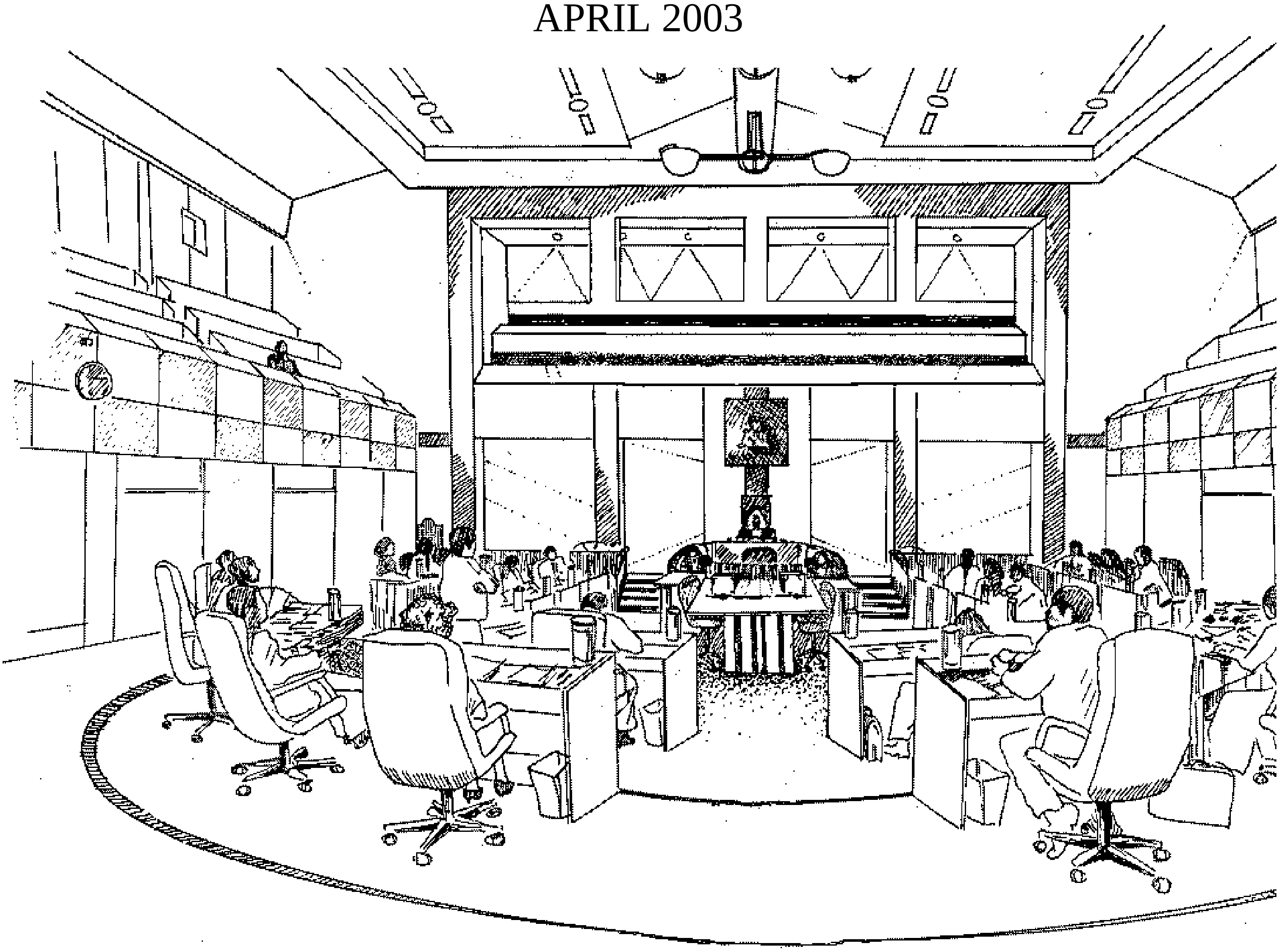
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

ANALYSIS OF THE 2001/2002 TREASURER'S ANNUAL FINANCIAL STATEMENT

REPORT TO THE LEGISLATIVE ASSEMBLY
APRIL 2003



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Providing independent analysis

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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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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 of the Northern Territory
Parliament House
Darwin NT 0800

29 April 2003

Madam,

I request that you table this report today in the Legislative Assembly. It contains comments and analysis arising from my audit of the 2001/02 Treasurer's Annual Financial Statement (TAFS).

The Report is provided so Members of the Legislative Assembly have available to them a source of independent analysis about information in the TAFS and in the Treasurer's Annual Financial Report (TAFR). The TAFS is the audited section of the wider scope TAFR, which was tabled in the Legislative Assembly on 28 November 2002.

My Report includes analysis of unaudited information within the TAFR. I believe this to be relevant, particularly as the components of the TAFR to be audited will change in future years. Examples include the accrual-based financial reports included in the TAFR but not currently in the TAFS.

Also included is a section defining the various terms used in this Report and in the TAFR.

The TAFR includes financial reports prepared on an accrual basis using the Uniform Presentation Framework on the Government Financial Statistics format. In view of this change, I have included a section dealing specifically with the benefits and interpretation of accrual accounting. The glossary of terms at Appendix 1 provides a brief explanation of the Uniform Presentation Framework.

In view of the significance to the Territory of the performance of Government Business Divisions, I have included a separate section analysing the financial results of that sector.

Yours faithfully,

Mike Blake
Auditor-General for the Northern Territory

Major Findings

Reporting fiscal performance

- **The inclusion in the Treasurer's Annual Financial Report (TAFR) of financial results in varying financial formats makes it difficult for the reader to assess the Northern Territory Government's performance in meeting its deficit reduction objective. It is recognised, however, that this is transitional and the inclusion of accrual-based information for the first time is a positive step.**
- **The move to full accrual reporting from 1 July 2002 provides the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Preliminary discussion with Northern Territory Treasury indicates that this is the intention.**

Refer pages 11 to 18 for further comments

What is the Northern Territory's net debt?

- **The impact of not bringing to account a decrease in the market value of equities held in the Conditions of Service Reserve was to understate the reported net debt by $17.7 million. As a result,**
  - **The net debt (on a Non-Financial Public Sector basis with AustralAsia Railway Corp (AARC)) is $1,761 million rather than the $1,743 million reported in Schedule 7.8 of the TAFR; and**
  - **The net debt (on a Non-Financial Public Sector basis with out AARC) is $1,762 million rather than the $1,744 million reported in Schedule 7.3 of the TAFR.**
- **It is important that the bases used to measure the deficit and the net debt not be varied over time, thus enabling comparative assessment on a consistent basis.**

Refer pages 19 to 24 for further comment

Major Findings

Financial condition of the Northern Territory based on assessment of the Government's Core Fiscal Strategies – actual outcome analysis

- **Measures of financial condition, taken with the five elements adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon. The measures also highlight the Government's reliance on the fiscal equalisation arrangements that determine untied funding from the Commonwealth.**
- **In addition to the existing measures used by the Northern Territory Government to assess its fiscal performance and condition, consideration should be given to utilising and reporting measures of sustainability, flexibility and vulnerability.**

Refer pages 25 to 32 for further comment

The Northern Territory Government's deficit reduction strategy is critical to achieving sound fiscal management

- **Net debt has increased by 40% since 30 June 1999 with the increase in the annual interest cost over this period being $17.6 million. The increase in 2001/02 was primarily due to the need to fund the deficit (which included capital investment).**
- **As a result of the increase in debt since 30 June 2001, it is estimated that the NT Government is paying extra interest, at 6%, of approximately $15.8 million a year. The success of the Government's deficit reduction strategy is critical to reducing this debt and interest cost burden on the Territory.**

Refer pages 33 to 40 for further comments

Financial performance of Government Business Divisions

The profitability of GBDs has declined since the 1999/2000 financial year resulting in lower dividends and taxes paid by them to the Government.

Refer pages 42 to 45 for further comments

Major Findings

Northern Territory Government's investment in AustralAsia Railway Corporation (AARC)

- **Although the Northern Territory Government's investment in the AARC increased by $43.7 million to $282 million, its interest in AARC has decreased by 8% to 66% due to further investment by AARC's other shareholder, the South Australian Government.**
- **The cost of the ultimate underlying asset supporting the investment in AARC could be reliably measured at 30 June 2002.**
- **However, subject to certain conditions being satisfied, control over $409.5 million of infrastructure assets recognised in AARC's statement of financial position at 30 June 2002 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003/04 for no consideration. After transfer, control of these infrastructure assets will be replaced by a "right" to own the railway line in the future, although it may be 50 years before this "right" crystallises and the underlying assets eventuate. It is not possible to reliably measure the value of Government's "right" to this railway asset in 50 years time. The underlying "right" may be greater or less than the $409.5 million currently ascribed to this infrastructure asset.**

Refer pages 49 to 50 for further comments

Entities referred to in this Report

The following entities are referred to in substantive audit comments in this 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, and the Department of the Chief Minister were also invited to provide comments on the Report as a whole.

The entities in this Report are those units of administration in existence at 30 June 2002.

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Background to the Statement, audit and analysis thereof

KEY ISSUES

My audit opinion on the Treasurer's Annual Financial Statement (TAFS) continues to comprise two parts:

- **One dealing with compliance of the TAFS with the Treasurer's prescribed reporting format. I issued an unqualified opinion that the TAFS was prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and with the prescribed format.**
- **A second dealing with the prescribed reporting format's lack of compliance with Australian Accounting Standards. I issued a qualified opinion that the "prescribed reporting format" adopted by the Treasurer does not satisfy the requirements of AAS 31, "Financial Reporting by Governments", and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory, its financial performance or its cash flows.**

Completion of the Treasurer's Annual Financial Statement for 2001/02

The Treasurer's Annual Financial Statement (TAFS) is the shaded section in the larger document entitled the Treasurer's Annual Financial Report (TAFR) which was tabled in the Legislative Assembly on 28 November 2002. Only the information in the shaded section is audited.

The TAFR provides information about the financial performance and financial position of the Northern Territory Government with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. 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.

The Legislative Assembly, through the *Financial Management Act*, requires the Treasurer to account 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 TAFS, the Treasurer identifies more detail of how the reporting occurs.

The 2001/02 TAFR includes two similar sets of financial information: one on a cash basis and the other, provided for the first time, on an accrual basis.

Background to the Statement, audit and analysis thereof

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

Independent audit of the TAFS

The independent audit report on the TAFS, which comprises Parts 1 to 6 (pages v to 83 being the shaded section) of the TAFR for the year ended 30 June 2002, was issued on 21 November 2002.

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

Accordingly, my audit opinion comprised two parts. One referred to compliance with the legislated requirements, the other to the non-compliance with Australian Accounting Standard 31 "Financial Reporting by Governments". Details are:

- An unqualified opinion on the "prescribed reporting format". Section 9 of the *Financial Management Act* requires the Treasurer to report a statement of certain financial information "in such form as the Treasurer thinks fit". The TAFS is comprised of the Preface on pages v to vii and Parts 1 to 6 of the TAFR. My audit opinion on this statement, prepared in the format prescribed by the Treasurer, is unqualified, it being my opinion that the TAFS were prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and with the Treasurer's prescribed format.

- A qualified audit opinion as it relates to the "prescribed reporting format's" lack of compliance with accounting standards. Australian Accounting Standard 31 (AAS 31) "Financial Reporting by Governments" details the reporting requirements needed to satisfy the objectives for the preparation of a general purpose financial report. The "prescribed reporting format" adopted by the Treasurer does not satisfy the requirements of AAS 31 and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory, its financial performance or its cash flows.

Background to the Statement, audit and analysis thereof

Analysis of the TAFS and of the TAFR

The analysis in this Report draws on audit work performed in forming the audit opinion and seeks to help readers understand:

- The financial performance of the Northern Territory – see pages 11 to 24;
- The financial condition of the Northern Territory and its fiscal performance – see pages 25 to 32; and
- Comparison between the financial results and the mini budget – see pages 33 to 40.

In addition, this Report draws on results reported in the unaudited sections of the TAFR.

Overview

KEY ISSUES

- **The inclusion in the TAFR of financial results in varying financial formats makes it difficult for the reader to assess the Northern Territory Government's performance in meeting its deficit reduction objective. It is recognised, however, that this is transitional with the inclusion of accrual-based information for the first time being a positive step.**
- **The move to full accrual reporting from 1 July 2002 provides the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Preliminary discussion with Northern Territory Treasury indicates that this is the intention.**

The TAFR is a complex document providing a great deal of information about the financial performance of the Northern Territory Public Sector for the year ended 30 June 2002. In order to facilitate an understanding of the TAFR and this Report, a glossary of technical terms is included in Appendix 1 on pages 70 to 73 of this Report.

The purpose of this Report is to explain the financial performance reported in the TAFR. This overview deals with the results for the year in global terms with more detailed analysis in the following sections.

Results used in this overview

The TAFR reports cash-based results and accrual-based results on varying bases including:

- Cash results of the Public Account prepared on a Uniform Presentation Framework (UPF) (Schedules 1.1 to 1.5 of the TAFR). This excludes the results of entities not included in the Public Account which are:
  - AustralAsia Railway Corporation (AARC);
  - Batchelor Institute of Indigenous Tertiary Education (Batchelor Institute);
  - Northern Territory Legal Aid Commission (Legal Aid);
  - Power and Water Authority subsidiaries – Darnor Pty Ltd and Gasgo Pty Ltd; and
  - Territory Insurance Office (TIO);
- Cash results of the Public Account prepared on a gross outlays and receipts basis (Schedules 2.1 to 2.5 of the TAFR) which also exclude the results of the entities referred to above);
- Cash results prepared under the UPF, but now including the entities referred to above other than TIO and AARC (Schedules 7.1 to 7.5 of the TAFR);
- Cash results prepared under the UPF, but now including AARC and the other entities (but not TIO) referred to above (Schedules 7.6 to 7.10 of the TAFR);

Overview

- ♦ Accrual results prepared under the UPF, but including the above entities other than AARC (Schedules 8.1 to 8.12 of the TAFR); and

- ♦ Accrual results prepared under the UPF, but now including AARC and the other entities referred to above (Schedules 8.13 to 8.24 of the TAFR).

The inclusion in the TAFR of these varying formats makes it difficult for uninformed readers to determine which financial measures most appropriately report the Northern Territory Government's performance in meeting its deficit reduction objective. To some extent the volume of information reported is part of a transitioning from cash to accrual reporting.

To assist evaluation of the financial results reported in the TAFR, reference must be made to the 2001/02 Mini Budget, which adopts the following as its budget focus:

1. ***For the budget deficit or surplus*** – as measured for the General Government Sector on a net Uniform Presentation Framework basis. In 2001/02 this was cash-based. The General Government Sector excludes the financial results of certain Government Business Divisions (Power and Water Authority and its Subsidiaries, Darwin Bus Service, Darwin Port Corporation and Housing Business Services – referred to in this Report as the excluded GBDs), which are included in arriving at the results on a Non-Financial Public Sector basis. However, the General Government Sector does include dividends and taxes received from these excluded GBDs.

   Government announced in the 2001/02 Mini Budget that the following two significant policy initiatives:

   – the move to an accrual output framework for the General Government Sector in 2002/03; and

   – the passage of the Government Owned Corporations legislation in November 2001;

   will contribute to improved financial outcomes overall and a greater budget focus on the general government sector with the commercial sector (Power and Water Authority, Housing Business Services, Darwin Bus Services, etc) having greater flexibility and being expected to improve its financial performance.

   Therefore, in this overview the results of the General Government Sector have been used when referring to the deficit or surplus for the year ended 30 June 2002. It is also argued by Treasury that it is the General Government Sector deficit or surplus that is important in assessing Government's deficit management because it is this Sector which influences Government's taxation policies.

   Research conducted indicates that other Australian jurisdictions also measure their surplus/deficit on a General Government Sector basis.

Overview

2. ***For net debt*** – as measured for the Non-Financial Public Sector also on a net Uniform Presentation Framework basis (inclusive of all government agencies and AARC but not TIO nor Northern Territory Treasury Corporation (NTTC), which forms the Financial Public Sector reported on Schedules 1.5, 7.4 and 7.9 of the TAFR), which is also cash-based for 2001/02.

   For the purposes of this Overview this basis for measuring net debt has also been accepted and the financial results analysed below are inclusive of AARC and the excluded GBD's, but excluding TIO.

   Research conducted also indicates that other Australian jurisdictions measure net debt on the basis of the Non-Financial Public Sector. Further evaluation is provided later in this Report, commencing on page 20.

Actual outcomes compared to budget

The Government announced a deficit reduction strategy in the November 2001 Mini-Budget. The target was prepared on a Uniform Presentation Framework (UPF) basis both including and excluding AARC and for differing scopes being:

- Total Public Account basis (includes the results of the Financial Public Sector (NTTC, but not TIO);
- General Government Sector basis; and
- Non-Financial Public Sector basis.

Details are summarised in Table 1 below.

Table 1 – Summary of budgeted and actual deficits (Schedules 7 series in the TAFR).

	With AARC			Without AARC		
Basis	**Total Public Account**	**General Gov't Sector**	**Non-Financial Public Sector**	**Total Public Account**	**General Gov't Sector**	**Non-Financial Public Sector**
	$ Millions			**$ Millions**		
Deficits						
Budgeted	272	286	283	126	139	136
Actual	230	233	237	83	87	90
Variance	42	53	46	43	52	46

In all cases the actual outcome is an improvement on the budget. This Report comments later on each of these measures and in all of the analyses that follow, unless otherwise stated, the results are inclusive of the performance of AARC. However, where relevant, and as discussed later in Table 6, the focus of the 2002/03 Budget was on a without AARC basis as was the 2001/02 TAFR, this Report provides the results on both with and without bases.

Overview

Operating performance on a Net Cash Uniform Presentation Framework basis

A summary of the results on a General Government Sector basis over the past three years is set out in Table 2 below.

Table 2 – Summary of operating results on a net cash UPF basis for the General Government Sector (with AARC - Part 7, schedule 7.6 of TAFR, with out AARC – Part 7, schedule 7.1 of TAFR).

With AARC	**Mini Budget 2001/2002**	**Actual 2001/2002**	**Actual 2000/2001**
	$ millions - unaudited		
Revenues	2,158	2,211	2,047
Operating outlays	(1,953)	(1,940)	(1,875)
Surplus before capital outlays	**205**	**271**	**172**
Capital outlays	(491)	(504)	(273)
Deficit (see TAFR page 96)	**(286)**	**(233)**	**(101)**

Without AARC	**Mini Budget 2001/2002**	**Actual 2001/2002**	**Actual 2000/2001**
	$ millions - unaudited		
Revenues	2,018	2,070	1,940
Operating outlays	1,950	(1,939)	(1,865)
Surplus before capital outlays	**68**	**131**	**75**
Capital outlays	(207)	(217)	(322)
Deficit (see TAFR page 91)	**(139)**	**(86)**	**(247)**

This table suggests that in recent years the Government has met operating (recurrent) costs from revenues while funding capital expenditure from a mixture of operating revenues and debt. It also shows that, on a General Government Sector basis, the actual deficit is less than the budgeted deficit by $53 million on both a with AARC and a without AARC basis.

Overview

The improvement in the deficit between budget and actual was, in the main, due to:

	$ millions
♦ Increase in Territory own source revenues	12
♦ Additional Commonwealth grants and other revenues	51
♦ Lower operational expenditure	19
♦ Lower interest expenses	8

Which were partly offset by:

♦ Additional net Capital expenditure	(13)
♦ Additional recurrent grants and subsidies	(14)
♦ Lower interest received	(10)

Capital outlays on a with AARC basis were higher in 2001/02, compared with the previous years, reflecting continued investment in the Alice Springs to Darwin railway by the AARC. Capital expenditure for the year was funded by a mixture of the operating surplus of $271 million (refer Table 2 above), by the use of cash balances held by the General Government Sector ($133 million) and by additional borrowings ($101 million).

Net debt on a Net Cash Uniform Presentation Framework basis

A summary of the net debt position on a Non-Financial Public Sector basis over the past three years is set out in Table 3 below.

Table 3 – Summary of net debt on a net cash UPF basis for the Non-Financial Public Sector (With AARC - Part 7, schedule 7.8 of TAFR, without AARC – Part 7, schedule 7.3 of TAFR).

With AARC	**Mini Budget 2001/2002**	**Actual 2001/2002**	**Actual 2000/2001**
	$ millions - unaudited		
Net debt	1,763	1,743	1,481
Deficit for the Non-Financial Public Sector	(283)	(237)	(129)

Without AARC	**Mini Budget 2001/2002**	**Actual 2001/2002**	**Actual 2000/2001**
	$ millions - unaudited		
Net debt	1,788	1,744	1,652
Deficit for the Non-Financial Public Sector	(136)	(90)	(275)

Overview

The results for 2000/01 and 2001/02 are inclusive of AARC, the impact of which is assessed from page 20 onwards in this Report. AARC's inclusion in the net deficit calculations is minimal in 2001/02 being $1 million.

The increase in net debt between 2000/01 and 2001/02 of $262 million is primarily due to:

	$ millions
♦ The need to fund the deficit for the Non-Financial Public Sector of $237 million. This deficit includes the capital outlay by AARC on railway infrastructure assets of $284 million	237
♦ Lower than forecast operating outlays	12
♦ Lower than forecast interest outlays	13
♦ Higher than forecast grant receipts	16
♦ Increases in revenues from the provision of goods and services (which included dividends received from GBDs)	11
Offset by:	
♦ Lower than expected tax receipts	(12)
♦ Lower than expected interest receipts	(16)

The improvement in the debt position against budget of $20 million is primarily due to the improved deficit position ($46 million), offset by recording a debt of $25 million due by AARC at its net present value of $400,000.

Variations in reporting debt

TAFR also reports debt in a number of ways, which are summarised in Table 4 below.

Table 4 – Summary of Territory debt – including AARC

	Notes	2001/02	2000/01
		$ millions	$ millions
Net debt	1	1,743	1,481
Add Employee Liabilities	2	1,723	1,621
Net debt plus Employee Liabilities	3	3,466	3,102
Net debt		1,743	1,481
Add Financial Assets	4	727	865
Gross debt	4	2,470	2,346

Overview

Notes to Table 4

1. As detailed in Table 3 – on a Non-Financial Public Sector basis including AARC. The financial assets in AARC at 30 June 2002 totalled $954,000.

2. The various UPF cash results exclude liabilities for unfunded superannuation, unfunded workers compensation and accrued employee recreation leave, all of which must be managed by the Northern Territory Government and it is therefore appropriate to bring these liabilities to account – see TAFR Part 5. Details are:

Nature of Employee Liability	2001/02 $ millions	2000/01 $ millions
Unfunded superannuation (TAFR schedule 5.2)	1,369.0	1,317.5
Workers' compensation (TAFR schedule 5.3)	68.0	59.2
Accrued employee recreation leave (TAFR schedule 5.4)	246.9	241.2

3. Net debt plus employee liabilities is the total debt that Government must manage – see TAFR Part 9.

4. Net debt is the difference between gross debt and financial assets available to meet that debt. See TAFR Part 9 figure 9.12. The components of the net debt balance are detailed in Table 5 below:

Table 5 – Components of the net debt balance - audited

	Notes	2001/02	2000/01
		$ millions	**$ millions**
Gross debt	**1**	2,470	2,346
Less financial assets:			
Cash and deposits		123	293
Advances paid		225	249
Other non-equity assets		379	323
Total financial assets	**2**	727	865
Net debt balance	**2**	**1,743**	**1,481**

Overview

Notes to Table 5

1. Gross debt has increased by $124 million, mainly due to the need to fund the 2001/02 deficit.

2. On a net basis however, the increase in debt is greater - $262 million - due to:

	$ millions
♦ Funding the deficit (on a UPF NFPS basis)	237
♦ The decrease in financial assets caused by conversion to a grant of $25 million treated as an advance in 2000/01.	25
	262

Fiscal strategy

Part 10 of the TAFR reports the outcomes of the Government's fiscal strategy for the 2001/02 financial year and does so under five elements. These elements are discussed in this Report under the section headed "Financial Condition of the Territory based on assessment of Core Fiscal Strategies – actual outcomes analysis" (Page 25 to 32). The Treasurer concluded that of the five elements, three objectives were met, one was not met and for one, no specific conclusion was drawn.

Conclusions

I believe the notes above summarise the important results in the TAFR from a fiscal management perspective. No conclusions are drawn as to whether or not the appropriate net debt or deficits are reported. Such discussions are dealt with in the following sections of this Report.

The inclusion in the TAFR of financial results in numerous varying financial formats makes it difficult to assess the Northern Territory Government's performance in meeting its deficit reduction objective. It is recognised, however, that this is transitional with the inclusion of accrual-based information for the first time being a positive step.

The move to full accrual reporting from 1 July 2002 provides the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Preliminary discussion with Northern Territory Treasury indicate that this is the intention.

Northern Territory Treasury has commented:

The Territory's preferred reporting format is on a Government Finance Statistics basis. This is consistent with the Fiscal Integrity and Transparency Act and our understanding of the future developments in public sector reporting.

What is the Northern Territory's net debt?

KEY ISSUES

- **The impact of not bringing to account a decrease in the market value of equities held in the Conditions of Service Reserve was to understate the reported net debt by $17.7 million. As a result:**
  - **The net debt (on a Non-Financial Public Sector basis with AARC) is $1,761 million rather than the $1,743 million reported in Schedule 7.8 of the TAFR; and**
  - **The net debt (on a Non-Financial Public Sector basis with out AARC) is $1,762 million rather than the $1,744 million reported in Schedule 7.3 of the TAFR.**
- **Care must be taken when determining "financial assets" by only including those assets not already committed to infrastructure projects which cannot be postponed.**
- **In situations where Government Business Divisions are excluded from the General Government Sector, and are therefore excluded from determination of the deficit, but which are consistently loss making, consideration should be given to including their results in determination of the deficit.**
- **It is important that the bases used to measure the deficit and the net debt not be varied over time, thus enabling comparative assessment on a consistent basis.**

Introduction

Discussion in this section is based on the deficit on a net cash UPF General Government Sector basis and on the net debt on a net UPF Non-Financial Public Sector basis.

Impact of the Conditions of Service Reserve and of AARC on the net debt

Conditions of Service Reserve (COSR)

An 11.2% reduction in the market value of the investments supporting the balance in the COSR was not recognised in determining the net debt at 30 June 2002. The COSR is supported, almost entirely, by investments in Equities (see Schedule 4.1 in TAFS). These investments have not been "marked to market" on 30 June 2002 but are carried at the same valuation reported at 30 June 2001 ($156.7 million). Under accrual accounting, it is normal accounting practice for organisations such as State Treasuries to recognise investments in equities at market values. Schedule 4.1 does include in note (a) the market values at 30 June 2002 ($148.2 million) and at 30 September 2002 ($139 million).

What is the Northern Territory's net debt?

Therefore, the reduction in carrying value of these investments by 30 September 2002 was $17.7 million. The non-recognition of this reduction in value is not in accordance with Australian Accounting Standard 8 "Events Occurring After Balance Date". Any net reduction in the market value of investments supporting the balance on the COSR which arises prior to completion of the TAFS needs to be recognised in determining the net debt, although there is no impact on the deficit.

A more recent market valuation (28 February 2003) indicates that the COSR has decreased in value since 30 September 2002 by a further $4 million from $139 million to $ 135 million.

The impact on the reported the net debt of $1,743 million (inclusive of AARC) is detailed in Table 6 below.

Inclusion of AARC

The inclusion of AARC significantly impacts the cash-based results. This was particularly so at 30 June 2001 when cash balances of $150 million in AARC were considered to be "financial assets" and treated as a reduction of gross debt in arriving at net debt. This treatment was applied despite the fact that these cash holdings were committed to meeting costs associated with constructing the Alice Springs to Darwin railway and would not be applied to reducing debt. AARC's cash holdings at 30 June 2002 totalled $954,000 (rounded to $1 million).

In addition, including AARC increases the cash deficit from $87 million to $233 million due to the net cash outflows of $146 million in AARC during 2001/02. This $146 million comprises:

	$ millions
Cash operating surplus	138
Investment in capital works	(284)
Net increase in the deficit	(146)

This is a reverse of the impact in the prior financial year when AARC operated at a net cash surplus of $146 million (cash operating surplus of $246 million less infrastructure investment $100 million).

The impacts of these two transactions are detailed in Table 6.

What is the Northern Territory's net debt?

Table 6 – Impact on the deficit and on net debt of a decline in value of the COSR and of including AARC's cash holdings in "financial assets"

	Deficit – General Government Service basis $ millions		**Net Debt – Non-Financial Public Sector basis $ millions**	
	2001/02	**2000/01**	**2001/02**	**2000/01**
As reported (Sch 7.6 and 7.8 respectively)	(233)	(101)	1,743	1,481
Add impact of market losses on the Conditions of Service Reserve	0	0	18	0
Amended results	(233)	(101)	1,761	1,481
Cash in AARC not available to reduce debt			1	150
Less expenditure in AARC on infrastructure	284	100		
Add cash operating surplus in AARC	(138)	(246)		
As amended	**(87)**	**(247)**	**1,762**	**1,631**

This table supports the following conclusions:

- The net debt (on a Non-Financial Public Sector basis with AARC) is $1,761 million (see "Amended Results" in Table 6 above) rather than the $1,743 million reported in Schedule 7.8 of the TAFR.

- The increase in net debt between the two financial years is $131 million and not the increase of $262 million as is evident from Figure 9.1 on page 133 of the TAFR.

What is the Northern Territory's net debt?

Impact of cash balances in AARC on Financial Assets available to offset net debt

Financial assets are a key component in the determination of net debt. As noted above, the inclusion of cash assets available in AARC at balance date significantly impacted net debt and assumed that these cash balances were available to meet debt which, at least during the railway construction phase, they are not. The impact is detailed in Table 7.

Table 7 – Impact of treating cash balances in AARC as available to offset gross debt

	2001/02 $ millions	2000/01 $ millions
Financial assets as reported – inclusive of AARC	727	865
Less cash assets in AARC	(1)	(150)
Amended financial assets	726	715
Gross debt	2,470	2,346
Amended net debt	1,744	1,631
Net debt as reported in the TAFR (Figure 9.12 on page 139)	1,743	1,481

Care must be taken when determining "financial assets" by only including those assets not already committed to infrastructure projects which cannot be postponed.

Treatment of Territory Insurance Office (TIO)

The financial results of TIO are included in the unaudited accrual sections of the TAFR reported in Part 8 and, specifically, as part of the Public Financial Corporations schedules along with Northern Territory Treasury Corporation. While TIO operated at an accrual loss in 2001/02, its assets exceeded its liabilities by $30.5 million and inclusion of TIO would not increase Government's net debt.

When assessing these results, care needs to be taken in dealing with the results of the Motor Accident Compensation Scheme (MACA) and of its residual assets because any monies standing to the credit of this Scheme can only be used to operate it or to promote road safety. It is anticipated that TIO, as a "controlled entity", will be consolidated into whole of government financial statements prepared in accordance with Australian Accounting Standards in future years. This restriction on the MACA assets will therefore need further consideration when preparing these financial reports.

What is the Northern Territory's net debt?

Impact of measuring annual deficits on a General Government Sector basis

As noted previously, consistent with the Northern Territory Government's fiscal policy and with jurisdictions elsewhere in Australia, the deficit for the year is measured in a General Government Sector basis. This sector excludes the financial results of certain Government Business Divisions other than including dividends and taxes received from these excluded GBDs.

I concur with this measure of the annual deficit, but note that in situations where excluded GBDs are consistently loss making it may be preferable for such GBDs to be taken into account in determining the deficit. An example, for the 2001/02 financial year, is Housing Business Services whose loss of $17.9 million has not been included in the determination of the deficit.

Other measures of net debt and of the deficit

There are other measures for determining the net debt and the deficit. These are included in the TAFR and are detailed in Table 8 below.

Table 8 – Various measures of net debt and of the deficit at 30 June 2002

	Total Public Account **$ millions**	**Non-Financial Public Sector** **$ millions**	**General Gov't Sector** **$ millions**
Deficit			
As reported	(230.1)	(236.9)	(233.2)
Less AARC	146.6	146.6	146.6
Add Conditions of Service Reserve	(17.7)	(17.7)	(17.7)
Revised deficit	**(101.2)**	**(108.0)**	**(104.3)**
Net debt			
As reported	1,713.1	1,743.2	1,378.6
Less AARC	1.0	1.0	1.0
Add Conditions of Service Reserve	17.7	17.7	17.7
Revised net debt	**1,731.8**	**1,761.9**	**1,397.3**

These balances are noted here for information only and to highlight the varying results reported. It is important that, while such measures are appropriately included in the TAFR, it be made clear which results are to be used in assessing the Government's fiscal performance. It is also important that these bases not be varied over time, thus enabling comparative assessment on a consistent basis.

What is the Northern Territory's net debt?

Conclusions

The Northern Territory Government's deficit should continue to be calculated on the General Government Sector basis and the net debt on the Non-Financial Public Sector basis and this be clearly reported.

However, calculations of these measures should reflect increases or decreases in the market values of investments, cash balances committed to unavoidable and non-postponable infrastructure projects and any impact on the General Government Sector of excluded GBDs that are consistently incurring losses.

The inclusion in the TAFR of results on both a with and without AARC basis, while sometimes making the reading of TAFR confusing, is reasonable based on the significant impact that the investment in the Alice Springs to Darwin railway has had in recent years.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

KEY ISSUES

- **In addition to the existing measures used by the Northern Territory Government to assess its fiscal performance and condition, consideration should be given to utilising and reporting measures of sustainability, flexibility and vulnerability.**
- **These measures, taken with the five elements adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon. They also highlight the Government's reliance on the fiscal equalisation arrangements that determine untied funding from the Commonwealth.**

Part 10 of the TAFR documents the outcomes of the Government's Fiscal Strategy for 2001/02 by reporting against five measures, which are referred to as "elements". In addition, Part 9 reports movements in net debt and provides comparative analysis.

Summary of the conclusions drawn in the TAFR regarding the Northern Territory's fiscal performance

Table 9 – Summary of Government's own assessment of its fiscal performance – unaudited

Strategy or element	Reference to Page in the TAFR	Treasurer's conclusion
Element 1 – Maintain current expenditure to growth consistent with inflation and population growth.	143	No specific conclusion drawn [1]
Element 2 – Maintain a surplus in current revenue over current expenditure, except in exceptional circumstances (such as a natural disaster).	143 - 144	Strategy met[2]
Element 3 – Maintain Territory taxes, fees and charges to comparable State-like levels.	144 - 145	Strategy met
Element 4 – Adopt a transparent, equitable, counter-cyclical capital works program that complements activity in the private sector to stabilise employment in the construction sector through each economic cycle.	145 - 146	Strategy met
Element 5 – Reduce net debt as a proportion of economic activity over time.	146	Strategy not met

[1] Reported results suggest that expenditure growth is reasonably in line with inflation and with population growth.

[2] Performance is recorded for the non-financial public sector excluding AARC (see TAFR Schedule 7.3 on page 93). The discussion concludes that the target has been met because the actual outcome for the year was a small surplus of $3 million against a targeted deficit of $48 million.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

Alternative measures for assessing fiscal performance

Other measures are available to assess a government's finances. In the Auditor-General's Analysis of the 2000/01 TAFS (November 2001), it was suggested that the following could be reported as further measures to assess a government's "financial condition":

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

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.

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.

Where relevant, these measures should be based on actual accrual results.

Assessment of Government's fiscal performance based on the measures of Sustainability, Flexibility and Vulnerability.

A number of indicators are used to assess each of the above measures and some of these indicators are calculated below. Data utilised is drawn from the unaudited accrual information where available and, where not, on the cash information reported in the TAFR. In general a five year trend in each indicator is a minimum to help assess financial condition.

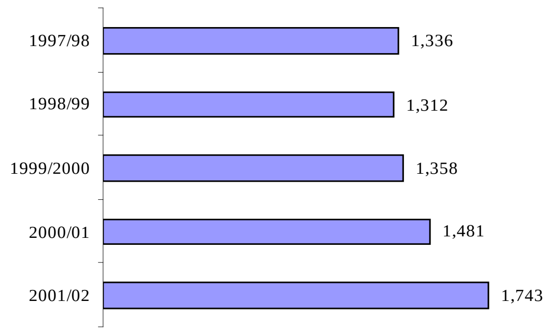
The data used from TAFR has not been adjusted. Results noted below are inclusive of AARC and abbreviations used include:

- GGS - General Government Sector,
- NFPS – Non-Financial Public Sector,
- UPF - Uniform Presentation Framework.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

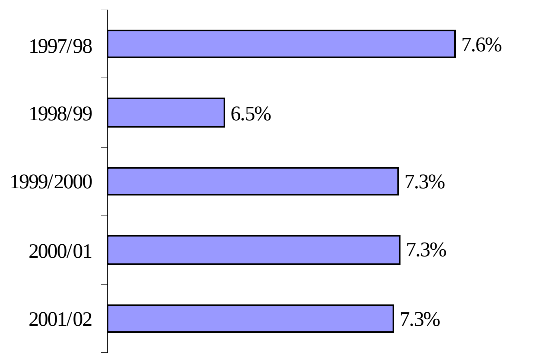
SUSTAINABILITY – there are seven measures to consider -

Chart S.1: Five year trend in the level of net debt (on a net cash UPF NFPS basis - Schedule 7.8 of the TAFR)



Five year trend in the level of net debt (on a net cash UPF NFPS basis – schedule 7.8 of the TAFR) - Net debt increases in 2000/01 and 2001/02 were primarily due to the need to fund deficits which includes capital expenditure and, therefore the investment in AARC.

Chart S.2: Five year trend in interest expense to total current expenditure (on a net cash UPF GGS basis - Schedule 7.6 of the TAFR)



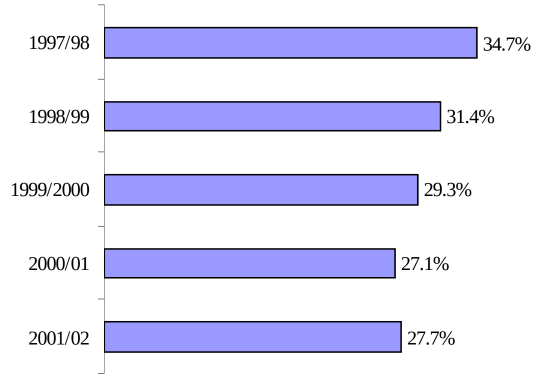
Five year trend in interest expense to total current expenditure (on a net cash UPF GGS basis – schedule 7.6 of the TAFR) - Over the past four years 1998/99 to 2001/02 the Northern Territory's total weighted average cost of funds has decreased from 9.1% to 7.4% reflecting lowering interest rates. This has meant that while interest expense is increasing in line with increasing debt, the relative increase has been favourably impacted by the decreasing cost of funds.

Trend in net worth- This measure requires completion of full accrual financial statements. The net worth at 30 June 2002, measured on a UPF NFPS accrual basis, was $2,176.5 million and movements can be assessed in future years.

Level of operating surplus - This measure also requires completion of full accrual financial statements. The level of operating surplus for the year ended 30 June 2002, measured on a UPF GGS accrual basis, was a deficit of $9.3 million and movements can be assessed in future years.

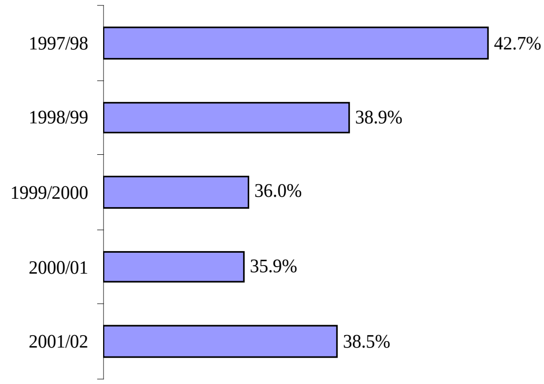
Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

Chart S.3: Interest bearing liabilities to the NT's Gross State Product (GSP) - expressed as a percentage and based on the gross debt (Part 9 figure 9.12, page 139, TAFR)



Interest bearing liabilities to the Northern Territory's Gross State Product (GSP) – expressed as a percentage and based on the gross debt (Part 9 figure 9.12 on page 139 of the TAFR) - There are no targets for this measure. However, the percentage must be monitored over time with increases representing pressure on sustainability of existing programs. The trend to a dropping/stable percentage is positive for the Government.

Chart S.4: Total liabilities (net debt plus employee liabilities) to the NT's GSP - expressed as a percentage and based on total liabilities (Part 9, figure 9.1, page 133, TAFR)



Total liabilities (net debt plus employee liabilities) to the Northern Territory's GSP – expressed as a percentage and based on total liabilities – Part 9, figure 9.1 on page 133 of the TAFR. - The lower the percentage the better the financial condition. The decreasing trend between 1998 and 2001 was positive but worsened in 2002 due to the ongoing deficit, investment in infrastructure assets and increase in the unfunded superannuation liability. The increasing unfunded superannuation attracts no interest cost.

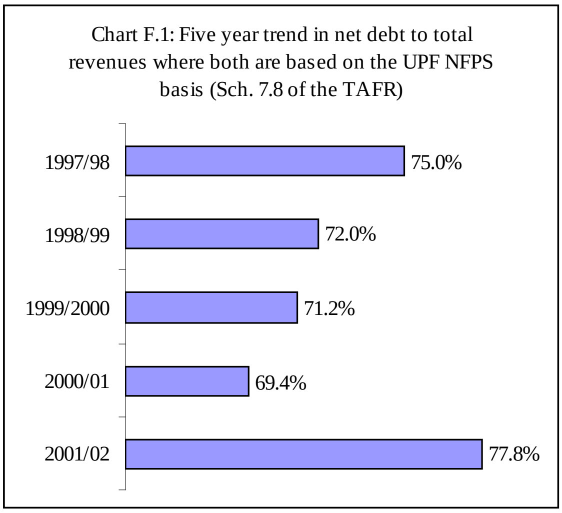
Total assets to total liabilities - This measure also requires completion of full accrual financial statements. The ratio of total assets to total liabilities based on the unaudited UPF NFPS (Schedule 8.19 of the TAFR) position at 30 June 2002 was 1.51:1 (total assets of $6,485.5 million and total liabilities of $4,308.9 million) confirming that total assets exceed total liabilities and movements need to be monitored in future years.

Conclusion regarding sustainability

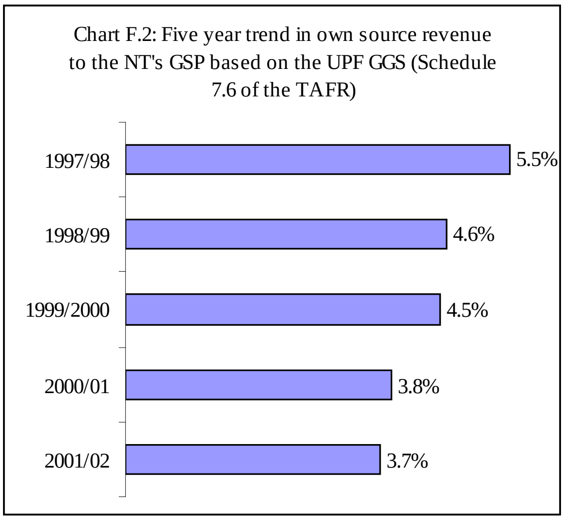
Taken as a whole, these measures indicate increases in the interest burden due to increasing debt with likely pressures on government programs. The Government's deficit reduction strategy is important to sustainability of existing programs and operations.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

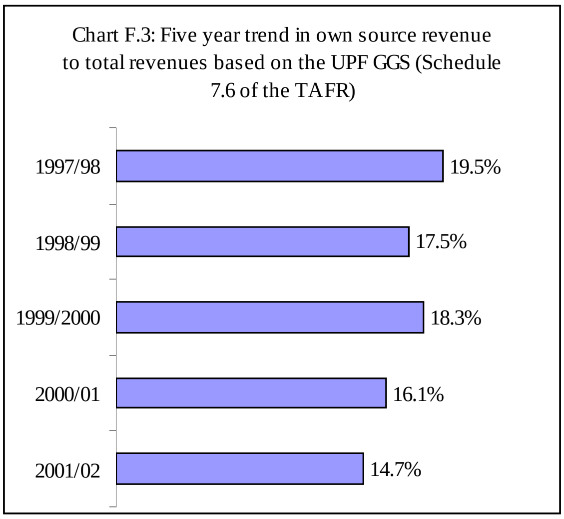
FLEXIBILITY – there are five measures to consider.



Five year trend in net debt to total revenues based on the UPF NFPS (Schedule 7.8 of the TAFR) - Net debt is now 77.8% of Territory revenue. The large increase is due to the 2001/02 deficit. This trend requires monitoring.

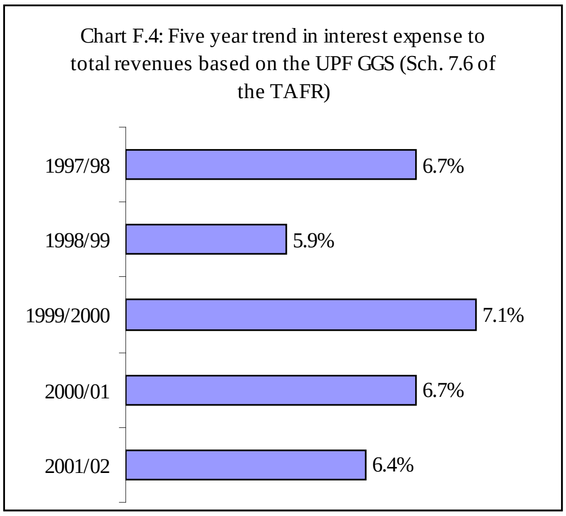


Five year trend in own source revenue to the Northern Territory's GSP based on the UPF GGS (schedule 7.6 of the TAFR) - This decrease is largely due to Commonwealth taxation reforms and the resulting changes to own-source revenues and Commonwealth grants.

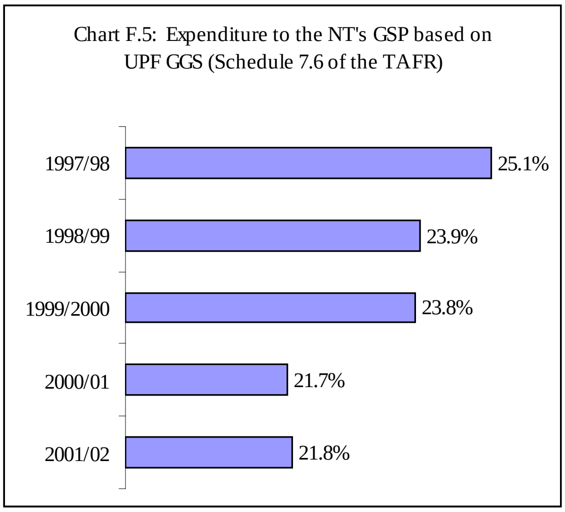


Five year trend in the own source revenue to total revenue based on the UPF GGS (Schedule 6.6 of the TAFR) - The decrease should be of concern to the Government and is due to dropping interest earned, caused by lower financial assets and lower interest rates, little growth in taxation revenues and a halving in recent years in dividends received from Public Financial and Public Non-Financial corporations.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis



Five year trend in interest expense to total revenues based on the UPF GGS (Schedule 7.6 of the TAFR) - While the interest expense is increasing (due to higher net debt despite lower interest rates in recent years) it is remaining reasonably constant compared to total revenue.



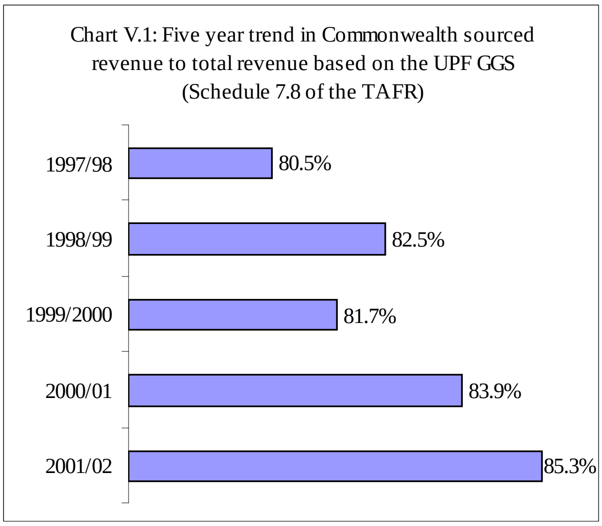
Recurrent expenditure to the Northern Territory's GSP based on UPF GGS (Schedule 7.6 of the TAFR) - This trend is positive and should be pursued by, for example, continuing to contain expenditure.

Conclusion regarding flexibility

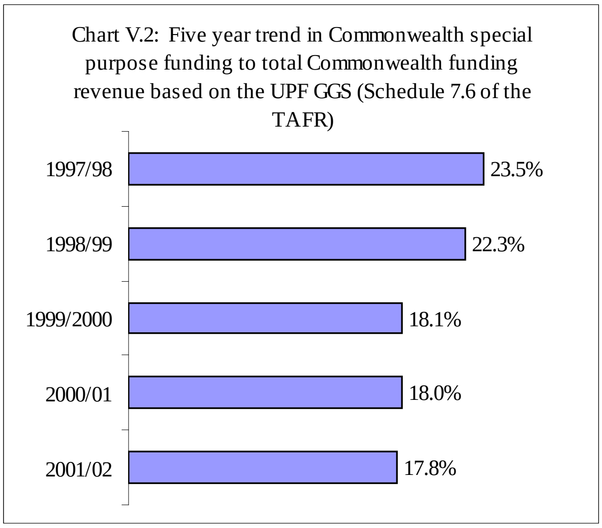
These indicators suggest that the Government is in a "low flexibility" position as local revenue sources remain relatively flat while at the same time recognising the impact on own source revenues of changes in Commonwealth taxation and horizontal fiscal equalisation arrangements in recent years. The increasing percentage of net debt compared to total revenues requires monitoring which should be aided by on-going cost containment.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

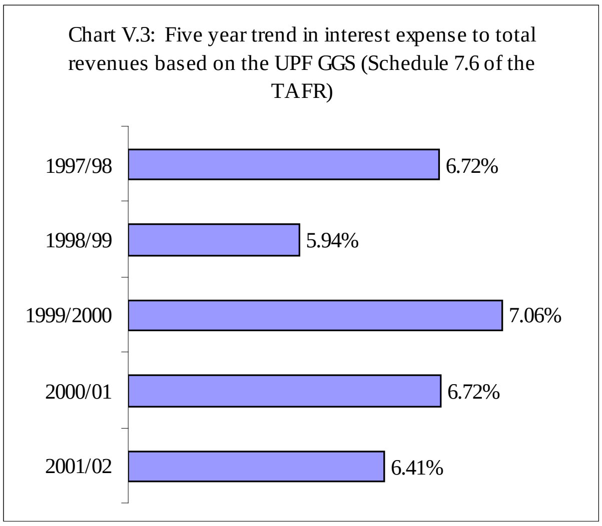
VULNERABILITY– there are three measures to consider.



Five year trend in Commonwealth sourced revenue to total revenue based on the UPF GGS (Schedule 7.8 of the TAFR) - The increase should be of concern to the Government and is due to dropping own-sourced revenue in the areas of interest earned, due to lower financial assets and lower interest rates, and a halving in recent years in dividends received from Public Financial and Public Non-Financial corporations.



Five year trend in Commonwealth special purpose funding to total Commonwealth funding – revenue based on the UPF GGS (Schedule 7.6 of the TAFR) - The percentage of special purpose funding has remained constant in recent years.



Five year interest expense to total revenue based on the UPF GGS (Schedule 7.6 of the TAFR) - While interest expense is increasing (due to higher net debt despite lower interest rates in recent years) it is remaining reasonably constant compared to total revenue.

Financial Condition of the Territory based on assessment of the Government's Core Fiscal Strategies – actual outcomes analysis

Conclusion regarding vulnerability

Taken together these measures indicate dropping own source revenues partly due to lower revenues from GBDs and from interest earned.

These measures also indicate that the interest cost is manageable at current rates.

Overall conclusion arising from these additional measures of fiscal performance

These measures, taken with the five elements adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon. They also highlight the impact on funding sources of the Commonwealth's fiscal equalisation arrangements that determine untied funding levels.

It is recommended that Government adopt a selection of these measures for assessing its fiscal management performance and in future reporting thereof.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

KEY ISSUES

- **Net debt has increased by $502.4 million, or 40%, since 30 June 1999 with the increase in annual interest cost over this period being $17.6 million. The increase in 2001/02 was primarily due to the need to fund the deficit (which included capital investments).**
- **As a result of the increase in debt since 30 June 2001, it is estimated that the NT Government is having to pay extra interest, at approximately 6%, of $7.9 million on a half year basis or $15.8 million on a full year.**
- **The success of the Government's deficit reduction strategy is critical to reducing this debt and interest cost burden on the Territory.**
- **Movement by the Northern Territory Government onto an output funding model for 2002/03 will facilitate further enhancement to comparative analysis because changes to allocations or increases in expenditure can be matched to changes in outputs provided by Agencies.**

Summary of movements in main financial indicators

The TAFR discusses a number of performance measures and reports numerous outcomes. The five elements used to assess the Government's performance against its fiscal strategy are examples and are discussed on page 25 of this report. This summary examines the following indicators and results:

- Movement in Net debt,
- Surplus/(deficit) in the UPF General Government Sector in cash terms,
- Surplus/(deficit) in accrual terms,
- Gross debt and financial assets,
- Net worth and net financial worth,
- Gross outlays and receipts – cash,
- Capital expenditure analysis,
- Analysis of revenues,
- Employee related liabilities, and
- Additional quantifiable contingent liabilities.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

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. There are a number of factors to take into account when assessing net debt including the level of any deficit and in financial asset balances.

The 2001/02 Mini-Budget, when adopted by the Legislative Assembly in November 2001, approved an increase in net debt of $282 million (page 78 of Mini-Budget Paper No. 3) due to budgeting more outlays than receipts. The TAFR discusses the net debt out-turn in Part 9 on page 133 reporting that the position at 30 June 2002 was $1,743 million for the Non-Financial Public Sector including any debt impact of the AARC.

Movements in net debt compared to the Mini Budget and prior year are set out in Table 10.

Table 10 – Movements in net debt – UPF Cash basis for NFPS (Schedule 7.8 of the TAFR).

	2001/02 $ millions
Net debt – 2000/01 actual	1,481
Net debt – Mini Budget	1,763
Net debt– 2001/02 actual	1,743
Saving in actual net debt over that budgeted	20
Increase in actual net debt over prior year	262

The variance of $20 million between actual and budgeted net debt was due primarily to the actual deficit for the year being less than budget. The excess actual of $262 million over the prior year was due to cash required to fund the deficit (which includes capital expenditure such as investment in the Alice Springs to Darwin railway).

The results and trends in UPF net debt levels, and in interest expense, over the last five years are summarised in Table 11 below.

Table 11 – Movements in debt and in the associated interest cost on a UPF NFPS basis

	1997/98 $ millions	**1998/99 $ millions**	**1999/2000 $ millions**	**2000/01 $ millions**	**2001/02 $ millions**
Net Debt	1,366	1,312	1,358	1,481	1,743
Net interest paid	141.7	136.4	144.5	150.2	170.6

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

Net debt has increased by $431 million, or 33%, since 30 June 1999 with the increase in net interest cost over this period being $34.2 million or 25% reflecting the lower interest rates since 1998/99. The increase in 2001/02 was primarily due to the deficit.

It is estimated that, at 6%, the Northern Territory Government is paying extra interest as a result of the increase in debt since 30 June 2001 of approximately $7.8 million on a half-year basis and $15.7 million on a full year. The success of Government's deficit reduction strategy previously referred to, is critical to reducing this debt and interest cost burden on the Territory.

Surplus/(deficit) in the UPF General Government Sector in cash terms

A cash deficit arises when expenditure (both for recurrent and capital purposes) exceeds revenues (again, both recurrent and capital revenues), but excluding movements in advances, borrowings and intra-sector transactions. The outcome for the year is discussed briefly in the Overview section on page ii of the TAFR and in Table 2 of this Report. No further commentary is provided here.

Surplus/deficit in accrual terms

For the first time the TAFR includes UPF based accrual operating statements on pages 105 to 108 (excluding AARC) and pages 117 to 120 (including AARC). The results reported are for the year only with no budgeted or prior year results. These reports will comprise an important component of future TAFRs and their inclusion will provide the Government with a further opportunity to report performance in more contemporary terms. As only one year's results are reported no analysis is provided in this Report.

Gross debt and financial assets

Net debt equals the sum of gross debt less financial assets where:

- Gross debt equals deposits held, advances received and borrowings (therefore excluding employee annual and other recreation leave entitlements, superannuation and workers compensation liabilities); and

- Financial assets equals cash and deposits, advances paid and investment loans and placements.

While gross debt has been included in TAFR in prior years the position in the 2001/02 TAFR is enhanced by the inclusion of commentary on gross debt in Part 9 and, for the first time, the inclusion of statements of financial position in Part 8.

Table 12 summarises the components of gross debt and financial assets and details movements between periods/budget.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

Table 12 – Movements in gross debt and financial assets on a UPF NFPS basis (Schedule 7.8 of the TAFR).

	2001/2002 Actual	2000/2001 Actual	1999/2000 Actual
	$ millions	**$ millions**	**$ millions**
Financial Assets			
Cash and Deposits	122.6	292.9	58.6
Advances Paid	225.0	248.9	236.1
Investments, loans and placements	379.4	323.8	516.8
Total financial assets	**726.0**	**865.6**	**811.5**
Gross Debt			
Deposits held	48.1	72.9	58.3
Advances Received	311.1	**	**
Borrowing	2,111.0	2,273.3	2,111.1
Total gross debt	**2,470.2**	**2,346.2**	**2,169.4**
Net Debt	**1,743.2**	**1,480.6**	**1,357.9**

** - Breakdown between advances received and borrowings for prior years not available.

These results are consistent with those discussed previously and no further comment is provided here.

Net worth and net financial worth.

Net financial worth is included in the TAFR for the first time. It is important to an assessment of the financial position of the Government and will be invaluable in future years when the net worth can be compared to budget and trend information, particularly if it is prepared in accordance with Australian Accounting Standards and subjected to audit. Table 13 details the net worth and net financial worth at 30 June 2002.

These results must be read with caution for two reasons:

1. Some accrual balances at 30 June 2002 were estimates and not all land, building and infrastructure assets had been formally valued; and

2. Some assets had been revalued upwards (Power and Water Authority and Housing Business Services are examples) while others had been revalued downwards (for example the East Arm Stage 2 at the Darwin Port Corporation). It should also be noted that a downward or upward valuation does not necessarily mean that there has been any decrease or increase in the service potential of the assets concerned.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

Table 13 - UPF accrual net worth and net financial worth on a NFPS basis (Schedule 8.19 of the TAFR).

	Net worth $ millions	Net financial worth $ millions
Non-financial public sector basis including AARC	2,176	(3,342)

Net worth is total assets minus total liabilities which is currently a positive amount in that the Territory's total assets exceed its total liabilities.

Net financial worth is determined as total financial assets minus total liabilities and is reflected in brackets because total liabilities exceeds financial assets. This is not unexpected as the bulk of public sector assets comprise infrastructure, land and buildings.

Gross outlays and gross receipts – cash

The move to a UPF accrual budgeting and reporting framework is likely to result in the exclusion of gross results in future TAFR. However, financial results reported on this basis comprise a significant component of the audited TAFR and commentary is provided here as a result. Total movements in gross outlays and receipts are detailed in Table 14 below.

Table 14 – Total movements in gross outlays and gross receipts (Schedule 2.1 of the TAFR).

	Mini Budget 2001/2002	Actual 2001/2002	Actual 2000/2001
	$ millions	$ millions	$ millions
Gross receipts	3,426	3,351	3,599
Gross outlays	(3,356)	(3,341)	3,401
Net surplus – use of the Public Account	**70**	**10**	**198**

Of importance is the budgeted surplus on a gross basis compared to the budgeted deficit on a net UPF basis. Differences arise as the gross results include intra-sector transfers, movements in borrowings and advances received. The lower actual surplus arises from a combination of $75 million less receipts offset by decreased outlays of $15 million.

This year the TAFS provides, on a gross outlays and receipts basis, the performance of each Agency (Part 2 schedules 2.5) against the Mini-Budget, includes variations to budget allocations (schedules 2.6) and brief explanation for variations against budget in schedules 2.7.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

These schedules provide a useful assessment of Agency performance and no further comments are made in this Report. Movement by the Northern Territory Government onto an output funding model for 2002/03 will facilitate further enhancement to comparative analysis because changes to allocations or increases in expenditure can be matched to changes in outputs provided by Agencies.

Capital expenditure analysis

To properly assess the capital transactions result requires an analysis of the elements contributing to the overall budget variation. Table 15 illustrates these elements and details results on a Non-Financial Public Sector (NFPS) basis.

Table 15 Summary of capital expenditure during the 2001/02 financial year on a UPF NFPS basis (Schedule 7.8 of the TAFR).

	Budget 2001/02	**Actual 2001/02**	**Actual 2000/01**	**Actual 1999/00**
	$ millions	**$ millions**	**$ millions**	**$ millions**
Capital Expenditure				
Comprising:				
New Fixed Assets	541	547	324	242
Capital Grants	48	57	44	56
Other Net Expenditure	(34)	(41)	(2)	(78)
Total	**555**	**563**	**366**	**220**

Results are reasonably consistent with budget and are up on prior years primarily due to ongoing investment in the Alice Springs to Darwin railway.

Analysis of Revenues

Table 16 summarises the revenues earned by the Territory during 2001/02 compared with the two prior years.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

Table 16 – Revenues earned – reported on a cash UPF GGS basis (Schedule 7.6 of the TAFR).

	Actual 2001/02	**Actual 2000/01**	**Actual 1999/00**
Territory Revenue	**$ millions**	**$ millions**	**$ millions**
Taxes	227.3	220.3	228.9
Interest Received	5.5	17.7	15.8
Dividends from Government Business Divisions	22.5	41.6	36.4
Other Revenue	69.3	50.2	54.3
Total Territory Revenue	**324.6**	**329.8**	**335.4**
Commonwealth Grants			
Commonwealth Revenue Replacement Payments and other grants	334.8	317.4	124.8
GST Related Revenue	1,386.5	1,277.4	1,073.8
Other revenues from the Commonwealth	164.8	122.4	298.7
Total Commonwealth Grants	**1,886.1**	**1,717.2**	**1,497.3**
Total Revenue	**2,210.7**	**2,047.0**	**1,832.7**

Observations include:

- Revenues from taxes have remained almost constant since 1999/2000 meaning that, in real terms, revenue from taxes is dropping. This should, however, be read in light of the impact in recent years of the changes by the Commonwealth to fiscal equalisation arrangements referred to previously in this Report;
- Interest received is low and requires monitoring. The decrease is primarily due to lower holdings of financial assets and lower interest rates;
- The decrease in dividends received from GBDs should be of concern to Government and is analysed on page 42 of this Report; and
- Revenues from the Commonwealth are, as already highlighted earlier in this Report, well up on previous years.

Public Account Scope - Comparison of 2001/02 actual outcome with original budget and with prior years

Employee Related Liabilities

Net debt is not the only liability position contributing to net worth. Other liability exposures are summarised in Table 17 below.

Table 17 – Employee related liabilities (Part 5 of the TAFR)

Type of liability	2001/02 $ millions	2000/01 $ millions	1999/2000 $ millions
Unfunded superannuation	1,369	1,317	1,072
Accrued employee entitlements	247	241	240
Workers' compensation	68	59	64
Total employee related liabilities	**1,684**	**1,617**	**1,376**

This table indicates a 22% increase in these liabilities over the 1999/2000 to 2001/2002 period with the main increase being in unfunded superannuation.

Additional quantifiable contingent liabilities

Part 6 of the Treasurer's Annual Financial Statement records the following levels of quantifiable contingent liabilities, expressed as their equivalent values as at 30 June 2002:

	2001/2002 $ million	2000/2001 $ million
Amadeus Basin to Darwin Gas Pipeline	293	313
Electricity and Gas supply to Pine Creek and McArthur River Power Stations	109	110
Darwin to Alice Springs Railway	43	43
Total	**445**	**466**

Public Account Scope

Comparison of 2001/02 actual outcome and estimated actuals

This analysis which has been provided in previous reports on the TAFS by the Auditor-General is not repeated in view of the timing of the 2001/02 Mini-Budget and of the 2002/03 budget but will be provided in future analyses of the TAFS.

Financial performance of Government Business Divisions (GBDs), Government Owned Corporations (GOCs) and other relevant trading arms of Government

KEY ISSUE

The profitability of GBDs has declined since the 1999/2000 financial year resulting in lower dividends and taxes paid by them to Government.

Background

The audited financial statements of GBDs, GOCs and other Government trading businesses, such as Territory Insurance Office, should provide information about how well each entity is meeting the commercial performance expectations of the Government. Budgets prepared for each entity set financial performance targets against which to assess results. Expectations are also established in the form of dividends Government anticipates receiving which are generally based on 50% of annual net profits.

Audit findings

Tables 18, 19 and 20, which summarise the profitability, dividend and tax payments and net worth respectively, generally indicate dropping profitability generated by GBDs and GOCs. It is worth repeating here a relevant extract from Government's 2001/02 Mini-Budget:

"…with the commercial sector having greater flexibility and expected to improve its financial performance."

As a minimum, GBDs should be tasked with generating an acceptable return on capital invested, requiring the application of pricing and other business practices to achieve this. Acceptable levels of profitability are essential to Government achieving its deficit and net debt reduction strategies with performance in 2001/02 showing a continued downward trend in profitability and associated dividend and tax payments.

It is encouraging that the 2002/03 Budget anticipates a reversal of this trend.

Financial performance

The financial performance of trading businesses reporting on an accruals basis can be assessed in a number of ways. The analysis below looks at three primary measures being:

- profitability
- dividends and taxes paid and
- net worth.

Financial performance GBDs, GOCs and other relevant trading arms of Government

Profitability

Comparison of the expected, actual and comparative financial performance is detailed in Table 18 below.

Table 18 – Net profit or (loss) before taxation and dividends

GBD/GOC/Other	Budget 2002/03 $'000	Actual 2001/02 $'000	Actual 2000/01 $'000	Actual 1999/2000 $'000
Construction Division	1,836	(1,179)	2,981	2,060
Darwin Bus Service	112	500	479	337
Darwin Port Corporation[1]	3,485	(32,813)	(5,196)	(47,684)
Government Printing Office	276	0	(186)	185
Housing Business Services	(7,713)	(17,944)	(5,533)	5,943
ITMS [2]	1,570	2,927	(2,145)	2,207
NT Fleet	6,524	5,297	6,634	6,879
NT Treasury Corporation [3]	31,051	26,133	13,688	33,638
Power and Water Authority	N/A [4]	18,560	19,447	44,766
Territory Discoveries	(456)	(1,092)	(888)	(1,071)
Territory Insurance Office	N/A	(12,004)	8,424	3,393
Territory Wildlife Parks	(590)	(18)	(778)	(1,112)
Totals		**(11,633)**	**36,927**	**49,541**

[1] This is after asset write downs of $34.7 million, $6.7 million and $60.6 million in 2001/02, 2000/01 and 1999/00 respectively.

[2] Information Technology Management Services.

[3] Became a GBD on 1 July 2001.

[4] No budget included in the 2002/03 Budget Paper No. 3 as Power and Water became the Territory's first Government Owned Corporation on 1 July 2002 and as such, is now no longer classified as a budget dependent agency. The Corporation's Statement of Corporate Intent for 2002/03 was tabled in the Legislative Assembly in August 2002 by the Treasurer. This document contains the Corporation's projected financial performance over the 2002/03 to 2004/05 period.

The profitability of these business divisions has been inconsistent and it is encouraging to note that the Northern Territory Government, in most cases anticipates improved performances in 2002/03

Financial performance GBDs, GOCs and other relevant trading arms of Government

Dividends and taxes paid

Comparison of the actual and comparative dividends and taxes paid are detailed in Table 19 below.

Table 19 – Dividends and taxes received from GBDs/GOCs

GBD/GOC/Other	Budget 2002/03 $'000	Actual 2001/02 $'000	Actual 2000/01 $'000	Actual 1999/00 $'000
Construction Division	1,194	0	1,998	1,219
Darwin Bus Service	73	325	321	229
Darwin Port Corporation	3,326	879	0	1,234
Government Printing Office	163	0	0	129
Housing Business Services	0	0	0	2,971
ITMS	1,021	1,580	0	1,501
NT Fleet	4,241	3,443	4,445	4,669
NT Treasury Corporation	21,196	16,986	13,688	15,411
Power and Water Authority	N/A	9,227	8,635	26,478
Territory Discoveries	0	0	0	0
Territory Insurance Office	N/A	0	0	1,250
Territory Wildlife Parks	0	0	0	0
Totals		**32,440**	**29,087**	**55,091**

As noted earlier in this Report, a reason for decreasing Territory "own source revenue" on a UPF General Government Sector basis has been declining dividends and taxes received from GBDs and similar agencies. It is encouraging to see that the Government anticipates improved contributions from these agencies in 2002/03.

The dividends and taxes detailed above have been extracted from annual financial statements of these GBDs which may not reflect the timing of payments by them or the timing of receipts by Treasury. Taxes could also include deferred taxes determined on the tax equivalents regime. For example, the $1.25 million referred to as "paid" in 1999/2000 by TIO did not result in any tax being physically paid, as this was a provision for deferred income tax. This does not, however, change the point being made – that revenues from this source are dropping.

Financial performance GBDs, GOCs and other relevant trading arms of Government

Net worth

Comparison of the actual net worth, where net worth is the difference between audited assets and audited liabilities (also referred to as equity where assets exceed liabilities or net liabilities where liabilities exceed assets) is detailed in Table 20 below.

Table 20 – Net worth of GBDs/GOCs

GBD/GOC/Other	Budget 2002/03 $'000	Actual 2001/02 $'000	Actual 2000/01 $'000	Actual 1999/00 $'000
Construction Division	5,319	916	2,095	1,112
Darwin Bus Service	8,151	8,100	7,925	7,767
Darwin Port Corporation	21,118	14,706	18,533	26,927
Government Printing Office	2,932	2,477	2,477	2,663
Housing Business Services	639,044	699,440	666,078	690,570
ITMS	2,667	1,467	120	2,265
NT Fleet	62,294	59,472	57,618	55,429
NT Treasury Corporation	52,091	42,785	33,638	33,638
Power and Water Authority	N/A	660,582	592,615	581,803
Territory Discoveries	250	(81)	57	(51)
Territory Insurance Office	N/A	30,490	41,815	33,024
Territory Wildlife Parks	18,563	20,038	21,167	24,034
Total		**1,540,392**	**1,444,138**	**1,459,181**

In most cases, Government is budgeting for growth in net worth, which is generally consistent with increases in budgeted profitablity.

Analysis of Public Property written off, postponed or waived in the year ended 30 June 2002

KEY FINDINGS

- **$2.325 million was written off or waived by the Treasurer in 2001/02 ($2.332 million in the previous year).**
- **$3.744 million was written off or waived by Delegated Officers in 2001/02 ($2.867 million in the previous year).**

Background

The value of public property written off, postponed or waived is reported by general categories in Schedule 4.4 of the audited Treasurer's Annual Financial Statement (TAFS). More specific commentary is provided below about these amounts to allow more scrutiny of the Government's decisions in dealing with these public assets and funds.

The *Financial Management Act* provides that the Treasurer may write off the value of lost, deficient, condemned, unserviceable, abandoned or obsolete property. The Treasurer's Directions provide for write off for:

- unacceptable causes (such as inadequate procedures or implementation thereof, theft); and
- acceptable causes (such as fair wear and tear, reasonable obsolescence within predetermined tolerance).

The comments which follow are limited to analyses of the amounts written off, postponed or waived in Schedule 4.4 of the audited TAFS for 2001/02, as tabled in the Legislative Assembly on 28 November 2002. The audit of these amounts disclosed in the TAFS does not extend to reviewing the adequacy of arrangements and procedures for the prevention of losses.

Audit findings

$2.325 million was written off or waived by the Treasurer in 2001/02 (previous year - $2.332 million).

- Amounts written off by the Treasurer in the category headed "Irrecoverable money written off - $1.094 million" (previous year - $1.999 million) included:
  - Various debts for crimes compensation due from offenders (Department of Justice) - $0.289 million (previous year - $0.524 million). This represented approximately $26,000 per write off (previous year - $16,000);
  - Loan debts of $0.455 million (previous year - $1.042 million) being five loans written off in the Department of Business, Industries and Resource Development (DBIRD) totalling $0.213 million with an average value of $42,663 (all five loans formed part of DBIRD's 'Katherine Flood – Natural Disaster Relief Arrangement' portfolio and were written off due to business failure and bankruptcy) and eight loans in Housing Business Services with an average value of $30,207; and

- Taxation debts of $0.175 million (previous year - $0.094 million) being eight debts written off by Northern Territory Treasury with an average value of $21,877.

Analysis of Public Property written off, postponed or waived in the year ended 30 June 2002

Audit findings continued

- Amounts postponed by the Treasurer in the category headed "Postponement of money owing - $0.629 million" (previous year - $0.180 million) included debts due:

  - By Darwin Galvanising Pty Ltd amounting to $180,000 for a period of three years from July 2000 on a loan originally made by the then Department of Industries and Business in July 1996. This loan is to be reviewed prior to the end of the postponement period, which is July 2003; and

  - By the Tiwi Health Board amounting to $449,127 – The Tiwi Health Board (THB) is a community representative body, which operated as the purchaser and provider of primary health care outcomes on behalf of the Tiwi Islanders. It manages 4 Tiwi based Community Health Centres. The Department of Health and Community Services (DHCS) provides $1.3 million per annum in funding to the THB.

    The debt of $449,127 owed to the Territory results from pharmaceuticals and services previously provided by DHCS. Under a Deed of Arrangement, the Territory has surrendered its rights to demand immediate payment and waived any interest charges in exchange for a stream of 40 equal quarterly payments (full repayment in 10 years).

    The extension of the repayment term and the fact that repayments incur no interest, will mean the arrangement will cost the Territory some $0.12 million assuming the Government could have invested the funds at 6.5% per annum.

- Amounts waived by the Treasurer under the category headed "Waiver of right to receive or recover money - $0.602 million" (previous year - $0.153 million) included Stamp duty of $512,995 payable by Lachlan Reit Ltd (the Company). Due to administrative structures within the Company, it was levied two amounts of Stamp Duty each totalling $512,995 in respect of the purchase of a single property. As the policy of only levying Stamp Duty once for any one transaction applies, one amount of Duty was waived.

Amounts written off or waived by Delegated Officers in 2001/02 totalled $3.744 million (previous year - $2.867 million). The major components of those write-offs were:

- Amounts written off by Delegated Officers in the category headed "Irrecoverable money written off - $1.273 million" (previous year - $0.041 million) comprised 2,229 individual write offs at an average of $571 each and included:

  - Approximately 398 individual items written off by the Department of Community Development, Sport and Cultural Affairs: Housing Business Services with an average value of $1,335; and

  - Approximately 4200 individual items written off by Power and Water Authority with a net average value of $113.

Analysis of Public Property written off, postponed or waived in the year ended 30 June 2002

- Amounts written off by Delegated Officers in the category headed "Public property written off - $2.409 million" (previous year $2.804 million) comprised 3,782 individual write offs at an average of $637 each and included:
  - Approximately 3580 individual items written off by the Department of Employment, Education and Training with an average value of $608; and
  - An accounting adjustment by the Northern Territory Tourist Commission, to bring it into line with the Treasurer's Directions, totalling $126,048 arising from the change in policy of capitalising assets costing $5,000 instead of $1,000.

It is noted that the value and number of write-offs will not necessarily be comparable from one year to the next. Reasons for write-offs will vary. Whatever the cause, the need for write-offs to be reported is a valid accountability requirement and should continue.

The Department of Community Development, Sport and Cultural Affairs has commented:

In relation to the write off of debts and amounts owing, the Department ensures all appropriate recovery action has been taken before writing any amount off.

The Department of Employment, Education and Training has commented:

The write-off amounts from DEET during the period totalled approximately $2,177,000 and consisted of 24 items valued over $5,000 worth approximately $218,000, and about 3560 items valued under $5,000 worth approximately $1,959,000.

The equipment written off was generally purchased before 1997 and includes photocopiers, laptop computers, computer projectors, computers and associated peripherals and calculators. The majority of these items are under $1000 in value, and in many cases have been fully depreciated.

As a result of these write-offs, DEET's asset register reflects the current complement of assets, in accordance with present asset policy as set out in Treasurer's Directions.

Matters arising from the Audit

KEY ISSUES

- **Although the Northern Territory Government's investment in the AustralAsia Railway Corporation (AARC) increased by $43.7 million to $282 million, its interest in AARC has decreased by 8% to 66% due to further investment by AARC's other shareholder, the South Australian Government.**
- **The cost of the ultimate underlying asset supporting the investment in AARC could be reliably measured at 30 June 2002.**
- **However, subject to certain conditions being satisfied, control over $409.5 million of infrastructure assets recognised in AARC's statement of financial position at 30 June 2002 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003/04 for no consideration. After transfer, control of these infrastructure assets will be replaced by a "right" to own the railway line in the future, although it may be 50 years before this "right" crystallises and the underlying assets eventuate. It is not possible to reliably measure the value of Government's "right" to this railway asset in 50 years time. The underlying "right" may be greater or less than the $409.5 million currently ascribed to this infrastructure asset.**

The audit of the TAFS highlighted the following matters for NT Treasury's attention.

Investment in AustralAsia Railway Corporation (AARC)

Despite an increased carrying value of the Northern Territory's investment in AARC, its share of this investment reduced during the year. As reported in TAFS schedule 4.3, at 30 June 2002, the Territory had entitlement to $282 million or 66% of the assets of AARC. At 30 June 2001, this was $238.3 million or 74% of the assets.

The Northern Territory Government itself made no contributions to AARC during the 2001/02 financial year. The $43.7 million increase in the entitlement was due to the Northern Territory's entitlement to its share of further contributions to the Railway project made by the South Australian Government. The Northern Territory and South Australian Governments' ownership interests change, in pre-agreed proportions, as respective contributions are made to AARC. This resulted in the dilution of the Northern Territory Government's interest.

Matters arising from the Audit

Investment in AustralAsia Railway Corporation (AARC) continued

At 30 June 2002, the cost of the ultimate underlying asset supporting the investment in AARC could be reliably measured. However, subject to certain conditions being satisfied, control over $409.5 million of infrastructure assets recognised in AARC's statement of financial position at 30 June 2002 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003/04 for no consideration. Pending satisfactory completion and subsequent transfer of this asset, no provision for any resulting diminution in the value of the Territory's investment in AARC was made in TAFS at 30 June 2002. After transfer, control of these assets will be replaced by a "right" to own the railway line in the future, although it may be 50 years before this "right" crystallises and the underlying assets eventuate. At this point it is not possible to reliably measure the value of this "right". The value of this underlying right may be greater or less than the $409.5 million currently ascribed to the infrastructure asset.

As noted, at 30 June 2002, AARC recognised these infrastructure assets in its statement of financial position in an amount of $409.5 million being the value of the service potential in these assets at that date. The manner in which AARC has accounted for this asset complies with accounting standards.

Prior to any transfer of the infrastructure asset, the Northern Territory Government's share of the assets of AARC will be further diluted (due to further contributions to be made by the Commonwealth Government).

Other matters

Legislative timetable

Section 9 of the *Financial Management Act* sets the Treasurer a deadline of 30 September each year to prepare the TAFS. Although the Treasurer signed the covering letter evidencing the TAFS finalisation on 30 September 2002, several significant adjustments were subsequently made both to the figures and narrative of TAFS. Some of these late adjustments were caused by delayed completion of the financial statements of Power and Water Authority, Territory Insurance Office and Housing Business Services.

The Treasurer signed off the final version of TAFS on 21 November 2002, which satisfied the legislative requirement as it relates to "timeliness". However, every effort should be made to complete the TAFS and TAFR as early as possible to enhance this important accountability process.

Timeliness of presentation will be assisted if the format for the 2002/03 TAFS is settled well before the end of that financial year, so that efficient preparation and audit planning can occur. This is particularly important in view of the projected change to an accrual format for 2002/03.

Status of Matters Previously Reported

Format of the Treasurer's Annual Financial Statement

Continued Improvements in the format

Last year it was reported that the format of the TAFR had been improved. This trend has continued in 2002 with the following improvements:

- The Economic Transactions Format in Part 1 being replaced by a Cash Uniform Presentation Framework. This is a progression towards the accrual-based Uniform Presentation Framework (UPF) that is scheduled to be adopted by all jurisdictions by 2002/03;

- The inclusion of more narrative on schedules 4.2, 4.3 and 5.2;

- More detailed information on schedule 4.4 to both expand the level of disclosure and include the number of entries under each category; and

- Expansion of schedule 6.1 to provide an explanation of the categories of contingent liabilities arising from guarantees and indemnities under the *Financial Management Act* and to reflect as closely as possible the requirements contained in the Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets."

The Overview in the Treasurer's Annual Financial Report (TAFR) provided detailed narrative on the Territory's obligations under the UPF agreement but was at times potentially confusing to readers caused by the lack of consistency in scope throughout the document. It is acknowledged that the Overview is sourced from various sections of the TAFR, each of which was based on specific scopes. The use of the same scope throughout the Overview would provide consistency and make the document more useful to readers.

This year's TAFR included unaudited accrual-based information for the first time. This should continue to be reported, with comparative and budget data included in future.

Improving the format in future

Treasury should consider adopting a single Uniform Presentation Framework reporting both cash and accrual results, which should be supplemented by the preparation of a general purpose financial report consistent with AAS 31. It will also be important for the TAFR to report back in a format consistent with the 2002/03 budget papers, which will facilitate assessment of performance.

Topical Issues - Matters raised at the 7th Biennial Conference of the Australasian Council of Public Accounts Committees

My attendance at the 7th Biennial Conference of the Australasian Council of Public Accounts Committees in February 2003 highlighted the following as issues that I will research and deal with in future reports:

- Sustainable development and triple bottom line reporting;
- Reporting performance;
- Developments in other jurisdictions including Audit Committees and their memberships and the inclusion of financial analysis in audited financial reports or in annual reports; and
- Governance.

Some of these items are not new and have been raised in previous reports to the Legislative Assembly. However, they appear to be gaining currency in other jurisdictions and require on-going research and consideration.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

KEY ISSUES

- **Accrual accounting enables Parliament to assess the budget management of all components of public sector entities – not only their cash management (as under previous arrangements), but also their operating results and all their assets and liabilities.**
- **The move to accrual budgeting and accounting is a positive step providing Members with budget information not previously available and this new system of budgeting should continue to be pursued.**

Introduction

Debate about the merits of the move throughout Australia from cash-based to accrual-based financial budgeting and reporting is ongoing. What is becoming clear is that Members of Parliament are finding it difficult to interpret accrual-based information both at the time of approving the Budget and when Agencies report after financial year ends.

My objectives for including in this Report a section on this subject include:

- to reconfirm the benefits of accrual accounting over cash accounting; and
- to prepare a reconciliation of the 2002/03 accrual Budget to what may have been a 2002/03 cash-based budget under previous arrangements showing what causes the differences and, hopefully to highlight that the differences are not complex.

In preparing this section of my Report I have drawn on a number of paragraphs in *Report 338 of the Joint Committee of Public Accounts, Parliament of the Commonwealth of Australia, titled "Accrual Accounting – a Cultural Change"*.

Key Concepts

Cash accounting

- Reflects the principle that no public monies shall be spent except in ways and in amounts specified in annual appropriations made by Parliament. In the Territory spending is now appropriated via an accrual budget.
- Cash accounting records cash receipts, payments and balances at the time cash is exchanged. Financial statements prepared under this basis:
  - Show the source of cash receipts;
  - Reveal how the cash has been spent; and
  - Provide a comparison against budgeted amounts.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Accrual accounting

- Recognises revenues and expenses in the accounting period in which they occur, irrespective of when cash is received or paid.
- Revenues and expenses include items not usually covered under "receipts" and "payments" such as:
  - the cost of consuming assets – for example depreciation;
  - the cost of accumulating employee entitlements such as long service leave or unfunded superannuation; and
  - the value of goods and services received free of charge from other bodies.

It is important to note that cash accounting and accrual accounting are not alternative systems. Rather, cash accounting is a sub-set of the more comprehensive accrual system.

Accrual-based financial statements generally comprise three primary statements being a statement of financial performance, a statement of financial position and a statement of cash flows along with notes to these primary statements. It is important to note that the 2002/03 Budget included for each Agency these three primary statements along with an output appropriation and associated notes. Therefore, at an Agency level, the 2002/03 budget included a cash-based budget prepared via the budgeted statement of cash flows.

Other reasons for adopting accrual accounting

The adoption of commercial disciplines in some areas of the public sector and allowing management flexibility in instituting accountability standards points to the need for more comprehensive, and timely, information about performance including financial performance. Such information includes:

- Resource use;
- Effective deployment of assets;
- Managing working capital to maximise cash flow;
- Liability management;
- Alternative application of resources;
- Pricing of goods and services for full cost recovery;
- Cost control;
- Evaluating alternatives such as contracting out, in-sourcing and lease/buy options;
- Managing employee entitlement liabilities; and
- Workplace bargaining.

Accrual accounting practices have met these needs. In particular it has assisted in the assessment of financial performance where performance is defined as "…the proficiency of an entity in acquiring resources economically and using them efficiently and effectively in achieving specified objectives". Such information is essential to full cost determination and assessment about the efficient and effective delivery of outputs.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

A widely acknowledged benefit of the accrual method is its potential to provide for improved asset management. Accrual information facilitates informed management decisions on such issues as whether:

- Assets are being fully utilised;
- Assets should be retained or sold;
- Finite resources are being deployed to the best of alternative assets; and
- Current levels of provision for asset maintenance are appropriate.

Common differences

The main differences include:

- Expenditure - In a cash environment all expenditure is brought to account as it is settled and the cost is charged to an expenditure account regardless of the nature of the expense. Therefore, the acquisition of assets (land, buildings, port infrastructure, equipment, inventory and investment in securities) is treated in the same manner as payment for salaries or goods and services.

  This means that any balance sheet, or statement of financial position, prepared in a cash system would only contain unexpended cash and bank account balances. In addition, no recognition is given to commitments that have been entered into and which could have a substantial impact on future income streams and cash resources.

  However, in an accrual environment there are three key differences:

  - Expenditure is brought to account as it is incurred;
  - Expenditure of a non-recurrent or capital nature is recognised as assets be this inventory, investments or fixed assets; and
  - Expenditure incurred but not paid is highlighted facilitating the need to manage the resulting liabilities including provisions for employee entitlements.

- Revenue – In a cash system revenues are brought to account when received with revenue not being limited to those generated from taxes, grants or the provision of goods and services but includes advances and borrowings. Consistent with the treatment of expenditure under a cash system no recognition is given to amounts due by third parties such as debtors for services provided. Also, revenue from the disposal of assets, be they major assets such as power stations or minor assets such as computer equipment, is also brought to account when received. In the case of the sale of major assets, this can heavily distort budgets and operating performance particularly when a major asset is sold in one period without a similar sale in a subsequent or prior period.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

However, in an accrual environment there are three key differences:

– Pricing decisions are based on full cost of services;

– Revenue is brought to account on delivery of the goods or services, although in the case of grants and taxes these continue to be brought to account on a received basis, with unpaid revenue brought to account as receivables facilitating management thereof ; and

– Receipts arising from borrowings or advances give rise to recognition of the need to repay such liabilities at a time in the future facilitating management thereof and resource allocation decisions.

Resulting accounting treatments

The summary below details the more common areas that give rise to differences in accounting under cash or accrual:

Item to be accounted for	Treatment under cash basis	Treatment under accrual basis
Salaries	Brought to account when paid.	Brought to account when incurred.
Employee entitlements such as unpaid salaries, outstanding recreation leave, unfunded superannuation	Brought to account when paid.	Brought to account as soon as the liability is due regardless of how or when it is to be funded.
Goods and services received	Brought to account when paid for regardless of when the service or good may have been received.	Brought to account when incurred/received.
Payment for goods and services incurred.	Brought to account as an expense when paid.	Payment would be for an expense or asset already recognised and brought to account. Thus the payment transaction simply reduces the bank balance and related payable.
Goods and services committed but goods or service not yet received or provided	No transaction recorded.	No transaction recorded. However, an accrual system will track the fact that a commitment has been entered into impacting budget funds no longer available.
Assets ordered and received	No transaction recorded.	Asset, and related liability to pay, is brought to account.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Asset paid for	Brought to account as an expense.	Transaction reduces bank balance and related liability.
Commitment for the acquisition of assets	No transaction recorded.	No transaction recorded. However, an accrual system will track the fact that a commitment has been entered into impacting budget funds no longer available.
Cost of utilising assets (depreciation/amortisation)	No transaction recorded.	Estimated resource use charged against profit/surplus generally by way of a pre-determined depreciation charge. Value of asset reduced accordingly.
Revaluing/devaluing assets	No transaction recorded.	Value of asset increased or decreased accordingly reflecting the fair value of the asset and improving assessment of management's use of the asset.
Acquisition and use of assets under finance lease	No transaction recorded regarding the asset acquisition. Lease payments brought to account when paid.	Asset brought to account along with the associated lease liability.
Prepayment for goods and services	Transaction recorded as an expense for the full amount paid.	Expense is distributed over the period of benefit to the organisation.
Prepayment/deposit for assets to be acquired	Transaction recorded as an expense.	Payment charged to an asset account pending receipt of the asset and payment of the balance.
Pricing decisions	Based on cash costs expended.	Based on full cost of manufacture of the product or provision of the service.
Borrowings received	Recorded as revenue received.	Increases cash with resulting liability recorded facilitating improved management thereof.
Contributions by owners	Recorded as revenue received.	Recorded as equity contributed.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Benefits and disadvantages of cash accounting

Benefits **–** include:

- Easy to administer - for internal management purposes, information about cash enables management to control and monitor receipts and payments against budget; and
- Easy to account - when included in annual reports, cash-based information allows management to account to Parliament for appropriated monies.

Disadvantages **–** include:

- Acquisitions of assets are expensed distorting assessment of comparative performance, reducing the effectiveness of asset management and the ability to assess a return on assets managed;
- Similarly disposals of assets distort comparative assessment of performance;
- Difficulty in managing assets and liabilities with a long term focus. For example, management of heritage assets, forests and environmental issues;
- Recording and managing debt be it long or short term;
- Difficulty making alternative resource management decisions such as investing in museums, art galleries or port infrastructure;
- Can lead to a culture of "end of financial year spend ups" where budgets may not be fully utilised;
- Basing pricing decisions on cash costs rather than full costs; and
- Focuses budget management on receipts, payments and debt.

Benefits and disadvantages of accrual accounting

Benefits **–** include:

- Accrual accounting enables Parliament to assess the budget management of all components of public sector entities – not only their cash management (as under previous arrangements), but also their operating results and all their assets and liabilities;
- It aims, with some exceptions, to match the costs incurred during a particular reporting period to the benefits earned in that period;
- Enables full cost pricing;
- Accrual information is an essential aid to management decisions about total resource allocation and management of all resources, not only cash, because assets purchased are more clearly brought to account facilitating assessment of their use; and
- Identifies commitments entered into and reduces the possibility of "end of financial year spend-ups".

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Disadvantages **–** include:

- Difficulty in the valuation of certain assets – for example heritage assets, museums, art collections and other specialised infrastructure assets; and
- Not readily understood by non-accountants.

Balancing the costs and benefits

There appears to be two main reasons why Agencies have been reluctant to adopt full accrual accounting:

- A residual view that although accrual accounting is important for commercial operations, its relevance to non-commercial operations or to Agencies with few assets is limited; and
- A practical concern that the costs of implementation exceed the expected benefits.

Some views on these reservations include:

- It is not only commercial entities that must ensure effective management of assets;
- All entities need to understand the full cost concept if they are to manage costs effectively and to maximise revenues;
- Cash flow management is as important under an accrual system as it was under a cash system. The focus on managing working capital (cash, receivables, inventory and payables) enhances cash management;
- Accrual accounting has highlighted the high exposure to employee entitlements and the need to find measures to manage this; and
- While the concern about costs of implementation is acknowledged, the public sector in the Territory is uniquely placed having one system of accounting applied by almost all Agencies and much of the conversion to accrual accounting has been performed centrally. What is needed is for individual agencies to take ownership of the data and use it to manage budgets, manage assets and liabilities and make decisions about resource allocation on a regular basis.

Reconciling an accrual budget to a cash budget

In the pages that follow I have converted the 2002/03 Department of Health and Community Services budget from accrual to cash. The format used for the resulting cash budget is the same as that for the 2001/02 Mini Budget. Notes are included on the budget to show the differences that arise and to reconcile the cash and accrual positions. This exercise was made easier by the budget assumption that, in most cases, the 2002/03 budget and 2001/02 estimates would be the same for receivables, prepayments, payables and employee provisions. In a public sector environment this is not an unreasonable assumption and will require careful management.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

This exercise results in the preparation of the following statements prepared on both an accrual and a cash basis for the 2002/03 financial year:

1. Statement of operating performance and of operating receipts and payments (page 62);
2. Statement of financial position (pages 63-64); and
3. Statement of cash flows (Pages 65-66).

Also included are:

4. A statement of gross outlays and receipts showing a calculated cash budget compared to the 2001/02 Mini Budget (Page 67); and
5. An outputs and appropriations statement comparing the 2001/02 Mini-Budget, a calculated 2002/03 cash budget and the actual 2002/03 accrual budget (pages 68-69).

Conclusions from this reconciliation exercise

- ♦ Members need to have some understanding of the impact on the accrual budget of movements in current assets and current liabilities although this impact is likely to be small. However, Members could watch for situations where Agencies may manage their working capital positions to operate within cash budgets. An example is delaying payments to suppliers. However, in an accrual budget environment this should not occur.

- ♦ Members need to understand the impact of capital appropriation in an accrual accounting framework. Fortunately this is made simpler by the separate capital appropriation, by the inclusion in the statement of operating performance of a depreciation charge and by the inclusion of the budgeted statement of financial position. This statement enables readers to review the change in the carrying value of fixed assets (generally land, buildings, plant and equipment) and reconcile this to the capital appropriation and budgeted depreciation and asset disposals.

- ♦ Members need to understand the change in accounting for borrowings and advances received which are no longer treated as receipts but more correctly as liabilities.

- ♦ The Outputs and Appropriations statement shows that there is not a significant difference between the cash and accrual budgets although this is aided by the relatively low capital appropriation in 2002/03, which could of course vary from Agency to Agency. However, this difference will disappear in the second year of accrual budgeting and separate capital appropriation. This statement highlights, in both cash and accrual terms, very clearly where the Government is directing its resources and where these resources are derived from.

- ♦ Similar conclusions are drawn from the statement of Gross Outlays and Receipts.

- ♦ The inclusion of a budgeted accrual statement of financial position is a significant advance on only budgeting for the cash position.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

- The inclusion of a budgeted cash flow statement provides Members with a bridge between the previous cash budget and the current accrual budget.

- The move to accrual budgeting and accounting is a positive step providing Members with budget information not previously available and this new system of budgeting should continue to be pursued.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Department of Health and Community Services Statement of Operating Performance and of Recurrent Receipts and Payments	Notes	Budget - Accrual Operating 2002/03	Budget - Cash Recurrent Receipts & Payments 2002/03
		$'000	$'000
Operating revenue	**1**	**507,592**	**507,592**
Grants and subsidies			
Current		108,545	108,545
Capital		291	291
Sale of goods and services			
Output revenue		377,644	377,644
Other agency revenue - fees & charges		17,909	17,909
Other revenue		3,203	3,203
Operating expenses		**526,729**	**509,760**
Employee expenses	**2**	267,297	267,297
Purchase of goods and services	**2**	146,440	146,440
Repairs and maintenance		9,670	9,670
Depreciation	**3**	16,969	0
Grants and subsidies			
Current		83,415	83,415
Capital		350	350
CSOs		2,488	2,488
Interest		100	100
Net Operating surplus/(deficit)		**(19,137)**	**(2,168)**

Notes

1. Accrual and cash budgets are the same because the budget assumes no movement in receivables.

2. Accrual and cash budgets are the same because the budget assumes no movement in pre-payments, inventories, payables and employee entitlements.

3. Depreciation is not a payment of cash and therefore does not impact the cash position.

Conclusion

Taking aside the impact of the depreciation charge and understanding the assumption of no change in budgeted receivables, inventories, payable or provisions for employee entitlements facilitates review and assessment of the budget prepared on an accrual basis.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Department of Health and Community Services Statement of Financial Position	Notes 1	Budget - Accrual 2002/03	Budget - Cash 2002/03
		$'000	$'000
Assets		**335,200**	
Opening balance of cash on hand			14,036
Cash and deposits		14,868	
Receivables		7,018	
Prepayments		1,104	
Inventories		4,061	
Land and improvements		299,201	
Plant and equipment		8,948	
Liabilities		**42,951**	
Deposits held		220	
Creditors and accruals		15,632	
Provisions		26,807	
Other		292	
Net assets		**292,249**	
Represented by:			
Capital			
Opening balance	**2**	311,882	
Equity injections	**3**	4,673	
Accumulated funds			
Opening balance	**2**	(5,169)	
Current year profit/(deficit)	**1**	(19,137)	832
Equity/surplus assets over liabilities		**292,249**	**14,868**

Notes:

1. As noted in the text, the cash budget only reflects movements in the bank/cash position. The current year profit in cash terms of $832,000 equals the "net increase in cash held" as recorded in Health's 2002/03 budgeted cash flow statement.

2. In the first year of applying an accrual budget, the opening balance of $306,713 ($311,882 less $5,169), is the net asset position of the Agency at 1 July 2002.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

3. The equity injection links to the cash flow statement and comprises:

	$ '000
♦ Principal component of finance leases	720
♦ Purchase of fixed assets	7,673
♦ Equals Capital appropriation	8,393
♦ Less proceeds from asset sales	3,020
♦ Equals net cash outlayed on investing activities (see cashflow statement)	4,653
♦ Add equity withdrawal	20
♦ **Equals Equity injection per statement of financial position**	**4,673**

Conclusion

Inclusion of a budgeted statement of financial position enhances the accountability requirements of Agency management who must manage cash and all other components of the business and acquit this at year end.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Department of Health and Community Services Statement of Cash Flows	**Notes**	**Budget - Accrual**	**Budget - Cash**
		2002/03	**2002/03**
Cash flows from operating activities		**$'000**	**$'000**
Operating receipts	**1**	**507,592**	**519,005**
Grants and subsidies received			
Current		108,545	108,545
Capital		291	291
Receipts from fees and charges		17,909	17,909
Output revenue/recurrent appropriation		377,644	377,644
Output revenue/capital appropriation	**1**		8,393
Other		3,203	3,203
Proceeds from asset sales	**1**		3,020
Operating payments	**2**	**509,760**	**518,153**
Grants and subsidies paid			
Current		83,415	83,415
Capital		350	350
CSOs		2,488	2,488
Payments to employees		267,297	267,297
Payments for goods and services		156,110	156,110
Interest paid		100	100
Payments for capital and leases	**2**		8,393
Net cash out layed from operating activities		**(2,168)**	**852**
Cash flows from investing activities			
Investing receipts			
Proceeds from asset sales	**1**	3,020	
Investing payments			
Purchase of assets	**2**	7,673	
Net cash out layed on investing activities		***(4,653)***	***0***
Cash flows from financing activities			
Financing receipts			
Capital appropriation	**1**	8,393	
Financing payments		***740***	***20***
Lease payments	**2**	720	
Equity withdrawals		20	20
Net cash generated from financing activities		***7,653***	***20***
Net increase in cash held		832	832
Cash at beginning of financial year		14,036	14,036
Cash at end of financial year		**14,868**	**14,868**

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Notes

1. Cash is higher because it includes the capital appropriation and cash budgeted to be received from asset sales

2. Cash is higher because it includes expending the capital appropriations, which includes finance lease payments.

Conclusions

The accrual-based and cash-based cash flows are essentially the same but with capital transactions allocated to separate lines. Inclusion of a budgeted cash flow statement should assist Members in their assessment of the current budget and in comparison with prior year cash only budgets.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Department of Health and Community Services Gross Outlays and Receipts (cash basis)	**Notes 1**	**Mini Budget 2001/02**	**Budget 2002/03**
		$'000	**$'000**
Outlays by account	**2**	**481,110**	**518,173**
H&CS Operating Account		481,110	518,173
Outlays by category of cost		**481,110**	**518,173**
Personnel costs		248,218	267,297
Operational costs		138,783	156,110
Capital expenditure (includes lease payments)		7,292	8,393
Grants and subsidies		83,959	86,253
Interest		540	100
Advances		2,318	0
Equity withdrawals		0	20
Receipts by account		**124,571**	**132,968**
Consolidated revenue account (administered)		404	404
H&CS Operating Account		124,167	132,564
Receipts by source		**124,571**	**132,968**
Fees and charges		17,367	17,909
Miscellaneous receipts		3,120	3,203
Capital receipts		20	3,020
Other Commonwealth grants		103,906	108,836
Intrasector receipts		158	0
Use of Balance		**356,539**	**385,205**
Consolidated Revenue Account	**3**	358,038	377,644
H&CS Operating Account		(1,499)	7,561

Notes

1. The 2002/03 budget is an estimated cash position and is consistent with the outputs and appropriations page but showing transactions by classification rather than by output

2. There is a $20,000 difference between this estimate and the output/appropriations estimate being the budgeted equity withdrawal.

3. This amount equals the output appropriation for 2002/03

Conclusions

This table highlights the additional funding allocated to Health and confirms that the estimated 2002/03 cash budget prepared on an Outputs and Appropriations basis is reasonable.

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Department of Health and Community Services Output and appropriations statement	Notes	2001/02 Mini-Budget	2002/03 Estimated Cash budget	2002/03 Accrual Budget
Output group		**$'000**	**$'000**	**$'000**
Hospital Services	**1, 2**	**249,985**	**271,396**	**275,888**
Admitted patients		212,420	214,868	218,424
Non - admitted patients		37,565	56,528	57,464
Community Health Services		**108,604**	**109,299**	**111,108**
Family and Children's Services		**35,099**	**32,117**	**32,648**
Child care, early childhood, parent support		8,424	12,242	12,445
Support services/families in crisis		17,550	11,807	12,003
Child protection		9,126	8,067	8,201
Aged and Disability Services		**38,644**	**48,187**	**48,984**
Community support for frail aged and with disability		31,280	40,524	41,194
Support Seniors/Pensioners		7,365	7,663	7,790
Mental Health Services		**15,779**	**14,161**	**14,395**
Public Health Services		**29,509**	**39,712**	**40,369**
Environmental health		2,920	5,074	5,158
Disease control		10,689	15,232	15,484
Health promotion		2,409	3,649	3,709
Alcohol and other drug services		13,491	15,758	16,019
Health Research		**3,490**	**3,283**	**3,337**
Total operating expenses		**481,110**	**518,153**	**526,729**
Less				
Depreciation		not applicable	not applicable	16,969
Agency revenue	**3**	124,571	129,948	129,948
Receipts relating to prior year expenses	**5**			2,168
equals				
Output appropriation		**356,539**	**388,205**	**377,644**
Capital appropriation	**4**		not applicable	**8,393**

Topical Issues - Accrual Accounting – of benefit to Parliamentarians or not?

Notes

1. Organisational support of $36,095 has been allocated proportionately amongst service areas.

2. Additional funding not allocated to outputs ($7.1m) has been allocated proportionately amongst service areas.

3. Agency revenue equals operating revenue less output revenue and profit/(loss) on disposal of assets

4. Capital appropriation allocated on a proportionate basis. This may not be realistic as, generally, capital expenditure will in the hospital services program.

5. No adjustment needed in the cash budgets because such receipts would be brought to account as received instead of matching them to the expenses to which they relate. These receipts under accrual accounting would have been recorded as revenue in the prior year.

Conclusions

a) There is little significant difference between the estimated cash and accrual budget positions. So the introduction of an accrual budget should not significantly change the assessment of the budget. In both cases the budgets are significantly greater than the 2001/02 budget.

b) Separate disclosure of agency generated revenue under the accrual system is an advantage to budget assessment as is the focus on the resulting output appropriation. Health management must manage both revenue sources.

c) Both the estimated 2002/03 cash and actual accrual budget positions highlight increased investments in certain areas.

Appendix 1 - Explanation of terms used

This section is included as a reference point. The definitions used are those applied by the Australian Bureau of Statistics or as extracted from the glossary in the TAFR. Where relevant, application of the definition is referenced to the TAFR.

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 7 of the unaudited section of the Treasurer's Annual Financial Report identifies more details about the Uniform Presentation Framework, which more reliably calculates the Net Debt balance and is, therefore, a more independent calculation of net debt change than the Economic Transactions Format.

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.

Accrual Accounting	A recording method in which revenues, expenses, lending and borrowing are recorded as they are earned, accrued or incurred regardless of when payment is made or received
Assets	Instruments or entities over which ownership rights are enforced by institutional units and from which economic benefits may be derived by holding them, or using them, over a period of time. Two types of assets are distinguished: financial and non-financial.
Australian Accounting Standards (AAS)	Specific accounting policies developed and promulgated by the Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB). The principal standard applicable to the Commonwealth, State and Territory Governments is AAS 31 'Financial Reporting by Governments', issued by the PSASB
Balance Sheet or Statement of Financial Position **(See TAFR Sch. 8.19)**	A statement of an entity's financial position at a specific point in time. Contains information on assets, liabilities and owners' equity at a specific date. Also called Statement of Financial Position or Statement of Assets and Liabilities.

Appendix 1 - Explanation of terms used

Cash	Cash includes cash on hand and cash equivalents. Cash on hand consists of notes and coins held, and deposits held at call with a bank or financial institution. Cash equivalents are highly liquid investments, which are readily convertible to cash on hand at the investor's discretion
Cash accounting	An accounting method in which entries are recorded when cash payments are made or received.
Cash Flow Statement	The Cash Flow Statement identifies how cash is generated from, and applied to, operating, investing and financing activities of a public sector unit.
General government	A GFS sector comprising resident public institutional units which are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. Goods and services are provided free of charge or at nominal charges well below costs of production.
General purpose financial reports of governments	The requirement of AAS 31 that all governments prepare and publish general purpose accrual-based reports for the consolidated sum of all entities controlled by each government, as well as encouragement for their dis-aggregation into each broad sector of government activity.
Government Financial Statistices (GFS)	Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. GFS in Australia are developed by the ABS in conjunction with all governments and are mainly based on international statistical standards developed, in consultation with member countries, by the International Monetary Fund.
GFS Expenses **(See TAFR Sch 8.13)**	Transactions which decrease Net Worth in the reporting period.
GFS Net Lending/Borrowing **(See TAFR Sch 8.13)**	Defined as the GFS Net Operating Balance less Net acquisition of non-financial assets.
GFS Net Operating Balance **(See TAFR Sch 8.13)**	Calculated as GFS Revenues minus GFS Expenses. It is equivalent to the Increase in Net Worth arising from transactions.

Appendix 1 - Explanation of terms used

GFS Net Worth **(See TAFR Sch 8.19)**	Defined as Assets less Liabilities less Shares and other contributed capital. For the general government sector, Net Worth is Assets less Liabilities since shares and contributed capital is zero.
GFS Operating Statement or Statement of Financial Performance **(See TAFR Sch 8.13)**	A statement which presents details of transactions in revenues, expenses and the net acquisition of non-financial assets, and derives the GFS Net Operating Balance and GFS Net Lending/Borrowing measures
GFS Revenues **(See TAFR Sch 8.13)**	Transactions which increase Net Worth in the reporting period. Government Finance Statistics (GFS) Statistics that are compiled by summarising the individual stocks and flows of governments and organising them into meaningful categories appropriate for analysis, planning and policy determination.
Jurisdiction	The Commonwealth government and each of the State and Territory governments. The term also includes local governments but is used less frequently in this context.
Liabilities	Obligations to provide economic value to other institutional units
Net Debt **(See TAFR Sch 7.8)**	The difference between selected liabilities and selected financial assets (deposits held, advances received and borrowing less cash and deposits, advances paid, and investments, loans and placements).
Non-financial public sector	The sector formed through a consolidation of the general government and public non-financial corporation sub-sectors.
Public Account	Where the financial transactions of the NTG are recorded. As defined in section 4(2) of the Financial Management Act as in force at 30 June 2002, it comprises the CRA and Operating Accounts.
Public Financial Corporations	Resident public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account.
Public Non-financial Corporations	Resident public enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at economically significant prices.

Appendix 1 - Explanation of terms used

Surplus/Deficit Net **(See TAFR Sch 7.6)**	Cash from operating activities plus net cash from investments in non-financial assets less distributions paid less acquisitions of assets under finance leases and similar arrangements.
Uniform Presentation Framework (UPF)	A uniform reporting framework agreed by the Australian Loan Council in March 1997, which is a revision of the Agreement reached at the 1991 Premiers' Conference. It specifies that the Commonwealth Government and State and Territory Governments will present a minimum set of statistics on a standard Government Financial statistics basis, as well as financial asset and liability data according to an agreed format specified Loan Council reporting arrangements

Appendix 2 - Reconciliation between various cash and accrual based scopes

As previously noted, TAFR provides data in a number of different formats primarily arising from the application of differing cash-based "scopes" and accrual-based "scopes". The Table below details results in each format and includes a brief reconciliation.

Summary and reconciliation of results reported on varying bases

Bases used	Notes	Operating (deficit) surplus	Net Debt
Audited:		**$ millions**	**$ millions**
Gross Outlays and Receipts basis – Public Account Scope for the General Government Sector	**1**	15.7	N/a
Net cash Public Account UPF – Total Public Account basis	**2**	(95.6)	1,666.3
Remove impact of Public Financial Corporations	**2**	(6.8)	72.2
Remove impact of Public Non-Financial Corporations	**3**	10.8	-
Equals General Government Sector (Public Account UPF)	**4**	**(91.6)**	
Equals Non-Financial Public Sector (Public Account UPF)	**3**		**1,738.5**
Add:	**2**		
NT Legal Aid Commission (Legal Aid)		(1.2)	1.2
Batchelor Institute of Indigenous Tertiary Education (Batchelor Institute)		(4.3)	4.3
Less:			
Intra-sector adjustments and rounding		10.6	0.2
Equals Unaudited:			
Net cash UPF without AARC (General Government and Non-Financial Public Sector bases respectively)	**5**	**(86.5)**	**1,744.2**
Add AARC	**6**	(146.7)	(1.0)
Net cash Uniform Presentation Framework with AARC (General Government and Non-Financial Public Sector bases respectively)	**6**	**(233.2)**	**1,743.2**
Unaudited accrual position	**7**		
General Government Sector and Non-Financial Public Sector without AARC respectively		(115.9)	1,744.2
Add AARC		106.6	(1.0)
General Government Sector and Non-Financial Public Sector respectively		**(9.3)**	**1,743.2**

Appendix 2 - Reconciliation between various cash and accrual based scopes

Notes to Table

1. The surplus of $15.7 million on a gross outlays and receipts basis differs from the various "net" deficits reported due to the inclusion of intra-sector transactions and to the treatment of "advances received" and "Territory borrowings" as revenue items in the gross result. See TAFR schedule 2.2.

2. The deficit on the Total Public Account UPF basis includes Northern Territory Treasury Corporation (NTTC) and other Government Business Divisions which are adjusted for in arriving at the General Government Sector but excludes NT Legal Aid and Batchelor Institute – see TAFR Schedule 1.1. A reconciliation is needed in moving to the broader General Government Sector UPF scope reported in Schedule 7.1 of the TAFR by removing NTTC and by including the results of NT Legal Aid and Batchelor Institute which are noted on this table.

3. Because Government's management of net debt is on a Non-Financial Public Sector basis, no adjustment is required for debt in Public Financial Corporations. See TAFR schedule 1.2. The adjustment of $10.8 million is to record the removal of excluded GBDs in arriving at a deficit on a General Government Sector basis of $91.6 million.

4. See TAFR schedule 1.3.

5. See TAFR schedules 7.1 and 7.3 respectively.

6. The significance of AARC funding in recent years has resulted in Treasury reporting results and net debt both before and after AARC. The impact on the deficit for the year is significant in view of the large investment during 2001/02 by AARC in railway infrastructure which, while capital expenditure, is treated as expenditure in cash accounting frameworks. The impact on net debt for 2001/02 is minimal as the Northern Territory Government advanced only small amounts to AARC in 2001/02. See TAFR schedules 7.6 and 7.8 respectively.

7. The 2001/02 financial year includes unaudited accrual results for the first time. The net debt positions are the same for cash and accrual whereas the deficit position changes due to the inclusion of accrual adjustments. See schedules 8.1 and 8.13 for the deficit positions and schedules 8.7 and 8.19 for the net debt. The "after AARC" deficit result improves dramatically due to an accrual operating surplus in AARC of $106.5 million primarily due to the receipt by AARC of $110 million from the Commonwealth predominantly used to fund the railway construction.

Appendix 3 - List of Abbreviations used in this Report

AARC	AustralAsia Railway Corporation
AAS	Australian Accounting Standard
ABS	Australian Bureau of Statistics
Batchelor Institute	Batchelor Institute of Indigenous Education
COSR	Conditions of Service Reserve
DHCS	Department of Health and Community Services
GBD	Government Business Division
GFS	Government Financial Statistics
GGS	General Government Sector
GOC	Government Owned Corporation
GSP	Gross State Product
ITMS	Information Technology Management Services
Legal Aid	Northern Territory Legal Aid Commission
MACA	Motor Accidents Compensation Act Scheme
NFPS	Non-Financial Public Sector
NTG	Northern Territory Government
NTTC	Northern Territory Treasury Corporation
TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
THB	Tiwi Health Board
TIO	Territory Insurance Office
UPF	Uniform Presentation Framework

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 August2003 sittings.

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