenue			
Taxes	239	223	(16)
Property Income	29	59	30
Interest Received	36	31	(5)
Surplus of Business Divisions	113	80	(33)
Other Revenue	17	22	5
Total	**434**	**415**	**(19)**
Commonwealth Grants			
Commonwealth Revenue Replacement Payments	-	8	8
Other Commonwealth Grants	290	310	20
GST Related Revenue	1,285	1,277	(8)
Total	**1,575**	**1,595**	**20**

All amounts are rounded to the nearest $1 million

The variation between Surplus of Business Divisions and Property Income reflects a change in disclosure in which dividend income was transferred to Property Income. Once again, there is no specific disclosure of this format change to assist the reader of the Treasurer's Annual Financial Statement.

The most significant fall in Northern Territory sourced revenues is in taxes, particularly stamp duties, reflecting a reduction in economic activity below that expected by the budget.

The lower than budgeted Commonwealth GST sourced funding also reflects the slow down in economic activity. The slower than budgeted population increases in the Northern Territory in comparison with population increases in the rest of Australia reduced the actual amount of GST related revenues in the year below the original budget expectation.

$9 million of the $20 million increase in other Commonwealth Grants is the receipt of Natural Disaster Relief funding for flood related expenditures incurred during the year. The balance was for a variety of mainly education and health projects.

Public Account Scope

Comparison of 2000/01 actual outcome and estimated actuals

KEY ISSUES

- **While the actual underlying increase in the Net Debt in the Government's Budget (Public Account) scope for 2000/01 was $116 million, the underlying deficit which was estimated for presentation to the Legislative Assembly in May 2001 was $149 million.**
- **The major contributor to the $33 million lower deficit was the $36 million over-estimate on capital transactions.**
- **However, over-estimates in interest expense and current grants and subsidies masked a $30 million under-estimate in final consumption expenditure.**
- **$14 million of that under-estimate in final consumption expenditure was caused by reductions made to the estimates prepared by two Agencies. Both subsequently required funding to reinstate those amounts to meet the normal operational commitments which had been forecast in their estimates.**

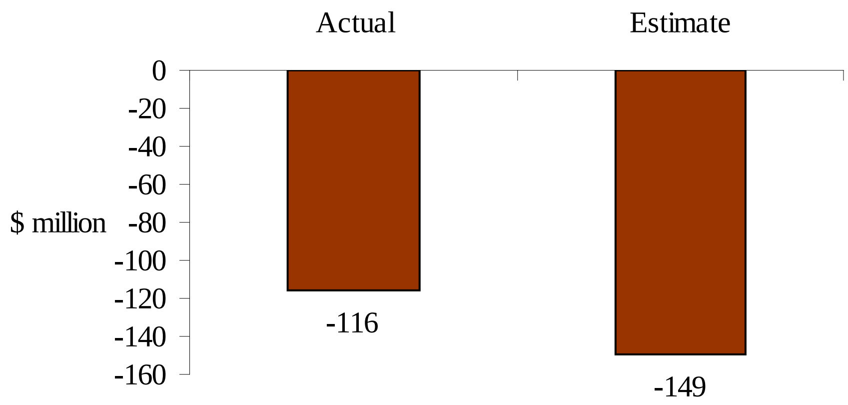
Comparison of the 2000/01 actual outcome and estimated actuals

The next year's budget is presented to the Legislative Assembly with estimates of the current year's actuals. This is intended to allow the following year's budget to be questioned by the Members of the Legislative Assembly with reference to the expected result for the current year. The reliability of the estimates as an indicator of the current year's result is a significant contribution to how well Members are able to conduct their questioning of the Budget.

Movement in net debt

While the actual underlying increase in the Net Debt in the Government's Budget (Public Account) scope for 2000/01 was $116 million, the underlying deficit which was estimated for presentation to the Legislative Assembly on 29 May 2001 was $149 million.

Public Account Scope
Comparison of 2000/01 actual outcome and estimated actuals



Why was the actual deficit lower than the estimate?

As with the actual outcome, an adjustment to the reported estimated result was also required to remove the masking effect of receiving the balance of the Conditions of Service Trust.

	Estimates $ million	Actual $ million	Variance $ million
Cash outflows:			
Current expenditure	1,873	1,876	3
Capital Expenditure	129	93	(36)
Adjustment to remove Conditions of Service Trust balance from capital receipts	150	157	7
Sub-total of underlying outflows	2,152	2,126	(26)
Less cash inflows:			
Territory sourced revenue	400	415	(15)
Commonwealth grants	1,603	1,595	8
Sub-total of inflows	2,003	2,010	(7)
Increase in net debt	**(149)**	**(116)**	**(33)**

All amounts are rounded to the nearest $1 million

Public Account Scope
Comparison of 2000/01 actual outcome and estimated actuals

The major contributor to the $33 million lower deficit was the $36 million under-expenditure on capital transactions, as illustrated in the following table:

	Estimate $ million	Actual $ million	Variance $ million
Capital Expenditure			
New Fixed Assets	237	224	13
Capital Grants	188	193	(5)
Other Net Expenditure	(296)	(324)	28
Total	**129**	**93**	**36**

Once again, it is necessary to adjust out the impact of both the Alice Springs to Darwin Railway funding and the transfer of the Conditions of Service Trust to properly assess the contributions to this variance.

	Estimate $ million	Actual $ million
Capital Grants		
Railway funding	140	140
Other grants	48	53
Total	**188**	**193**
Other net expenditure, including capital receipts		
Darwin-Katherine Transmission Line payment	43	43
Railway funding	(165)	(165)
Other capital receipts	(24)	(44)
Transfer of Conditions of Service Trust balance	(150)	(157)
Total	**(296)**	**(323)**

All amounts are rounded to the nearest $1 million

Audit inquiry identified that capital projects for the Darwin Correctional Centre, Royal Darwin Hospital, Girraween Primary School, and East Arm Port experienced delays in the year for operational reasons, but this allowed funding to be available for the unbudgeted flood relief expenditure.

The large increase in other capital receipts was substantially contributed by the $10.7 million receipt for the Government's desktop computer equipment sale on 29 June 2001 to CSC Corporation, as part of the outsourcing of desktop support services. Overall, the Government incurred a net cost from outsourcing in the year of almost $3 million.

Public Account Scope
Comparison of 2000/01 actual outcome and estimated actuals

Final Consumption expenditure was higher than the estimate

It is also useful to analyse the variance between the estimate and the actual outcome of the components of current expenditure. This reveals that the net $3 million under-expenditure is the result of additional $30 million expenditure on final consumption, compensated by an overestimate of grants and subsidies and interest expense, as set out in the following table:

	Estimate $ million	Actual $ million	Variance $ million
Current Expenditure			
Final Consumption Expenditure	1,279	1,309	30
Current Grants & Subsidies	412	394	(18)
Interest Paid	182	173	(9)
Total	**1,873**	**1,876**	**3**

All amounts are rounded to the nearest $1 million

How reliable was the Final Consumption Expenditure estimate?

There is no process within the Government to systematically identify and report what contributed to the variations between estimates and actuals.

One recurring effect is the under-estimate of requirements for funding Victims of Crimes assistance. An further $2 million was required this year in addition to the $3 million included in the 2000/01 estimates of the Northern Territory Attorney-General's Department.

As well, during audit work conducted on end of year financial information in larger Agencies, instances were identified where the published estimates for Final Consumption Expenditure in two Agencies were less than those which had been submitted by each Agency to the Government. These were an $8 million reduction in the estimates of Territory Health Services and a $6 million reduction to the estimates of the Department of Education. These two Agencies then required additional funding close to the end of the year to allow them to meet their normal personnel and operational expenditure commitments. A summary of the audit findings in these two Agencies follows.

Territory Health Services

In comparison with the estimated actuals for 2000/01 which were presented in the 2001/02 Budget Papers, the Agency expended $11.28 million more than estimated. This was mainly due to an $8 million adjustment to the estimate which was identified to the Agency as a means for presenting the following year's Budget as being 2.5% higher than that year's estimated actual. The $8 million was subsequently reinstated in a budget variation approved in June 2001, because the Agency required this funding for its normal operational needs.

Public Account Scope
Comparison of 2000/01 actual outcome and estimated actuals

How reliable was the Final Consumption Expenditure estimate? (continued)

Department of Education

By March 2001, the Department had better identified its budgetary needs for personnel costs for the year. That analysis established that the original $204 million budgeted for personnel costs for 2000/01 was insufficient. A $6 million increase was approved by the Government in March 2001, but the forward estimate in the Government's 20001/02 Budget Papers still showed $204 million. The actual outlays recorded for personnel costs for the year eventually totalled $212 million.

The Department's submission to the March 2001 Cabinet meeting had in fact identified additional base funding needs for the year of $11.44 million.

The $6 million increased base funding approved in March 2001, and $5.3 million additionally approved in June 2001, eventually provided the necessary level of funds to meet the Department's expenditure needs for the year.

The $6 million increased base funding of March 2001 was also approved for the following three years, and will receive increments in response to forecast Enterprise Bargaining Agreement increases. Offsetting that funding, however, is the 2% efficiency dividend reduction applied in the forward estimates to personnel and operational costs. This offset has the effect of producing forward estimates which are unlikely to portray the expenditure needs of the Department. The recent independent review of the Northern Territory's financial position by Professor Percy Allan also identified this issue generally across Government.

Audit analysis

In total, the $14 million reduction across both Agencies had the effect of reducing the estimated result for final consumption expenditure, yet both subsequently required funding to reinstate those amounts to meet the normal operational commitments which they had forecast in their estimates.

Interest expense

Interest expense in the estimates was reduced by $2.6 million from the original budget to reflect the lower prevailing interest rates. The actual result was a further $9.4 million, or 5%, less than the estimate. This item should be more predictable in the estimates, and if more accurately stated, would allow the extent of variances in final consumption expenditure and current grants and subsidies to be more apparent.

Core Fiscal Strategies

Actual outcomes analysis

KEY ISSUES

- **Changes in the way the elements of the former Government's fiscal strategies were measured limited their usefulness for assessing the Government's fiscal management performance. Measurement bases should be consistent between years, or if not, the impact of any changes should be disclosed.**

- **An opportunity now exists for the new Government to adopt better fiscal management performance measures. These should be aligned with the parameters used in the annual budget.**

Background

The former Government's key performance measures of its fiscal policies were the five elements of its core strategies and fiscal targets, and three supporting provisos. These were also identified by the former Government as key references when establishing the Northern Territory's annual budget. The current five elements have been in use since they were announced in the Government's budget in April 1998.

The former Government reported its extent of achievement of the strategies and targets in its annual Budget Papers, and the new Government has continued to do so in Part 11 of the unaudited section of the Treasurer's Annual Financial Report.

The new Government is yet to announce its approach to setting fiscal management performance measures.

Following is an audit analysis of the results of each of the five key elements in use during the 2000/01year.

Audit Analysis

Element No. 1 – current expenditure per capita will not increase in real terms

This signals that the Government did not wish recurrent expenditures per capita to increase in inflation-adjusted terms. Under this policy setting, any increases in revenues per capita of the Northern Territory in excess of inflation would be available for capital projects, or to apply as reductions in net debt levels.

The Government measured the performance of this element by comparing the growth in current expenditures with the combined growth in population and the Consumer Price Index (CPI). Inclusion of population growth seeks to reflect the "volume" increase, that is, the number of constituents who need services, while the CPI component is the price adjustment for goods and services purchased.

The Government's analysis identifies that current expenditure has remained within the target parameters.

Core Fiscal Strategies – actual outcomes

However, the basis under which Current expenditure has been measured has changed this year to include dividend payments made by Government Business Divisions to the Public Account. Comparative years have been adjusted accordingly, but the effect of this change in the basis, and the reasons for it, have not been explained in Part 11 of the Treasurer's Annual Financial Statement. (Inclusion of dividend payments is balanced out in the actual outcome calculation because the dividends are also included in Property income receipts.) Adjusting the 2000/01 current expenditure to allow a comparison with the similarly unadjusted previous year, shows:

	$ million
Current year expenditure:	1,876
Less Dividends included:	(26)
Net current expenditure	<u>1,850</u>
Current expenditure –1999/2000	<u>1,799</u>
Growth	2.8%

which is still within the combined population and CPI increase of 4.8%.

However, in the original 2000/01 Budget, current expenditure was budgeted as $1,803 million. This was only a 0.2% increase on the actual $1,799 million for 1999/2000, and was a reduction from the estimate of $1,808 million for the 1999/2000 year.

So this key element of the fiscal strategies allowed current consumption expenditure to increase by factors well above the budgeted levels. Current consumption expenditure could have increased by a further $35 million, using the pre-dividend base, and still have remained within this parameter. Yet that would have simply worsened the net debt results, because additional revenues were not available to fund that level of expenditure growth. Compliance with this parameter required revenues to grow by the same amount as did current and capital expenditures, if net debt was to remain stable.

So this element is not sufficient to act as a performance measure of the Government's discipline over its expenditure. It was not being linked to the growth parameters used in the Government's Budget, and so it sent a conflicting message about the integrity of both itself and the Budget.

Element No. 2 – infrastructure maintained to meet the Territory's economic and social needs.

This element does not have a specific target, and the Government does not refer to the estimated value of its stock of infrastructure assets which it reports in Part 6 of the unaudited Treasurer's Annual Financial Report. The surrogate measures of capital expenditure and repairs and maintenance for the year provide an indication of inputs to infrastructure needs, but not in terms of whether the Territory's needs are met or maintained because of that expenditure.

Core Fiscal Strategies – actual outcomes

However, budget targets and forecasts do indicate the Government's aspirations for meeting the Territory's infrastructure needs.

The original budget for new fixed assets for the year was $232 million, which was then revised to a higher estimate in May 2001 of $237 million. The actual expenditure for the year was $224 million. This would indicate that the aspirations of the Government for the year were not achieved in relation to delivering infrastructure assets meeting the Territory's needs.

The repair and maintenance estimate published in May 2001 was $161 million. This compares with the final expenditure which is reported in Part 11 of the Treasurer's Annual Financial Report as $170 million. The repairs included substantial unbudgeted expenditure on flood damaged infrastructure. The Department of Transport and Works reported that it incurred $11 million and Territory Health Services a further $1 million. However, inclusive of flood related expenditure, repair expenditure appears to have met the Government's overall expectations.

Generally, a measure of the change in the value of the Northern Territory's infrastructure assets by purpose would appear to be a stronger measure. The Government does not yet have a reliable measure of that, although Schedule 6.4 in the unaudited section of the Treasurer's Annual Financial Report does report the Government's estimate of those values.

Element No. 3 - The Territory's own-source revenue effort is broadly comparable to the States.

This element provides information about the taxing and revenue raising strategies in use by the Government.

It reports in two ways. The first is a simple own-source revenue per capita calculation. This is showing that the revenue per capita for the Northern Territory is broadly comparable to that of the Six State average.

The second way is by referring to the revenue effort calculation prepared by the Commonwealth Grants Commission. If that ratio were too low in comparison with the average of other Australian jurisdictions, it would indicate that the Territory was not raising revenues in a comparable way from its constituents, and this could unfairly burden the redistribution of Financial Assistance Grants from the Commonwealth. Conversely, if it were relatively high, it would indicate that its constituents were paying more than those in other jurisdictions.

This element does not use information from the audited section of the Treasurer's Annual Financial Statement. While the reporting of Commonwealth Grants Commission data provides an independent source, current year data is not available by the time the Treasurer's Annual Financial Report is tabled, and so the latest information reported by the Government in Chapter 11 of the 2000/01 Report is for 1999/2000 year. This year, only the Government's preferred basis of Taxation Revenue Capacity and Effort has been shown. It is no longer reporting the total Revenue Capacity and Effort in providing performance information about this element. The information reported shows that taxation revenue capacity continues to be below the Australian average, while effort was assessed at 101%. The Australian average is expressed as 100%.

Core Fiscal Strategies – actual outcomes

I have highlighted in previous Reports to the Legislative Assembly that for both methods of measurement used, the reported information for particular years varies between when it is shown in the previous year's Report, in the next Budget papers, and in the current year's Report. Changes in population estimates would contribute to this. A longer trend analysis of final calculations would give a better accountability about the achievement of this element.

Element No. 4 – Debt as a proportion of economic output will decline

This element compares gross debt with Gross State Product, which is an economic measure of the Northern Territory's productive output in a year, as an indication of the relative debt burden carried. It compares this year's ratio with the previous year's.

However, in Part 10 of the unaudited Treasurer's Annual Financial Report which discusses Debt Management, the Government itself highlights that this is an unsatisfactory surrogate measure of the sustainability of debt levels. *(refer Treasurer's Annual Financial Report 2000/01, page 175)* It adopts a measurement recommended in the independent report of Professor Allan of net debt plus employee entitlement liabilities to total revenues as a more appropriate measure. This better describes debt burden in the context of actual revenue available to meet the debt obligations. The Government's own analysis of this preferred alternative is that the ratio of 113.1% is well outside the Six State average of 71.4%. Movement between years has not been reported.

The new Government's use of this element as currently stated, as a core strategy and fiscal target, should be reviewed in light of the former Government's own questioning of its usefulness, and its preference for an alternative measure for assessing the sustainability of debt levels.

Element 5 – Debt servicing as a proportion of total Territory revenue and Commonwealth Grants will be broadly comparable to the States.

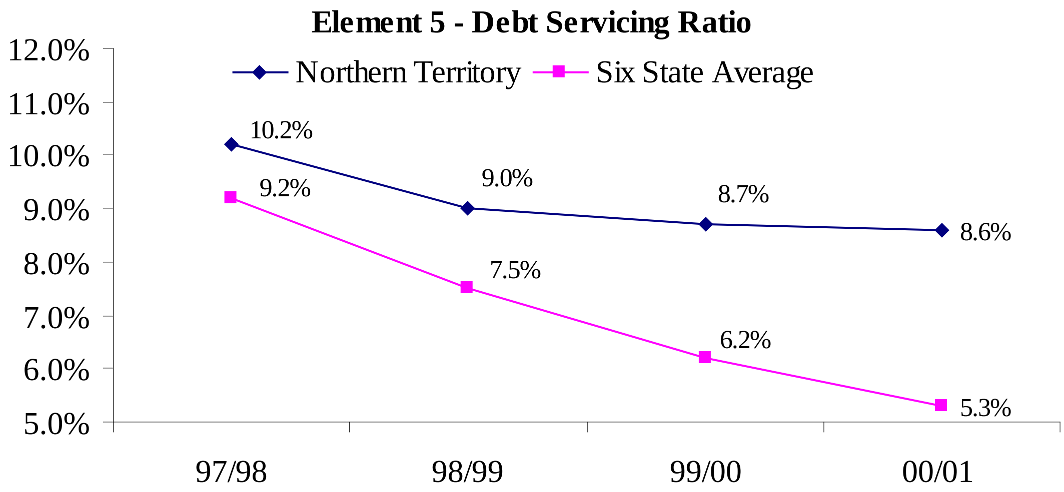
This element identifies important aspirations for the Government's financial management policies. It seeks to constrain the Government's debt servicing obligations within a benchmark of a "broadly comparable" profile of the Six State average.

The measure used is the percentage of interest expense to total revenues of the Northern Territory. This indicates the "affordability" of the Territory's borrowings, in the context of the levels of total borrowing, interest rates, and revenue sources available.

With the interest expense for the year of $173 million and total revenues to the Northern Territory of $2.01 billion, as shown in the audited Schedule 1.1, the Northern Territory achieved a ratio of 8.6%. This compares to the 8.7% in the previous year. Part 11 of the Treasurer's Annual Financial Report identifies the Six State average fell from 6.2% in the previous year to 5.3% in 2000/01.

Without a more precise measure of "broadly comparable", the results are at least indicating that the rate of decline in the Territory's ratio is slower than the six State average.

Core Fiscal Strategies – actual outcomes



Although the former Government previously indicated its general satisfaction with the ratio remaining steady at around 9%, this is not how this element of the fiscal strategy is expressed. If further declines in the Six State average continue, this element of the fiscal strategy will not be achieved.

The unaudited Part 10 of the Treasurer's Annual Financial Report identifies that the Northern Territory's net debt per capita at 30 June 2001 was $7,523 which is 14% higher than last year's $6,600. It is 4.4 times higher than the six State average of $1,718, and well outside the 2.3 times per capita which the Commonwealth Grants Commission assesses as the Northern Territory's expenditure needs. Debt servicing is included in that factor.

In summary, of the five core strategies and fiscal targets which guided the former Government in its fiscal planning and management responsibilities,

- Element No. 1 on current expenditure limits has been achieved, using a comparable measurement to that in the previous year. However, this element is not sufficient to act as a performance measure of the Government's discipline over its expenditure, since it allowed expenditure to grow at a rate higher than the approved budget;

- Element No. 2 on maintaining necessary infrastructure has not achieved the Government's capital expenditure aspirations, but appears to have achieved the expectations for repair and maintenance costs. Changes in the value of the stock of infrastructure assets should be the measure reported once this is able to be reliably measured;

- Element No. 3 on revenue raising effort is being achieved in terms of the simple measurement method, while the independently calculated method has not yet been determined for the 2000/01 year, but past trends indicate it most likely would be achieved;

- Element No. 4 on debt burden uses a measure which the former Government considered unsatisfactory. The preferred basis as now in use by the new Government indicates that the Northern Territory has an unsustainable debt burden; and

- Element No 5 on debt servicing was not achieved.

Core Fiscal Strategies

Future directions in fiscal management measures

The new Government has the opportunity to adopt new fiscal strategies and performance measures.

The Auditor-General for the State of Victoria and the Government of the Canadian Province of British Columbia use the following classifications for analysing their financial condition:

Sustainability – indicating movements in the degree to which the Government can maintain existing programs and operations, and meet existing operational liabilities, without increasing Government debt levels. Examples of indicators in use are:

- Five year trend in the level of net debt;
- Five year trend interest expense to total expenditure; and
- Five year trend in net worth.

Flexibility – indicating movements in the degree to which the Government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden. Examples of indicators in use are:

- Five year trend in net debt to total revenues;
- Five year trend in own source revenue to total revenues; and
- Five year trend interest expense to total revenues.

Vulnerability – indicating movements in the degree to which the Government is dependent on, and therefore vulnerable to, sources of funding outside its direct control or influence. Examples of indicators in use are:

- Five year trend in Commonwealth sourced revenues to total revenues;
- Five year trend in Commonwealth special purpose funding to total Commonwealth funding; and
- Five year trend in interest expense to total revenues.

Although the former Government's fiscal strategies and associated provisos featured a number of these characteristics and performance measures, the classification system outlined above can give the performance measures greater context and meaning.

The performance measures and targets adopted should also clearly reconcile to the annual budget parameters, so that there is no variance between the intended financial management performance and the measures of that performance.

The Government should examine reporting practices in use in other Australian jurisdictions, and present its financial management accountability in ways which are comparable to the best practices in use in those jurisdictions.

Net Debt – Uniform Presentation Framework

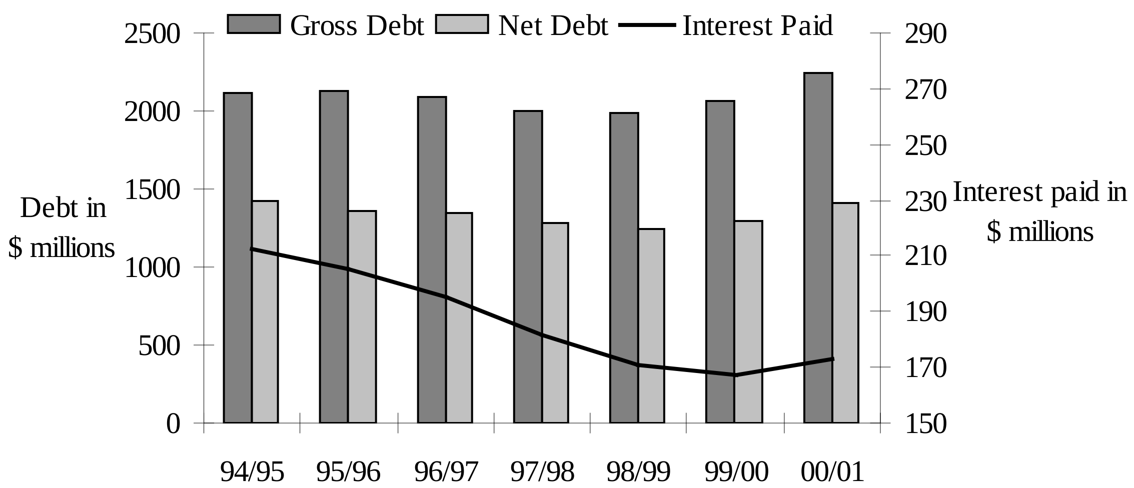
Analysis of the Net Debt position using the Uniform Presentation Framework

KEY ISSUES

- **Net Debt, as measured by the Uniform Presentation Framework (UPF), increased by $122 million to $1.42 billion.**
- **However, $61 million of the financial assets included in the UPF net debt calculation accrues to the other participant in the AustralAsia Railway Corporation, and will not be available to the Northern Territory to offset gross debt.**

The results and trends in UPF Net Debt levels, and in interest expense, are:

Trend in gross debt, net debt (Uniform presentation framework) and interest paid (economic transactions format)



Source: Treasurer's Annual Financial Reports

Net debt has now increased to a similar level last recorded as at 30 June 1995:

	94/95 $ 000	95/96 $ 000	96/97 $ 000	97/98 $ 000	98/99 $ 000	99/00 $ 000	00/01 $ 000
Gross Debt	2116.0	2131.0	2093.0	1999.0	1988.8	2064.2	2242.0
Less: Financial Assets	689.0	778.0	747.0	723.0	748.0	770.1	825.6
Net Debt	**1427.0**	**1353.0**	**1346.0**	**1276.0**	**1240.8**	**1294.1**	**1416.4**
Interest Paid	212.2	205.4	195.3	181.9	170.8	167.1	172.65

Net Debt – Uniform Presentation Framework

What is the Uniform Presentation Framework?

The Uniform Presentation Framework refers to the current reporting standards adopted by all Governments. The concept of all jurisdictions in Australia providing financial reporting in a uniform manner was first agreed in 1991. Part 8 of the unaudited section of the Treasurer's Annual Financial Report identifies more details about the Uniform Presentation Framework.

Components of the net debt balance

In commenting on the net debt trend, it is appropriate to compare the components in the calculation with the audited information in the Treasurer's Annual Financial Statement.

	Uniform Presentation Framework	Public Account Scope (audited)	
	$ million	**$ million**	
Gross Debt *(page 32)*	**2,242**	**2,231**	(Note 1)
Financial Assets			
Public Account balance *(page 33)*		435	
Advances paid *(page 33)*		252	
	826	**678**	(Note 2)
Net debt balance – Uniform Presentation Framework	**1,416**	(Note 3)	

The variances are:

(1) Gross debt in the Uniform Presentation Framework includes an additional $11 million of loans to Darnor Pty. Ltd and Gasgo Pty. Ltd. These are entities controlled by the Power & Water Authority, but are not within the budget scope.

(2) A number of cash balances not within the Public Account Budget scope are disclosed in the Uniform Presentation Framework. These include Darnor Pty Ltd and Gasgo Pty Ltd and in particular, the large cash balance held as at 30 June 2001 by the AustralAsia Railway Corporation, following the transfer of funding to that entity.

As well:

(3) There is only one balance of net debt – that is the Uniform Presentation Framework calculation. The Public Account *movement* of net debt only is reported, which equates to the difference between current and capital outlays and Territory and Commonwealth sourced receipts in the Government's Economic Transactions Format.

Net Debt – Uniform Presentation Framework

Reconciling the Public Account net debt increase with the balance of the net debt in the Uniform Presentation Format

The increase in the net debt (net financing requirement) under the Public Account scope of $116 million, compares to the increase in the net debt position in the Uniform Presentation Framework of $122 million.

Part 8 of the unaudited Treasurer's Annual Financial report identifies the additional items that are included within the scope of the Uniform Presentation Format.

A reconciliation of the movements in Net Debt under the two measurement methods ensures that the reconciling items are in accordance with expectations. Following is the reconciliation prepared by Northern Territory Treasury this year.

	$ 000
Increase in net debt (Public Account Scope)	**115,846**
Increased by:	
Accrual adjustments to Advances Paid (that is, loans to external parties)	26,374
Accrued liabilities of other debt securities	5,979
Reduction in the Conditions of Service Trust balance	154,014
Finance leases capitalised	3,802
Reduced by:	
Residual value of Treasury Corporation debt held	4,959
Increase in financial asset positions of other entities outside the Public Account Scope (especially the AustralAsia Railway Corporation)	175,378
Other miscellaneous adjustments	3,346
Increase in net debt (Uniform Presentation scope)	**122,332**

This reconciliation shows the effect of the transfer of funds in the year out of the Government's former Conditions of Service Trust and into the AustralAsia Railway Corporation, for use in the Alice Springs to Darwin railway construction.

An anomaly that the reconciliation identifies (*also referred to in Part 8 of the Treasurer's Annual Financial Report, page 138*) is that all of the financial assets held by the AustralAsia Railway Corporation are required to be included in the Uniform Presentation Format net debt calculation for the Northern Territory. However, the Northern Territory has only an entitlement to 74% of the equity of the Corporation at 30 June 2001, so in following the requirements of the Uniform Presentation Format the Government's entitlement to financial assets is overstated, and its net debt position is understated, by $61.3 million. This is the 36% of the increase in the Corporation's net financial asset position which accrues to the State of South Australia, the other equity participant.

Analysis of Net Debt Trends

ANALYSIS OF THE COMPONENTS COMPRISING NET DEBT

Gross debt (using Public Account scope) $2.231 billion
(last year $2.051 billion)

The major cause of the $179.5 million increase for the year was the level of new borrowings obtained by the former Government. This was offset to an extent by a $6 million reduction in finance lease liabilities following the outsourcing in June 2001 of desktop computer ownership.

Average interest rate paid on gross borrowings of the Northern Territory Government in the 2000/01 year is identified in the Northern Territory Treasury Corporation's 2000/01 Annual Report as 8.4%. Last year it was 8.9%.

Interest paid on borrowings in the 1999/2000 year was $172.65 million. This was 8.2% of total current and capital expenditure for that year, after adjusting out the effect of the Conditions of Service Trust receipt. In the 1999/2000 year, $167.1 million was paid, which was 8.3% of total expenditures.

The increase in interest expense is attributable to the effect of the new borrowings, particularly those from the 1999/2000 year which were obtained late in that year, offset by the effect of re-financing of old debt at more favourable interest rates. The 2001/02 Budget of the former Government was expecting interest paid to be $188 million in that year.

Section 10 of the Treasurer's Annual Financial Report provides further analysis and trend information on debt management. This includes comparisons of the Northern Territory's net debt plus employee entitlements per capita with the Six State average. It highlights that the Territory's debt per capita is increasing, whereas the Six State average is declining. It indicates that our interest expense is now much higher per capita than the 2.3 times which the Commonwealth Grants Commission applies as the relative expenditure needs for the Northern Territory to maintain comparable services to other jurisdictions.

Gross debt (using Uniform Presentation Framework) $2.242 billion
(last year $2.064 billion)

As noted previously, this is the gross debt in the Public Account Scope, increased by $11 million of amounts owing by Darnor Pty. Ltd and Gasgo Pty. Ltd, entities outside the Public Account, but controlled by the Power and Water Authority. These entities are involved in gas supply and investment arrangements.

Analysis of Net Debt Trends

Financial assets:

The Public Account balance **$435.1 million**
(last year $236.4 million)

The Public Account balance is the operating funds account of the Government.

The large increase since last year is as a result of transferring in $156.7 million of the remaining balance in the Conditions of Service Trust and the holding of $42 million of borrowings additional to that needed for the year (Refer to pages 11 to 12 for further commentary).

I provided an overview of the transactions in the Conditions of Service Trust in my August 2001 Report to the Legislative Assembly. The Trust was terminated when the remaining balance was transferred to the Public Account on 22 June 2001.

Advances Paid – (lendings repayable to the Government) **$252.5 million**
(Last year $262.7 million)

This balance is after providing for any non-recovery of loans made. A major contribution to the movement in this balance in the year arises from the additional provision of $8 million for non-recovery of loans made by the Government to the Jabiru Town Development Authority prior to 1984.

Change in Net Worth

KEY ISSUES

- **Total liabilities increased by $398 million, compared with $191 million last year.**
- **The impact of that increase on the Government's Net Worth cannot be reliably determined, in the absence of an audited value of the Government's infrastructure assets.**

Net Worth

One measure of a Government's financial performance is the movement in its net worth which has occurred during the year. Net worth is the difference between the Government's total assets, both financial and infrastructure, and its total liabilities. A declining net worth is indicating that liabilities are growing faster than the increase in asset values. An increase in net worth would indicate that asset growth is exceeding liability increases.

Total Liabilities

Net debt is not the only liability position contributing to net worth. Other liability exposures include:

Superannuation commitments	**$1.317 billion**
	(last year $1.072 billion)

Based on actuarial calculations, this increased by $245.4 million in the year ($94.4 million increase last year). These amounts are the unfunded commitments of the Government. It excludes the commitments to Legislative Assembly Members superannuation, which are in a fully funded scheme.

The larger than usual increase this year is the result of an actuarial review of the Northern Territory's liabilities for personnel receiving Commonwealth Superannuation Scheme (CSS) benefits. This scheme was available to Northern Territory public sector employees until the Northern Territory's own scheme for public sector employees commenced on 1 July 1986.

The major adjustment would be reflecting the number of retiring and retrenched employees and the recognition of the pension benefits which the CSS provides. The magnitude of the CSS adjustments is outside of the control of the Northern Territory Government and reduces its flexibility in managing its liabilities.

Since 10 August 1999, superannuation commitments for newly engaged public sector employees are fully funded through externally managed schemes at the level required for employer contributions.

Change in Net Worth

Accrued employee entitlements **$241 million**
(Last year $240 million)

The stability in the accrued employee entitlements amount, despite a 3% increase in salaries in the year, appears to be reflecting the Government's policy of requiring its personnel to take their accruing leave entitlements, rather than accumulating these.

Workers' Compensation **$59 million**
(Last year $64 million)

This amount is determined actuarially, and is the present value of future benefit payments. The fall is due to a continuing trend in the lowering of the number and value of claims and cases under management.

Other amounts owing and payable (unaudited) **$163 million**
(last year $128 million)

These are not classified by the Treasurer as requiring disclosure as a liability in the audited Treasurer's Annual Financial Statement. Accounts payable of $127.6 million is disclosed in the unaudited Schedule 7.2 in the Treasurer's Annual Financial Report. The unaudited disclosures identify that $107.8 million was for goods and services received, and $52 million for interest payable. The amounts grew significantly from the previous year disclosures of $83 million for goods and services, and $44 million for accrued interest.

Total of increases in liabilities

The following summarises the increases in the Territory' liabilities in the year ended 30 June 2001:

Net debt (Uniform Presentation Format)	$122 million
Superannuation	$245 million
Accrued employee entitlements	$1 million
Workers Compensation –(reduction)	$(5 million)
Total, from the audited schedules	$363 million
As well, the increase in accounts payable, net of the decrease in interest payable, and included in Schedule 7.2 of the Treasurer's Annual Financial Report	$35 million
Total	**$398 million**

Change in Net Worth

Movement in the Government's net worth

Changes in total liabilities can be evaluated in comparison with the extent of changes in total assets. The movement in the assets less liabilities of the Government shows the change in its net worth, and can be one of the indicators of its financial management performance.

Although total liabilities increased by $398 million in the year, assessing the change in total assets requires an assessment of movement in the value of capital infrastructure. There is not, as yet, a reliable measure of that.

The Government did disclose in Section 6 of the Treasurer's Annual Financial Report a reduction of its unaudited infrastructure asset valuation of $1 billion, when compared with the disclosure in the 1999/2000 Report. This was to recognise for the first time an estimate of the depreciation, or "wearing down", of the assets.

My August 2001 Report to the Legislative Assembly provides further comments on issues relating to infrastructure asset valuations. The recognition of depreciation is a useful preparation for the inclusion of asset values into accrual format financial statements of the Government, expected to first apply to the financial report of the year ending 30 June 2003.

Additional quantifiable contingent liabilities

Part 5 of the Treasurer's Annual Financial Statement records the following levels of quantifiable contingent liabilities, expressed as their equivalent values as at 30 June 2001:

	1999/2000 $ million	2000/01 $ million
Amadeus Basin to Darwin Gas Pipeline	311	313
Electricity and Gas supply to Pine Creek and McArthur River Power Stations	6	110
Darwin to Alice Springs Railway	12	43
Total	**329**	**466**

All amounts are rounded to the nearest $1 million

The major increase arises from recognition for the first time this year of the Government's potential obligations under agreements for the purchase of gas supplies for the Pine Creek and McArthur River Power Stations.

Further Analysis of Information in the Public Account Scope

Analysis of Grants Paid

KEY ISSUES

- **5 Agencies distributed 84% of the total grants and subsidies paid in the 1999/2000 year.**
- **The reliance on grant recipients to provide adequate accountability information to supervising Agencies adds a dimension of risk that does not exist when the service delivery functions are managed and controlled directly by the Agency.**

A substantial amount of each year's outlays by the Government is in the form of grants and subsidies, mainly for recurrent purposes, but also for capital expenditure requirements of recipients.

Expenditure of public monies as grants and subsidies accounts for approximately 21% of total Government expenditure.

Expenditure in the economic transactions format for 2000/01 and for the previous year was:

	1999/2000 $ million	**2000/01 $ million**
Current grants and subsidies	384	394
Capital grants (removing the one-off Railway grant of $140 million)	56	53
TOTAL	440	447
% of total expenditure in the year	22%	21%

(*underlying expenditure for 2000/01, when adjusted to remove the Conditions of Service Trust from capital receipts, is $2.126 billion)*

Each funding Agency has the responsibility to control the allocation and supervise the subsequent use of the funds for the intended purposes. Because the use of the funding is not within the direct control of Government Agencies, procedures to supervise and receive an accounting for the use of the funds are required to be established by each Agency. The reliance on the recipient to provide adequate accountability information to the supervising Agency adds a dimension of risk that does not exist when the service delivery functions are managed and controlled directly by the Agency.

Analysis of grants paid

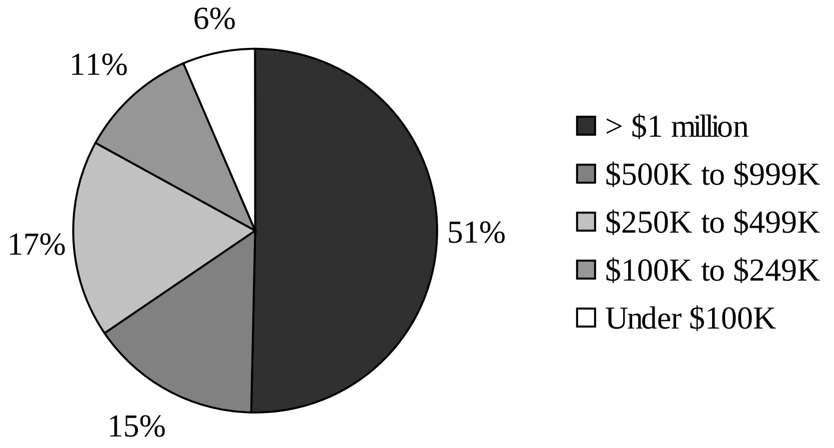
To better understand the ways in which the grants and subsidies funding is allocated, and therefore where risks may be identifiable, an audit task was conducted to prepare an analysis of the grants and subsidies expenditure in the previous financial year - 1999/2000. There is no central analysis of this type prepared within Government.

For the 1999/2000 year, the analysis extracted the following details:

Grants and subsidies paid by general agencies, not including dividends paid by Government Business Divisions (GBDs):

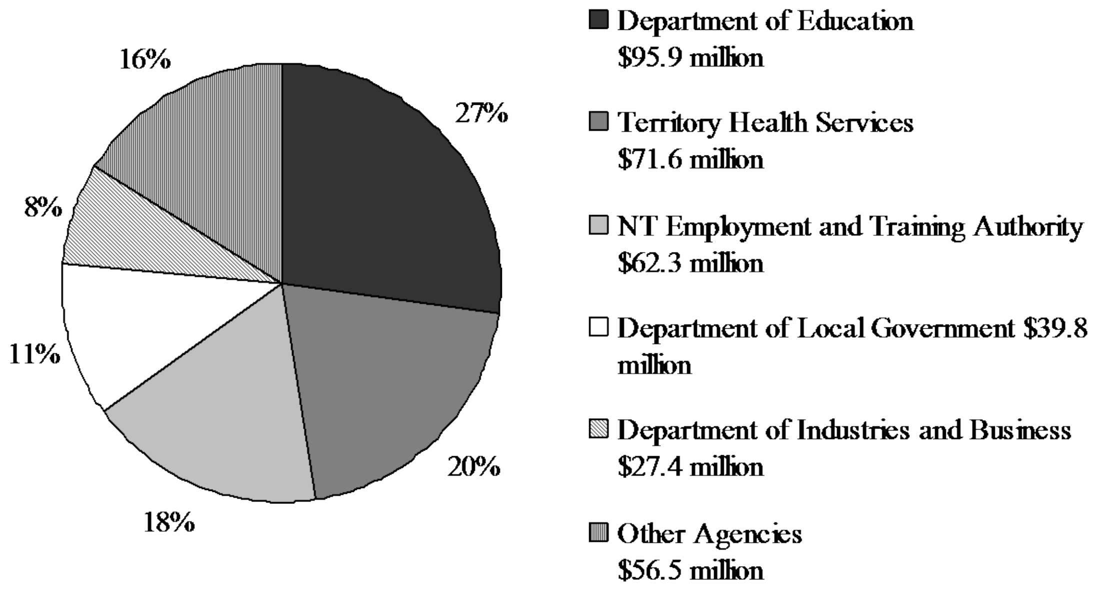
	1999/2000 $ million
Actual Total Grants and Subsidies paid by general agencies	418.5
Less: Community Service Obligations paid to GBDs	65.2
Total grants and subsidies externally distributed	353.3

The following chart illustrates the percentage of total expenditure in each individual grant expenditure range. Over 50% of individual grants and subsidies paid totalled over $1million.



Analysis of grants paid

20 agencies distributed grants or subsidies during the 1999/2000 year. 5 of those 20 agencies distributed 84% of the total grants and subsidies paid.



- Department of Education – Recurrent and capital expenditure grants are provided to both public and private schools throughout the Northern Territory to fund education services. Grants are also made to organisations providing educational support services.

- Territory Health Services – Grants are made to a variety of community care centres and groups and other health services providers such as St John's Ambulance and Menzies School of Health Research. As well, approximately 10% of this Agency's grants and subsidies expenditure is related to its administration of the pensioner's concession scheme. Subsidies are provided for such personal services as urban bus travel, spectacles, electricity, motor vehicle registration and driver's licences, council, water and sewerage rates and garbage charges, interstate and overseas travel concessions.

- NT Employment and Training Authority – funding to Registered Training Organisations and TAFE providers for delivering vocationally based education and training programs.

- Department of Local Government – grants to local and community government councils to carry out services as defined by the Local Government Act.

- Department of Industries and Business – $14 million of the grant outlays in that year were transfers internal to Government from receipts into the Lotteries Fund, with $7 million transferring to the Department of Sport and Recreation and a further $7 million to the Government's Consolidated Revenue account. $10.6 million was for special Racing Industry grants. The balance of approximately $3 million was for grants to business and industry associations, including Industry Association grants to peak representative industry bodies; and grants to private businesses which meet development criteria.

Analysis of grants paid

Funds are distributed to these community service providers as agents in delivering the policies of Government. Performance standards should then be available to allow Government supervision of how well actual performance compares with the Government's intended performance.

While further audit work is intended in 2002 to compare Agency procedures in supervising the use of grants and subsidy funding, previous audit work in this area (*) has demonstrated that it is difficult for Agencies to gain good quality performance information from funding recipients. This difficulty of gaining adequate assurance increases the risk that the allocation of public funds is not achieving intended outcomes.

(*) Department of Industries and Business - Financial assistance to industry - Auditor-General's August 2001 Report to the Legislative Assembly

Territory Health Services – Acquittal of grants provided - Auditor-General's August 1998 Report to the Legislative Assembly

Department of Education – Managing outcomes of grants – Auditor-General's End of Financial Year Report to the Legislative Assembly, August 1996

Status of Matters Previously Reported

Format of the Treasurer's Annual Financial Statement

I have highlighted over the past few years that the Government has been able to largely determine the format it will use to report its own accountability. This was despite the use of more independently designed formats by most other Australian States and Territories.

Improvements this year

This year, the new Government has improved the format which had been in use by the previous Government, particularly by:

- the positioning of the Economic Transactions Format as the leading Schedule 1.1;
- the inclusion on that Schedule of additional information identifying that the underlying decline in the value of the Northern Territory's financial assets for the year was $140.4 million, rather than the surplus of $40.9 million shown by the standard Economic Transactions Format;
- the inclusion of original Budget comparisons on all Schedules from 1.1 to 1.7; and
- the inclusion of Schedule 1.8A identifying comments about variances in Agencies between the original published budget, and the actual outcome.

The Overview provided in the Treasurer's Annual Financial Report was also a much more informative and useful analysis this year in comparison with previous years.

Improving the format in future

More can be done to improve the ability of users, particularly Members of the Legislative Assembly and the Public Accounts Committee, to understand the Government's financial management performance and its financial position.

The former Government commenced a process in December 2000 to move the annual financial reporting to an accrual accounting format rather than a cash flows basis. This means that the earning of revenue or the incurring of a liability commences the recording and reporting process rather than timing at which a receipt or a payment is recorded in the bank account.

Budget comparisons should also be clearly provided

The Government's annual Budget usually receives a great deal of public dissemination and promotion. It serves to identify how the Government intends to use public monies to achieve its policies. Budget Papers set out the Government's annual expenditure plans, as well as the revenue and other sources to be used to fund that expenditure.

Budget Paper No. 1 sets out the Budget highlights outlined in the Treasurer's speech to the Parliament. The former Government has also been providing a separate Budget Overview document. These documents are a useful way to understand the Government's priorities for the year, and allow a reference for subsequent accountability to compare actual results with budget intentions for the key areas identified by the Government.

Format of the Treasurer's Annual Financial Statement

Improving the format in future (continued)

Although in this year's Treasurer's Annual Financial Report, the new Government has provided a more expanded narrative Overview, more could be provided in future to comment on actual expenditure or revenues relating to the major initiatives highlighted in each year's budget.

For example, for the 2000/01 year, when debt levels in excess of the original budget were all applied to recurrent needs, it is apparent that the former Government's policy commitment to "borrow…only for assets which generate economic activity" (Refer *2000/01 Budget Paper No.1 page 5)* was not achieved. Commentary on why such a policy variation occurred should be provided.

The new Government's Fiscal Integrity legislation is expected to provide more opportunity to comment on variations between original budget, revised expectations, and final outcomes. It would be preferable for the Final Fiscal Report intended by the Fiscal Integrity legislation to be included within the scope of the audited Treasurer's Annual Financial Statement, since then only one final result would be issued, and that result would be audited.

The importance of the Government's narrative analysis of annual financial information

It is important that the Government provides a "user-friendly" narrative analysis of the annual financial statement information, so that it can be understood and used by Members of the Legislative Assembly in their role of supervising the financial management performance of the Government. If the quality of the commentary is insufficient, the Public Accounts Committee can make recommendations about how to improve the information reported. The narrative analysis could also be considered for inclusion within the scope of the audit conducted by the Auditor-General.

Appendix 1
Comparison of 2000/01 actuals with 2000/01 Budget

	Actual 00/01 $'000	Budget 00/01 $'000	Variance $'000
Cash outflows:			
Current expenditure	1,876,408	1,801,532	(74,876)
Capital expenditure	92,820	251,978	159,158
Adjustment to remove Conditions of Service Trust balance from capital receipts	156,700	-	(156,700)
Sub-total of underlying outflows	2,125,928	2,053,510	(72,418)
Less cash inflows:			
Territory sourced revenue	415,270	433,976	(18,706)
Commonwealth grants	1,594,812	1,574,621	20,191
Sub-total	2,010,082	2,008,597	1,485
Decrease(increase) in net debt	(115,846)	(44,913)	(70,933)
Public Account Balance			
Underlying net debt increase for the year	(115,846)	(44,913)	70,933
Add: Cash balances at the start of the year	236,443	215,533	(20,910)
Opening balance less net debt increase	120,597	170,620	50,023
Net loan repayments received/(made)	(25,038)	19,819	44,857
Balance, excluding borrowings	95,559	190,439	94,880
Add: Borrowings received	182,837	31,854	(150,983)
Underlying Public Account balance from normal activities	278,396	222,293	(56,103)
Add back: receipt of Conditions of Service Trust balance	156,700	-	(156,700)
Public Account balance per Schedule 1.4 of Treasurer's Annual Financial Statement	435,096	222,293	(212,803)

Appendix 2
Comparison of 2000/01 actuals with 2000/01 estimates

	Actual 00/01 $'000	Estimates 00/01 $'000	Variance $'000
Cash outflows:			
Current expenditure	1,876,408	1,873,012	(3,396)
Capital Expenditure	92,820	128,728	35,908
Adjustment to remove Conditions of Service Trust balance from capital receipts	156,700	150,000	(6,700)
Sub-total of underlying outflows	2,125,928	2,151,740	25,812
Less cash inflows:			
Territory sourced revenue	415,270	399,916	15,354
Commonwealth grants	1,594,812	1,602,891	(8,079)
Sub-total	2,010,082	2,002,807	7,275
Decrease(increase) in net debt	(115,846)	(148,933)	33,087
Public Account Balance			
Underlying net debt increase for the year	(115,846)	(148,933)	(33,087)
Add:			
Cash balances at the start of the year	236,443	236,443	-
Opening balance less net debt increase	120,597	87,510	(33,087)
Net loan repayments received/(made)	(25,038)	(18,665)	6,373
Balance, excluding borrowings	95,559	68,845	(26,714)
Add:			
Borrowings received	182,837	189,893	7,056
Underlying Public Account balance from normal activities	278,396	258,738	(19,658)
Add back: receipt of Conditions of Service Trust balance	156,700	150,000	(6,700)
Public Account balance per Schedule 1.4 of Treasurer's Annual Financial Statement	435,096	408,738	(26,358)

Further information

This Report, and further information about the Northern Territory Auditor-General's Office is available on our Homepage at:

http://www.nt.gov.au/ago

Further copies of this Report are also available from the Northern Territory Auditor-General's Office.

The next general Report by the Auditor-General to the Legislative Assembly is scheduled to be tabled in the February 2002 sittings.

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