Budget Strategy and Outlook

2019-20

Budget Paper No. 2

Contents

Under Treasurer's Certification

In accordance with provisions of the *Fiscal Integrity and Transparency Act 2001*, I certify that the financial projections included in the May 2019 Budget documentation were based on Government decisions that I was aware of or that were made available to me by the Treasurer before 28 April 2019. The projections presented here are in accordance with the Uniform Presentation Framework.

Craig Graham
Under Treasurer

29 April 2019

Chapter 1

Overview

Budget Paper No. 2 presents whole of government financial information and consolidates information from other budget papers. It also meets the requirements of the *Fiscal Integrity and Transparency Act 2001* and the Uniform Presentation Framework, as agreed by all Australian jurisdictions.

Fiscal outlook

The 2019-20 Budget incorporates significant savings and revenue measures approved through the recent root and branch program review and government's response to the recommendations of the Fiscal Strategy Panel's final report: *A plan for budget repair*. The measures introduced in the 2019-20 Budget demonstrate the government's commitment to returning the budget to a sustainable position and is underpinned by a new fiscal strategy with the twin objectives of supporting the economy in the short term and providing a pathway back to a balanced budget and reduced debt levels over the medium term.

The 2019-20 Budget maintains government's commitments to infrastructure investment, aimed at supporting the economy and local jobs, while continuing to meet the ongoing demand for frontline services in the areas of health, child protection, justice and community safety. The 2019-20 Budget also incorporates new initiatives to stimulate the tourism industry and foster private sector investment, as well as measures to reduce the impact of anti-social behaviour in the Northern Territory.

Savings measures, significant increases in mining royalty revenue and financial assistance from the Commonwealth Government have resulted in an improvement in the Territory's projected fiscal position and outlook when compared to the 2018-19 Budget.

Despite these savings measures and increases in revenue, the fiscal balance remains in deficit across the forward estimates largely attributable to the reduction in GST revenue estimates of around $500 million per annum, compared to projections at the time of the 2016 Pre-Election Fiscal Outlook.

Updated fiscal projections in the 2019-20 Budget include:

- total revenue for the non financial public sector of $6.6 billion in 2019-20 and operating expenditure of $7.2 billion
- general government net operating balance deficits projected to decline across the budget and forward estimates period, with a deficit of $632 million in 2019-20, declining to a deficit of $383 million in 2022-23
- a non financial public sector fiscal balance deficit of $1.1 billion in 2019-20, reducing over the forward estimates to a deficit of $530 million in 2022-23
- the new Australian accounting standard AASB 16 Leases becomes effective from 2019-20 for all private and public sector reporting entities. The revised accounting treatment will increase the Territory's reported net debt by $871 million in 2019-20, reducing over the forward estimates to an increase of $587 million in 2022-23
- the new Australian accounting standard reflects a change in the reporting of operating leases and does not change the economic position or legal circumstance of the Territory
- net debt at the non financial public sector forecast to increase to $6.2 billion in 2019-20, rising to $8 billion in 2022-23

- excluding the impact of the new Australian accounting standard, the underlying net debt in the non financial public sector is forecast at $5.3 billion in 2019-20, a reduction of $212 million compared to the 2018-19 Budget. Similarly, the underlying net debt to revenue ratio is projected to be 80 per cent in 2019-20, compared to 91 per cent forecast in the 2018-19 Budget.

Table 1.1 provides the key fiscal aggregates for the general government sector and the non financial public sector for the 2019-20 Budget.

Table 1.1: Key fiscal indicators and aggregates

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance	- 727	- 632	- 615	- 512	- 383
Non financial public sector					
Fiscal balance	- 1 263	- 1 054	- 859	- 604	- 530
Net debt	4 191	6 206	6 988	7 524	8 021
Net debt to revenue (%)	63	93	105	109	114

Further discussion on the comparison between the estimates contained in the 2019-20 Budget and those projected at the time of the 2018-19 Budget together with an explanation of the effect of the new leases accounting standard on net debt is provided in Chapter 2.

Economic outlook

Table 1.2 details the outlook for the Territory's key economic indicators, including actuals for 2017-18, estimates for the current year, and forecasts for 2019-20 and the forward estimates period.

Table 1.2: Territory key economic indicators (%)

	2017-18a	2018-19e	2019-20f	2020-21f	2021-22f	2022-23f
Gross state product[1]	1.7	- 0.2	6.3	4.1	2.9	2.5
State final demand[1]	- 2.7	- 9.4	- 1.7	0.3	2.4	2.2
Population[2]	- 0.1	- 0.7	0.2	0.6	0.7	0.8
Employment[3]	- 1.2	- 1.6	0.0	0.7	0.9	1.0
Unemployment rate[4]	4.2	4.7	4.6	4.5	4.5	4.4
Consumer price index[3]	1.0	1.5	1.6	2.0	2.2	2.2
Wage price index[3]	1.3	1.8	1.5	1.5	1.6	1.8

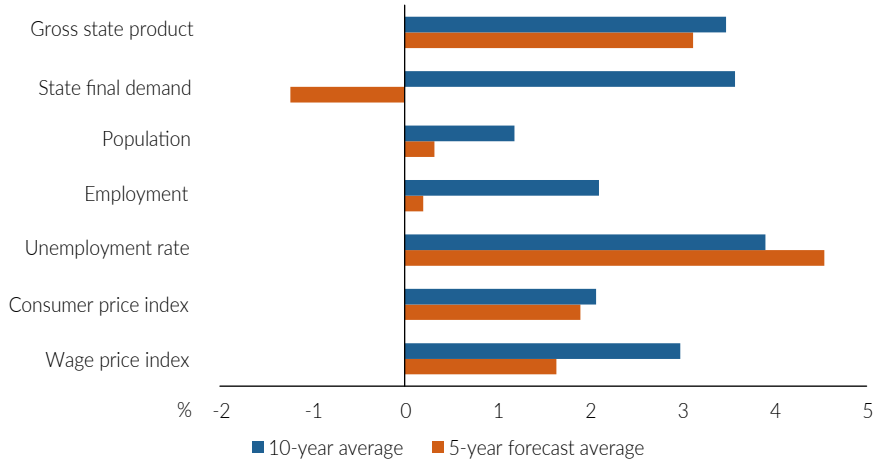
a: actual; e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 Year ended June, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance; Australian Bureau of Statistics

Over the last 20 years, the Territory economy has expanded from a succession of major projects, with the most recent contributor being the Ichthys liquefied natural gas (LNG) project, which has added an average $5 billion of investment per annum to the Territory economy since 2011-12.

During the construction phase of the Ichthys LNG project, the local economy attracted a significant number of workers (sourced from both interstate and overseas) to supplement the local workforce. The inflow of workers and broader population underpinned growth in investment and construction

activity, including in the residential market. This further drove strong employment growth over a broad range of industries. However as the construction phase of the project has wound down, so too has the broader economic expansion with a range of indicators now declining in the non-export sectors of the Territory economy.

Chart 1.1: Performance of Territory key economic indicators (%)



Source: Department of Treasury and Finance, Australian Bureau of Statistics

Over the outlook period, the Territory economy is expected to transition to export-led growth. This will result in some of the key economic indicators for the Territory, particularly gross state product (GSP) and state final demand (SFD), reporting different movements and rates of change in economic activity over the short-term outlook period. While SFD is estimated to decline by 9.4 per cent in 2018-19 before gradually improving to a 2.4 per cent increase in 2021-22, GSP is forecast to grow strongly by 6.3 per cent in 2019-20 due to a sharp increase in overseas exports from the INPEX LNG plant, followed by continued growth in the outer years, however at more modest rates. Growth in export volumes is unlikely to generate broader benefits for other sectors of the Territory economy and will not drive changes in the labour market and population.

While the Territory Government has continued to offer support through increased infrastructure investment and economic stimulus packages, it does not have the fiscal capacity to offset the magnitude of decline in private investment. Despite the cyclical downturn in 2018-19 and 2019-20, the Territory economy's underlying fundamentals not linked to major project activity (such as baseline business investment, jobs and population) are forecast to improve from 2020-21, as the one-off contractionary factors wash out of the economy.

As a result of a large outflow of workers from the Territory following completion of the Ichthys LNG project's construction, the Territory's population is forecast to decline by 0.7 per cent in 2018-19 before recovering to a 0.2 per cent increase in 2019-20, although remaining well below long-term trends. While net interstate migration is expected to start returning towards more historical levels, lower private investment and employment opportunities across the construction and service sectors are expected to keep population growth subdued. Over the outlook period, the Territory's population growth is expected to average 0.3 per cent per annum.

The same factors affecting population are also expected to flow on to employment, which is forecast to decline by 1.6 per cent in 2018-19, before recovering and returning to growth by 2020-21, albeit well below long-term averages. In response, the unemployment rate is expected to peak in 2018-19, before returning to a long-term average of 4.5 per cent in the four years from 2019-20. A gradual recovery in both the population and labour market conditions reflects projected improvement in economic conditions.

Despite current challenges, the Territory is well positioned to take advantage of a number of opportunities to offset the current cyclical downturn in the economy across the forward estimates and into the next decade.

Investment by the Territory Government in its Creating Opportunities for Resources Exploration (CORE) initiative and new Resourcing the Territory initiative are helping stimulate minerals and petroleum exploration activity across the Territory. In 2018 Territory exploration activity increased by 52.7 per cent to $272.2 million led by increasing exploration activity across both the minerals and petroleum sectors, highlighting the potential opportunities in the Territory's mining sector and development of new resources projects.

Following the lifting of the moratorium on unconventional gas extraction in 2018, the Territory economy is expected to benefit from onshore gas exploration and development opportunities over the outlook period with encouraging growth prospects for population and employment. The Territory also has a significant pipeline of infrastructure projects that present upside potential to sustain new employment and economic activity, and provide confidence to people, industries and businesses across the Territory's regions. As these projects remain subject to the usual regulatory approval processes or final investment decisions, the potential economic contributions arising from these projects have not been included in the economic forecasts as part of the 2019-20 Budget.

The Territory Government will continue its efforts to stimulate economic activity, create new employment opportunities, expand labour skills and expertise, support population growth and diversify the economy through a range of strategies, incentives and action plans. Furthermore, the Commonwealth's new regional provisional visas are designed to support skilled migrants to become established in, and contribute to, regional economies, which provides a pathway to permanent residency at the end of a three-year period. The Commonwealth has also committed to greater efforts to disperse international students to regional universities, with associated scholarships and visa incentives.

Intergovernmental financial relations outlook

GST revenue is the Territory's primary revenue source representing around 42 per cent of the Territory's total revenue in 2019-20. The amount of GST received by the Territory each year reflects the combined impact of the Territory's share of the national population, its GST relativity and the size of the national GST pool. Table 1.3 details the outlook for the Territory's GST revenue for the 2019-20 Budget.

Table 1.3: Territory GST revenue

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
Territory GST revenue[1] ($M)	2 725	2 763	2 858	3 003	3 346
Change in Territory GST revenue (%)	- 7.5	1.4	3.4	5.1	11.4

1 2018-19 GST revenue includes balancing adjustment for the under payment of GST revenue to the Territory in 2017-18.

Following a period of decline since 2015-16, GST revenue is forecast to grow in 2019-20 by 1.4 per cent. The rate of growth is expected to increase over the forward estimates period, but with the exception of 2022-23, remain below the long term annual average rate of 5.3 per cent.

In recognition of the significant drop in the Territory's GST revenue in recent years, the Commonwealth has committed to providing the Territory GST top-up payments in the form of untied general revenue, from 2019-20 to 2021-22. These payments will ensure the Territory receives, at a minimum, the equivalent of a GST relativity of 4.66024. At present, the Territory's GST relativity is 4.26735. The Territory will receive a GST top-up of $252 million in 2019-20 and,

assuming the Territory's GST relativity remains unchanged, it is estimated to receive GST top-ups of $259 million in 2020-21 and $274 million in 2021-22.

While the GST top-up guarantee provides a level of financial certainty to the Territory in the short term, there is substantial uncertainty around the future of the Territory's GST relativity and revenue from 2022-23, when the Commonwealth's GST top-up payments cease and the calculation of relativities will be impacted by the transition to the new legislated system of GST distribution and the Commonwealth Grants Commission's (CGC) 2020 methodology review changes, which are explained in Chapter 5.

Territory taxes and royalties outlook

As shown in Table 1.4 below, taxation and mining royalties are expected to total a record $1.06 billion in 2018-19, a $257 million increase from the $803 million estimated in the 2018-19 Budget, predominantly a result of higher mineral royalty forecasts based on royalty payer estimates. Compared to the 2018-19 Budget, taxation and mining royalties are estimated to increase by $113 million in 2019-20 and an average of $108 million per annum over the forward estimates.

Notwithstanding the growth from the 2018-19 Budget, total taxation and mining royalties are expected to decline by $164 million in 2019-20 to $896 million from the strong results realised in 2018-19. From 2019-20 and over the forward estimates, growth remains largely flat and reflects an expected improvement in the property market and the cessation of stamp duty home owner assistance in November 2020 offset by declining mining royalties.

Table 1.4: Main taxes and royalties category estimates

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Mining royalties	425	366	350	335	314
Taxes on employers	253	238	247	256	265
Taxes on property	172	77	104	119	126
Taxes on gambling	84	85	89	92	96
Motor vehicle taxes	77	79	82	84	87
Taxes on insurance	50	51	52	53	54
Total	1 060	896	922	939	942

Chapter 2

Fiscal outlook

Highlights

- The financial outcome projections published in the 2019-20 Budget have improved since the 2018-19 Budget.
- A general government net operating deficit of $632 million is forecast in 2019-20, with reduced deficits averaging around $503 million forecast over the forward estimates.
- The non financial public sector fiscal deficit is forecast to be $1.1 billion in 2019-20, reducing to a deficit of $530 million by 2022-23.
- The 2019-20 Budget includes significant savings and revenue measures approved through the government's 'root and branch' program review and other measures introduced in response to the Fiscal Strategy Panel's final report: *A plan for budget repair*, that have offset new recurrent funding decisions.
- In 2019-20, total operational expenses for the non financial public sector are estimated to be $7.2 billion, a 2.3 per cent reduction from 2018-19, and are projected to increase marginally to $7.4 billion by 2022-23.
- In 2019-20, total revenue for the non financial public sector is estimated to be $6.6 billion, an increase of 0.2 per cent from 2018-19, and to increase to $7.1 billion by 2022-23.
- Revenues from taxation and mining royalties are estimated to increase by $113 million in 2019-20 and an average of $108 million per annum over the forward estimates compared to the 2018-19 Budget, predominantly as a result of higher mineral royalty forecasts, based on royalty payer estimates.
- Further deterioration in GST revenues projected, due to lower than estimated pool growth compared to 2018-19 Mid-Year Report, and share of population growth, offset slightly by a small increase in relativity.
- The 2019-20 Budget incorporates the Commonwealth estimated GST top-up guarantee of $252 million in 2019-20, increasing to $274 million in 2021-22.
- The 2019-20 Budget maintains government's infrastructure investment at $1.45 billion. Major projects include investment in remote housing and upgrades to the Territory's road network.
- New Australian accounting standard AASB 16 Leases is effective from 2019-20 for both private and public sector reporting entities. The revised accounting treatment will increase the Territory's reported net debt by $871 million in 2019-20.
- Excluding the impact of the new Australian accounting standard, the underlying net debt in the non financial public sector is forecast at $5.3 billion in 2019-20, a reduction of $212 million compared to the 2018-19 Budget. Similarly, the underlying net debt to revenue ratio is projected to be 80 per cent in 2019-20, compared to 91 per cent forecast in the 2018-19 Budget.

Overview

The information provided in this chapter meets the requirements of section 10(1)(a) of the *Fiscal Integrity and Transparency Act 2001* (FITA) for each fiscal outlook report to contain updated financial projections for the budget year and following three financial years for the general government and non financial public sectors.

The full set of financial statements are presented in Chapter 8, with this chapter providing a comparison of the projections in the 2019-20 Budget with those provided in the 2018-19 Budget and 2018-19 Mid-Year Report.

In the 2019-20 Budget, total revenue in the non financial public sector is estimated to be $6.6 billion in 2019-20, rising to $7.1 billion in 2022-23 with total expenditure estimated to be $7.2 billion and $7.4 billion respectively. Further information in this chapter provides a discussion of the forward estimates and the assumptions that underpin them.

General government sector net operating balance

Table 2.1 highlights the movements in the general government sector net operating balance and compares the updated projections with those published in the 2018-19 Budget and 2018-19 Mid-Year Report.

Table 2.1: General government sector – net operating balance

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2018-19 Budget	- 603	- 920	- 922	- 922	n.a.
2018-19 Mid-Year Report	- 917	- 696	- 730	- 749	n.a.
2019-20 Budget	- 727	- 632	- 615	- 512	- 383
Variation from 2018-19 Budget	- 124	288	307	410	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget and 2018-19 Mid-Year Report

Although remaining in a deficit position, the net operating balance is projected to improve in all years from 2019-20 when compared to the forecast at the time of the 2018-19 Budget. While the 2018-19 operating deficit of $727 million has worsened since the original estimate, this is largely as a result of the timing of the Commonwealth's financial assistance grant of $260 million that was received in advance in the 2017-18 financial year.

For 2019-20 the operating balance deficit is now projected to be $632 million, reducing to $383 million by 2022-23. This represents on average a $335 million per annum improvement since the 2018-19 Budget, largely due to the following:

- continuation of the Commonwealth's financial assistance for a further three years through to 2021-22
- additional own-source revenue estimates, predominantly mining royalties
- partially offset by further reductions in the Territory's GST revenue, primarily as a result of lower estimates of growth in the national GST pool as forecast by the Commonwealth in its 2019-20 Budget.

The improvement has also been assisted through the savings and revenue measures approved as part of government's root and branch program review and government's response to the recommendations from the Fiscal Strategy Panel's final report: *A plan for budget repair*. These savings, which have also provided capacity to fund new operational policy decisions, increase over

the budget cycle and largely account for the trend to improvement in the operating balance deficit in the forward years.

Further analysis of government policy decisions are explained later in this chapter and in more detail in Budget Paper No. 3.

Non financial public sector fiscal balance

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

Table 2.2: Non financial public sector – fiscal balance

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2018-19 Budget	- 1 214	- 1 134	- 1 102	- 1 068	n.a.
2018-19 Mid-Year Report	- 1 513	- 1 122	- 871	- 789	n.a.
2019-20 Budget	- 1 263	- 1 054	- 859	- 604	- 530
Variation from 2018-19 Budget	- 49	79	243	464	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget and 2018-19 Mid-Year Report

As shown in Table 2.2, the fiscal balance, which includes net investment in capital spending, has worsened in 2018-19 by $49 million but is projected to improve significantly across the forward estimates when compared to the 2018-19 Budget. The increase in the fiscal balance deficit to $1263 million in 2018-19 and the improved position from 2019-20 is predominantly due to the same factors affecting the net operating balance, combined with movement in capital spending.

The improved fiscal balance deficits from 2019-20 also incorporates the impact of Australian accounting standard AASB 16 Leases. As with the operating balance, the cumulative effect of savings measures across the forward years, together with capital stimulus spending ceasing in 2020-21, largely accounts for the projected deficit to reduce from $1054 million in 2019-20 to $530 million in 2022-23.

Reconciliation with previous fiscal projections

This section addresses the requirements of section 10(1)(f) of FITA that each fiscal outlook report is to contain an explanation of the factors and considerations that contributed to any material differences between the updated financial projections and the equivalent projections published in the last fiscal outlook report.

Although the most recent fiscal outlook report published under FITA is the 2018-19 Mid-Year Report, for completeness, the analysis in the remainder of the chapter reflects policy and non-policy changes since the 2018-19 Budget. Policy variations are the result of government decisions to implement new or expand existing agency programs, and savings measures. Non-policy variations are the result of influences outside government's control, such as the timing of receipts from the Commonwealth or changes in economic parameters.

Policy and non-policy changes since 2018-19 Budget

Table 2.3 summarises the effect of policy and non-policy changes on the non financial public sector's fiscal balance since 2018-19 Budget and 2018-19 Mid-Year Report.

Table 2.3: Non financial public sector fiscal balance – policy and non-policy changes since 2018-19 Budget and 2018-19 Mid-Year Report

	2018-19	2019-20	2020-21	2021-22
	Estimate	Budget	Forward estimate	
	$M	$M	$M	$M
2018-19 Budget	- 1 214	- 1 134	- 1 102	- 1 068
Policy changes	- 354	- 239	- 83	- 61
Non-policy changes	55	251	314	340
2018-19 Mid-Year Report	- 1 513	- 1 122	- 871	- 789
Policy changes	49	1	4	148
Non-policy changes	201	- 29	- 91	- 60
Underlying 2019-20 Budget	- 1 263	- 1 150	- 957	- 700
Implementation of AASB 16 Leases		95	98	96
2019-20 Budget	- 1 263	- 1 054	- 859	- 604

The effect of policy changes over the budget and forward estimates reflects government's capital and operational commitments, offset by new savings and revenue measures, and the allocation of contingency previously set aside by government. This highlights that between 2018-19 and 2020-21 policy changes, largely around $500 million to 2020-21 relating to increased capital works cash and capital measures to stimulate the economy, have a worsening effect on the fiscal position. However, from 2021-22 onwards the combination of reduced capital stimulus measures and increased savings and efficiency measures are budget positive. The improvement attributable to policy changes is evident in all years over the budget and forward estimates compared to the 2018-19 Mid-Year Report.

Non-policy changes largely represent the net result of Commonwealth financial assistance guarantee payments, increased mining royalty revenue and timing changes of Commonwealth-related funding partially offset by lower estimated GST revenue. Details on policy and non-policy changes are discussed in further detail below.

In order to provide a like-for-like comparison, the impact of the new Australian accounting standard AASB 16 Leases, which improves the fiscal balance over the forward estimates from 2019-20, has been removed to provide an underlying fiscal balance, comparable to the 2018-19 Mid-Year Report and 2018-19 Budget.

Policy changes since 2018-19 Budget

Table 2.4 highlights the effect of policy changes on the non financial public sector's fiscal balance since 2018-19 Budget.

Table 2.4: Non financial public sector fiscal balance – policy changes since 2018-19 Budget

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Recurrent					
Recurrent commitments	- 156	- 253	- 221	- 163	- 162
Savings, revenue and contingency measures	22	234	242	250	275
Net recurrent	- 134	- 19	21	87	113
Capital commitments	- 170	- 219	- 100		
Total policy	- 304	- 238	- 79	87	113

Additional policy decisions have had a significant impact in 2018-19 through 2020-21 as a result of government's continued capital investment to support the economy, and continuing demand pressures for frontline services. This additional capital stimulus investment of around $500 million in 2018-19 through to 2020-21 has worsened the overall fiscal outcome in those years. However, savings, revenue and contingency measures approved in the 2019-20 Budget are greater than additional recurrent funding decisions in aggregate across the budget cycle and from 2021-22 improve the fiscal position in forward years.

Policy decisions are discussed in more detail below. The effect on individual agencies for 2018-19 and 2019-20 of new initiatives and savings measures is included in more detail in Budget Paper No. 3.

Recurrent commitments

Recurrent commitments include continued support for the tourism industry, the Barkly Regional Deal, reducing the impact of anti-social behaviour and addressing the demand pressures for government services including health services, corrections, policing and out of home care. Key commitments include:

- $95 million in 2018-19, reducing to $85 million in 2019-20, $55 million in 2020-21 and $45 million per annum thereafter to support continued demand for government services, including health and hospital services, out of home care, correctional services and community safety
- $34.5 million in 2019-20 and $34.6 million in 2020-21 for Turbo2 tourism initiatives, including domestic and international marketing, supporting festivals and events, and enhancing visitor experiences
- $32.5 million over three years from 2018-19 as part of the $92.5 million Local Jobs Fund to provide new job-creating stimulus projects including capital grants targeted at transformational economic growth projects and current grants aimed at developing innovation and trade capabilities. The remaining Local Jobs Fund package includes concessional loans to deliver short-term finance to small and emerging businesses with long-term potential, and equity finance that does not affect the fiscal balance
- $30 million contribution to the Barkly Regional Deal, a 10-year $78.4 million commitment between the Commonwealth, the Northern Territory Government and the Barkly Regional Council
- $11.8 million in 2018-19 to fund repairs and maintenance to complete stimulus projects
- $10.2 million in 2018-19, $16 million in 2019-20 and 2020-21 and $13.7 million ongoing to break the cycle of crime in Darwin, Palmerston and Alice Springs, including better pathways

services, expanding the First Response Day Patrol program, providing temporary short-term accommodation, and extending hours for youth drop in centres

- $4.6 million in 2018-19 and $8.5 million ongoing from 2019-20 for the Back on Track program, providing alternatives to detention and diversion programs to support young people and to engage in training and achieve successful employment outcomes
- $4.2 million per annum in 2019-20 and 2020-21 for the establishment of the Future Skills program and a Future Proofing Training Infrastructure Fund
- $4 million in 2018-19, $2.5 million in 2019-20, $2.5 million in 2020-21 and $1.5 million in 2021-22 to manage the Jabiru Futures project
- $3.25 million in 2019-20 for Palmerston Family City projects, including an aquatic facility and smart energy efficient LED lighting
- $3 million in 2018-19 and $6.8 million in 2019-20 to implement the Domestic, Family and Sexual Violence Changing Attitudes, Intervening Early Action Plan
- $3 million in 2019-20 ongoing for the remote passenger transport program
- $2.4 million in 2018-19 and $3.2 million ongoing for Darwin City activation and promotion
- $1 million in 2018-19 and $0.8 million in 2019-20 ongoing for the gas taskforce to implement the Five Point NT Gas Strategy and support strategic oil and gas industry development
- $0.7 million in 2018-19, $6 million in 2019-20 and $5.5 million in 2020-21 to implement the BuildBonus scheme, providing a construction grant for homeowners.

Capital commitments

Increased capital investment of $489 million from 2018-19 to 2020-21 is supporting the infrastructure program, including the Remote Housing Investment Package and the Territory Government's $131 million commitment to the Jabiru Future funding package.

This also includes targeted investment to stimulate the economy and create more local jobs including $100 million over two years to deliver urban public housing stimulus projects, including upgrades to public housing complexes, upgrades and restoration of vacant dwellings, preventative maintenance and security upgrades.

Savings and contingency measures

The 2019-20 Budget incorporates significant savings and revenue measures approved through the recent root and branch program review and government's response to the recommendations from the Fiscal Strategy Panel's final report: *A plan for budget repair*. The review of agency programs was aimed at identifying immediate savings and efficiencies to assist government in meeting its fiscal targets, provide capacity to fund new 2019-20 Budget initiatives and meet government's strategic policy objectives. In addition to the program review, the Fiscal Strategy Panel was commissioned to assess the Territory's fiscal outlook and develop a plan for budget repair over the medium term.

The savings have been classified in the following categories.

Whole of government efficiencies

Efficiency dividend: 3 per cent in 2019-20 and 2020-21 and 1 per cent ongoing. Consistent with past practice, the efficiency dividends applied to the frontline agencies of health, education, corrections, police and Territory Families are discounted by two thirds.

Consumer price index (CPI): Reduces the CPI indexation included in agency budgets to reflect current CPI expectations.

Grant efficiency dividend: An efficiency dividend has been applied to grants on the same basis as that applied to the paying agency.

Other efficiencies: Includes savings relating to increases in the retention periods for NT Fleet vehicles, changes to the NT Property Management leasing parameters, and efficiencies in whole of government information and communications technology (ICT) support services.

Corporate efficiencies

Measures targeted at delivering savings through more efficient use of existing administrative resources, improvements to the way existing tasks are administered and other measures such as reductions in corporate travel and reduced board memberships.

Program rationalisation

Measures that target savings through a more efficient use of existing program and grant resources, and rationalisation of programs that no longer focus on delivery of priority programs or services.

Workforce sustainability

Measures that improve the way in which government utilises its employees, better aligning positions and employee numbers to service delivery requirements, and improving workforce sustainability.

Revenue measures

The revenue measures targeted at improving the Territory's revenue collection efforts include:

- increasing revenue for a number of motor vehicle licencing fees including issuing number plates, issuing and renewal of 'H' endorsements on licences and personalised plate fees
- introducing a conservation and park use fee for Territory National Parks and access fees for major walking tracks including Larapinta Trail, Jatbula Trail and Table Top Trail
- implementing student placement fees in professional streams of medical, nursing and allied health, and expanding pathology services
- ICT support contributions from non-government schools.

Table 2.5 provides a summary of the outcome of the review with savings classified in the above categories, with savings and revenue measures increasing to $174 million per annum by 2022-23.

Table 2.5: A summary of the root and branch program review outcome

	2018-19	2019-20	2020-21	2021-22	2022-23	Ongoing
	Estimate	Budget	Forward estimate			
	$M	$M	$M	$M	$M	$M
Whole of government efficiencies		38	84	114	138	138
Corporate efficiency savings	8	25	36	37	37	37
Program rationalisation savings		18	25	27	27	27
Workforce sustainability savings		9	10	11	12	12
Revenue measures		4	5	6	6	6
Subtotal	8	94	160	195	220	220
Less return to budget savings[1]	8	31	43	45	46	46
Total (net of return to budget savings)		63	117	150	174	174

1 Return to budget savings – in some agencies, savings have been reinvested to assist returning to budget.

In addition to the measures in Table 2.5, the following measures were implemented in the 2018-19 Mid-Year Report:

- reducing the government's wages policy and associated indexation in agency budgets to 2.5 per cent in 2019-20 and 2020-21 and 2 per cent ongoing from 2021-22
- utilising a proportion of the contingency amount included in the forward estimates for demand pressures to frontline agencies.

The government is also progressing a range of targeted and structural reforms identified in the Fiscal Strategy Panel's final report that will assist agencies to manage within their existing budgets including:

- total staffing caps, which require a reduction in staffing across the NTPS of around 300 full-time equivalent (FTE)
- executive contract officer staffing caps, which will require a reduction in executive staffing across the NTPS of around 52 FTE
- the development of a new wages policy, which will place downward pressure on the growth in employee expenses over the medium term
- strengthening the accountability processes for ministers and chief executives to increase the focus on financial performance at the agency level
- centralisation of infrastructure and common corporate services to drive service delivery efficiencies through economies of scale and harmonisation
- creation of a whole of government remote travel hub to maximise value and improve service delivery coordination
- increasing the use of technology (for example, telehealth) to deliver services more efficiently
- realising asset values through commercialisation of the Land Titles Office
- wage freeze for agency executives and parliamentarians.

Non-policy changes since 2018-19 Budget

Table 2.6 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2018-19 Budget.

Table 2.6: Non financial public sector fiscal balance – non-policy changes since 2018-19 Budget

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
GST revenue	12	- 48	- 79	- 68	- 80
Commonwealth financial assistance payment	- 260	252	259	274	
Taxation and mining royalties	258	113	113	113	97
Interest variations	21	36	56	80	48
Government owned corporations	- 13	- 50	- 66	- 23	- 16
National Redress Scheme	- 31				
Commonwealth and agency-related adjustments	269	- 80	- 59	- 95	7
Implementation of AASB 16 Leases		95	98	96	88
Total non-policy	256	318	322	377	145

The non-policy variations since 2018-19 Budget result is an improvement in the fiscal balance over the budget and forward estimates, reflecting the revised timing of Commonwealth and Territory-funded programs, additional taxation and mining royalty revenue, the new accounting standard for leases and continuation of the Commonwealth financial assistance payment for three years from 2019-20. Key variations include:

- a further deterioration in GST revenue forecasts totalling $263 million across the budget cycle, compared to the 2018-19 Budget estimates, largely as a result of lower estimates by the Commonwealth of the growth in the national pool
- Commonwealth financial assistance payments totalling $785 million from 2019-20 to 2021-22, in recognition of the Territory's reduction in estimated GST relative share over recent years. The 2018-19 Commonwealth financial assistance payment was paid by the Commonwealth in 2017-18
- increases in taxation and mining royalty revenue across all years, with the increase in 2018-19 primarily related to a one-off increase in commercial stamp duty on conveyances, mining royalties and to a lesser extent payroll tax. Stamp duty on conveyances is anticipated to be slightly higher over the forward estimates, while increases in mining royalties average $111 million per annum from 2019-20 and over the budget cycle
- an improvement to net interest variations due to greater than anticipated interest received on investments and lower interest expenses than previous forecasts due to a reduction in borrowing requirements and lower estimated refinancing borrowing costs in line with the improved fiscal outcomes and market conditions
- revised revenue and expense assumptions and capital requirements incorporated in the Territory's government owned corporations' statements of corporate intent
- recognition of the National Redress Scheme in 2018-19 for survivors of child sexual abuse on Northern Territory institutions in response to the Royal Commission into Institutional Responses to Child Sexual Abuse
- Commonwealth and other agency-related adjustments, resulting in an improvement in 2018-19 and a worsening across the forward years to 2021-22. These are largely related to the carryover of expenses from 2018-19 and the revised timing of milestone payments for the Health Core Clinical Systems Renewal Program, Remote Indigenous Housing, and the National Network roads program
- an improvement averaging $94 million per annum over the budget and forward estimates due to the new Australian accounting standard AASB 16 Leases, effective from 2019-20 for both private and public sector reporting entities.

2019-20 Budget and forward estimates

Basis of forward estimates

In accordance with FITA, five years of forward estimates are maintained and used by government, both as a policy and an operational tool. The budget and forward estimates provide the framework within which agencies plan and also form the basis for the government's fiscal strategy.

Agency forward estimates vary in line with the application of parameters (inflators and deflators) to the budget year on a no-policy-change basis. New policy and funding decisions linked to demand or cost growth also add to each agency's budget and forward estimates. The main parameters used to adjust forward estimates are:

- wages – inflator
- CPI – inflator
- efficiency dividend – deflator.

Wages indexation of 2.5 per cent is applied in 2019-20 and 2020-21. From 2021-22 the wages indexation decreases to 2 per cent, in line with the revised wages policy.

A CPI factor of 1.6 per cent has been applied to operational costs in 2019-20, consistent with the year-on-year to December 2018 CPI outcome, with 2 per cent estimated for 2020-21 and 2.2 per cent ongoing from 2021-22. Property management, undertaken on behalf of government by the Department of Corporate and Information Services, receives a higher parameter in line with contractual arrangements. The property management growth parameter was revised down from 4.5 per cent to 3 per cent per annum from 2019-20 in recognition of market conditions.

An additional growth parameter of 4 per cent is applied to wage and non-wage expenditure for hospital and primary health services in recognition that hospital services and primary health care costs are generally demand driven. From 2021-22 the growth parameter will reduce to 1.4 per cent and be applied across the entire health network: the Department of Health, Top End Health Service and Central Australia Health Service.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and technology, and delivering services more efficiently over time, as is the case with private sector enterprises. An efficiency dividend of 3 per cent has been applied in 2019-20 and 2020-21, reducing to 1 per cent ongoing from 2021-22. In the 2019-20 Budget, efficiency dividends of 3 per cent are applied to recurrent grants and subsidies in 2019-20 and 2020-21, and 1 per cent ongoing from 2021-22.

For the Department of Education, Territory Families, Northern Territory Police, Fire and Emergency Services, the correctional services component of the Department of the Attorney-General and Justice, and the hospital networks, a two thirds discount is applied to the efficiency dividend in recognition that a majority of their costs relate to frontline services, which are fixed in nature.

For Territory-funded operating grants and subsidies, a composite indexation factor is applied based on 75 per cent of the wages factor and 25 per cent of the CPI factor.

Operating revenue – forward estimates

As shown in Table 2.7, total revenue is projected to be relatively flat between 2018-19 and 2020-21 before increasing by around 3 per cent over 2021-22 to 2022-23. As a result, it is projected total Territory revenue will have an average annual growth over the budget cycle of 1.5 per cent.

Table 2.7: Non financial public sector – revenue

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Revenue					
Taxation revenue	636	530	572	604	627
GST revenue	2 725	2 763	2 858	3 003	3 346
Commonwealth financial assistance payment		252	259	274	
Current grants	1 220	1 023	1 018	1 052	1 020
Capital grants	298	351	251	211	321
Sales of goods and services	1 052	1 119	1 143	1 198	1 230
Interest income	100	83	85	89	91
Dividend and income tax equivalent income	24	30	30	32	33
Mining royalties income	425	366	350	335	314
Other	161	139	83	84	83
Total revenue	6 641	6 654	6 650	6 882	7 067
Year-on-year percentage increase (%)		0	0	3	3

Taxation revenue

Taxation revenue is the most significant component of the Territory's own-source revenue and comprises payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. In 2019-20 taxation revenue is projected to decline by 16.6 per cent to $530 million predominantly as a result of an estimated decrease in conveyance and related duty to $76.5 million following several large one-off transactions in 2018-19.

From 2019-20, taxation revenue is projected to grow by an average 5.8 per cent per annum reflecting an expected return to normal growth levels, albeit from a lower base.

GST revenue

GST revenue represents the Territory's single largest revenue source and comprises around 42 per cent of total revenue at the non financial public sector. The parameters that influence the amount of GST revenue the Territory receives are growth in national GST collections, GST relativities as assessed by the Commonwealth Grants Commission, and the Territory's share of the national population.

In 2019-20, the Territory's GST revenue is expected to increase by $38 million, or 1.4 per cent, to $2763 million compared to the estimated 2018-19 amount, the first year on year increase since 2015-16. The increase is due to a 0.2 per cent increase in the Territory's GST relativity and an expected 2.4 per cent increase in the GST pool. These factors are partially offset by the expected further decrease in the Territory's share of the national population to 0.9620 per cent in 2019-20, its lowest level in 30 years.

GST revenue is projected to grow by an average annual rate of 4.3 per cent from 2019-20 to 2021-22, well below the historical average annual growth rate of 5.3 per cent. Growth in 2022-23 reflects a projected recovery in the Territory's relativity based on the Productivity Commission's estimates.

In recognition of the Territory's significant drop in the Territory's relativity in recent years, the Commonwealth has committed to provide the Territory with a GST top-up guarantee in the form of untied general revenue equivalent to the Territory having a GST relativity of 4.66024 over the next three years. Despite this guarantee, estimated GST revenue remains around $500 million per annum lower than projected at the time of the 2016 Pre-Election Fiscal Outlook.

Commonwealth funding

During each budget year there are significant changes in tied and untied Commonwealth funding estimates as funding agreements are finalised, however from 2019-20, forecasts in current grants remain largely constant with near flat growth and some volatility in capital grants related to the timing of Commonwealth roads and remote housing projects.

From 2019-20, new accounting standards on revenue will adopt a matching principle for revenue and expenses and remove the timing differences that currently exist.

Sales of goods and services

Sales of goods and services represent fees and charges, rent and tenancy income collected by various government agencies with the most significant component relating to electricity, water and sewerage charges collected by government owned corporations. From 2019-20, sales of goods and service revenue growth remains relatively constant with an average growth of 3.2 per cent per annum.

Mining royalties

Mining and petroleum revenue forecasts are reliant on advice from mining companies and petroleum producers for estimated liability and related company estimates of commodity price movements, production levels and the value of the Australian dollar. Based on advice from royalty payers, mining and petroleum receipts are forecast to increase in all years across the forward estimates compared to the 2018-19 Budget. Hence, it is expected mining royalties will decline by 13.9 per cent to $366 million in 2019-20 from a strong result realised in 2018-19.

Forecasts from 2019-20 are based on the assumption the Australian dollar and commodity prices, especially in relation to gold, bauxite and manganese, are expected to decline by an average of 4.9 per cent per annum.

Following the release of the final report of the Independent Scientific Inquiry into Hydraulic Fracturing of Onshore Unconventional Reservoirs in the Northern Territory in 2018, the Territory Government lifted the moratorium on hydraulic fracturing. The economic implications and subsequent royalties likely to be paid to the Territory from hydraulic fracturing activities have not been factored into the current forward estimates. These expected payments are largely beyond the budget forecast period.

Other revenue

Other revenue includes the one-off recognition of the Legislative Assembly Members' Superannuation (LAMS) fund investment following the closure of the fund and other miscellaneous revenue including reimbursements and research funding from non-government organisations.

Operating expenses – forward estimates

Table 2.8 sets out the revised expense projections for total expenditures for 2018-19 and the forward estimates.

Table 2.8: Non financial public sector – expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	2 653	2 649	2 653	2 706	2 708
Superannuation expenses	434	359	361	368	364
Depreciation and amortisation	608	715	703	694	684
Other operating expenses	2 093	1 932	1 923	1 979	2 014
Interest expenses	313	371	409	447	482
Current grants	1 026	990	998	995	1 005
Capital grants	113	91	44	29	27
Subsidies and personal benefit payments	159	120	122	125	128
Total expenses	7 398	7 227	7 213	7 342	7 412
Year-on-year percentage increase (%)		- 2	0	2	1
Net capital	1 087	1 187	980	824	852
Total expenditure	8 485	8 414	8 193	8 166	8 264
Year-on-year percentage increase (%)		- 1	- 3	0	1

Total expenses are expected to decline by 2 per cent in 2019-20, and remain largely flat over the forward estimates with an average growth rate of 0.9 per cent per annum, reflecting the implementation of additional budget repair and savings measures from 2019-20.

Employee and related expenses continue to account for about 40 per cent of total expenses and are estimated to increase by an average of 0.7 per cent per annum from 2019-20, well below the 1.7 per cent per annum projected in the 2018-19 Budget. This constrained growth reflects government's wages policy, offset by additional efficiency and savings measures implemented in the 2019-20 Budget. The decrease from 2018-19 in superannuation expenses incorporates the effect of the transfer of the LAMS fund investment.

Growth in other operating expenses also remains constrained, with an average of 1.4 per cent per annum growth, slightly lower than the 1.7 per cent per annum growth projected in the 2018-19 Budget.

Table 2.9 sets out interest expenses projected for the non financial public sector compared to those estimated in the 2018-19 Budget.

While projected fiscal balance deficits have improved, resulting in lower overall borrowing requirements when compared to the 2018-19 Budget, interest expenses continue to grow over the forward estimates period.

Table 2.9: Non financial public sector – interest expenses

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2018-19 Budget	324	385	440	506	n.a.
2019-20 Budget	313	371	409	447	482
Variation from 2018-19 Budget	- 11	- 14	- 31	- 59	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget

The fluctuation in current and capital grants expense across the forward estimates period reflects the timing of tied Commonwealth funding agreements.

The revised timing of a number of key projects, including milestone payments for the Health Core Clinical Systems Renewal Program, Remote Indigenous Housing and the National Network roads program, have resulted in variations to net capital spending across the forward estimates. Overall net capital spending is higher than projected in the 2018-19 Budget, reflecting increased capital investment including stimulus packages to support the economy and local jobs that peak over the three years to 2020-21.

Balance sheet – impact of new Australian accounting standard AASB 16 Leases

The new Australian accounting standard AASB 16 Leases becomes effective for the first time in 2019-20 and applies to both public and private sector reporting entities.

Currently, operating leases are expensed annually, with the total obligation not recognised as a liability but rather 'off balance sheet' in the note disclosures to financial statements. From 2019-20, the new standard will require upfront recognition of lease obligations as a financial liability on the balance sheet with a corresponding non financial asset reflecting the 'right of use'.

Net debt is a fiscal measure as determined by the Uniform Presentation Framework (UPF) and accounting standards, and is equivalent to gross debt liabilities less liquid financial assets. Lease liabilities form part of gross debt liabilities and therefore a component of net debt. The corresponding 'right of use' assets form part of non financial assets and are excluded from net debt calculations.

Consequently, for the Territory the most significant effect of implementation of AASB 16 Leases will be an increase to both recorded gross and net debt levels to the extent of these operating lease obligations. All state and territory governments and private sector entities will similarly record an increase in gross and net debt levels as a result of implementing the new standard.

Regardless of the fiscal impact of the standard, it is important to note there has been no material change to the economic position or legal circumstance of the Territory as these lease arrangements and obligations were already in existence prior to implementation of the standard but are now reported differently.

On 19 March 2018, Moody's credit rating agency published 'Moody's Proposes Update to Financial Statement Adjustments: Treatment of Lease Obligations' to address how Moody's will take into account the new accounting standard for leases. In this media release, Moody's confirmed it currently makes an adjustment to bring operating leases onto the balance sheet, and increase debt and fixed assets by the present value of lease commitments. Moody's confirmed it does not expect the implementation of the new accounting standard to have any material impact on credit ratings on the premise that a change in reporting does not constitute a change in the entity's underlying position.

While not as significant as the effect on the balance sheet, AASB 16 Leases has resulted in an improvement to the fiscal balance of $95 million in 2019-20, decreasing to $88 million by 2022-23.

The new standard has changed the pattern of expenses, with the operating statement no longer recognising operating lease payments but instead recognising interest expense and amortisation expense (equal to the decline in the 'right of use asset' as it is consumed over its useful life).

Similar to the cash surplus/deficit measure, the fiscal balance excludes non-cash items, including amortisation expenses. Therefore, from 2019-20 the fiscal balance reflects an improvement equal to the reduction in operating lease payments offset by increased interest expenses.

Key fiscal indicators – balance sheet

The key measures for the balance sheet are net debt and the resulting net debt to revenue ratio. As a result of continuing fiscal deficits, net debt is projected to be $6.2 billion in 2019-20, increasing to $8 billion by 2022-23 (Table 2.10). The net debt projections incorporate the effect of the new Australian accounting standard AASB 16 Leases, which increases net debt by $871 million in 2019-20 and $587 million by 2022-23.

The net debt to revenue ratio is projected to be 93 per cent in 2019-20, increasing to 114 per cent by 2022-23. The effect of AASB 16 Leases worsens the net debt to revenue ratio by an average of 11 per cent per annum.

Table 2.10: Non financial public sector – net debt and net debt to revenue ratio

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2018-19 Budget	4 485	5 547	6 550	7 543	n.a.
2019-20 Budget	4 191	6 206	6 988	7 524	8 021
Variation from 2018-19 Budget	- 295	659	438	- 19	n.a.
Net debt to revenue (%)					
2018-19 Budget	72	91	106	119	n.a.
2019-20 Budget	63	93	105	109	114
Variation from 2018-19 Budget	- 9	2	- 1	- 10	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget

As shown in Table 2.11, when compared to previous estimates that exclude the effect of the new Australian accounting standard AASB 16 Leases to provide a like-for-like comparison to the 2018-19 Budget and 2018-19 Mid-Year Report, net debt and net debt to revenue ratios are projected to improve in all years over the forward estimates, consistent with the improved fiscal projections.

Table 2.11: Non financial public sector – underlying net debt and underlying net debt to revenue ratio

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2018-19 Budget	4 485	5 547	6 550	7 543	n.a.
2018-19 Mid-Year Report	4 502	5 573	6 355	7 072	n.a.
Underlying 2019-20 Budget	4 191	5 335	6 216	6 848	7 435
Variation from 2018-19 Budget	- 295	- 212	- 334	- 695	n.a.
Net debt to revenue (%)					
2018-19 Budget	72	91	106	119	n.a.
2018-19 Mid-Year Report	71	86	98	107	n.a.
Underlying 2019-20 Budget	63	80	93	100	105
Variation from 2018-19 Budget	- 9	- 11	- 13	- 19	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget and 2018-19 Mid-Year Report

Factors impacting net debt are the consequence of the projected fiscal balance deficits and the net result of policy and non-policy changes. Policy changes outlined earlier in this chapter include government's capital investment to support the economy and continuing demand pressures for frontline services, offset by new savings and revenue measures. Non-policy changes include increased mining royalty revenue and Commonwealth financial assistant payments, offset by the worsening fiscal outcomes of government owned corporations. Table 2.12 summarises the effect of policy and non-policy variations on net debt since the 2018-19 Budget and demonstrates that even after taking into account debt as a result of the new accounting standard for leases, by 2021-22 net debt is projected to marginally improve.

Table 2.12: Non financial public sector – variations to net debt since 2018-19 Budget

	2018-19	2019-20	2020-21	2021-22
	Estimate	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative variations				
Policy	304	543	622	534
Non-policy	- 599	116	- 184	- 553
Net impact	- 295	659	438	- 19

Table 2.13 provides details on the cumulative factors that have contributed to the increase in net debt over the forward estimates since the 2018-19 Budget.

Table 2.13: Non financial public sector – detailed cumulative variations to net debt since 2018-19 Budget

	2018-19	2019-20	2020-21	2021-22
	Estimate	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative variations				
Recurrent commitments	142	373	586	749
Capital commitments	135	289	389	389
Economic stimulus	49	136	144	144
Savings, revenue and contingency measures	- 22	- 255	- 497	- 748
GST revenue	- 12	36	115	183
Commonwealth financial assistance payment	260	8	- 251	- 525
Taxation and mining royalties	- 258	- 371	- 484	- 597
Interest variations	- 21	- 57	- 113	- 192
Legislative Assembly Members' Superannuation asset	- 71	- 71	- 71	- 71
Implementation of AASB 16 Leases		871	772	676
Government owned corporations	13	63	129	152
Motor Accident Compensation Commission	- 76	- 71	- 66	- 63
Timing and other variations	- 434	- 291	- 215	- 115
Net impact	- 295	659	438	- 19

Chapter 3

Economic outlook

Highlights

- The Territory economy has exhibited typical resource-driven business cycles over the past two decades with strong expansion and contraction phases and is currently transitioning from a period of major expansion to a period of more modest economic activity.
- The current business cycle differs from previous cycles, due to the sheer scale of the economic stimulus arising from the Ichthys liquefied natural gas (LNG) project. The timing of construction completion, commissioning and ramp up in export volumes continues to have a substantive impact on the Territory's economic outlook and forecasts.
- The revised forecasts, across a range of economic indicators, reported in the 2019-20 Budget have deteriorated since the 2018-19 Budget, particularly for the 2018-19 year. Economic conditions in 2018-19 are estimated to be some of the most challenging in the Territory's history, before recovery in gross state product (GSP) commences in 2019-20.
- Economic growth, measured by GSP, is estimated to decline in 2018-19, reflecting business investment contracting to pre-INPEX levels. Strong GSP of 6.3 per cent is forecast in 2019-20 reflecting growth in net exports, moderating to an average of 3.2 per cent as peak export volumes of LNG are achieved and then maintained, over the remaining forward estimates.
- Domestic economic activity, measured by state final demand (SFD), is expected to contract over the forecast period as, unlike headline economic growth, it will not benefit from the boost in exports from 2018-19 onwards.
- Overall the Territory economy is expected to be over 50 per cent larger by 2022-23, at $30.5 billion, compared to 2008-09.
- Other key economic indicators such as population, employment, unemployment, consumer price index (CPI) and wage price index (WPI) largely track the moderating trend for SFD. All indicators are forecast to remain subdued or in some cases decline over 2018-19 to 2020-21, before gradually strengthening over the rest of the outlook period.
- The Territory's population is expected to grow from a modest 0.2 per cent in 2019-20 to 0.8 per cent in 2022-23, with positive employment growth from 2020-21 at 0.7 per cent, increasing to 1.0 per cent in 2022-23. The Territory's unemployment rate, amongst the lowest of Australia's jurisdictions, will average 4.5 per cent over the forward estimates.
- Despite economic challenges, there is significant potential upside for the Territory economy with a pipeline of agricultural and resource projects that have not yet reached final investment decision. Other opportunities exist with defence infrastructure investment and onshore gas, which will support growth of the Territory economy over the medium term.

Overview

This section provides a summarised assessment of the Northern Territory economy, including a brief description of recent economic performance and the outlook across a number of key indicators, including economic growth, population, labour market, prices and wages, as well as a description of the structure of the economy and the external economic environment. More detailed commentary is provided in the Northern Territory Economy budget paper and through the website at nteconomy.nt.gov.au. The website content is updated regularly as new data becomes available and should be read in conjunction with budget papers. The economic outlook across the Territory's key industries is available in a separate online publication at budget.nt.gov.au.

The Territory's key economic forecasts for the 2019-20 Budget are detailed in Table 3.1.

Table 3.1: Territory key economic indicators (%)

	2017-18a	2018-19e	2019-20f	2020-21f	2021-22f	2022-23f
Gross state product[1]	1.7	- 0.2	6.3	4.1	2.9	2.5
State final demand[1]	- 2.7	- 9.4	- 1.7	0.3	2.4	2.2
Population[2]	- 0.1	- 0.7	0.2	0.6	0.7	0.8
Employment[3]	- 1.2	- 1.6	0.0	0.7	0.9	1.0
Unemployment rate[4]	4.2	4.7	4.6	4.5	4.5	4.4
Consumer price index[3]	1.0	1.5	1.6	2.0	2.2	2.2
Wage price index[3]	1.3	1.8	1.5	1.5	1.6	1.8

a: actual; e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance, Australian Bureau of Statistics

While the Territory is currently experiencing a downturn in the economic business cycle, following construction completion of the Ichthys LNG project, recovery in GSP is expected to commence in 2019-20, with strong forecast growth of 6.3 per cent mainly due to net exports. GSP is forecast to average 3.2 per cent per annum over the remainder of the outlook period as peak export volumes are achieved, private investment stabilises, and economic growth is supported by moderate growth in household consumption and public investment.

The Territory's population is expected to grow from a modest 0.2 per cent in 2019-20 to 0.8 per cent in 2022-23, with positive employment growth from 2020-21 at 0.7 per cent, increasing to 1.0 per cent in 2022-23. The Territory's unemployment rate, amongst the lowest of Australia's jurisdictions, will average 4.5 per cent over the forward estimates.

The Territory Government continues to support the economy through a range of stimulus initiatives, strong infrastructure investment and a range of long-term strategies such as the Economic Development Framework, 10-year Infrastructure Plan and Population Growth Strategy. In addition Government is establishing the Office of Investment Attraction and there is a significant pipeline of infrastructure projects that present potential upside to sustain new employment, population growth and economic activity across the Territory when final investment decision is reached. There is also untapped potential for the Territory economy with undeveloped mineral and energy resources yet to be realised, that could support the economy into the future.

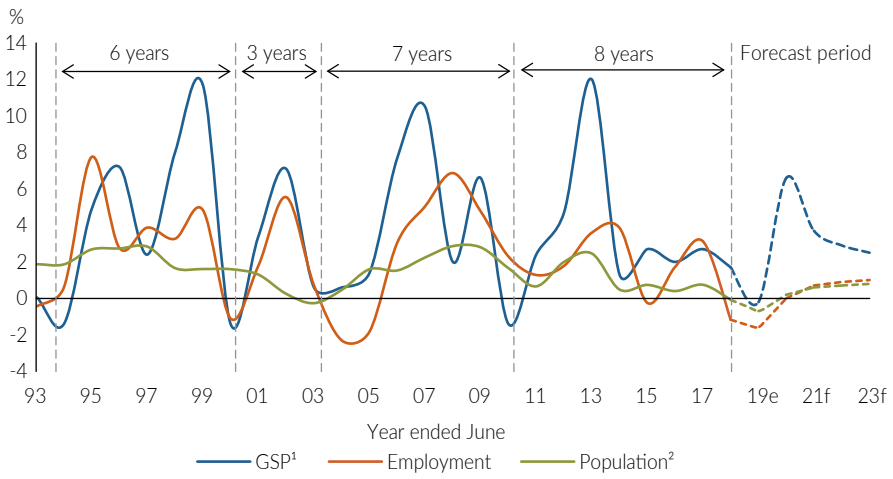
Structure of the economy

All economies experience cycles of growth and contraction, with the frequency, magnitude and length of time between periods of growth often linked to the size of the economy, structure, reliance on key industries, and vulnerability to external factors such as commodity prices and exchange rates. As a small open economy heavily reliant on resources and historically driven by major projects, the economic cycles in the Territory tend to be more pronounced than in other jurisdictions in Australia. Over the last 25 years the Territory has experienced growth cycles averaging six to seven years. These expansionary cycles were interspersed by relatively short periods of contraction.

For the first time in nearly 20 years the Territory is experiencing a protracted economic downturn. This is reflected in low growth across a number of key economic indicators as the economy transitions out of one of its longest periods of growth. Movements in the Territory's GSP, employment and population collectively highlight the cyclical nature of the Territory economy (Chart 3.1). The highly transient nature of the Territory's population is a significant factor in these movements, as economic and particularly employment conditions influence people to come to or leave the Territory. During the intense construction phase of major projects, the local economy attracts a significant number of migrant workers (sourced from both interstate and overseas) to supplement local skilled workers. Since employment is a key driver of net interstate migration, its movement is correlated with population growth.

The recent period of economic expansion, which peaked in 2012-13, was driven by the construction of the Ichthys LNG project which had an unprecedented effect on the Territory economy. The positive impact will continue for the duration of the 40-year operational life of the project, largely through exports of LNG, ongoing maintenance activities, including major shutdowns, and potential future investment.

Chart 3.1: Year on year change in key indicators

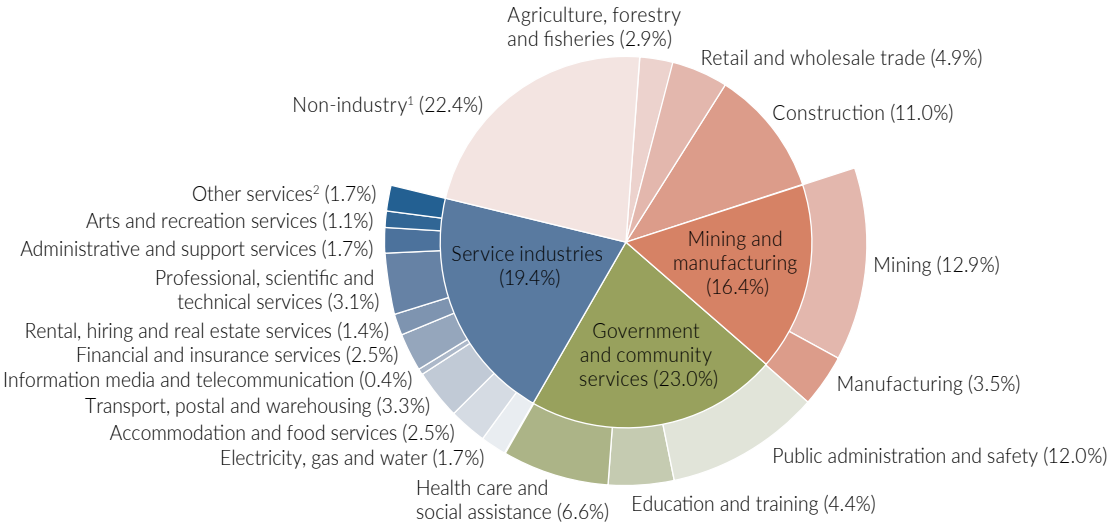


GSP: gross state product; e: estimate; f: forecast
1 Inflation adjusted.
2 Annual change.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6202.0, *Australian Demographic Statistics*, Cat. No. 3101.0

The Territory economy has grown considerably over the past decade. GSP grew by 31.3 per cent from $20 billion in 2008-09 to $26.2 billion in 2017-18 and population has increased by 9.4 per cent or about 21 300 to over 247 000 people during this period. The Territory's labour force has also expanded over this period, increasing by about 21 900 (18.1 per cent) to over 143 000 people. The economy is more diverse, with a greater share of employment and output across goods and service industries (Chart 3.2).

Over 2018-19 and 2019-20 the Territory economy will face challenging conditions, as it recalibrates from being driven by major project construction and business investment to export-led growth supported by general and more subdued growth across a range of smaller industries.

Chart 3.2: Contributions to GSP, 2017-18



GSP: gross state product
1 Non-industry components of GSP include ownership of dwellings, taxes less subsidies, and statistical discrepancy.
2 Other services components of GSP include personal services and general repair and maintenance activities.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Net exports are expected to emerge as the primary driver of Territory economic growth, increasing substantially over 2018-19 and 2019-20, and remaining at these levels well into the future, providing underlying support to GSP.

Despite the current economic conditions, there is also significant potential upside in the Territory economy with a pipeline of major projects that have not yet reached final investment decision. If approved, these projects will provide a boost to the Territory's economic outlook. Other opportunities exist with defence infrastructure investment, record levels of tourism investment, and emerging agricultural, creative industry and onshore unconventional gas extraction all having the potential to stimulate the Territory economy.

The Territory Government's Economic Development Framework is a long-term strategy for the Territory to take advantage of its existing strengths in agribusiness, energy, minerals, tourism and defence, but also capitalises on emerging sectors such as environmental services, human service delivery, tropical health, renewable energy and marine maintenance to underpin future growth and opportunity. Collaboratively developed strategies and action plans are now being rolled out to support the development of these sectors, such as the Population Plan, updated 10-year Infrastructure Plan, industry strategies and regional economic development plans.

Economic growth

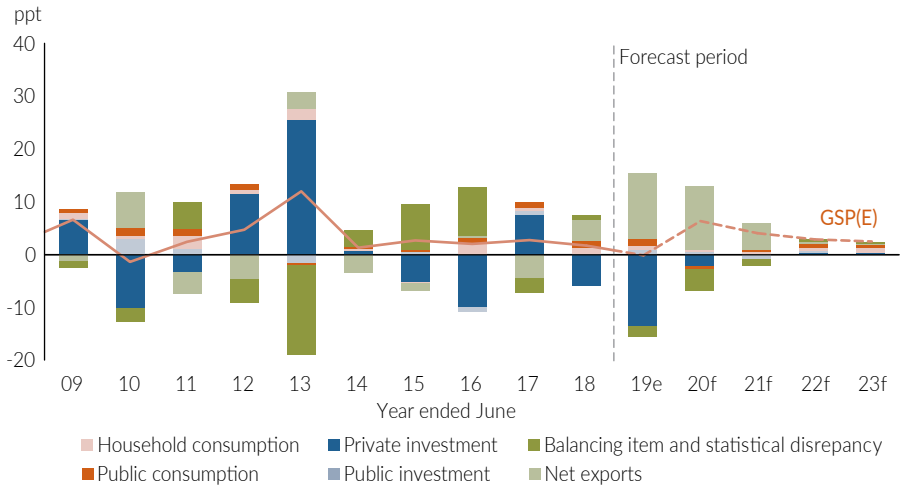
The Territory recorded headline economic growth of 1.7 per cent in 2017-18, with GSP increasing to $26.2 billion, driven by strong growth in exports, as well as consumption.

The Territory has experienced a broad multi-industry economic expansion, underpinned by record levels of private investment and non-dwelling construction activity, attributed to the US$37 billion Ichthys LNG project. The more than seven-year labour-intensive and population-supporting phase of this project is now transitioning toward a much less labour-intensive export-driven phase.

Territory GSP is forecast to contract over 2018-19, largely due to a decline in business investment (down 46.4 per cent) (Chart 3.3) as the Ichthys LNG project completes its construction and commissioning phase, partially offset by an increase in cumulative net exports, predominantly LNG. Economic growth over 2019-20 and 2020-21 reflect significant growth in net exports, although this is partially offset by continuing but less rapid declines in business investment. Public investment from the Territory Government's $1.45 billion infrastructure spend in 2019-20, combined with Commonwealth defence capital works projects, is expected to partially offset declining private investment over the same period.

Economic growth in the outer years is likely to be supported by moderate growth in consumption and private investment. Growth over 2021-22 and 2022-23 is forecast to average 2.7 per cent.

Chart 3.3: Components of Territory GSP[1]



GSP(E): expenditure measure of gross state product; ppt: percentage point; e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

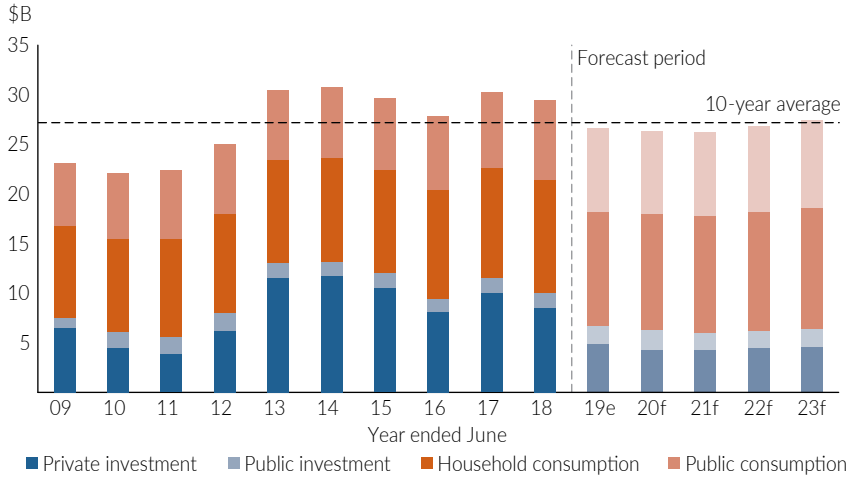
The change in the non-trade, or domestic, sector of the Territory economy over the forecast period, as measured by SFD, reflects the Territory's transition to levels of business investment that are more consistent with historical levels. SFD is experiencing a significant rebalancing following years of record private investment and consumption (which supported employment and population growth). As a result, SFD is expected to continue to contract into 2019-20 because, unlike GSP growth, it will not benefit from the boost in exports from 2018-19 onwards.

In the short term, SFD is estimated to continue contracting, decreasing by 9.4 per cent in 2018-19, following a 2.7 per cent decline to $29.5 billion in 2017-18, mainly driven by declining business investment (Chart 3.4). The forecast for 2018-19 is in line with the latest data, which saw SFD decline by 1.8 per cent in the December quarter 2018, again largely driven by declining business investment.

SFD is expected to continue to contract in 2019-20, declining by 1.7 per cent, followed by a moderate return to growth of 0.3 per cent in 2020-21. Underlying public investment is expected to provide some offsetting support to SFD however not at a level sufficient to fully offset the scale of the contraction in private investment.

SFD is expected to return to moderate growth of 2.4 per cent in 2021-22 and 2.2 per cent in 2022-23, as household consumption strengthens, albeit below trend levels over the medium term, and private investment resets to levels that existed prior to the commencement of the Ichthys LNG project.

Chart 3.4: Territory SFD[1]



SFD: state final demand; e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Investment

Private investment decreased 15 per cent to $8.5 billion in 2017-18 and was a major detractor from economic growth. The main driver of the decrease was business investment, down 15.9 per cent, largely reflecting the Ichthys LNG project moving into the commissioning phase.

In 2018-19, private investment is estimated to substantially contract (falling by 42.8 per cent). This is in line with the latest data trends for private investment, showing a 10.1 per cent decrease in the December quarter 2018.

Private investment is expected to contract further over the short term, down 12.4 per cent in 2019-20 and flat in 2020-21. However, the forecast decline is softened by the expected commencement of the $200 million Westin Darwin luxury hotel, the $300 million expansions by NT Airports at the Darwin, Alice Springs and Tennant Creek airports, as well as ongoing levels of investment associated with maintenance and operation of the INPEX LNG plant.

In the outer years, growth in private investment is expected to average 2.8 per cent per annum. Growth is likely to be supported by some recovery in greater Darwin dwelling investment and exploration activity associated with unconventional onshore gas and smaller-scale projects.

Public investment increased by 1.8 per cent in 2017-18, to $1.5 billion. The major driver of the increase was higher general government investment, up 4.6 per cent to $1.3 billion.

In 2019-20, public investment is estimated to increase, up by 6.3 per cent, and contribute 0.4 percentage points to economic growth in the year. This largely reflects an increase in Territory Government investment related to significant infrastructure spending throughout the year.

In the outer years, public investment will be supported by Territory Government infrastructure investment, albeit at lower levels than the current elevated investment expenditure, as well as increased levels of Commonwealth defence-related expenditure and the co-investment between the Territory and Commonwealth governments in Jabiru and Kakadu National Park. Public investment is forecast to average $1.8 billion over 2021-22 and 2022-23.

Consumption

Total household consumption in the Territory increased by 2.6 per cent to $11.3 billion in 2017-18. Household consumption is estimated to be relatively subdued over the forecast period, reflecting moderating trends in economic activity, wages, employment and population growth in the Territory. Growth in household consumption is forecast to remain below trend, averaging 1.4 per cent per annum over 2018-19 through to 2020-21.

Over the outer years, household consumption is expected to strengthen toward long-term trend levels, averaging 1.9 per cent. This growth will be supported by strengthening, though still modest, employment and population forecasts in the outer years.

In 2017-18, public consumption increased by 4.8 per cent, reflecting increases in consumption spending across all three tiers of government.

However, growth in public consumption is expected to provide only moderate support to total consumption growth, reflecting the fiscal and expenditure constraints of the Territory Government. Public consumption is forecast to contract in 2019-20 by 1.2 per cent, reflecting Territory Government budget constraints.

External economic environment

National and international economic activity influences the Territory economy through changes to exchange rates, commodity prices, population flows, interstate trade volumes, tourism activity and the availability of workers to meet the Territory's labour requirements. Additionally, monetary policy set by the Reserve Bank of Australia influences household consumption, business confidence and investment in the Territory.

According to the International Monetary Fund (IMF), global expansion is weakening, with global growth estimated at 3.7 per cent for 2018. In its April 2019 World Economic Outlook, the IMF has revised global growth down for 2019 (3.3 per cent) and 2020 (3.6 per cent) by 0.4 and 0.1 percentage points, respectively, compared to the October 2018 outlook. This reflects the continued decline in the growth rate of advanced economies, coupled with a temporary decline in the growth rate for emerging market and developing economies in 2019. Key risks to global growth include outcomes of trade negotiations and further tightening of financial conditions.

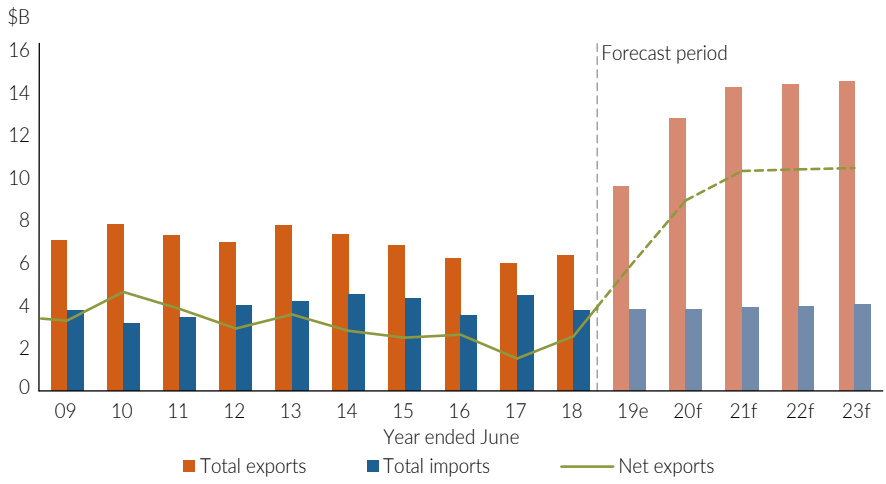
According to the IMF, economic growth in Australia is forecast to be 2.1 per cent in 2019 and average 2.6 per cent over the forecast period to 2023. According to the 2019-20 Commonwealth Budget, the Australian economy is expected to grow by 2.25 per cent in 2018-19 and then strengthen to 2.75 per cent from 2019-20 onwards, supported by household consumption, non-mining business investment and public final demand. The latest gross domestic product (GDP) figures from the Australian Bureau of Statistics (ABS) reported year-on-year growth of 2.7 per cent as at December quarter 2018.

International trade

Net exports of goods and services from the Territory increased by 68.8 per cent to $2.6 billion in 2017-18, reflecting a small increase in goods exports and a significant decline in the volume of goods imports.

The Territory's net exports over the three years (2018-19 to 2020-21) remain heavily influenced by the Ichthys LNG project. The Territory's net exports will substantially increase over this period, growing by over 300 per cent to $10.3 billion, significantly higher than the $1.5 billion average over the past decade. Over the outer years of the forecast period, net exports are expected to stabilise at around $10.4 billion per annum, reflecting average growth of 0.6 per cent per annum (Chart 3.5).

Chart 3.5: Territory net exports[1]



e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Population

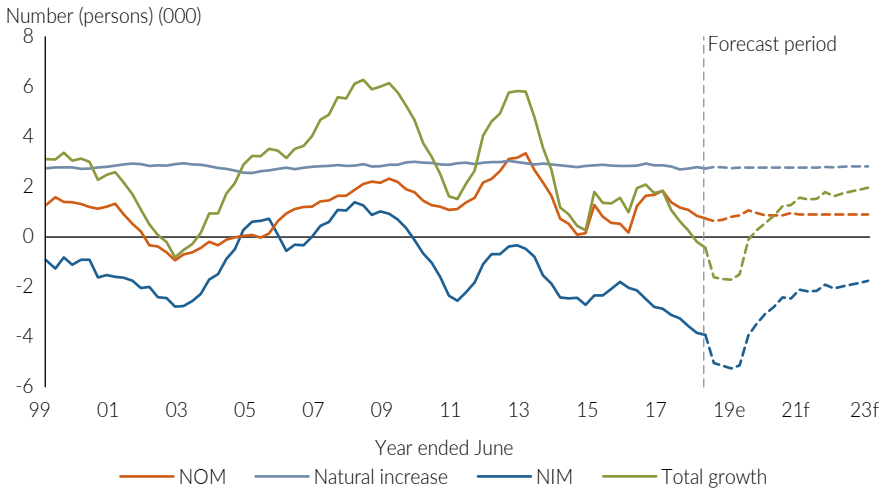
The Territory's estimated resident population of 247 327, comprising just less than 1 per cent of the total Australian population, is spread over the third largest Australian jurisdiction by geographical area, making it the most sparsely populated jurisdiction with 0.2 persons per square kilometre. Around 60 per cent of the Territory's population resides in greater Darwin and the remainder is dispersed over remote and very remote areas. About one third of the Territory's population is Aboriginal, around 80 per cent of whom live in remote and very remote areas.

The Territory's population growth has been subdued over the past few years, driven by large net outflows of interstate migrants, lower levels of overseas migration inflows and moderating fertility rates. In 2017-18, the Territory's population declined by 0.1 per cent. In 2018-19 it is estimated the rate of decline has accelerated as the vast majority of the construction work on the Ichthys LNG project is now complete, resulting in large numbers of workers leaving the Territory at the end of 2018. Due to this, as well as further outflows of workers expected into early 2019, it is forecast that the Territory's population will decline by 0.7 per cent in 2018-19 (Chart 3.6).

Following this one-off large outflow of workers in 2018-19, the Territory's population is expected to stabilise in 2019-20, with the population forecast to increase by 0.2 per cent, still well below the long-term trend. Over the forward estimates the Territory's population growth will begin to strengthen, reflecting projected improvement in economic conditions and the end of negative population effects associated with the completion of a major project. Despite this improvement, growth rates are expected to remain subdued with all components of population growth being lower than the average rate over the previous 10 years.

The Territory Government has developed the 2018-2028 Northern Territory Population Growth Strategy to identify activities needed to attract and retain people in the Territory. As part of the strategy, there have been a number of targeted incentives introduced to encourage interstate migrants to relocate to the Territory. The Territory Government has also signed a new Designated Area Migration Agreement with the Commonwealth, replacing the previous agreement. The new agreement is aimed at encouraging more migrants to move to regional areas, rather than major cities. As a region seeking to increase its population growth, this strategy could benefit the Territory.

Chart 3.6: Components of Territory population (moving annual total)



e: estimate; f: forecast; NOM: net overseas migration; NIM: net interstate migration
Source: Department of Treasury and Finance; ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Labour market

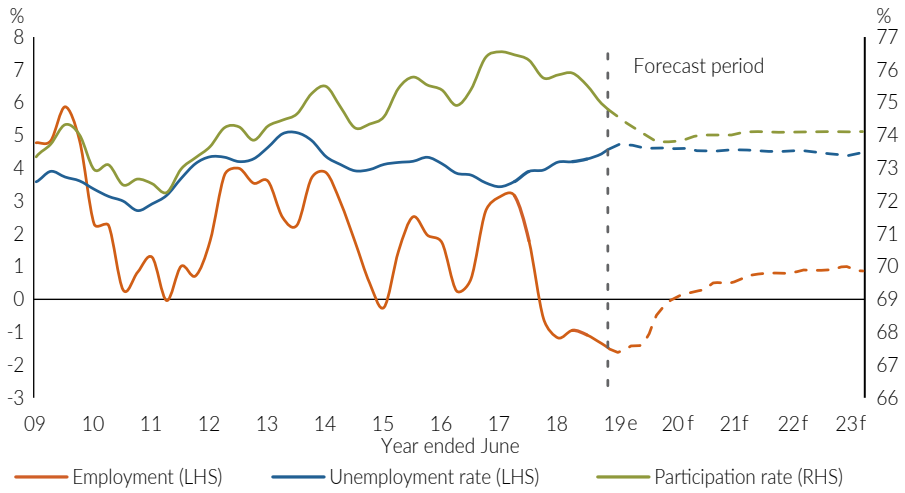
Historically, the Territory has recorded a lower unemployment and higher labour force participation rate compared to other Australian jurisdictions. This demonstrates the Territory's reliance on interstate and overseas workers to meet workforce requirements associated with major projects and other economic activity.

In 2017-18 resident employment in the Territory decreased by 1.2 per cent, which accounted for an average of 137 190 employed residents during the year. Employment continues to contract, down by 1.3 per cent in the year to March 2019, as a result of the unprecedented impact of the Ichthys LNG project, as well as the current underlying economic conditions. The current declines in resident employment, combined with the economic growth forecasts, result in a weak outlook for employment over the forward estimates (Chart 3.7).

In the year to March 2019, the Territory's unemployment rate averaged 4.4 per cent, above the 10-year average of 3.9 per cent, and an increase from the 2017-18 rate of 4.0 per cent. Under the current economic circumstances, the unemployment rate is expected to peak at an average of 4.7 per cent in 2018-19, reflecting the end of a large construction workforce following the transition of the Ichthys LNG project into the operational phase. While reducing employment and the overall size of the labour market, the outflow of workers from the Territory is expected to limit the impact on the Territory's unemployment rate over the outlook. Thus, the unemployment rate is expected to average 4.5 per cent over the five years from 2018-19.

The Territory's labour market has the potential to benefit from recent government actions and incentives aimed at attracting population and supporting local residents to continue to live and work in the Territory.

Chart 3.7: Territory labour market conditions



e: estimate; f: forecast; LHS: left hand side; RHS: right hand side
Source: Department of Treasury and Finance; ABS, *Labour Force, Australia*, Cat. No. 6202.0

Prices and wages

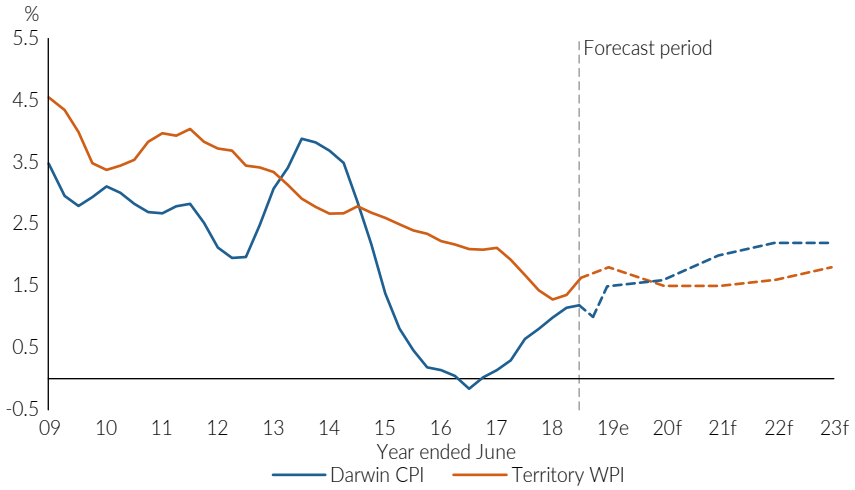
Growth in the Darwin CPI remains below long-term trend with growth of 1.0 per cent in 2017-18, and a lower rate than the eight capital cities' CPI growth of 1.9 per cent. The primary drivers of moderation in prices for the Darwin CPI include, food and non-alcoholic beverages, clothing and footwear, housing, and communications. Contributors to growth in the Darwin CPI over 2017-18 were alcohol and tobacco (mainly tobacco excise tax), transportation (mainly fuel), health and education costs.

The Darwin CPI is estimated to increase by 1.5 per cent in 2018-19, driven by the effects of adverse weather conditions and the Commonwealth excise to both tobacco and alcohol. In the outer years of the forecast period, the Darwin CPI is expected to trend upwards to 2.2 per cent as a number of categories are forecast to return to moderate levels of price growth (Chart 3.8).

In 2017-18, the Territory's WPI recorded an increase of 1.3 per cent, a historically low level for the Territory and below the 10-year average of 3.0 per cent. This largely reflects declining private sector wage growth and is consistent with the increased capacity of the Territory labour market, and a delay in Fair Work Australia approving the 2017-21 Northern Territory Public Sector Enterprise Agreement.

Wage growth is expected to continue to be moderate in 2018-19, growing by 1.8 per cent, largely driven by the public sector due to the enterprise bargaining cycle. Moderate growth is expected to persist over the medium term, consistent with national trends and the below-trend growth forecasts for employment in the Territory.

Chart 3.8: Darwin CPI and Territory WPI, year-on-year change



e: estimate; f: forecast; CPI: consumer price index; WPI: wage price index
Source: Department of Treasury and Finance; ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0

Chapter 4

Fiscal strategy statement

Overview

The 2019-20 Budget fiscal strategy has been substantially revised as a result of challenging circumstances faced by the Territory, namely unprecedented reductions in the Territory's largest revenue source, the GST, and sharply deteriorating economic conditions following the completion of the construction phase of the Ichthys liquefied natural gas (LNG) project.

Fiscal Strategy Panel report

Following the 2018-19 Mid-Year Report, the Territory Government established the Fiscal Strategy Panel to assess the Territory's fiscal outlook and develop a plan for budget repair over the medium term.

The Fiscal Strategy Panel's final report: *A plan for budget repair* released on 16 April 2019 provided a package of 76 interdependent reforms to support the Territory Government and agencies to achieve the necessary level of expenditure restraint to return the budget to balance without imposing austerity measures that would exacerbate the current downturn in the economic cycle. The report recognised that while the objectives of the current fiscal strategy as first presented in the 2017-18 Budget remain sound, the relevance of a number of fiscal targets has diminished and a new strategy is required to address the period of sustained deficits now faced by the Territory.

The following Fiscal Strategy Panel recommendations in relation to the new fiscal strategy were all accepted by the government for implementation in the 2019-20 Budget:

- retain the twin objectives of the current fiscal strategy but specify that budget repair is the primary objective
- targets under the fiscal strategy should have a more medium to long-term focus
- expand the principles and targets of the fiscal strategy to include government owned corporations
- adopt the new fiscal strategy principles and targets outlined in Chapter 3 of the panel's final report.

Accordingly, this chapter assesses the 2019-20 Budget projections against the government's new fiscal strategy objectives and targets.

The government's fiscal strategy

A fiscal strategy is an essential element of budget planning and accountability, and provides the basis against which policy decisions can be assessed.

Section 5(1) of the *Fiscal Integrity and Transparency Act 2001* (FITA) requires the Territory Government to publish a fiscal strategy, based on the principles of sound fiscal management, where the government must:

- formulate and apply spending and taxation policies, having regard to the effect of these policies on employment, economic development and growth of the Territory economy
- formulate and apply spending and taxing policies to give rise to a reasonable degree of stability and predictability
- ensure funding for services is provided by the current generation

- prudently manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

These financial management principles underpin the Territory's new fiscal strategy that consists of the following five components:

- sustainable service provision
- infrastructure for economic and community development
- competitive tax environment
- prudent management of debt and liabilities
- commercial management of government owned corporations.

2019-20 Fiscal strategy

The 2019-20 fiscal strategy has been framed with the twin objectives of budget repair to return the Territory's budget to a sustainable position, over the medium term, and supporting the Territory economy in the short term. Given the magnitude of fiscal challenges facing the Territory, budget repair has been identified as the primary strategic objective.

The strategy acknowledges that fiscal consolidation can have a detrimental short-term effect on economic prosperity and employment, particularly during periods of down turns in the economic cycle, if undertaken too quickly. On this basis, government has taken a medium-term view towards fiscal consolidation.

Accordingly, the new fiscal strategy objectives and targets take into account the Territory's current financial and economic circumstances and estimated trajectory of expenditure growth. Unlike the former strategy, which comprised short and medium-term fiscal targets, the new 2019-20 fiscal strategy comprises targets in recognition of the level and duration of reform required to return the budget to a surplus, with medium term defined as five to 10 years. The strategy's principles have also been expanded to incorporate government owned corporations given their impact on key public sector fiscal targets.

Assessment of the strategy against FITA's fiscal principles

This section addresses the requirement under section 9(1)(e) of FITA, by explaining how the government's fiscal objectives and strategic priorities specified relate to the principles of sound fiscal management.

Principle 1: Sustainable service provision

The government's principle of sustainable service provision satisfies FITA principles of formulating and applying spending and taxing policies to give rise to a reasonable degree of stability and predictability and ensure funding for current services is provided by the current generation.

Stability and predictability are attainable only when the Territory's finances are sustainable. Operating surpluses indicate government can finance the services it provides using the revenue generated in that financial year. Conversely, operating deficits indicate operating revenues are insufficient to fund current operations. While in the short term, cyclical operating deficits may be considered during periods of economic downturn, persistent or structural operating deficits subsequently pass debt relating to current services to future generations to service and is unsustainable. Operating deficits also provide no capacity for investment in infrastructure beyond depreciation levels.

Due to the Territory's small own-source revenue base, the Territory has limited ability to influence the level of revenue it can generate, however, it is able to directly influence expenditure growth. Accordingly, the fiscal strategy objectives in pursuit of sustainable service provision aim to contain expenditure growth, maintain a financially sustainable public sector and achieve general government net operating surpluses to ensure debt is not passed on to future generations.

While there is not one explicit time period in the definition of a generation, the Territory Government's fiscal strategy focuses on the medium-term target of 10 years to achieve an operating surplus and reduce debt to ensure current services are met by the current generation. Consequently, the overarching principle within each fiscal strategy objective is to achieve fiscal balance surpluses in order to reduce debt within 10 years.

Ongoing objective and target: Territory-funded expense growth to be lower than total own-source and untied revenue growth in the general government sector over the budget cycle from the budget year

This objective specifically targets Territory controllable expenditure growth and excludes time-limited external funding that can distort growth rates over the forward estimates and ultimately tends not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. Lower growth in Territory-funded expenses than growth in total Territory own-source and untied revenues indicates the budget is on a path to achieving a general government operating balance surplus.

To assist in achieving this target, an extensive review of programs was undertaken to determine savings across government and offset new funding decisions. This review resulted in additional budget repair and savings measures, excluding revenue measures, totalling $656 million over the budget cycle incorporated in the 2019-20 Budget as discussed in Chapter 2. These measures include:

- whole of government efficiencies, including changes to the efficiency dividend, consumer price index (CPI) and application of the efficiency dividend to current grants
- corporate efficiencies
- program rationalisation
- workforce sustainability.

As shown in Table 4.1, Territory-funded expenses, excluding depreciation, are projected to grow by 7.5 per cent in aggregate over the forward estimates, almost half that of own-source and untied revenue growth over the same period. This demonstrates the current higher levels of expenditure compared to revenues will converge and facilitate a general government net operating surplus by 2027-28.

Table 4.1: Territory-funded expense growth and own-source and untied revenue growth

	2019-20	2020-21	2021-22	2022-23	
	Budget	Forward estimate			Growth
	$M	$M	$M	$M	%
Territory-funded expenses[1]	4 757	4 718	4 771	5 115	7.5
Own-source and untied revenue	4 324	4 391	4 565	4 917	13.7

1 Excludes expenses carried over from prior years.

Ongoing objective and target: Maintain a sustainable public service by ensuring annual growth in Territory-funded employee expenses does not exceed the wages policy parameter plus the Territory's long-term annual population growth in any year over the budget and forward estimates period

Given the Northern Territory's public service accounts for approximately 40 per cent of the general government sector's total expenses, maintaining a financially sustainable public service is critical in containing expenditure growth to ensure the achievement of net operating balance surpluses.

As the Territory Government is a major contributor to the Territory economy and the single largest employer in the Territory, the new fiscal strategy objective to maintain a financially sustainable public service takes a balanced approach to fiscal repair. This objective is premised on the economic principle of supply and demand by ensuring service provision does not outpace population growth. Accordingly, the target of general government Territory-funded employee expense growth is not to exceed the wages policy parameter, net of efficiency dividends, plus the Territory's long-term annual population growth of 1.4 per cent in any year over the budget and forward estimates period has been set to ensure this. Furthermore, to assist in meeting this objective, government has capped Territory-funded full-time equivalent staff numbers at current levels until 2021-22.

Table 4.2 highlights that Territory-funded employee expense growth is well below the wages policy parameter plus the Territory's 1.4 per cent long-term population growth and demonstrates government is containing growth in the general government sector's single largest expenditure item.

Table 4.2: Territory-funded expense growth and wages growth

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward estimate		
	%	%	%	%
Territory-funded employee expense growth	- 1.9	0.1	0.9	1.8
Wages policy parameter plus long-term population growth	2.2	2.2	2.8	2.8
Variation	- 4.1	- 2.1	- 1.9	- 1.0

Medium term objective: Achieve a net operating balance surplus in the general government sector and maintain an improving net operating balance over the budget cycle

Target: Achieve a general government net operating balance surplus by 2027-28

While 2019-20 Budget projections to 2022-23 do not achieve a general government sector net operating balance surplus, new budget repair and savings measures already incorporated into the budget together with future fiscal repair measures of $11.2 billion, if achieved, as part of government's response to the final report *A plan for budget repair* are anticipated to result in a return to balance by 2027-28.

Table 4.3 shows the net operating balance has improved on average by $335 million per annum from the budget year when compared to the 2018-19 Budget. It also highlights an overall improving net operating balance deficit over the forward estimates with a deficit of $383 million now projected for 2022-23.

Table 4.3: General government sector – net operating balance

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2018-19 Budget	- 603	- 920	- 922	- 922	n.a.
2018-19 Mid-Year Report	- 917	- 696	- 730	- 749	n.a.
2019-20 Budget	- 727	- 632	- 615	- 512	- 383
Variation from 2018-19 Budget	- 124	288	307	410	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget and 2018-19 Mid-Year Report

The achievement of both short and medium-term objectives of limiting expenditure growth and achieving net operating surpluses will facilitate new general government capital investment to be funded through revenues rather than borrowings. This will satisfy the FITA principle of managing debt at prudent levels by avoiding new borrowings and utilising surpluses to either fund capital investment (net acquisition of non financial assets) or retire debt.

Principle 2: Infrastructure for economic and community development

The government's principle of infrastructure for economic and community development directly satisfies FITA principle of economic development and growth of the Territory economy.

Capital investment is essential to meet the Territory's social and economic needs. This is particularly relevant in periods of economic downturn, where short-term, counter-cyclical increases in infrastructure spending provide a stimulus to support economic recovery and sustain jobs in the Territory.

Ongoing objective and target: Average general government sector infrastructure investment not to fall below the level of average depreciation over the budget cycle and Territory-funded investment not to exceed twice the level of depreciation in any year

This fiscal balance objective aims at striking an appropriate balance between maintaining public assets, supporting the economy and restraining expenditure growth.

As shown in Table 4.4, projected general government infrastructure investment, inclusive of Commonwealth-funded projects (comprising capital works, minor new works, and repairs and maintenance expenses) is consistent with the first element of this objective, with annual average infrastructure investment over the budget cycle of $909 million, well above annual average depreciation of $497 million.

The second element of this objective supports the government's primary agenda of budget repair by restraining growth by ensuring Territory-funded infrastructure investment does not exceed twice the level of depreciation in any single year. Table 4.4 highlights that this element of the strategy is also being achieved, with the ratio of Territory-funded infrastructure to depreciation falling from 1.7 in 2018-19 to 1.0 by 2022-23.

Table 4.4: General government sector – infrastructure investment to depreciation ratio

	2018-19	2019-20	2020-21	2021-22	2022-23	
	Estimate	Budget	Forward estimate			Average
Total infrastructure investment ($M)	1 054	1 007	843	775	864	909
Depreciation ($M)	428	521	519	513	503	497
Territory-funded infrastructure investment ($M)	724	638	593	548	527	606
Depreciation ($M)	428	521	519	513	503	497
Territory-funded infrastructure investment to depreciation ratio	1.7	1.2	1.1	1.1	1.0	1.2

Further information on infrastructure investment is included in Chapter 2 and Budget Paper No. 4.

Short to medium term objective: General government sector debt-funded infrastructure to be limited to projects with a positive economic return on investment

Target: 100 per cent of general government capital works projects (excluding ICT) with a value exceeding $30 million progressed in accordance with the Northern Territory Project Development Framework

This fiscal strategy objective links both FITA principles of prudent debt management and economic development and growth of the Territory economy by restricting new borrowings in the short to medium term to projects with demonstrated positive economic return on investment. This will be achieved through ensuring all infrastructure investments exceeding $30 million are progressed in accordance with the Northern Territory Project Development Framework. Once fiscal surpluses are achieved, it is intended that all infrastructure projects will be funded through revenues as per long-term objectives of sustainable service provision.

Principle 3: Competitive tax environment

While the Territory's revenue base is small in comparison to other jurisdictions, taxation and own-source revenues provide the government with a reasonable degree of stability and predictability, as well as mitigating the risk of erosion of the Territory's revenue base, which are key principles of the FITA. This stability provides consistent revenue streams to fund service delivery, unlike the volatility experienced with GST revenue in the past two years.

Furthermore, taxing policies can significantly influence private business investment and employment decisions. Consequently, competitive taxing policies play a critical role in pursuing the FITA principle of maintaining employment, economic development and growth of the Territory economy.

Ongoing objective: Maintain a competitive tax environment that encourages investment, creates jobs and attracts business to the Territory, while raising sufficient revenue to contribute to funding government's service delivery requirements

Target: Territory taxation effort for the last assessed year by the Commonwealth Grants Commission at least 90 per cent of the state average of 100 per cent

This fiscal strategy objective aims to maintain taxation at levels that are competitive with the other jurisdictions and encourage increased levels of business activity in the Territory while ensuring sufficient levels of own-source revenue are generated to contribute to funding government's service delivery.

Relative tax competitiveness is complex to assess due to the inherent differences in respective economies and taxation regimes across states. A nationally recognised measure of the competitiveness of each jurisdiction's tax system is taxation effort, as assessed by the

Commonwealth Grants Commission (CGC). This measure is a lagging indicator as the CGC updates the information annually based on the actual outcome of the previous year.

Taxation effort assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below the national average of 100 per cent. A ratio of 100 suggests the state has the capacity to raise revenue at the average level. A ratio greater than 100 suggests the state has a capacity to raise revenue above the average and conversely a ratio below 100 suggests below average capacity. The fiscal strategy aims to achieve assessed taxation effort of at least 90 per cent in order to maximise revenue generation but remain competitive when compared to other states.

Table 4.5: 2017-18 taxation effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
Total taxation	104	102	89	102	104	89	96	90	100

Source: Commonwealth Grants Commission 2019 Update

Table 4.5 shows that this element of the strategy has been achieved with the Territory's 2017-18 total taxation effort assessed as 90 per cent. The below-average taxation effort largely reflects the fact the Territory does not impose a land tax and levies lower than average motor vehicle taxes, somewhat offset by above-average effort in stamp duty and payroll tax.

With the completion of the Ichthys LNG project and continued softness anticipated in the residential and commercial property market, both payroll tax and stamp duty receipts are projected to return to more subdued levels and likely to adversely affect the Territory's taxation effort in future updates.

Ongoing objective: Generate own-source revenue efficiently

Target: Territory Revenue Office expenditure as a percentage of non financial public sector taxes and royalties less than 1 per cent

As discussed above, own-source revenue generation is critical in providing stability and predictability. However, in order to maximise the capacity to allocate to service delivery and new initiatives, the collection of own-source revenue must be efficient through maintaining low direct operating costs. Accordingly, the fiscal strategy aims for the Territory Revenue Office's operating expenditure to be less than 1 per cent of total taxes and royalties collected to ensure efficient revenue collection.

Table 4.6 demonstrates this element of the fiscal strategy has been achieved with Territory Revenue Office operating expenditure projected to be well below 1 per cent of total taxation and royalty revenue across the forward estimates.

Table 4.6: Territory Revenue Office expenditure to taxation revenue raised

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
Territory Revenue Office expenditure ($M)	6	6	5	5	5
Territory taxes and royalties ($M)	1 060	896	922	939	942
Expenditure to revenue (%)	0.6	0.7	0.5	0.5	0.5

Principle 4: Prudent management of debt and liabilities

The fiscal strategy principle of prudent management of debt and liabilities directly satisfies FITA principles of prudently managing financial risks faced by the Territory (having regard to economic circumstances), including maintaining Territory debt at prudent levels and ensuring funding for services is provided by the current generation.

The assessment of prudent debt levels is subject to the judgement of government. During periods of low economic growth and constrained revenues, it may be considered prudent to maintain higher levels of debt in order to maintain government expenditure and stimulate the economy. When economic growth and own-source revenues are strong, lower debt levels may be considered prudent as they present an opportunity for government to pay down debt while there is strong revenue growth and private sector investment. Consequently, prudent debt management cannot be explicitly defined but rather is an assessment made in developing a budget in light of the economic and fiscal conditions faced by the Territory.

Persistent operating deficits result in government being required to borrow to fund its operations and subsequently may result in burdening future generations with debt relating to current periods. Similarly, fiscal balance deficits indicate a government's level of capital spending is in excess of its saving, requiring additional borrowings.

Ongoing objective: Maintain or improve the Territory's credit rating

Target: Territory's credit rating of Aa2 (negative) or better

Excessive debt can lead to restrictions on government's capacity to maintain appropriate levels of service through increased borrowing costs and can impact investor confidence resulting in negative effects on the Territory economy. Consequently, the fiscal strategy objective aims to maintain or improve the Territory's current credit rating of Aa2 (negative).

Moody's Investors Service assigns long-term issuer and debt ratings to the Northern Territory Treasury Corporation (NTTC), the entity that issues debt on behalf of the Territory and its government owned corporations. NTTC's debt is guaranteed by the Territory and the rating reflects the Territory's credit quality.

Moody's credit ratings reflect an independent assessment of the Territory's fiscal strength and ability to fulfil its financial commitments and repay debt. High ratings indicate a strong fiscal and economic position and result in the ability to borrow at lower interest rates, while lower ratings indicate credit challenges, such as revenue or policy weaknesses and increasing debt levels, and result in higher interest rates on borrowings. Negative outlooks reflect a potential downgrade within the next six months to two years.

The Territory's credit rating was last assessed by Moody's on the 2018-19 Budget, which reaffirmed the credit rating of Aa2 but changed the outlook to negative. The government's commitment to budget repair, evident through accepting in full and in part 74 of the 76 recommendations from the Fiscal Strategy Panel's final report, and demonstrated achievement of revised fiscal strategy targets over the budget and forward estimates, should position the Territory for an improvement in future credit rating assessment.

However, in the short to medium term it will be imperative to ensure fiscal consolidation remains on the projected pathway contained in the panel's final report and any additional revenues are applied to reducing the fiscal deficit rather than funding new initiatives.

Net debt to revenue is a recognised measure to assess a jurisdiction's ability to repay its borrowings, with a high ratio indicating a lower ability to repay debt and a low ratio indicating a strong ability to repay debt.

Historically, the Territory's non financial public sector net debt to revenue ratio has averaged 40 per cent, however changes to Australian accounting standards in relation to non financial leases, affecting all jurisdictions and private sector entities, will increase the ratio by between 9 and 13 percentage points. Consequently, the return to long-term average net debt to revenue ratio of 50 per cent (to accommodate the impact of leases) is retained as a long-term objective of the new fiscal strategy.

As shown in Table 4.7, while the non financial public sector's net debt to revenue ratio, inclusive of the impact of leases, is projected to increase over the forward estimates period to 114 per cent by 2022-23, it is improved when compared to the 2018-19 Budget.

When excluding the impact of leases on net debt, the underlying net debt to revenue ratio is materially improved on the 2018-19 Budget projections, primarily a result of improved mining royalties and continuation of the Commonwealth's financial assistance payment for a further three years from 2019-20.

Table 4.7: Non financial public sector – net debt to revenue ratios

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	%	%	%	%	%
2018-19 Budget	72	91	106	119	n.a.
2019-20 Budget	63	93	105	109	114
Variation from 2018-19 Budget	- 9	2	- 1	- 10	n.a.
Underlying 2019-20 Budget	63	80	93	100	105
Variation from 2018-19 Budget	- 9	- 11	- 13	- 19	n.a.

n.a.: not available at the time of publishing the 2018-19 Budget

Principle 5: Commercial management of government owned corporations

Government owned corporations operate on a commercial basis with the ability to recover most of their costs through charging consumers for the use of services. The Territory's government owned corporations comprise Power and Water Corporation, Territory Generation and Jacana Energy. Government owned corporations are governed under the *Government Owned Corporations Act 2001* and make up most of the public non financial corporation sector.

The Territory's debt levels and fiscal targets are materially impacted by the financial performance of government owned corporations. Consequently, this fiscal strategy principle aims at strengthening their commercial sustainability, increasing accountability for financial and non-financial performance, and reducing their reliance on government support. It directly satisfies FITA principles of ensuring funding for services is provided by the current generation and prudent debt management, and assists in the overarching principle that government owned corporations as commercial entities are meant to be self-supporting and largely autonomous.

Ongoing objective and target: Ensure government owned corporation operating expenditure growth does not increase at a rate greater than operating revenue growth

Similar to the general government sector's fiscal strategy principle of sustainable service provision, this fiscal strategy objective aims at improving profitability and restraining expenditure growth specifically in government trading entities. Table 4.8 shows that two of the three government owned corporations will meet this element of the fiscal strategy, with Jacana Energy's projected operating expense growth just over revenue growth over the same period. Jacana Energy's revenue is largely restricted by government pricing orders (regulated tariff increases are currently limited to

CPI), noting this is partially offset by a community service obligation, however operating expenses, primarily wholesale generation and network charges, are forecast to increase over the period at higher than CPI rates.

Table 4.8: Government owned corporation growth rates over the SCI period (2018-19 to 2022-23)

	Power and Water Corporation growth	Territory Generation growth	Jacana Energy growth
	%	%	%
Revenue	17.9	2.7	6.2
Operating expenses[1]	10.2	- 5.8	7.0
Target met	yes	yes	no

1 Excludes depreciation, impairments, interest and tax expenses.

Ongoing objective: Adopt agreed commercial operational benchmarks in the SCI

Target: 100 per cent of appropriate targets as agreed with the shareholding minister reported

An SCI represents an annual performance agreement between the shareholding minister and the government owned corporations board and includes financial and non-financial performance targets. SCIs are prepared annually and form part of the Territory's budget development process. Agreed targets must be reported in each respective SCI.

This element of the fiscal strategy has been achieved with each government owned corporation reporting their respective agreed targets in their 2019-20 SCIs. For future fiscal strategy reporting, the performance of government owned corporations against agreed SCI targets will be documented in this chapter.

Ongoing objective: Debt ratios should improve annually

Target: Debt to equity ratio (where applicable) maintained or improved over the SCI period

The debt to equity ratio measures the degree to which government owned corporation assets are financed by debt and government's contributions. Low ratios are more favourable and indicate less risk while high ratios indicate government owned corporations rely more on external lenders and therefore present higher risk. The fiscal strategy objective aims to improve these ratios over the SCI to support the principle of prudent management of debt and liabilities.

As demonstrated in Table 4.9, Territory Generation has satisfied this element of the fiscal strategy with a projected debt to equity ratio of 2.5 times in 2018-19, reducing to 1.7 times by 2022-23. This strong debt to equity ratio has been influenced by government equity injections and a dividend moratorium resulting in higher equity balances across all years.

The Power and Water Corporation, however, does not meet this fiscal strategy objective with debt to equity projected to increase by 0.2 times by 2022-23. The Power and Water Corporation's ratio has declined over the SCI period as a result of an anticipated reduction in power services revenue and higher capital expenditure, largely related to business transformation, requiring increased borrowings over the SCI period. However, it is anticipated the business transformation project will provide ongoing benefit and efficiencies beyond the forward estimates period, which will put downward pressure on this measure.

Table 4.9: Government owned corporations 2019-20 SCI debt to equity ratios

	2018-19	2019-20	2020-21	2021-22	2022-23	
	Estimate	Budget	Forward estimate			Target met
Power and Water Corporation	1.2	1.1	1.4	1.4	1.4	no
Territory Generation	2.5	3.1	2.4	2.0	1.7	yes
Jacana Energy[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.: not applicable
1 Jacana Energy does not have any borrowings and therefore this fiscal measure is not reportable.

Ongoing objective: Reduce controllable costs and improve operating efficiencies

Target: Operating costs (less cost of sale) maintained or reduced over the SCI period

Many government owned corporations have costs related to contractual obligations or directly determined by demand for services (wholesale generation, energy, network services and other regulatory fees). Although these corporations have largely limited control over these main costs, they can to some extent be mitigated through efficient management and maintenance of assets. They are also able to directly influence expenses such as personnel, ICT, training, travel and property expenses to improve profitability and increase returns to government.

Table 4.10 shows that all government owned corporations with the exception of Jacana Energy, where costs remain largely flat, have reduced controllable costs over the SCI period. Electricity retailing is characterised by very low margins and consequently Jacana Energy is only able to directly influence approximately 4 per cent of its total costs. While Jacana Energy has not met this element of the fiscal strategy, the increase from 2018-19 to 2022-23 represents less than $1 million and is primarily related to the implementation of a new retail billing system, which should provide efficiencies and improve service levels going forward.

Table 4.10: Government owned corporations 2019-20 SCI controllable[1] costs

	2018-19	2019-20	2020-21	2021-22	2022-23	
	Estimate	Budget	Forward estimate			Target met
	$M	$M	$M	$M	$M	
Power and Water Corporation	228	209	204	204	214	yes
Territory Generation	86	95	83	80	83	yes
Jacana Energy	18	19	18	18	19	no

1 Controllable costs exclude costs of sales and impairments.

Medium-term objective: Increased returns for government in the form of dividends

Target: Dividends paid/payable greater than zero

Returns to government from the corporations support the delivery of essential social services including health, education and community safety. Increased returns also indicate a corporation's profitability has improved, increasing capacity to retire debt and subsequently leading to improvements in government debt targets.

Table 4.11 shows that the government owned corporations, with the exception of Territory Generation, meet this element of the fiscal strategy with dividends projected to be paid across the SCI period. Territory Generation will not meet this fiscal objective as it was granted a dividend moratorium as part of the 2018-19 SCI until 2022-23 to ensure sufficient funds were available to fund its ongoing capital investment program. A review of the moratorium will be undertaken as part of the 2020-21 SCI in the context of government's new fiscal strategy to ensure each corporation provides sustainable returns to the government.

Table 4.11: Government owned corporations 2019-20 SCI dividends paid

	2018-19	2019-20	2020-21	2021-22	2022-23	
	Estimate	Budget	Forward estimate			Target met
	$M	$M	$M	$M	$M	
Power and Water Corporation	9.0	7.0	21.4	18.9	23.4	yes
Territory Generation	nil	nil	nil	nil	nil	no
Jacana Energy	5.0	0.7	0.2	0.2	0.2	yes

Conclusion

The 2019-20 Budget incorporates a range of immediate budget repair measures and commences the largest structural reform seen in the Territory since self-government. These measures will be critical in redirecting the trajectory of the Territory's budget and estimated levels of debt to a sustainable and balanced position by 2027-28.

Chapter 5

Intergovernmental financial relations issues

Overview

Total Commonwealth funding to the Northern Territory in 2019-20 is estimated at $4389 million, representing about 66 per cent of the Territory's total non financial public sector revenue. This comprises $3017 million in general revenue assistance payments, largely GST revenue, and $1372 million in tied funding.

GST revenue is the largest single fiscal transfer from the Commonwealth, representing around 42 per cent of the Territory's total revenue. The Territory is expected to receive $2763 million in GST revenue in 2019-20, which is $38 million higher than the estimate of $2725 million for 2018-19. This estimated increase between years, the first year-on-year increase since 2015-16, is largely driven by growth in the national GST pool, albeit at lower rates than previously estimated by the Commonwealth and estimated in the 2018-19 Mid-Year Report.

This increase in estimated GST revenue between 2018-19 and 2019-20 represents year-on-year growth of 1.4 per cent, well below the annual average growth rate of GST revenue to the Territory of around 5.3 per cent since the inception of GST. This low growth, combined with the fact that in absolute terms GST revenue in 2019-20 is similar to that received in 2012-13, driven by successive reductions over recent years in the Territory's relative share of GST collections, highlights the fiscal challenges facing the Territory.

The lower than previously forecast estimates of the national GST pool, as reported in the Commonwealth's 2019-20 Budget, will affect all jurisdictions' GST revenues. In the Territory's case, the revised national GST pool estimates have contributed to reductions in the Territory's GST revenue estimates of around $90 million per annum when compared to estimates at the time of the 2018-19 Mid-Year Report.

In recognition of the significant drop in the Territory's GST relativity in recent years, and the impact this has on the Territory's budget position and capacity to deliver government services, the Commonwealth has committed to provide the Territory with GST top-up payments in the form of untied general revenue. These payments will ensure the Territory receives, at a minimum, the equivalent of a GST relativity of 4.66024 from 2019-20 to 2021-22. For 2019-20, the GST top-up payment to the Territory will be $252 million. However, a GST relativity of 4.66024 is considerably lower than the Territory's long-term average relativity of 5.1.

Tied Commonwealth revenue is estimated to contribute $1372 million or 21 per cent of the Territory's total revenue in 2019-20, compared to $1515 million in 2018-19. The lower tied revenue estimate for 2019-20 is attributed to a reduction of around $106 million in national partnership (NP) payments, primarily reflecting the timing of payments to be received under the NPs on Northern Territory Remote Aboriginal Investment (NTRAI) and DisabilityCare Australia Fund, and the expiry of a number of minor agreements. National Health Reform (NHR) funding, total specific purpose payments (SPPs) and other Commonwealth payments are also estimated to decline, partially offset by an increase in Quality Schools funding.

Federal financial relations

Australia's federal system is characterised by a high level of vertical fiscal imbalance, whereby the expenditure obligations of states and territories (states) under the Australian Constitution far outweigh their capacities to raise revenue, while the opposite applies for the Commonwealth, necessitating significant revenue transfers from the Commonwealth to the states.

Commonwealth funding to the Territory includes both untied general revenue assistance, comprising GST revenue, GST top-up payments and grants in lieu of uranium royalties arising from the Commonwealth's ownership of uranium, and tied funding to be used for specific purposes. General revenue is discretionary, with states determining how to spend this funding according to their specific priorities, as sovereign governments. Tied funding includes SPPs, NP payments, NHR funding and Quality Schools funding, and is to be spent in the relevant sector or on specific programs.

Table 5.1 shows total Commonwealth payments to the Territory are estimated at $4389 million in 2019-20, of which 69 per cent is general revenue assistance funding and the remaining 31 per cent is tied funding.

Compared with 2018-19, total revenue from the Commonwealth is expected to increase by $146 million, or around 3.4 per cent, in 2019-20. However, this increase is due to the timing of the GST top-up payment intended for 2018-19, but made in 2017-18. Had this payment occurred in 2018-19, total Commonwealth payments to the Territory would have decreased by $113 million in 2019-20.

Table 5.1: Components of Territory revenue, 2017-18 to 2019-20[1]

	2017-18 Actual	2018-19 Estimate	2019-20 Budget
	$M	$M	$M
General revenue assistance	3 207	2 727	3 017
GST revenue[2]	2 945	2 725	2 763
Grants in lieu of uranium royalties	3	2	2
GST top-up payment[3]	260		252
Tied revenue	1 128	1 515	1 372
Specific purpose payments[4]	43	32	15
Major funding arrangements[5]	636	674	706
National partnership payments	216	595	489
Other Commonwealth payments[6]	233	215	162
Total Commonwealth revenue	4 335	4 243	4 389
Territory own-source revenue	2 196	2 398	2 265
Total revenue	6 532	6 641	6 654

1 Includes non financial public sector.
2 Includes balancing adjustments for over or under payment of GST in the previous financial year.
3 $260 million financial assistance payment for 2018-19, in recognition of the 2018 Update relativities impact on the Territory's fiscal position, received in 2017-18.
4 Includes SPPs on National Disability Services and National Skills and Workforce Development.
5 Includes NHR, Quality Schools (including payments 'through' the Territory for non-government schools) and National Housing and Homelessness Agreement Funding.
6 For consistency of reporting with the Commonwealth, funding under the Natural Disaster Relief and Recovery Arrangements (now Disaster Recovery Funding Arrangements) is reported as tied funding.
Note: Numbers may not add due to rounding.

GST revenue

GST revenue is the largest revenue transfer from the Commonwealth, representing an estimated 53 per cent of total Commonwealth payments to the states. For the Territory, GST revenue is estimated to account for about 63 per cent of total Commonwealth payments in 2019-20.

A state's GST revenue entitlement is dependent on three parameters: the state's share of the national population, its GST relativity as determined by the Commonwealth Treasurer, and the total amount of GST revenue available for distribution to the states, usually referred to as the GST pool.

Since 2000, the Territory's GST revenue entitlement has averaged annual growth of 5.3 per cent. However, as Table 5.2 shows, the amount of GST revenue the Territory receives can be highly volatile, with actual annual growth rates ranging between -6.7 and 14.1 per cent across the period 2013-14 to 2017-18. During this period, the Territory only experienced one year of above-average annual growth, with the remaining years reflecting below-average growth or negative growth. This is due to the combined changes in shares of the national population, GST relativities and the size of the GST pool. This reflects the significant challenge in attempting to forecast GST parameters, particularly relativities, into the future.

The 2019-20 budget year is the first year the Territory is expected to experience positive annual growth in GST revenues since 2015-16. In 2019-20, the Territory's GST revenue is estimated to grow by 1.4 per cent, well below the average annual growth rate of 5.3 per cent.

Table 5.2: Territory GST revenue parameters, 2013-14 to 2019-20

	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Estimate	2019-20 Budget
GST pool ($M)	51 090	54 342	57 352	59 846	63 124	65 630	67 200
Change in GST pool (%)	6.3	6.4	5.5	4.3	5.5	4.0	2.4
Territory GST relativity	5.31414	5.66061	5.57053	5.28450	4.66024	4.25816	4.26735
Territory share of national population (%)	1.0404	1.0340	1.0195	1.0051	0.9962	0.9730	0.9620
Territory GST revenue[1] ($M)	2 828	3 225	3 266	3 157	2 945	2 725	2 763
Change in Territory GST revenue (%)	1.3	14.1	1.3	- 3.3	- 6.7	- 7.5	1.4

1 GST revenue amounts for 2013-14 to 2018-19 include balancing adjustments for the over or under payment of GST revenue to the Territory in the preceding year.

Source: Commonwealth Grants Commission, Department of Treasury and Finance

In 2018-19, the Territory is expected to receive $2725 million in GST revenue, a decrease of $220 million or 7.5 per cent compared to 2017-18. This is driven by a decline in the Territory's share of the national population from 0.9962 per cent to 0.9730 per cent and an 8.6 per cent decline in the Territory's GST relativity to 4.25816, partially offset by a 4.0 per cent increase in the GST pool. The estimate for 2018-19 incorporates a $3 million increase in the Territory's GST entitlement in respect to an equivalent underpayment of GST to the Territory in 2017-18.

In 2019-20, the Territory's GST revenue is expected to increase by $38 million, or 1.4 per cent, to $2763 million. The increase is due to a 0.2 per cent increase in the Territory's GST relativity and an expected 2.4 per cent increase in the GST pool. These factors are partially offset by the expected further decrease in the Territory's share of the national population to 0.9620 per cent in 2019-20, its lowest level in 30 years.

Table 5.3 below shows how each of the GST parameters have contributed to the difference in the Territory's GST revenue estimates between 2018-19 and 2019-20.

Table 5.3: Drivers of change in the Territory's GST revenue from 2018-19 to 2019-20

	$M
Estimated GST revenue in 2018-19	**2 725**
Change in GST revenue due to:	
Increase in GST pool	65
Increase in GST relativity	6
Decrease in population share	- 30
Interaction between GST parameters	- 4
Estimated GST revenue in 2019-20	**2 763**

Note: Numbers may not add due to rounding.

As shown in Table 5.4, the current estimates of the Territory's GST revenue in 2018-19 and 2019-20 are lower than estimated in the 2018-19 Mid-Year Report (MYR), primarily due to downward revisions to estimates of the GST pool and, to a lesser extent, the Territory's share of the national population. In 2019-20 the reduction in GST revenue is marginally offset by the increase to the Territory's GST relativity.

Table 5.4: Factors contributing to revisions in the Territory's GST revenue estimates

	2018-19	2019-20
	$M	$M
GST revenue		
As at 2018-19 Mid-Year Report	2 757	2 851
As at 2019-20 Budget	2 725	2 763
Difference	- 32	- 88
Change caused by:		
National GST collections	- 30	- 88
Relativities	0	6
Population	- 2	- 7
Interactions[1]	0	0
Total	- 32	- 88

1 Impact of rounding and the interaction between the updated parameters in the calculation of states' GST shares.
Note: Numbers may not add due to rounding.

A detailed discussion on each of the GST parameters follows.

GST pool

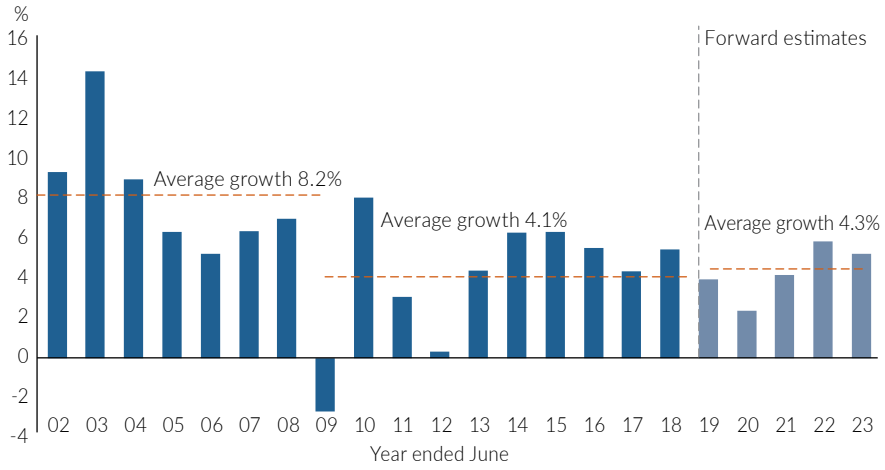
The GST pool is significantly affected by consumer sentiment and the resulting consumption patterns, particularly in relation to discretionary spending on goods and services subject to GST. Forecasts of the GST pool and its growth rates are also affected by changes in GST policy. Given the volatility of the GST pool in recent years, the Territory has aligned its forecasts of the GST pool with the Commonwealth's 2019-20 Budget.

The GST pool is expected to increase by 4.0 per cent in 2018-19, 2.4 per cent in 2019-20 and 4.2 per cent in 2020-21, increasing further to 5.2 per cent by 2022-23. The reduced growth rate in 2019-20 reflects changes in the Commonwealth's forecasts of household consumption and dwelling investment. The removal of GST from feminine hygiene products from 1 January 2019 and the application of GST to offshore hotel bookings from 1 July 2019 have also been factored into the Commonwealth GST pool estimates over the budget period.

The GST pool growth rates are lower in all years when compared to forecasts by the Commonwealth in its Mid-Year Fiscal and Economic Outlook (MYEFO) report released in December 2018, with total collections now estimated to be around $8.3 billion lower by 2022-23. The lower estimates of the national GST pool will affect all jurisdictions' GST revenue, and has reduced the Territory's GST revenue estimates by $88 million in 2019-20 and around $116 million per annum over the forward estimates compared to the 2018-19 MYR.

Since the global financial crisis, there has been a notable shift in consumer spending patterns away from items that attract GST, mainly discretionary spending, towards items that are GST exempt, resulting in a moderation in the growth of GST collections over time. As Chart 5.1 shows, prior to the global financial crisis, the GST pool grew at an average rate of 8.2 per cent per annum. However, since the global financial crisis, GST pool growth has been subdued, averaging around 4.1 per cent per annum.

Chart 5.1: Growth in the GST pool, 2001-02 to 2022-23

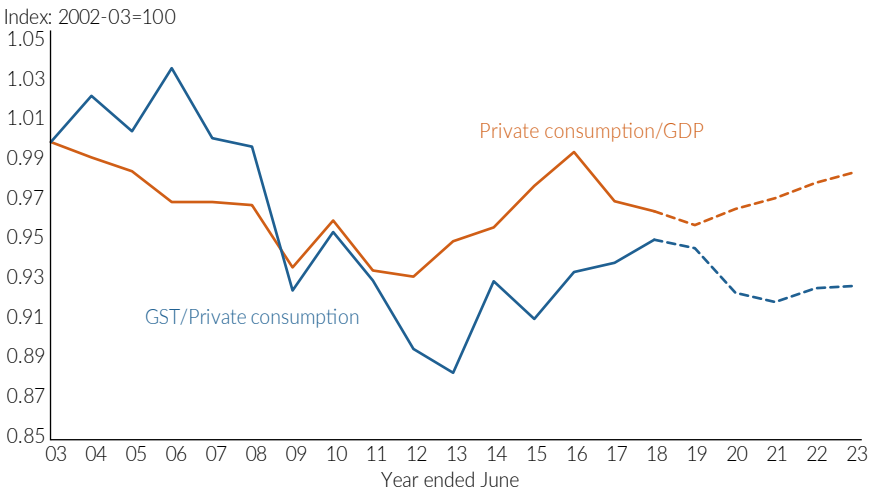


Source: Commonwealth Final Budget Outcomes, 2001-02 to 2017-18

Chart 5.2 shows consumption of items attracting GST as a proportion of private consumption was on a downward trajectory between 2005-06 and 2012-13, reflecting a decline in consumer spending on discretionary items. In addition, private consumption as a proportion of gross domestic product (GDP) also trended downwards over a similar period, between 2002-03 and 2011-12, reflecting an increase in savings rates, particularly in the immediate aftermath of the global financial crisis.

Since 2011-12, private consumption has increased as a proportion of GDP, mainly supported by low interest rates and higher growth in prices, although private consumption has moderated in recent years. GST as a proportion of private consumption has increased since 2012-13. Current economic conditions suggest the recent downturn in the Australian housing markets and historically low wages growth will decrease consumer confidence and lead to a rise in the household savings rate. Consequently, the growth rate of the GST pool is unlikely to return to pre-2007-08 levels in the medium term.

Chart 5.2: Index of GST and private consumption



Source: Australian Bureau of Statistics, national accounts, taxation revenue and Department of Treasury and Finance calculations

Population

A state's share of the national population affects the share of GST revenue it receives. That is, the distribution of GST revenue is influenced by the population growth rate in all states, not just the individual state's actual population growth.

The Territory's share of the national population is estimated to decline over the budget and forward estimates period from 0.9730 per cent in 2018-19 to 0.9430 per cent in 2022-23. This reflects the Territory's expectations of subdued population growth over the forward estimates period, driven by large net outflows of interstate migrants, lower levels of net overseas migration inflows and moderating fertility rates. The significant increase in interstate departures is predominantly related to the completion of the construction phase of the Ichthys LNG project, which has been a major source of employment and population growth in the Territory over recent years.

Following the one-off large outflow of Ichthys LNG construction workers in 2018-19, the Territory's population is expected to stabilise in 2019-20. Over the outer years, the Territory's population growth is expected to slowly strengthen, but will remain well below long-term trends and below national population growth rates. As a result, the Territory's share of the national population is expected to continue to decrease over the period 2018-19 to 2022-23. Chapter 4 of the Northern Territory Economy book provides more detail on the Territory's population characteristics and forecast growth patterns.

GST relativities

The final component of determining a state's GST revenue is the GST relativity. This, combined with a state's population, determines whether a state will receive more or less than its population share of the GST pool. The relativities are calculated by the Commonwealth Grants Commission (CGC), the independent body responsible for recommending to the Commonwealth Treasurer the distribution of GST revenue between the states each year, in accordance with the principle of horizontal fiscal equalisation (HFE). The principle of HFE is designed to give each state the fiscal capacity to deliver services and the associated infrastructure at the same (average) standard, if each made the same effort to raise revenue from its own sources and operated at the average level of efficiency.

The Territory is assessed as having the lowest fiscal capacity in Australia, reflecting its well above-average costs of providing the average standard of services and slightly below-average capacity to raise own-source revenues.

The major drivers of the Territory's above-average service delivery costs are its small and sparsely distributed population, of which a significant proportion resides in remote areas, a relatively large disadvantaged Aboriginal population, isolation from major supply centres in the eastern states and the lack of economies of scale in service delivery and central administration.

On the revenue side, while the Territory is currently assessed as having above-average capacity to raise mining revenue, payroll tax and insurance tax, it has below-average capacity to raise all other types of revenues due to its relatively small tax base compared to other states.

The Productivity Commission's Inquiry into HFE Final Report and the Commonwealth's Interim Response, both publicly released in July 2018, contained estimates of states' relativities over an eight-year period from 2019-20. Both the Commonwealth and Productivity Commission estimated the Territory's relativity would be 4.55 in 2019-20, significantly greater than the actual relativity of 4.26735. In addition, there is uncertainty around how changes in larger states' revenue and expenditure patterns will impact the Territory's GST relativity in the short to medium term. Given these issues, it is difficult to reliably forecast the Territory's GST relativities over the forward estimates. The Territory's 2019-20 Budget reflects the 2019 Update GST relativities, holding relativities constant over the period 2019-20 to 2021-22, while the top-up guarantee to the Territory is in place, and incorporates the Productivity Commission's estimated relativities in the outer year.

Commonwealth Grants Commission Report on GST Revenue-Sharing Relativities 2019 Update

In February 2019, the CGC released its 2019 Update, which recommended a slight increase in the Territory's GST relativity from 4.25816 to 4.26735 (Table 5.5). With the exception of the 2018 relativity, this is the lowest relativity recorded on a consistent three-year moving average of annual assessments since the introduction of the GST in 2000.

The CGC estimates the financial impact of the change in relativities by applying the 2019 Update relativities to the Commonwealth's 2018-19 MYEFO estimates of the 2019-20 population and GST pool, and comparing this to the Commonwealth's GST revenue estimates for 2018-19. The CGC 2019 Update estimates the Territory's GST revenue will increase by $68 million between 2018-19 and 2019-20. This translates to an increase of $272 per capita. As shown in Table 5.5, this increase reflects the combined impact of an increased GST relativity, increasing the Territory's GST revenue by $6 million, and a higher GST pool, increasing the Territory's GST revenue by $98 million, partially offset by a declining share of the national population, reducing the Territory's GST revenue by $37 million.

Table 5.5: CGC estimates of the GST impact of 2019 Update relativities

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2018-19	0.85517	0.98670	1.09584	0.47287	1.47727	1.76706	1.18070	4.25816
2019-20	0.87013	0.98273	1.05370	0.51842	1.46552	1.75576	1.23759	4.26735
Impact ($M)	1 012	661	- 72	423	131	44	113	68
Drivers of change:								
Population	28	119	- 11	-18	- 55	- 27	0	- 37
Pool	653	614	522	116	241	87	47	98
GST relativities	331	- 72	- 583	324	- 56	- 16	66	6
Impact ($ per capita)	123	99	- 14	160	74	84	262	272

Source: CGC 2019 Update

As shown in Table 5.6, the CGC's 2019 Update estimated increase in GST revenues to the Territory is greater than the estimated increase of $38 million in this Territory Budget. In addition, CGC 2019 Update estimates of annual GST revenue for 2018-19 and 2019-20 are also higher than the Territory Budget estimates. This is primarily due to differences in estimates of the GST pool for 2018-19 and 2019-20, and reflects downward revisions to the growth in the GST pool between MYEFO and the Commonwealth 2019-20 Budget, on which the Territory's Budget estimates are based. The Territory has also used its own estimates of the population, given its local knowledge regarding major projects and one-off shocks that may affect migration levels and therefore the Territory's population growth rates.

Table 5.6: GST revenue estimates

	2018-19	2019-20	Difference
	$M	$M	$M
CGC 2019 Update	2 792	2 860	68
2019-20 Territory Budget	2 725	2 763	38
Difference	- 67	- 97	- 30

Differences between the CGC 2019 Update and 2019 Territory Budget GST estimates are due to:	
2018-19	- 67
Territory 2018-19 GST revenue includes a balancing adjustment of $3 million for an underpayment in 2017-18, due to the GST pool being higher than expected in 2017-18	3
MYEFO includes a higher estimate of the GST pool due to a higher growth rate of 5.6 per cent versus the Territory estimated growth rate of 4.0 per cent, which is consistent with the 2019-20 Commonwealth Budget	- 42
MYEFO includes a higher national population share for the Territory of 0.98 per cent, compared to the Territory estimated population share of 0.97 per cent	- 28
2019-20	- 97
MYEFO includes a higher estimate of the GST pool due to a higher growth rate of 3.6 per cent versus the Territory estimated growth rate of 2.4 per cent, which is consistent with the 2019-20 Commonwealth Budget	- 75
MYEFO includes a higher national population share for the Territory of 0.97 per cent, compared to the Territory estimated population share of 0.96 per cent	- 22

The main contributors to the change in the Territory's GST relativity in the 2019 Update are the following changes in the Territory's circumstances between the years assessed in the 2018 Update (2014-15 to 2015-16) and the 2019 Update (2015-16 to 2017-18):

- an upward revision to Australian Bureau of Statistics population growth estimates in the assessment years for the Territory has increased its assessed investment need for GST revenue by $49 million
- the Territory's reduced capacity to raise revenue from stamp duty as a result of a decline in the Territory's value of property sales has increased its assessed need for GST revenue by $25 million
- an adjustment to the National Disability Insurance Scheme assessment to reflect full implementation of the scheme has reduced the Territory's need for GST revenue by $40 million
- revised data on the use of health services shows per capita spending nationally has declined on people living in regional and remote areas, where all the Territory's population resides, resulting in reduced assessed need for GST revenue by $15 million
- below-average growth in wage costs in the Territory has reduced its assessed service delivery costs, reducing its need for GST revenue by $14 million.

Given the zero-sum nature of GST distribution, changes in the circumstances of other states also have an impact on the Territory's GST share.

Current Territory issues with GST

New GST distribution system

The Final Report for the Productivity Commission's Inquiry into HFE was released in July 2018 alongside the Commonwealth's Interim Response. The Commonwealth broadly accepted the Productivity Commission's recommendations and in November 2018 proceeded to legislate changes to the GST distribution system through the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

The new system for distributing GST revenue among the states will be implemented over a six-year transition period from 2021-22 to 2026-27. The system will equalise states to the fiscal capacity of either New South Wales (NSW) or Victoria, whichever is highest. Given Western Australia currently has a greater fiscal capacity than both NSW and Victoria, the new system will effectively set a lower equalisation benchmark compared to the current system, which ensures all states, including the fiscally strongest state of Western Australia, have the same capacity to provide the average standard of services.

Under the Act, there will also be a GST relativity floor of 0.7 for 2022-23 and 2023-24, increasing to 0.75 from 2024-25 onwards, and a permanent boost to the GST pool of $600 million each year from 2021-22 and a further boost of $250 million each year from 2024-25, to be provided by the Commonwealth, indexed annually and sourced from revenues other than tied funding provided to the states. Further, states are guaranteed to get the better of the current distribution system and the new distribution system over the transition period.

As part of the Commonwealth's response, the Territory has received a guarantee of GST top-up payments for three years from 2019-20 to 2021-22 to effectively ensure it receives, at a minimum, untied funding equivalent to having a GST revenue-sharing relativity of 4.66024 – the same GST relativity it had in 2017-18. The top-up payment is to be calculated, in each year the Territory's GST relativity is below 4.66024, based on the latest financial year Commonwealth budget estimates for the population and GST pool, and will be paid to the Territory by the end of August in the applicable financial year. While this minimum guarantee provides a level of financial certainty to the Territory in the short term, it does not address the long-term fiscal issues the Territory is facing. There is substantial uncertainty around the future of the Territory's GST revenue from 2022-23, when this guarantee ceases and the transition to the new legislated system of GST is underway.

CGC 2020 Methodology Review

In addition, the CGC's five-yearly review of the methodology used for distribution of GST revenue among the states will have effect from 2020-21. Initially, the Territory will be shielded from any changes recommended by the CGC's methodology review that may reduce the Territory's GST revenue due to the minimum relativity guarantee. However, from 2022-23 the full impact of the CGC's methodology changes and the transition to the new legislated system for distributing GST will apply.

Tied Commonwealth revenue

The majority of tied Commonwealth funding is provided under the Intergovernmental Agreement on Federal Financial Relations (IGA) through SPPs, major funding arrangements and NP payments. Tied funding is also provided outside the IGA payment arrangements through Commonwealth own-purpose expenses (COPEs).

SPPs are provided by the Commonwealth to the states to support the achievement of the outputs and outcomes agreed under the relevant sector's national agreement (NA). Under the IGA, SPP funding is ongoing, indexed annually and untied within the relevant sector. SPPs are distributed among the states on a population-share basis.

Major funding arrangements between the Commonwealth and the states have been negotiated in relation to NHR, Quality Schools and the National Housing and Homelessness Agreement (NHHA). These arrangements are ongoing and indexed annually on a sector-specific basis, providing a degree of certainty for states' budgeting, similar to SPPs.

The IGA established NP agreements to implement projects of national importance, involving significant reform or service delivery initiatives. NP agreements have been developed for initiatives across a broad range of state services, including where the initiatives relate to reform directions outlined in NAs. Project agreements (PAs), simpler forms of NP agreements, are for initiatives that require relatively less funding than NP agreements and considered low risk. Some NP agreements require implementation plans or schedules to outline state-specific arrangements or where sufficient accountability and transparency cannot be provided in the overarching NP agreement. Although NP payments may be provided as upfront payments to facilitate initiatives, the majority are paid in arrears, on achievement of specified performance benchmarks or milestones.

Table 5.7: SPPs, major funding arrangements and NP payments, 2018-19 and 2019-20

	2018-19 Estimate	2019-20 Budget
	$M	$M
Specific purpose payments	31.5	15.5
National Disability Services	16.1	0.0
National Skills and Workforce Development	15.4	15.5
Major funding arrangements	674.3	705.8
National Health Reform	285.7	306.1
Quality Schools	369.5	380.4
National Housing and Homelessness Agreement	19.1	19.3
National partnership payments	594.7	488.9
Northern Territory Remote Aboriginal Investment	217.6	91.0
DisabilityCare Australia Fund payments	42.2	9.7
Specialist disability services	6.3	0.0
Management of the former Rum Jungle mine site (stage 2a)	4.0	0.0
Remote housing	145.5	135.0
Land transport infrastructure projects	136.1	202.5
Other national partnership payments[1]	42.9	50.7
Other Commonwealth payments[2]	214.7	161.7
Total	1 515.2	1 371.8

1 Includes all other national partnership payments.
2 For consistency of reporting with the Commonwealth, funding under the Natural Disaster Relief and Recovery Arrangements (now Disaster Recovery Funding Arrangements) is reported as tied funding.
Note: Numbers may not add due to rounding.

NP payments included in the Territory's budget represents funding agreed by the Territory and Commonwealth governments. As additional agreements are finalised throughout the year, the Territory's NP payments for 2019-20 and forward estimates will be adjusted accordingly. The timing and quantum of funding over the life of an agreement may vary subject to the achievement of agreed milestones or performance benchmarks, and the nature of the initiative.

Details on tied payments expected to be received by the Territory in 2019-20 are provided in the following sections. Additional information on each individual payment can be found in Budget Paper No. 3: Agency Budget Statements.

Specific purpose payments

In 2019-20, the Territory expects to receive a total of $15.5 million in SPPs, solely through the National Skills and Workforce Development SPP, a reduction of $16.1 million from 2018-19. The reduction is due to the Territory no longer directly receiving Commonwealth funding for the National Disability Services SPP from 2019-20, in accordance with agreed funding arrangements for the full scheme commencement of the National Disability Insurance Scheme (NDIS) in the Territory.

From 2019-20, under the recently signed bilateral agreement between the Commonwealth and the Northern Territory on the NDIS, the Territory will provide a fixed contribution to the NDIS, indexed annually, with the Commonwealth funding the balance of NDIS costs.

National Health Reform

The NHR agreement provides an activity-based funding framework and arrangements aimed at improving patient access to services and increasing public hospital efficiencies by funding agreed services based on a national efficient price.

Between 2017-18 and 2019-20, the Commonwealth will cap its total funding contribution growth for NHR payments at 6.5 per cent nationally per annum. In recognition of the Territory's higher annual health cost growth, the Commonwealth has also committed up to $15 million per annum, should there be a gap between the Territory's hospital activity and the Commonwealth's cap, over this period.

In September 2018, the Territory signed the Heads of Agreement on Public Hospital Funding and Health Reform (HoA). The HoA facilitates the development of long-term reforms to Australia's health system and forms the basis for a new five-year National Health Reform Agreement, beginning 1 July 2020, which will see growth in Commonwealth funding continue to be capped at 6.5 per cent nationally per annum. Negotiations between the Commonwealth and the states are currently underway to establish the new National Health Reform Agreement.

In 2019-20, the Territory anticipates receiving $306.1 million under the NHR agreement for hospital services, teaching, training and research, and public health activities, an increase of $20.4 million from 2018-19.

Quality schools

As part of the Commonwealth's Quality Schools Package, on 22 June 2017 the Commonwealth passed amendments to the *Australian Education Act 2013* to modify Commonwealth funding provided for schools, over 10 years to 2027.

On 1 January 2018, the amendments took effect, replacing the 2014-2018 Students First funding arrangements and focused on the key areas of teacher quality, school autonomy, engaging parents in education and strengthening the curriculum. The amendments will transition Commonwealth funding for schools to a consistent rate across jurisdictions and introduce funding targets for states in relation to a set percentage of the Schooling Resource Standard (SRS) by 2023.

In December 2018, the Territory signed the National School Reform Agreement 2019-2023 and corresponding bilateral agreement, which sets out national education reforms aimed at driving improved student outcomes and requirements for school funding contributions. The Commonwealth will transition to fund at least 20 per cent of the SRS for government schools and 80 per cent of the SRS for non-government schools by 2023. Schools currently funded above these shares will be transitioned to the targets by 2029. A condition of receiving Commonwealth

funding under the Quality Schools funding arrangement is that states are required to transition their funding share of the SRS to a minimum of 75 per cent for government schools and 15 per cent for non-government schools by 2023, unless agreed otherwise with the Commonwealth, with scope for funding penalties where effort is not maintained.

The Territory's bilateral agreement sets out the Territory's agreed transitional funding path from 2019 to 2023. The Territory's share of the SRS for government schools will increase from 54.4 per cent to 59.0 per cent and for non-government schools will be maintained at a consistent 15.1 per cent over this period.

Under the Quality Schools Package, the Territory has budgeted to receive $380.4 million in 2019-20, an increase of $10.9 million from 2018-19.

National Housing and Homelessness Agreement

The NHHA is a significant NP that replaced the National Affordable Housing SPP and NP agreement on Homelessness in 2018-19. The agreement seeks to improve housing outcomes across the housing spectrum, including outcomes for Australians who are homeless or at risk of homelessness, while maintaining funding levels provided under previous agreements.

The Territory is estimated to receive $19.3 million in 2019-20 under NHHA.

National partnership payments

The Territory currently has around 40 NPs and PAs and is expected to receive associated funding of $594.7 million in 2018-19 and $488.9 million in 2019-20.

The following provides commentary on significant NPs to the Territory.

National Partnership on Northern Territory Remote Aboriginal Investment

The NP on NTRAI aims to improve Aboriginal outcomes through funding programs in the areas of health; schooling; community safety and justice; tackling alcohol abuse; child, youth, family and community wellbeing; housing; municipal and essential services; and remote engagement and coordination. Under NTRAI, the Territory will be eligible to receive up to $1028.7 million between 2015-16 and 2021-22, including funding for non-government schools of around $42.6 million. Commonwealth and Territory own-purpose funding also contributes to achieving the intended outcomes of this NP.

In 2019-20, Commonwealth NP payments of $91.0 million are anticipated, a decrease of $126.6 million in comparison to the 2018-19 estimate of $217.6 million. This significant variance reflects the Territory receiving late 2017-18 payments in 2018-19, across the Children and Schooling, Community Safety and Remote Australian Strategies components.

National Partnership on DisabilityCare Australia Fund payments

The NP on DisabilityCare Australia Fund (DCAF) payments contributes to the implementation of the NDIS, including during the transition period and full scheme, until 2024. Under the NP, the Territory is eligible to receive annual payments to assist with meeting expenditure incurred in relation to the NDIS. Total available funding to the Territory over the life of the NP, from 1 July 2014 to 30 June 2024, is $96 million.

The Territory expects to receive $42.2 million in 2018-19, which includes the Territory's $9.4 million allocation for 2018-19 and $32.8 million in funding not yet received for previous years. The Territory estimates receiving $9.7 million under the NP on DCAF payments in 2019-20.

Specialist disability services

In accordance with the bilateral agreement between the Commonwealth and the Territory on transitioning to the NDIS, in 2018-19 the Territory is estimated to receive $6.3 million for the cost

of delivering specialist disability services to older people, aged 65 years and over, or Aboriginal Australians aged over 50.

While funding under this schedule expires in 2018-19, provisions for this funding are now addressed under the recently signed bilateral agreement between the Commonwealth and the Territory on the NDIS.

Project Agreement for the Management of the Former Rum Jungle Mine Site (stage 2a)

The Territory estimates it will receive $4 million in 2018-19 to support the delivery of the Rum Jungle mine site rehabilitation project (stage 2a). However, the Territory and Commonwealth are currently in negotiations to vary the funding profile under this agreement.

National Partnership on Remote Housing

The NP on Remote Housing expired at the end of 2017-18. This NP sought to ensure Aboriginal people from remote communities have access to the same housing amenities, services and opportunities, including private, affordable, public and community housing, as other Australians, including opportunities for employment, education and training within and outside their communities.

The 2018-19 Commonwealth Budget committed $550 million to the Territory, $110 million per annum over five years from 2018-19, under a new NP on Remote Housing aimed at addressing overcrowding, homelessness, poor housing conditions and severe housing shortages. This effectively matches the Territory's Remote Housing Investment Package, which provides $1.1 billion over 10 years to improve the housing standards of Aboriginal people in remote communities.

In March 2019, the Territory and Commonwealth signed the new NP on Remote Housing in the Territory. The Territory estimates receiving $145.5 million in 2018-19, reflecting a late payment of $110.5 million for 2017-18 under the expired agreement and $35 million under the new agreement, and $135 million in 2019-20.

National Partnership Agreement on Land Transport Infrastructure Projects

The NP Agreement on Land Transport Infrastructure Projects, which contributes to the development of a safe, sustainable national transport system, expires in 2018-19. The NP agreement encompasses a number of components, including Investment, Heavy Vehicle Safety and Productivity, Bridges Renewal and Northern Australia programs, Roads of Strategic Importance, Black Spot projects and an Infrastructure Growth Package. The Territory and Commonwealth are currently in negotiations over the establishment of a new agreement for land transport infrastructure projects.

In 2019-20, the Territory anticipates receiving $202.5 million under a new five-year NP Agreement on Land Transport Infrastructure Projects, $66.3 million more than estimated in 2018-19.

The Northern Australia Roads Program is a significant component of the NP Agreement. In 2016, the Commonwealth announced a number of infrastructure projects to be funded under the Northern Australia Roads Program, essential to the movement of people and freight in order to support economic development. Territory-specific projects include sealing and improvements to the Plenty Highway, upgrades to Tjukaruru, Keep River Plains and Buntine Highway roads and the Adelaide River floodplain upgrade to the Arnhem Highway. In 2019-20, the Territory anticipates receiving $91.2 million under the program, an increase of $37.9 million from 2018-19.

Off-network project funding also comprises a significant component of the NP agreement. This component includes Tiwi Islands and Jabiru road project upgrades, Outback Way and the Northern Territory Community, Beef and Mining Road and Roads Productivity packages.

In 2019-20, the Territory expects to receive $49.3 million under off-network project funding, an increase of $27.9 million from 2018-19.

Other tied Commonwealth revenue

The Territory also receives other tied revenue from the Commonwealth, including COPEs, primarily fee-for-service arrangements payable to either government or non-government entities, financial assistance to local governments through the financial assistance grant program, and funding under the Natural Disaster Relief and Recovery Arrangements (now Disaster Recovery Funding Arrangements). It is estimated that these payments to the Territory will total $150.6 million in 2019-20, $9.0 million less than in 2018-19. Further commentary on other tied Commonwealth tied revenue can be found in Budget Paper No. 3: Agency Budget Statements.

Chapter 6

Territory taxes and royalties

Overview

The Territory raises its own revenue from a range of sources. Predominantly, this comprises taxes and mining royalties, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

The Territory's sources of revenues are comparable with the states. However, the Territory is more reliant on Commonwealth grants, with own-source revenue contributing 33 per cent of total revenue in 2019-20 in the non financial public sector, compared to an average of 50 per cent in other jurisdictions. This is due to a relatively lower own-source revenue capacity and a proportionately higher cost of service delivery when compared to other states. Nonetheless, own-source revenue provides the Territory with a degree of fiscal autonomy to support the delivery of infrastructure and services.

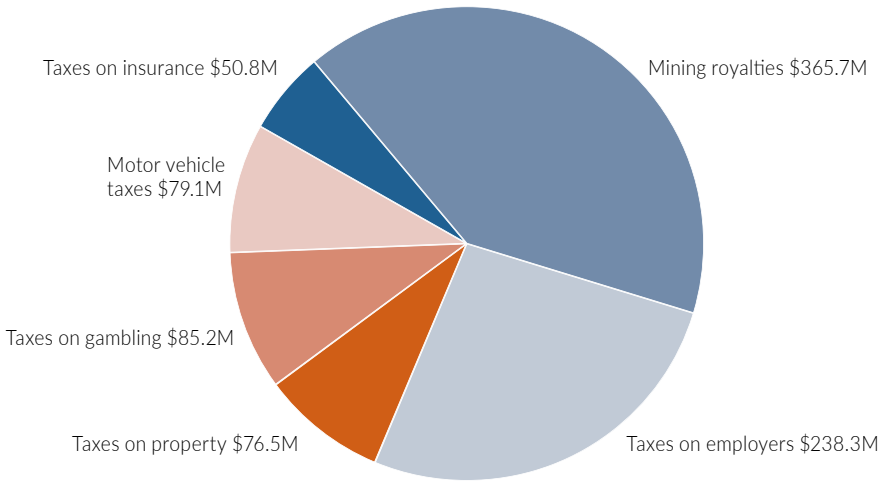
This chapter sets out the details of the Territory's own-source revenues from taxes and royalties, including estimates, forecasts and a comparison with other jurisdictions. It also includes a statement of the Territory's forecast tax expenditure as a result of concessions and exemptions for 2019-20 through to 2022-23, as required by the *Fiscal Integrity and Transparency Act 2001* (FITA).

Analysis of Territory taxes and royalties

The projected revenue from taxes and royalties for 2019-20 totals $895.6 million. The main contributors are mining royalties at $365.7 million or 41 per cent, taxes on employers (payroll tax) estimated at $238.3 million or 27 per cent, and taxes on gambling at $85.2 million or 10 per cent.

Chart 6.1 shows the Territory's estimated main own-source revenues for 2019-20 according to the classification used in the Uniform Presentation Framework adopted for the Territory's reporting requirements.

Chart 6.1: Main taxes and royalties categories, 2019-20



Note: Excludes payroll tax from the non financial public sector.

As shown in Table 6.1, the latest estimated revenue in 2018-19 from taxes and royalties totals $1.06 billion compared to the original 2018-19 Budget forecast of $802.6 million. The $257.4 million increase is mainly due to higher mining royalty collections, largely resulting from an increased volume of mineral production and stronger than expected commodity prices, as well as

taxes on property, due to several very large commercial transactions inflating stamp duty receipts in 2018-19.

For 2019-20, it is expected that own-source revenue from taxes and royalties will decrease by $164.6 million compared to the estimate for 2018-19. This is predominantly due to an expected reduction in mining royalties and taxes on property, albeit from a historically record high 2018-19 base. The expected reduction in mining royalties is based on royalty payer estimates, with commodity prices and production expected to remain reasonably strong in 2019-20 and over the forward estimates, although moderating from the record high receipts in 2018-19.

The forecast for property taxes in 2019-20 is based on an expected continuing slow residential and commercial property market, with the sharp reduction in 2019-20 compared to 2018-19 estimate, reflecting the very high value commercial transactions that occurred in 2018-19 are unlikely to be repeated in 2019-20.

Table 6.1: Main taxes and royalties category estimates

	2018-19 Budget	2018-19 Estimate	2019-20 Budget
	$000	$000	$000
Mining royalties	271 807	424 663	365 725
Taxes on employers	242 594	253 131	238 294
Taxes on property	79 571	171 945	76 530
Taxes on gambling	82 881	83 938	85 194
Motor vehicle taxes	79 600	76 732	79 079
Taxes on insurance	46 098	49 808	50 804
Total	802 551	1 060 217	895 626

Revenue initiatives

The main initiatives included in the 2019 Budget relate to changes to the Territory's home owner assistance schemes announced on 8 February 2019. In summary, these are:

- from 8 February 2019, a BuildBonus grant of up to $20 000 is available to the first 600 eligible applicants who purchase or build a new home. A Territory home owner discount on stamp duty of up to $18 601 is also available for home buyers purchasing new or established homes valued up to $650 000 who have not owned a home in the Territory in the previous 24 months. An exemption from the 24 month period exists for persons who have held an interest in property during that period, but which has since been disposed of following a breakdown in their marriage or de facto relationship
- these incentives are available in addition to the first home owner grant, which is reduced from $26 000 to $10 000 from 7 May 2019 in recognition of the increased total benefit to first home buyers of new homes following the introduction of BuildBonus and the Territory home owner discount. These measures also replace the first home owner discount, which ceased on 6 May 2019 and the principal place of residence rebate, which ceased on 8 February 2019
- from 30 November 2020 all stamp duty home owner assistance schemes, and the associated household goods grant and home renovation grant will cease, with only the first home owner grant continuing.

Other significant initiatives being introduced include:

- as announced in the 2018 Budget, a minimum royalty based on the gross value of mineral production, and the property activation levy imposed on vacant land and unoccupied non-residential premises in the Darwin central business district (CBD), will commence from 1 July 2019
- future community gaming machine tax increases for hotels will be removed from the legislation from 1 July 2019 to provide investment certainty for the industry going forward.

Further information on these initiatives is provided later in this chapter.

Mining and petroleum revenue

Mining revenue is obtained from royalties levied on the recovery of mineral commodities from mining tenements in the Territory. Similarly, petroleum revenue accrues from royalties imposed on the production of petroleum resources in the Territory. Mineral and petroleum royalties are a charge for resource usage, payable to the Territory as the owner of the site or the mineral or petroleum rights over the site.

Other states primarily use output-based royalty schemes that impose a royalty rate on the value of production (ad valorem) or on the tonnage extracted. The Territory's mining royalty revenues are generally based on a profit-based regime (calculated on a net value) specified under the *Mineral Royalty Act 1982*. From 1 July 2019, the profit based calculation will be subject to a minimum royalty that will require a royalty payer to pay a royalty based on the higher of the net value calculation or the minimum royalty (but not both).

The Territory's royalty regime uses the net value of a mine's production to calculate royalty. This is the operating revenue derived from mining activities after deducting allowable project costs, prior year carried forward losses, the cost of capital and exploration expenditure on the mine site. A minimum royalty will apply for royalty years commencing on or after 1 July 2019, and is based on the gross value of mineral production and calculated at the rate of 1 per cent in a mine's first royalty year, 2 per cent in the second royalty year and 2.5 per cent thereafter. Small mines with gross production revenue under $500 000 in a royalty year will not be required to pay royalty.

The introduction of a minimum royalty ensures the Territory receives a fair return for the value of its non-renewable resources, while ensuring the Territory is competitive and attractive for new mines by setting a production threshold before the minimum royalty applies and a low initial rate that increases over the first three years of production.

Mineral royalties are collected in the Territory from mining gold, silver, bauxite, manganese, lead, zinc and limestone. Other mineral commodities, such as copper, phosphate, rare earths and iron, are also subject to royalties under the Territory's *Mineral Royalty Act 1982*. However, the Territory Government is unable to impose royalties on uranium mined in the Territory as, unlike the states, the Commonwealth retains the ownership of uranium. Nonetheless, the Territory receives a grant in lieu of uranium royalty from the Commonwealth.

The only uranium mine in the Territory is the Ranger Project, which has a long-standing ad valorem royalty scheme applied by the Commonwealth. The Territory receives grant payments reflecting the royalty regime that applied at the time the Ranger Project arrangements were settled. However, Commonwealth legislation provides that royalty on any future uranium mines in the Territory would be based on the *Mineral Royalty Act 1982*. Royalties would continue to be paid to the Territory as a grant in lieu of royalty.

A key feature of the Territory's *Mineral Royalty Act 1982* is that both prices and mining costs, including mine set-up costs carried forward to profitable years, are taken into account in royalty

calculations. If commodity prices, production costs or the value of the Australian dollar rise or fall, royalty liabilities vary accordingly. This variability produces stronger growth in royalty revenues in times of high mineral prices than under ad valorem royalties.

In terms of petroleum royalties, the Territory's *Petroleum Act 1984* imposes an ad valorem royalty on the value of production, which is generally consistent with the position across Australia.

In 2018-19, it is expected the Territory will receive $424.7 million in mining and petroleum revenue, $152.9 million higher than forecast in the 2018-19 budget, based on collections to date. This strong result was realised due to commodity prices and mineral production above mining company projections, resulting in higher mining profitability and royalty revenues.

Mining and petroleum revenue forecasts are reliant on advice from mining companies and petroleum producers of estimated liability and related company estimates of commodity price movements, production levels and the value of the Australian dollar. Based on the most recent estimates from royalty payers, the forecast for royalty revenue in 2019-20 is $365.7 million, which is a reduction from 2018-19 but strong in comparison to earlier years.

Forecasts over the forward estimates are based on the assumption the Australian dollar and commodity prices, especially in relation to gold, bauxite and manganese, do not materially change.

Taxation revenue

The Territory's taxation revenue for 2018-19 is expected to total $635.6 million. In 2019-20 taxation revenue is expected to decrease by 16.6 per cent to $529.9 million.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. Table 6.2 shows the 2018-19 forecast at the 2018 Budget, the current 2018-19 estimate and 2019-20 forecast at the 2019 Budget.

Table 6.2: Territory taxation revenue

	2018-19 Budget	2018-19 Estimate	2019-20 Budget
	$000	$000	$000
Taxes on employers			
Payroll tax	242 594	253 131	238 294
Taxes on property			
Conveyance and related duty	79 571	171 945	76 530
Taxes on the provision of goods and services			
Taxes on gambling	82 881	83 938	85 194
Taxes on insurance	46 098	49 808	50 804
Taxes on use of goods and performance of activities			
Motor vehicle taxes	79 600	76 732	79 079
Total	530 744	635 554	529 901

Payroll tax

Payroll tax is payable in the Territory when the total annual Australian wages of an employer (or group of employers) exceeds $1.5 million. Payroll tax is calculated at the rate of 5.5 per cent based on taxable wages (minus a deduction) paid by an employer for services rendered by employees in the Territory.

The amount of the deduction is based on a sliding scale starting at $1.5 million and reducing by $1 for every $4 in wages paid by an employer over $1.5 million. This means that an employer paying wages of $4.5 million receives a deduction of $0.75 million, whereas an employer paying wages of $7.5 million or more does not receive a deduction and payroll tax is calculated on the full taxable wages paid by that employer.

In 2018-19, payroll tax revenue is expected to be $253.1 million, an increase of $10.5 million from the forecast of $242.6 million in the 2018-19 Budget. This reflects a slower than expected wind-down of the construction phase of the Ichthys liquefied natural gas (LNG) project and the associated transition from work force for employers engaged with the project to the operational phase. Payroll tax receipts are expected to return in line with the original 2018 Budget estimate in 2019-20 at $238.3 million and then recover modestly with growth at 3.4 per cent per annum expected from 2020-21.

The local employment package announced in 2018 provides an exemption for up to two years for businesses that increase their employee counts or replace interstate fly-in fly-out jobs with local jobs. About 290 businesses have utilised the exemption.

Stamp duty and other property revenue

Conveyance and related duty

The Territory's conveyance and related duty is derived from direct and indirect conveyances of dutiable property in the Territory. Such property comprises real estate and transfers of businesses.

Conveyance and related duty in the Territory is calculated by a formula that determines a rate applicable to the value of dutiable property conveyed. This is different from the other states, which levy stamp duty on the basis of marginal rates. A comparison of the Territory's stamp duty regime with the other states is provided later in this chapter.

In 2018-19, the Territory is expected to collect $171.9 million in conveyance and related duty, an increase of $92.4 million from the 2018 Budget forecast. This is mainly due to a small number of very large commercial transactions increasing receipts in 2018-19.

In 2019-20, conveyance and related duty is estimated to decrease to $76.5 million, as the effect of these large one-off transactions experienced in 2018-19 are not expected to recur, with duty receipts estimated to return to more subdued levels, reflecting conditions in the broader residential and commercial property markets, in terms of both transaction volumes and prices.

Property activation levy

As announced in the 2018 Budget, from 1 July 2019 a new property activation levy will come into effect. The levy relates to vacant land and unoccupied buildings in the Darwin CBD. The levy will be imposed at a rate of 1 per cent of unimproved capital value for vacant buildings and 2 per cent for vacant land. The purpose of the levy is to encourage initiatives that revitalise the CBD by stimulating investment in idle land and buildings.

The levy could raise up to $2 million per annum from 2020-21 but is expected to raise less as property owners 'activate' their properties.

Stamp duty on insurance

Insurance duty is imposed on general insurance policies. Stamp duty on general insurance is calculated at a rate of 10 per cent of the premium paid on all general insurance products relating to property or risk in the Territory. Where the policy also relates to a risk or property outside the Territory, the premium is apportioned.

Revenue from insurance duty is estimated to be $49.8 million in 2018-19 and is then forecast to grow to $50.8 million in 2019-20 and by 2 per cent per annum over the forward estimates thereafter.

Motor vehicle taxes

Motor vehicle taxes comprise stamp duty on the transfer and initial registration of motor vehicles and motor vehicle registration fees.

Generally, stamp duty is levied on the purchase price of the vehicle at a rate of $3 per $100 or part thereof. Revenue from this source in 2018-19 is estimated to be $22.7 million and expected to increase slightly to $22.8 million in 2019-20.

Motor vehicle registrations comprise heavy vehicle and light vehicle registrations. Heavy vehicle registration fees are determined by the national Standing Council on Transport and Infrastructure.

Light vehicle registration fees are determined by each state. In the Territory, the light vehicle registration fee is calculated by reference to a differential rate scale based on the engine capacity of the vehicle. Fees are expressed in revenue units and therefore are adjusted each year in line with movements in the CPI or by a minimum of 3 per cent.

In 2018-19, the Territory is forecast to receive $54 million in motor vehicle fees, increasing to $56.3 million in 2019-20. Revenue from motor vehicle fees are forecast to increase over the forward estimates in line with long-term growth rates plus expected adjustments to light vehicle registration fees, as these fees are expressed in revenue units that increase from 1 July 2019 by the greater of CPI or 3 per cent.

Gambling taxes

Gambling tax revenue is generally the third largest contributor to Territory own-source taxation and royalty revenue, with gambling tax revenue forecast to be $85.2 million in 2019-20. Gambling taxes in the Territory comprise community gaming machine tax, lotteries tax, the community benefit levy, bookmaker tax, casino/internet tax, wagering tax and betting exchange tax.

In 2018-19 the Territory expects to receive $83.9 million in gambling taxes, a slight increase from the 2018-19 Budget.

Table 6.3 shows the estimated revenue from each of the Territory's gambling taxes.

Table 6.3: Estimated revenue from gambling taxes

	2018-19 Budget	2018-19 Estimate	2019-20 Budget
	$000	$000	$000
Community gaming machine tax	35 619	35 619	36 200
Lotteries tax	23 997	24 409	24 597
Community benefit levy	12 173	12 173	12 371
Bookmaker tax – racing and sports betting tax	5 863	6 453	6 614
Casino/internet tax	3 876	4 503	4 616
Wagering tax	763	191	191
Betting exchange tax	590	590	605
Total	82 881	83 938	85 194

Community gaming machine tax is based on gross profits (that is, net player losses) from gaming machines and is expected to remain stable between 2018-19 and 2019-20 as the closure of some community gaming machine venues offsets annual revenue growth in the short term. Revenue

growth for community gaming machines is then expected to return to trend growth of around 5 per cent per annum over the forward estimates.

The community benefit levy, which is directed to the Community Benefit Fund, is expected to change in line with broader community gaming machine tax revenues set out above.

Future community gaming machine tax increases for hotels, which were announced as part of the 2018 Budget, will not proceed and will be removed from the legislation from 1 July 2019 to provide investment certainty for the industry going forward.

In 2018-19, bookmaker tax revenue is expected to increase to $6.4 million, with growth in bookmaker tax and betting exchange tax over the forward estimates predicted to be in line with revenue units indexation of 3 per cent per annum. Likewise, lotteries tax revenue for 2019-20 is expected to increase in line with annual growth rate of 2.4 per cent.

Casino/internet tax revenue is largely expected to remain stable over the forward estimates.

Wagering tax revenue is expected to decline by $0.5 million, to $0.2 million when compared to the 2018-19 Budget, reflecting reduced wagering operator activity. The lower level of wagering tax revenue is expected to continue over the forward estimates.

Interstate tax comparison

The composition of state and territory taxes is broadly similar between jurisdictions, however there are differences in the application of particular taxes. These differences primarily relate to rates, exemptions and thresholds. The ability of states and territories to modify their rates and tax bases promotes competition between these jurisdictions, providing autonomy and capacity to structure tax systems to accommodate the jurisdiction's specific fiscal, economic and social circumstances.

Various approaches to measuring tax competitiveness can be adopted. Two common approaches are the Commonwealth Grants Commission (CGC) measures of taxation effort and capacity, and the representative taxpayer model.

Commonwealth Grants Commission

Revenue effort

The CGC assesses each state's revenue-raising effort on an annual basis. Revenue effort is the ratio of the actual amount of revenue a state raises compared to the amount of tax revenue the CGC assesses could be raised if the state applied national average tax rates to its tax base.

Average revenue effort is assessed as 100 per cent. A state with an above-average revenue effort will score more than 100 per cent, while a below-average effort scores less than 100 per cent.

Table 6.4 provides a comparison of the CGC's assessment of taxation and own-source revenue-raising effort in 2017-18 (the latest year an assessment is available). The total own-source revenue figures include taxation, mining revenue, contributions by trading enterprises and public safety user charges. The table shows the Territory's taxation effort remaining below the national average; and the third lowest of all states and territories. However, total own-source revenue is now well above the national average and second only to the ACT.

This is higher than the result seen in 2016-17 when the Territory's total taxation and own-source revenue efforts were 84 per cent and 92 per cent, respectively. The Territory's increasing taxation and revenue effort reflects strong payroll tax and mineral royalty receipts compared to expected receipts under national average policy. Policy changes to move motor vehicle taxes closer to the national average have also contributed to increases in revenue effort. The Territory's total taxation effort remains below the national average largely due to the position adopted by the Territory to not impose a land tax.

Table 6.4: 2017-18 Revenue effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	104	102	89	102	104	89	96	90
Total own-source revenue	100	94	103	104	96	88	142	121

Source: Commonwealth Grants Commission 2019 Update

The CGC assessment is a lagging indicator and, as such, future assessments of total taxation effort are likely to decline, reflecting the current subdued stamp duty collections (albeit with high 2018-19 receipts) and reduced payroll tax receipts following the completion of the construction phase of the INPEX project. Total own-source revenue effort is likely to remain above the national average due to forecast buoyant mineral royalty receipts.

Revenue capacity

States are limited to growing their own-source revenues by either replacing current taxes with a new growth tax or by expanding existing tax bases. In 2018-19 the Territory's taxation and royalty own-source revenue comprises about 16 per cent of total revenue for the non financial public sector.

The revenue limitations imposed on the states are the result of the Australian Constitution and Commonwealth-state financial relations. For instance, states are unable to raise excise and customs duties and the Commonwealth has long assumed the collection of income tax.

In addition, state taxation policy provides a balance between raising sufficient revenue to deliver government services, minimising the tax burden on the community, fostering business development and creating a tax environment that is competitive with other jurisdictions.

Although all states face similar constraints in raising own-source revenue, the Territory's capacity to raise revenue is further limited by its relatively small revenue base. This is illustrated in Table 6.5, which shows the CGC's assessments of revenue-raising capacity for the major taxes and mining revenue. Revenue capacity is the ratio of the per capita amount a state could raise if it applied the national average policy to its tax base, compared to the actual per capita average revenue raised on the national tax base. This measure removes differences in state policies.

Table 6.5: Assessed revenue-raising capacity, 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	108	96	90	128	74	67	104	122
Land tax	126	107	76	94	61	56	63	77
Stamp duty	124	117	83	61	58	62	90	42
Insurance tax	108	94	95	98	109	82	94	110
Motor tax	91	100	105	116	106	118	83	92
Total taxation	113	105	89	97	75	73	91	85
Mining revenue	49	7	158	444	31	28	-	177

Source: Commonwealth Grants Commission 2019 Update

The main difference from the assessed 2016-17 capacity is a reduction in stamp duty capacity from 52 per cent to 42 per cent, reflecting subdued residential and commercial property markets.

Other than payroll tax and mining royalties, the Territory is assessed as having a relatively low capacity to raise taxes, particularly land tax and conveyance duty, where the Territory's capacity is significantly below the national average of 100 per cent. This reflects the Territory's different

circumstances, such as a relatively small number of very high value commercial and residential properties.

Representative taxpayer model

Comparisons can also be made of states' tax schemes by comparing the amount of tax payable by a representative household or firm. This approach takes into account the different circumstances of each state by applying each state's tax rate to a representative or average standard.

Payroll tax

Table 6.6 compares the payroll tax rates and thresholds for each jurisdiction. The table shows the Territory's payroll tax annual threshold is the equal second highest in Australia and its payroll tax rate is slightly above the national average.

Table 6.6: State and territory payroll tax rates and annual thresholds

	NSW	Vic[1]	Qld[2]	WA[3]	SA	Tas[4]	ACT	NT[3]	Average
Threshold ($M)	0.85	0.65	1.1	0.85	1.5	1.25	2.0	1.5	1.21
Rate (%)	5.45	4.85	4.75	5.5	4.95	4.0	6.85	5.5	5.23

1 Rate is 2.425 per cent for regional Victorian employers.
2 Threshold reduces as an employer's wages increase, so no exemption is provided for employers with wages over $5.5 million.
3 Threshold reduces as an employer's wages increase, so no exemption is provided for employers with wages over $7.5 million.
4 Rate is 4 per cent for wages between $1.25 million and $2 million. The rate increases to 6.1 per cent for payrolls over $2 million.
Source: State legislation and information available at 11 April 2019

Table 6.7 provides the effective payroll tax rate at various wage levels for each jurisdiction after considering individual state thresholds and the payroll tax rates. For businesses with wages of $3 million and below, the Territory has a very competitive payroll tax scheme with effective tax rates either around or below the national average and no tax payable when taxable wages are $1.5 million or less. For very large businesses with wage costs of $20 million or more, the Territory has a more favourable effective payroll tax rate than the Australian Capital Territory and Tasmania, and is comparable to Western Australia.

Table 6.7: Effective state and territory payroll tax rates at various wage levels

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
$M	%	%	%	%	%	%	%	%	%
1	0.8	1.7	0.0	0.9	0.0	0.0	0.0	0.0	0.4
2	3.1	3.3	2.7	3.6	1.2	1.5	0.0	1.7	2.1
3	3.9	3.8	3.8	4.5	2.5	3.0	2.3	3.4	3.4
4	4.3	4.1	4.3	4.9	3.1	3.8	3.4	4.3	4.0
5	4.5	4.2	4.6	5.2	3.5	4.3	4.1	4.8	4.4
10	5.0	4.5	4.8	5.5	4.2	5.2	5.5	5.5	5.0
20	5.2	4.7	4.8	5.5	4.6	5.6	6.2	5.5	5.3

Source: State legislation and information available at 11 April 2019

Stamp duty on conveyances in the Territory

The Territory's stamp duty home owner assistance has been reformed following the introduction of the Territory Home Owner Bonus package on 8 February 2019.

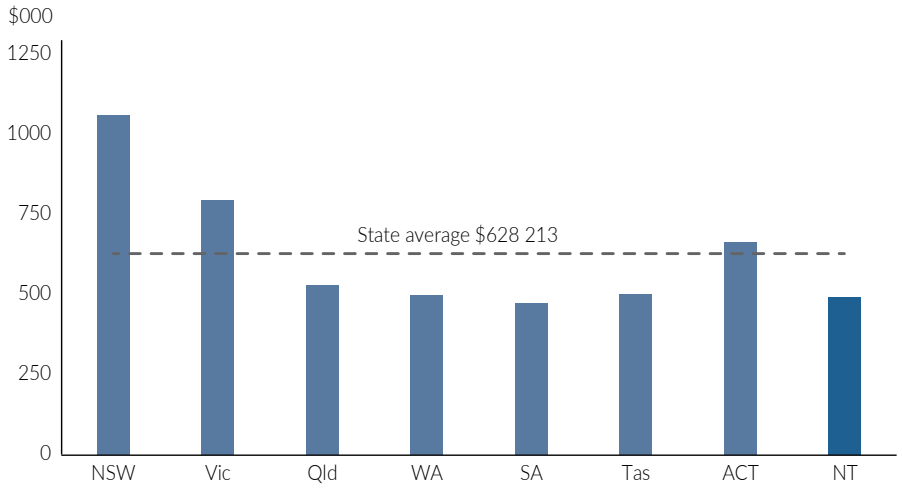
Home buyers can receive a discount of up to $18 601 on the stamp duty payable on the purchase of a new or established home to be used as a principal place of residence. This Territory home owner discount is equivalent to a stamp duty concession on about the first $430 000 of a home or land valued at $650 000 or less. This discount is available where home buyers have not

owned a home in the Territory in the previous 24 months (including first home buyers) or have separated from their spouse or de facto partner and no longer own a home in the Territory as a result. This replaces the former first home owner discount, which ceased on 6 May 2019, and the principal place of residence rebate, which ceased on 8 February 2019.

Seniors, pensioners and carers continue to receive a concession of $10 000 on the purchase of a principal place of residence for property values up to $750 000. This is equivalent to a stamp duty concession on the first $292 300 of the value of the residence.

Overall it is difficult to compare stamp duty on homes in each state, given the significant variation in median house and unit prices. Chart 6.2 shows Darwin has one of the lowest median house prices of all states and territories.

Chart 6.2: Median house prices

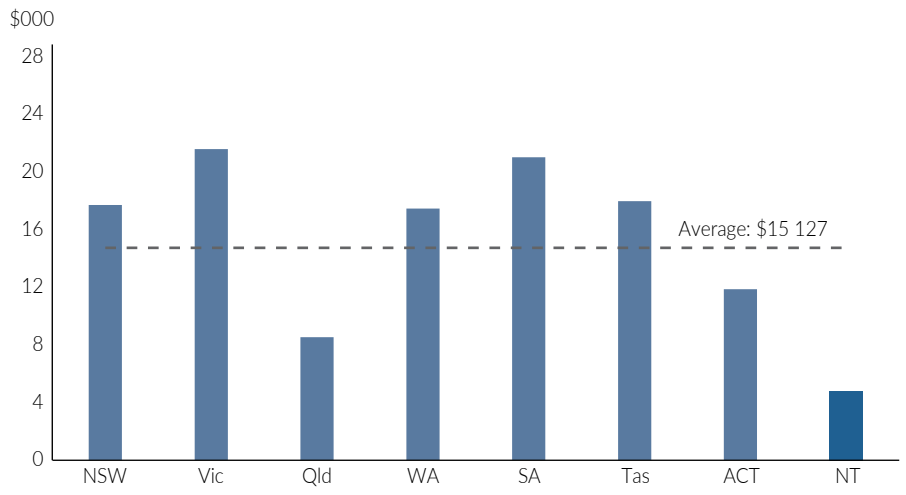


Note: Median capital city house prices in the December 2018 quarter.
Source: Real Estate Institute of Australia

However, one method is to compare the stamp duty that would be payable in each state for similarly priced housing. Chart 6.3 provides an interjurisdictional comparison of the amount of stamp duty levied on the purchase of a new or established home to be used as a principal place of residence, at the median house price in Darwin ($493 750) rather than at the median house price applying in each capital city without any discount applied for first home owners.

It indicates that stamp duty in the Territory on the reference property is by far the lowest in Australia for the purchase of a new or established home and is significantly below the national average.

Chart 6.3: Stamp duty payable on purchase of Darwin median-priced house by a non-first home buyer, inclusive of any concessions



Source: Real Estate Institute of Australia; state legislation and information available at 11 April 2019. Assumes purchaser is not a first home buyer, but has not owned a home in that state or territory in the previous 24 months.

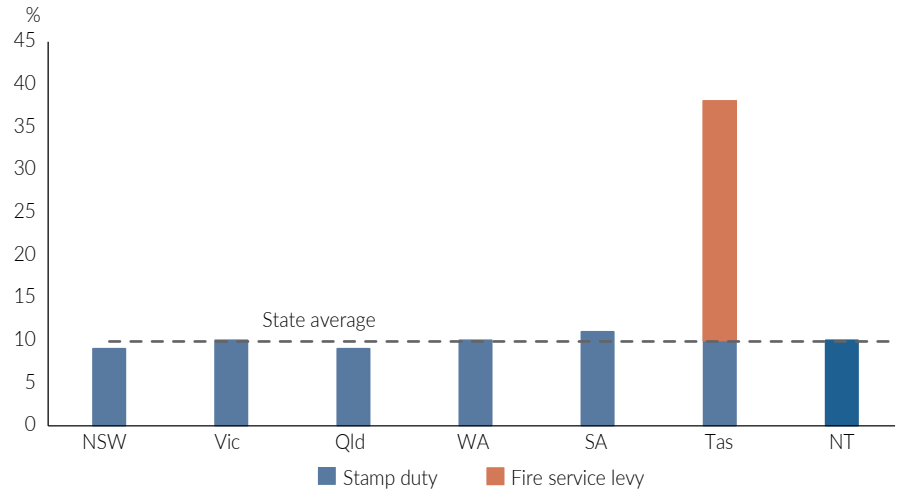
Insurance duty

All states and territories impose taxes on general insurance premiums at rates between 9 per cent and 11 per cent, with New South Wales, Queensland and Tasmania imposing special rates on particular classes of general insurance. The only exception is the Australian Capital Territory (ACT) where insurance duty was abolished on 1 July 2016. The ACT, Victoria, Western Australia and the Northern Territory do not collect taxes on life insurance policies.

Tasmania collects a portion of its fire service levies through a charge on insurers. While Tasmania raises a levy on insurance, a large proportion of the levy is sourced from a charge on property owners through local councils, which is similar to Victoria, Queensland, South Australia, Western Australia and New South Wales. The Territory does not impose any emergency or fire service levies on the general public, although, like the states, it does charge for commercial fire alarm monitoring.

As shown in Chart 6.4, compared to the other states (excluding the ACT as it does not impose stamp duty on insurance), the Territory is an average taxing jurisdiction.

Chart 6.4: Average state tax rate on general insurance premiums



Source: State legislation and information available at 11 April 2019

Stamp duty on motor vehicles

Chart 6.5 compares the stamp duty applicable for a new motor vehicle, represented by a 4-cylinder 2019 Toyota Camry SL sedan 2.5L automatic valued at $41 090. The chart shows the stamp duty payable in the Territory is below the national average and equal lowest in Australia.

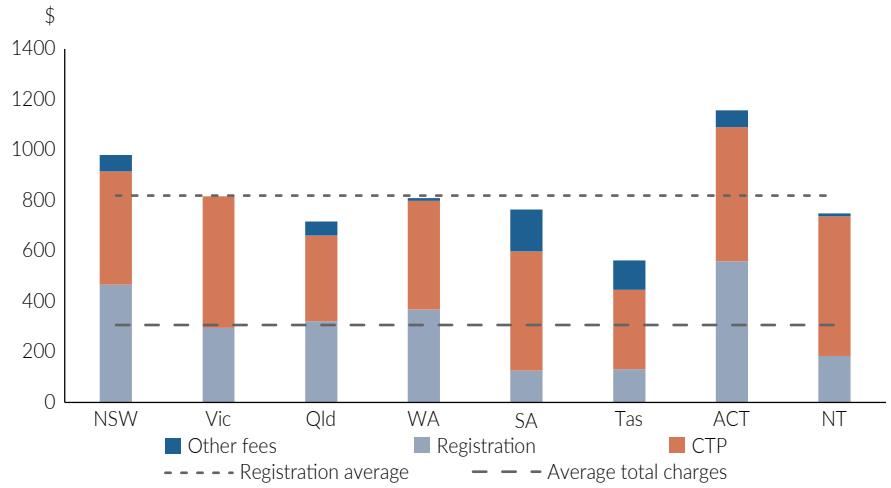
Chart 6.5: Stamp duty on purchase of a medium-sized passenger vehicle

Note: Based on a 2019 Toyota Camry SL sedan 2.5L automatic
Source: State legislation and information available at 11 April 2019

Motor vehicle registration

Motor vehicle registration fees comprise registration, compulsory third-party (CTP) insurance and other fees, and therefore vary significantly between jurisdictions. Chart 6.6 compares the costs of registering a 4-cylinder 2019 Toyota Camry SL sedan 2.5L automatic. A registration fee of $184 and total registration cost of $748.30 demonstrates the Territory registration fees and total registration costs are below the average costs in Australia.

Chart 6.6: Annual registration fees and charges for a medium-sized passenger vehicle



Source: State legislation and information available at 11 April 2019

The higher than average compulsory insurance premiums in the Territory reflect the inherently higher costs associated with the small population size of the Territory and relatively high incidence of road accident casualties. Motor Accident Compensation scheme premiums aim to ensure likely compensation claims for the upcoming year can be met and the scheme maintains a prudent solvency margin.

Despite this, total registration and administrative costs in the Territory remain below the national average. This is due to relatively low registration fees and because the Territory does not, unlike some jurisdictions, also add ancillary taxes and levies. These additional levies imposed in other jurisdictions include fire and emergency service levies, motor taxes, traffic improvement levies and road safety contributions.

Land revenue

This category includes taxes on the ownership of land, where the tax is based on the assessed unimproved value of the land. It also includes any metropolitan land planning, development, and fire and emergency service levies included in the land tax base of some states.

Land tax is an important source of income for the other states and territories, generating more than $9.2 billion in revenue in 2017-18. Land tax is levied on the landowner's total holdings of commercial land and investment residential property, although generally an exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However, in its 2019 Update, the CGC assessed that the Territory could raise about $89 million if it adopted the average state policies on land tax.

The *Property Activation Act*, when passed, will introduce a levy on vacant and unactivated properties in the Darwin CBD from 1 July 2019 and could raise up to $2 million per annum from 2020-21.

Tax expenditure statement

Tax concessions are often provided to benefit a specified activity or class of taxpayer. They are expenditures in the sense their impact on the budget is similar to direct outlays and can be used to achieve similar goals to grant programs.

Tax expenditure can be provided in a variety of ways, including by way of exemption, deduction, rebate or a concessionary tax rate.

The tax expenditure statement details revenue estimated to be forgone by the government or financial benefits obtained by taxpayers as a result of tax exemptions or concessions provided. Identifying this expenditure assists in providing a more accurate picture of the government's contributions by way of taxation concessions to assist various groups or industries.

The tax expenditure identified in this statement relates to the more important and material concessions available in the Territory. In accordance with FITA, the tax expenditure statement provides an estimate of expenditure in 2018-19, and forecast information for 2019-20 and the following three financial years.

Table 6.8 details the total tax expenditure across payroll tax, stamp duty and motor vehicle fees.

Table 6.8: Total tax expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure ($M)	194.4	204.1	201.0	199.9	206.6

Methodology

Tax expenditure has been estimated by applying the benchmark rate of taxation to the forecast volume of activities or assets exempted by a particular concession. Only future events certain or highly likely to affect assumed tax bases or tax rates have been considered in estimating future tax expenditure. Otherwise, existing taxation arrangements are assumed to apply for future years.

Measuring tax expenditure requires the identification of:

- a benchmark tax base
- concessionary taxed components of the benchmark tax base, such as specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionary taxed components of the tax base.

The establishment of a benchmark tax base provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures rather than structural elements of the tax.

By definition, tax expenditure comprises those tax concessions not included as part of the benchmark tax base.

Payroll tax

The benchmark tax base for payroll tax is assumed to be all wages (as defined under the payroll tax legislation) paid in the Territory. The benchmark tax rate is 5.5 per cent.

Table 6.9: Payroll tax expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure ($M)	137.8	139.9	143.0	146.6	150.8

As data is not generally collected from employers with no payroll tax liability, tax expenditure in relation to many payroll tax concessions is difficult to estimate. Accordingly, the reported estimated tax expenditure outlined in Table 6.9 was calculated by adding recorded tax concessions to a figure derived by comparing Australian Taxation Office data about wages paid by employers in the Territory and Australian Bureau of Statistics data on employment and wages in the Territory to data reported by employers registered for payroll tax in the Territory. The difference provides a reasonable estimate of wages paid by non-registered employers not subject to Territory payroll tax because of the small business exclusion (detailed below) or being an exempt body.

The reported estimated tax expenditure in relation to payroll tax mainly comprises the following exemptions.

Small business exclusion

Employers with wages below $1.5 million are not required to pay payroll tax, a saving for them of up to $82 500. Employers with payrolls over $1.5 million a year is calculated based on taxable wages minus a deduction based on a sliding scale of up to $1.5 million.

Local employment package

Until 2020, wages paid to new Territory resident employees who either increase a business' total number of employees compared to May 2018 or replace an interstate resident employee are exempt from payroll tax for up to two years. About 290 businesses have utilised the exemption.

Charities and other exempt bodies

Non-profit organisations having a sole or dominant purpose that is charitable, benevolent, philanthropic or patriotic are exempt from payroll tax to the extent that wages are paid for an employee's services relating directly to the purpose for which the organisation was established. In addition, employment agencies providing temporary staff to exempt organisations are able to claim payroll tax exemptions for these wages.

Stamp duty on conveyances

The benchmark tax base is assumed to be sales of all dutiable property, including chattels that are part of a transaction conveying other dutiable property. The benchmark tax scale is the currently applicable stamp duty scale.

Table 6.10: Stamp duty on conveyances expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure ($M)	25.5	31.9	24.3	18.2	19.3

Tax expenditure estimates in Table 6.10 are based on an historical revenue base indexed by normal growth parameters. The tax expenditure estimates mainly comprise the following concessions.

Corporate reconstructions exemption

Corporate groups formed by commonly owned corporations are able to reorganise the ownership of assets without incurring a stamp duty liability. The estimated tax expenditure is the actual stamp duty forgone for approved reconstruction exemptions.

Principal place of residence rebate

Until 8 February 2019, home buyers who purchased a new home were entitled to a rebate of $7000 when purchasing a principal place of residence. Tax expenditure is estimated by actual transactions provided with the rebate.

First home owner discount

Between 1 September 2016 and 6 May 2019, first home buyers of established homes with dutiable value of up to $650 000 have received a stamp duty discount of up to $23 928.60. Tax expenditure is estimated by actual transactions receiving the discount.

Senior, pensioner and carer's concession

A concession of $10 000 is provided for senior, pensioner and carer's concession cardholders when purchasing a principal place of residence to the value of $750 000. Tax expenditure is estimated by actual transactions receiving the concession, which ceases 30 November 2020.

Territory home owner discount

From 8 February 2019, a Territory home owner discount of up to $18 601 is available to home buyers purchasing homes valued up to $650 000, where the home buyer has not owned a home in the Territory in the previous 24 months. Tax expenditure is estimated by transactions receiving the discount, which ceases 30 November 2020.

Other conveyance duty exemptions

Several other conveyance stamp duty exemptions are provided that together result in significant revenue forgone by the Territory, the largest of these being exemptions for:

- property transferred to charitable organisations having a sole or dominant purpose that is charitable, benevolent, philanthropic or patriotic
- the transfer of a company's property, on its winding up, to a shareholder of the company entitled to the property on a distribution in kind
- an exemption under the Commonwealth *Family Law Act 1975* for instruments made pursuant to a court order that alter the interests of the parties to a marriage or de facto partnership
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship.

The estimated tax expenditure for these concessions is based on actual historical data collected in relation to the various exemptions granted and how these relate to overall conveyance stamp duty collections.

Stamp duty on general insurance policies

The benchmark tax base is all classes of general insurance policies. This does not include life insurance policies, which are treated differently for stamp duty purposes. The benchmark tax rate is 10 per cent of the premium.

Table 6.11: Stamp duty on general insurance

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure ($M)	28.8	30.0	31.3	32.9	34.2

The Territory provides stamp duty concessions on certain insurance products to reduce the costs of such insurance, namely workers compensation insurance and private health insurance. Tax expenditure outlined in Table 6.11 has been estimated using total work health insurance policy premiums paid during past years compared to total payroll data of employers in the Territory and data on private health insurance premiums obtained from the Private Health Insurance Administration Council.

Motor vehicle registration fees

Motor vehicle registration concessions are available under the Northern Territory Pensioner and Carer's Concession scheme and to Northern Territory Seniors cardholders. Table 6.12 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.12: Motor vehicle registration fees expenditure

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure ($M)	2.3	2.3	2.3	2.3	2.3

Chapter 7

Risks and contingent liabilities

As required under section 10(1)(e) of the *Fiscal Integrity and Transparency Act 2001* (FITA) each fiscal outlook report is required to contain "a statement of the risks, quantified as far as practicable, that could materially affect the updated financial projections, including any contingent liabilities and any related government negotiations that have yet to be finalised".

This chapter outlines the potential effect of risks to the budget as identified in section 5(2) of FITA under the categories of excessive debt, ownership of trading entities, erosion of the Territory's revenue base, and management of assets and liabilities and other identified risks.

Sound fiscal management of risks

Risk of excessive debt

The risks associated with excessive debt are numerous. Excessive debt can restrict government's capacity to maintain appropriate levels of service due to increased borrowing costs and impact investor confidence resulting in negative effects on the Territory economy.

Credit ratings reflect an independent assessment of a government's fiscal strength and ability to fulfil its financial commitments and repay debt. The financial performance and debt burden of a government are major factors in credit rating assessment. Weak financial performance and high debt burden lead to lower (worsened) credit ratings and result in higher interest rates on borrowings. A strong fiscal and economic position including fiscal surpluses and reductions to the debt burden lead to improved credit ratings and result in the ability to borrow at lower interest rates.

A fiscal strategy is an essential element of budget planning and accountability and provides the basis against which policy decisions can be assessed. The overarching objective of the Territory's 2019-20 fiscal strategy is budget repair and returning the Territory's budget to a sustainable position. In order to achieve this, the fiscal strategy identifies specific objectives, indicators and targets to directly mitigate the risks of excessive debt through constraining expenditure growth, improving revenue generation, reducing debt and maintaining or improving credit ratings.

For more detailed information on the fiscal strategy refer to Chapter 4.

Risks from the ownership of trading entities

Commercial entities by their very nature are meant to be self-supporting and largely autonomous. Low profitability and high capital requirements can pose risks to the Territory Government in the form of lower returns through dividends and tax equivalents or increased requirement for financial support. Furthermore, the Territory's debt levels and fiscal targets can be materially impacted by the financial performance of government trading entities.

In order to mitigate these risks, the 2019-20 fiscal strategy has been expanded to incorporate government owned corporations with targets aimed at strengthening their commercial sustainability and reducing their reliance on government support. Risks are also mitigated through compliance with the Corporate Governance and Reporting Framework together with the *Government Owned Corporations Act 2001*, the enabling legislation for each government owned corporation, and the Territory's Policy Statement on Competitive Neutrality, all of which establish the operating and accountability framework for government owned corporations in the Territory.

The three government owned corporations are Power and Water Corporation, Territory Generation and Jacana Energy. Each corporation has a Statement of Corporate Intent, which is an annual performance agreement between the board and the shareholding minister.

Decreasing demand growth and increasing generation and retail competition requires greater focus on efficiency and business responsiveness from the three corporations. Each corporation has incorporated future efficiencies through operational and business improvements as part of their respective 2019-20 Statement of Corporate Intent. Failure to achieve their Statement of Corporate Intent targets presents a risk to the budget.

In late 2017, concerns were raised with the ongoing financial sustainability of Territory Generation. A review was undertaken and changes to the strategic direction of the corporation are being implemented. The financial performance and financial position of the corporation is forecast to improve across the budget period and will be closely monitored to ensure improved efficiencies are achieved.

Power and Water Corporation's Statement of Corporate Intent for 2019-20 aligns with the draft decision of the Australian Energy Regulator for regulated network services in 2019-20 and beyond. The Australian Energy Regulator's final decision will not be known until 30 April 2019. This represents a risk to the budget to the extent the final revenue cap determined by the Australian Energy Regulator varies from its draft decision.

The Territory's gas market is now connected to the east coast wholesale gas market following the commissioning of the Northern Gas Pipeline. The Territory is subject to the National Gas Law (NGL) and Natural Gas Rules (NGR). Any gas industry reforms considered by the Energy Council and implemented through changes to the NGL or NGR could apply to the Territory and may affect the Power and Water Corporation's gas market-related risks. To mitigate this risk, the Territory will continue to examine any reforms stemming from reviews on a case-by-case basis for appropriateness in the context of the Territory's circumstances.

Risk of erosion of the Territory's revenue base

The Territory raises own-source revenue from a range of sources. Predominantly, this comprises taxes and revenue from mining royalties, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

The Territory's own-source revenue base is small in comparison to other jurisdictions, with the Territory more reliant on Commonwealth grants including GST revenue. Nonetheless, taxation and own-source revenues provide the government with a reasonable degree of stability and predictability to contribute towards funding service delivery through consistent revenue streams, unlike the volatility experienced with GST revenue in recent years.

The fiscal strategy directly tackles the risk of erosion of the Territory's revenue base by adopting taxing policies that maintain taxation at levels competitive with the other jurisdictions, and encourage increased levels of business activity in the Territory while ensuring sufficient levels of own-source revenue are generated to contribute to government service delivery.

For more detailed information on the fiscal strategy refer to Chapter 4.

GST revenue

Volatility in GST revenue represents the largest revenue risk for the Northern Territory, as GST revenue accounts for about 42 per cent of the Territory's total revenue in 2019-20.

The Territory's GST entitlement is dependent on three parameters: national GST collections (GST pool), the Territory's share of the national population, and GST relativities as determined by the Commonwealth Treasurer based on recommendations of the Commonwealth Grants

Commission (CGC). There are many variables that influence each of these parameters, adding to the complexity of forecasting GST revenue over the budget and forward estimates period.

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

GST pool

The Territory's estimates of the GST pool in 2019-20 and over the forward estimates period are aligned with the Commonwealth's 2019-20 Budget.

The Territory's GST revenue is directly affected by variations in the GST pool. A ±1 percentage point change in the GST pool growth rate is estimated to have a ±$27 million impact on the Territory's GST revenue in 2019-20. If variations of ±1 percentage point were applied to the growth rates in each of the budget and forward estimate years, the cumulative impact on Territory GST revenue would be about ±$300 million over the four years to 2022-23.

Territory's share of national population

The Territory's population is expected to grow at a slower rate than the national population over the budget and forward estimates period. Estimates of the Territory's population growth relative to the national rate influence the Territory's share of the national population and therefore affect forecasts of the Territory's GST revenue. The effect of a ±1 percentage point variation in the Territory's forecast population growth is estimated at ±$26 million in 2019-20, all other things being equal. The cumulative impact of a ±1 percentage point variation in the estimate of the Territory's population growth rate over the budget and forward estimates period would be about ±$296 million over the four years to 2022-23.

GST relativities

The CGC is responsible for recommending GST relativities, which are updated each year to incorporate new data and changes in states' fiscal capacities. In its 2019 Update, the CGC recommended a slight increase in the Territory's GST relativity from 4.25816 in 2018-19 to 4.26735 in 2019-20.

The impact of a ±1 per cent variation in the Territory's GST relativity is around ±$26 million in 2019-20. A ±1 per cent variation in the Territory's GST relativity in each of the budget and forward estimate years would have a cumulative effect of around ±$115 million.

Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018

The Final Report for the Productivity Commission's Inquiry into Horizontal Fiscal Equalisation (HFE) was released in July 2018 alongside the Commonwealth's Interim Response. The Commonwealth broadly accepted the Productivity Commission's recommendations and in November 2018 legislated changes to the GST distribution system. On 29 November 2018, the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* received royal assent.

The Commonwealth's new system for distributing GST revenue among the states and territories (states) will be implemented over a six-year transition period from 2021-22 to 2026-27 and will equalise states to the fiscal capacity of either New South Wales or Victoria, whichever is highest. There will also be an in-system GST relativity floor of 0.7 for 2022-23 and 2023-24, increasing to 0.75 from 2024-25 onwards, a permanent boost to the GST pool of $600 million each year from 2021-22, and a further $250 million each year from 2024-25. This additional funding is to be provided by the Commonwealth, indexed annually in line with growth in general GST collections, and sourced from general revenue, not from tied funding provided to the states. Further, states are

guaranteed to receive revenue using the better of either the current distribution system and the new distribution system over the transition period.

In addition to these transitional measures, risks to the Territory's GST revenue in the first year of the transition to the new system are reduced due to the Commonwealth guarantee the Territory will receive funding equivalent to a 4.66024 GST relativity until 2021-22. However, there is substantial uncertainty around the future of the Territory's GST revenue from 2022-23 when this guarantee ceases and the Territory potentially faces a GST relativity below 4.66024. Further, at this time, the Territory's GST revenue will be influenced not only by the Territory's relativity but also by the magnitude of difference between the relativities of the fiscally strongest state, currently Western Australia, and the new equalisation benchmark of New South Wales or Victoria.

In addition, there is potential for the GST distribution system to be further adjusted given there are a number of Productivity Commission recommendations that were not included in the Act, but may still be considered by the Commonwealth.

The outcomes of the CGC's 2020 Review of the methodology used to distribute GST revenues among the states will also impact the Territory's GST revenue from 2022-23. These issues will add a further level of complexity to the task of forecasting GST relativities, as discussed in Chapter 5.

Other Commonwealth grants and subsidies

Tied Commonwealth funding is provided under the Intergovernmental Agreement on Federal Financial Relations (IGA), through specific purpose payments (SPPs), major funding arrangements and national partnership (NP) payments. Tied funding can also be provided outside the IGA payment arrangements through Commonwealth own-purpose expenses.

SPPs are provided by the Commonwealth to the states to support the achievement of the outputs and outcomes agreed under the relevant sector's national agreement (NA), without the imposition of input controls and co-investment, or maintenance of effort requirements on states. SPPs are ongoing, indexed annually on a sector-specific basis and have historically provided a degree of certainty for the Territory's funding. The main risk associated with SPPs is the adequacy of indexation in terms of capturing growth in relevant costs. In recent times the Commonwealth has moved away from the provision of SPPs and towards more restrictive and burdensome NP agreements and other major funding arrangements, including National Health Reform, Quality Schools and the National Housing and Homelessness Agreement.

NP and other major funding agreements continue to include many risks to states, including input controls, such as budget benchmarks, co-investment, maintenance of effort requirements with scope for funding penalties where effort is not maintained, and prescriptive and burdensome reporting and administrative requirements. Further, the Commonwealth has recently adopted a legislative approach toward major funding and reform agreements, often with little or no consultation with the states and in the absence of an agreed multilateral policy position. This non-collaborative approach from the Commonwealth poses a significant risk to states' autonomy and budget flexibility, resulting in uncertainty around the level of Commonwealth funding contribution and requiring states to cede control of a significant proportion of state budgets.

The expiry of NP agreements, which by their nature are time limited, also poses a potential risk to the Territory's budget, particularly where funding has raised service delivery expectations.

For example, in 2018-19, the National Partnerships on Pay Equity for the Social and Community Services Sector and the National Quality Agenda for Early Childhood Education and Care expired and were not renewed in the Commonwealth's 2019-20 Budget, posing a risk to the Territory's budget due to service delivery expectations and statutory obligations associated with these agreements.

The timing of Commonwealth decisions regarding the treatment of expiring NP agreements and their funding is also critical to ensure appropriate planning and continuity of service delivery, or allow for alternative approaches to be considered should funding not be available.

Own-source revenue

The amount of revenue received from Territory taxes and royalties is dependent on the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions to be made about the performance of the various economic factors and indicators that directly affect Territory taxes and royalties, such as growth in wages, employment, average hours worked, commodity prices, market activity and exchange rates.

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

Mining revenue forecasts rely mainly on advice from mining companies of their expected payment for the financial year and forward estimates. Unpredicted market changes in mineral prices, production or exchange rates will have a material effect on this forecast. Notwithstanding this volatility, the importance of royalties as a source of revenue is evident in the 2019-20 Budget.

Forecasting conveyance stamp duty is linked to the outlook for the property market. The extent and timing of any market changes in terms of property prices and transaction levels is difficult to predict and can have a significant effect on conveyance duty collections. In particular, residential property demand is heavily influenced by market sentiment, and the continued softness in prices and transaction volumes will be impacted by the labour market and interstate migration flows.

In addition, the Territory has a relatively small conveyance duty base, which includes valuable commercial properties such as pastoral properties and mining projects. These factors introduce significant variability in collections as a result of the impact of the duty collected from large commercial transactions. The estimate for conveyance stamp duty receipts in 2018-19 demonstrates the volatility that a handful of large commercial transactions can have on forecasts.

Growth in gambling taxes tends to trend towards long-term population growth rates, although structural shifts in gambling habits toward online gambling has made forecasting of some tax types more uncertain. It is difficult to forecast how such taxes or changes to the regulation of online gambling affect the business of online bookmakers registered in the Territory.

Payroll tax generally provides more stable revenue than royalties and conveyance stamp duty. With a range of potential major projects not included in forecasts given the uncertainty around final investment decisions and timing, payroll tax collections are expected to decline in the 2019-20 financial year before returning to long-term growth parameters. More broadly, any variations to projected employment and wages growth across the Territory would also affect estimated payroll tax collections.

In total, a variation of ±1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about ±$9 million in 2019-20.

Risk arising from the management of assets and liabilities

The Territory maintains a wide range of assets and liabilities, each subject to inherent risks. The financial management of the Territory's resources (assets and liabilities) are governed by the Territory's Financial Management and Accountability Framework, which comprises legislation, supplementary legislation (including Treasurer's Directions, determinations, and Treasury circulars), Australian accounting standards, whole of government and agency-specific policies and procedures,

and resource materials. This framework specifies the practices, including risk assessment, to be observed by accountable officers in the financial management of their respective agencies.

The Northern Territory Treasury Corporation (NTTC) is the central financing authority for the Territory Government. It borrows, invests and lends on behalf of government and is governed by an extensive risk management framework for the management of the Territory's investment assets and debt liabilities.

The fiscal strategy also addresses management of risks relating to assets and liabilities through its objectives of prudent management of debt and liabilities, and infrastructure for economic and community development.

For more detailed information on the fiscal strategy refer to Chapter 4.

Local Jobs Fund

The Territory has established the Local Jobs Fund, which provides finance to private sector projects and grants. The fund will offer a range of products to support businesses and projects where commercial finance cannot be obtained on reasonable terms. The actual financial return to the Territory on the finance it provides is not known at this time, with risk of default or loss of investment as potential risks that may affect the budget projections.

Implementation of external and internal processes to mitigate potential financial risks arising from use of the fund, include:

- a policy framework that describes the assessment process, criteria, and terms and conditions for applicants seeking to access the fund
- a risk appetite statement that sets limits on the level of risk the Territory is willing to accept in relation to individual terms of each product, each transaction and the fund as a whole
- an expert external Investment Committee to provide independent advice on investment proposals.

Risks to expenses and payments

The forward estimates for expenses are based on known policy decisions, with adjustments for non-policy changes. The most significant risk to the expense estimates is budget pressures due to increased cost and demand for government services, and the inability to meet savings measures factored into agency budgets.

The 2019-20 Budget includes the approved wage parameter of 2 per cent for all new enterprise agreements from 1 October 2018 with the full effect not reflected in agency budgets until 2021-22. This poses a risk to the budget to the extent the outcome of enterprise agreement negotiations exceeds amounts currently factored into the forward estimates. However the majority of agreements have been finalised recently, deferring this risk to the later years of the forward estimates.

The 2019-20 Budget includes a reduction in the consumer price index parameter for agency budgets from 2 per cent to 1.6 per cent in 2019-20, 2020-21 remaining unchanged at 2 per cent and both 2021-22 and 2022-23 reducing from 2.5 per cent to 2.2 per cent.

Achievement of the significant savings and revenue measures approved through the recent root and branch review are critical in returning the budget to a sustainable position over the medium term. The inherent risk to the budget is whether successive governments throughout future election cycles will adopt the existing and new savings measures over the medium to long term.

Risks to expenses and payments are mitigated by the government's fiscal strategy objectives that are focused on ensuring government operates within its means and is supported by robust

monitoring and reporting obligations within the Territory's Financial Management Framework enabling the early identification of budget pressures. Publication of 10-year budget and forward estimates for key fiscal aggregates combined with the publication of five-year agency output information in Budget Paper No. 3 from the 2020 Budget will improve transparency and facilitate long-term measurement of fiscal strategy targets.

Furthermore, following recommendations from the Fiscal Strategy Panel's final report: *A plan for budget repair*, a Charter of Budget Discipline will be adopted, along with strengthened obligations for ministerial and executive accountability for agency financial performance.

In accordance with FITA, the 2019-20 Budget includes forward estimates up to 2022-23. There is the potential for the fiscal aggregates beyond the forward estimates period to be affected by existing commitments. These could take the form of recurrent costs not expected to crystallise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak funding levels, or capital infrastructure for which the associated recurrent costs are not fully incorporated into forward years as their completion falls either close to or outside the forward estimates period.

Risks to economic forecasts

Economic forecasts incorporated in the budget papers are subject to a number of upside and downside risks and uncertainties. Economic conditions in the Territory also tend to be highly volatile due to the relatively small size of the Territory's economy. This is often reflected in the available data, which can be subject to significant revisions.

The availability, range of sources and volatility of data for the Territory's economy presents an underlying risk to forecasts. Some data is confidentialised, making it difficult to report when actual expenditure occurs. There are also difficulties associated with the measurement of interstate trade flows and other complexities associated with the balancing item of gross state product (GSP), the components of which are not available publicly.

Most significant for current Territory forecasts are the assumptions related to the INPEX liquefied natural gas (LNG) plant's operation, particularly the timing of ramp up to full production, feedstock gas and the value of exports. There are also a number of major projects not included in the Territory's economic forecasts, given the uncertainty around final investment decisions, timing, levels of proposed expenditure and other impacts on the economy and employment. These projects include the Mount Peake rare earths mine, Ammaroo phosphate mine, Chandler salt mine, Nolans rare earths mine, ConocoPhillips' Darwin LNG plant life extension project, and Project Sea Dragon. In addition, potential government-facilitated projects include the seniors' lifestyle accommodation in Alice Springs and Darwin, Darwin ship lift and Marine Industry Project, and the Mount Isa to Tennant Creek railway project. If any of these projects reach the final investment decision phase, it will have positive implications across a range of economic indicators.

The Territory Government is working to implement all 135 recommendations made by the 2018 Independent Scientific Inquiry into Hydraulic Fracturing of Onshore Unconventional Reservoirs in the Northern Territory, which should reduce risk to an acceptable level while creating jobs and guaranteeing significant economic activity over the medium to long term. The economic implications of this decision have not been factored into forecasts as the expected economic impacts on production, employment and regional economic activity are largely beyond the forecast period for the 2019-20 Budget.

The Territory economy is heavily exposed to changes in the global economy. Movements in global commodity prices can have significant impacts on the viability of mining activity in the Territory, as experienced in recent years. Also, global oil prices can influence the cost of living and doing

business in the Territory, affecting not only the price of automotive fuel for consumers but also transport costs, as well as other goods and services.

Movements in the Australian dollar against other currencies (mainly the United States dollar) will affect the cost of the Territory's imports and the competitiveness of Territory goods and service exports, particularly for industries such as tourism, agriculture, and mining and manufacturing. A significant depreciation in the Australian dollar could potentially have positive trade implications for the Territory, with price movements leading to higher levels of exports and lower levels of imports, but this would also put pressure on prices domestically, in turn adding upward pressure to the consumer price index.

Economic conditions in other Australian jurisdictions also present risks to the Territory's economic forecasts. This includes effects on the labour market and interstate migration flows. The relative labour market conditions in other jurisdictions can affect the availability of labour in the Territory. Interest rate movements also present uncertainty for the Territory economy, particularly influencing business, residential properties, household consumption and investment.

Adverse weather conditions nationally and in the Territory, natural events (for example, cyclones, flooding and droughts), and agricultural pests and diseases are also key risks to the Territory's economic forecasts and have the potential to place upward pressure on food prices due to effects on agricultural production.

Changes to the Commonwealth's migration policies could also have both positive and negative implications for the Territory's economic outlook. Recently flagged changes to lower the overseas migration cap could have a detrimental impact on the Territory's rates of overseas migration. However, proposed changes to encourage more migrants to move to regional parts of Australia could work in the Territory's favour. While the Territory Government is involved in discussions with the Commonwealth as part of policy development, it cannot directly legislate on migration levels or direct migrants to move to the Territory. The Territory Government has developed a population strategy and action plan to mitigate these risks.

Contingent liabilities

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

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

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

Quantifiable and unquantifiable contingent liabilities remain unchanged since the 2017-18 Treasurer's Annual Financial Report and the 2018-19 Mid-Year Report.

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

Quantifiable contingent liabilities

Details of estimated amounts of remaining material quantifiable contingent liabilities as at 30 June 2018, resulting from guarantees or indemnities granted by the Territory, are presented in Table 7.1.

Table 7.1: Material quantifiable contingent liabilities

	Estimated quantifiable contingent liability as at 30 June 2018
	$M
Public Trustee Common Fund 1	34.8

The Public Trustee Common Fund 1, which had a reported total of $34.8 million as at 30 June 2018, is government guaranteed.

Under section 97 of the *Public Trustee Act 1979*, the Treasurer indemnifies the Common Fund against any deficiencies in money available to meet claims on it. The Common Fund is a repository for all monies received by the Public Trustee on behalf of estates, trusts or persons, and earns interest. Money to the credit of the Common Fund is invested according to the directions issued by an Investment Board.

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

Unquantifiable contingent liabilities

Unquantifiable contingent liabilities exist, which could pose a risk to the government's financial projections.

Accommodation

The Territory has contingent liabilities in this category that relate to indemnities provided in support of the Darwin luxury hotel development. The risks associated with the indemnities are considered low and consequently no contingent liabilities have been disclosed at this time. The Territory will continue to assess any risks under the arrangement and determine whether any future disclosure is required.

Banking

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

There are no reportable contingent liabilities in this category.

Gas

The Territory has entered into a number of agreements relating to the Northern Gas Pipeline. Contingent considerations in relation to these agreements are considered unlikely and consequently no contingent liabilities have been disclosed at this time. The Territory will continue to assess any risks under the arrangement and determine whether any future disclosure is required.

Government administration

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

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

In relation to corporations established in accordance with the *Government Owned Corporations Act 2001*, an indemnity given by the Territory to board members is limited to actions arising from compliance with a direction issued by the shareholding minister or the portfolio minister pursuant to the *Government Owned Corporations Act 2001*.

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

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

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

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

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

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

Health and community services

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

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

There are no reportable contingent liabilities in this category.

Land Development Corporation

The Territory has contingent liabilities in this category that relate to guarantees provided by the Land Development Corporation in order to facilitate specific land release projects. The risks associated with the guarantees are considered low and consequently no contingent liabilities have been disclosed at this time. The Territory will continue to assess any risks under these arrangements and determine whether any future disclosure is required.

Property and business services

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

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

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

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

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

Secure facilities

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

The Territory has indemnified the proponent for losses arising from uninsurable risks.

Transport

The Territory has contingent liabilities in this category that relate to indemnities and guarantees provided in support of the Adelaide to Darwin railway project.

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

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

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

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

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

The Territory Government has entered into agreements for the relocation of fuel terminals from near the Darwin central business district to East Arm industrial estate. The agreements include certain unquantifiable contingent liabilities in favour of the developer of the fuel terminal and Shell, an oil company. The government has put in place comprehensive risk management processes to address potential exposure.

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

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

Chapter 8

Uniform presentation framework

Under the Uniform Presentation Framework (UPF), Commonwealth, state and territory governments have agreed to publish information in a standard format in budget papers. The UPF is based on accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting, which harmonises Government Finance Statistics and generally accepted accounting principles with the objective of improving the clarity and transparency of government financial statements.

The harmonised standard means government financial reports are presented on the same basis by all jurisdictions, resulting in greater transparency and consistency.

The *Fiscal Integrity and Transparency Act 2001* (FITA) requires that fiscal outlook reports be prepared in accordance with external reporting standards, including the Australian accounting standards or the UPF.

The tables in this chapter meet the Territory's reporting obligations under both the FITA and the UPF. For each sector of government, they include a:

- comprehensive operating statement
- balance sheet
- cash flow statement.

Also included are supplementary tables for the general government sector presenting:

- taxes
- grant revenue and expenses
- dividend and income tax equivalent income
- operating expenses by function
- purchases of non financial assets by function.

The financial statements for the general government, public non financial corporation and non financial public sectors include the revised 2018-19 estimate, 2019-20 budget and 2020-21 to 2022-23 forward estimate. The statements for the public financial corporation sector and total public sector present the 2018-19 estimate only, with the remaining supplementary tables presenting both the 2018-19 estimate and the 2019-20 budget.

Table 8.1

General government sector comprehensive operating statement

		2018-19	2019-20	2020-21	2021-22	2022-23
		Estimate	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	645 286	539 633	581 952	613 386	636 944
	Current grants	3 944 489	4 037 023	4 134 019	4 328 742	4 365 426
	Capital grants	277 395	332 422	243 235	207 585	317 909
	Sales of goods and services	391 099	388 308	388 581	390 943	391 005
	Interest income	99 858	82 284	85 123	88 607	90 944
	Dividend and income tax equivalent income	59 100	78 069	76 166	81 909	87 615
	Other revenue	552 004	470 580	399 625	384 453	362 451
	TOTAL REVENUE	5 969 231	5 928 319	5 908 701	6 095 625	6 252 294
less	EXPENSES					
	Employee benefits expense	2 522 154	2 521 742	2 528 923	2 581 748	2 574 299
	Superannuation expenses					
	Superannuation interest cost	92 572	95 089	100 653	105 703	110 240
	Other superannuation expenses	326 324	249 486	246 001	247 213	239 262
	Depreciation and amortisation	428 085	521 266	519 076	512 868	502 997
	Other operating expenses	1 588 663	1 430 695	1 429 611	1 445 955	1 440 443
	Interest expenses	250 210	296 820	331 492	365 310	396 641
	Other property expenses					
	Current grants	1 084 152	1 048 776	1 058 399	1 056 696	1 067 948
	Capital grants	130 700	148 010	78 214	48 547	46 313
	Subsidies and personal benefit payments	273 485	248 767	231 743	243 120	257 069
	TOTAL EXPENSES	6 696 345	6 560 651	6 524 112	6 607 160	6 635 212
equals	NET OPERATING BALANCE	- 727 114	- 632 332	- 615 411	- 511 535	- 382 918
plus	Other economic flows – included in operating result	- 84 222	36 388	37 945	39 718	40 887
equals	OPERATING RESULT	- 811 336	- 595 944	- 577 466	- 471 817	- 342 031
plus	Other economic flows – other comprehensive income	13 427	161 272	152 716	151 929	137 923
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 797 909	- 434 672	- 424 750	- 319 888	- 204 108
	NET OPERATING BALANCE	- 727 114	- 632 332	- 615 411	- 511 535	- 382 918
less	Net acquisition of non financial assets					
	Purchases of non financial assets	945 957	990 947	803 309	667 530	709 225
	Sales of non financial assets	- 77 611	- 44 383	- 45 611	- 45 611	- 45 611
	less Depreciation	428 085	521 266	519 076	512 868	502 997
	plus Change in inventories					
	plus Other movements in non financial assets		- 38 962	- 15 500		
	equals Total net acquisition of non financial assets	440 261	386 336	223 122	109 051	160 617
equals	FISCAL BALANCE	- 1 167 375	- 1 018 668	- 838 533	- 620 586	- 543 535

Table 8.2

General government sector balance sheet

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	319 886	167 290	127 043	125 102	135 479
Advances paid	171 418	178 418	182 418	181 218	157 718
Investments, loans and placements	2 056 677	2 150 619	2 258 073	2 369 241	2 431 194
Receivables	320 925	324 034	320 298	322 506	318 896
Equity					
Investments in other public sector entities	2 233 125	2 301 710	2 361 739	2 420 981	2 466 217
Equity accounted investments					
Investments – shares	5 000	15 000	20 000	20 000	20 000
Other financial assets	18 603	18 603	18 603	18 603	18 603
Total financial assets	**5 125 634**	**5 155 674**	**5 288 174**	**5 457 651**	**5 548 107**
Non financial assets					
Inventories	12 340	12 340	12 340	12 340	12 340
Property, plant and equipment	15 504 514	16 516 052	16 747 195	16 864 267	17 032 905
Investment property	45 650	41 650	37 650	33 650	29 650
Other non financial assets	121 913	121 892	121 871	121 850	121 829
Total non financial assets	**15 684 417**	**16 691 934**	**16 919 056**	**17 032 107**	**17 196 724**
TOTAL ASSETS	**20 810 051**	**21 847 608**	**22 207 230**	**22 489 758**	**22 744 831**
LIABILITIES					
Deposits held	271 639	284 884	324 626	363 867	419 540
Advances received	265 330	256 098	246 150	235 505	223 997
Borrowing	4 875 451	6 427 439	7 247 112	7 889 292	8 407 291
Superannuation	3 631 479	3 528 792	3 426 105	3 323 418	3 220 731
Other employee benefits	667 275	667 275	667 275	667 275	667 275
Payables	238 067	239 764	242 350	243 335	243 039
Other liabilities	999 732	1 016 950	1 051 956	1 085 298	1 085 298
TOTAL LIABILITIES	**10 948 973**	**12 421 202**	**13 205 574**	**13 807 990**	**14 267 171**
NET ASSETS/(LIABILITIES)	**9 861 078**	**9 426 406**	**9 001 656**	**8 681 768**	**8 477 660**
NET WORTH	**9 861 078**	**9 426 406**	**9 001 656**	**8 681 768**	**8 477 660**
NET FINANCIAL WORTH[1]	- 5 823 339	- 7 265 528	- 7 917 400	- 8 350 339	- 8 719 064
NET FINANCIAL LIABILITIES[2]	8 056 464	9 567 238	10 279 139	10 771 320	11 185 281
NET DEBT[3]	**2 864 439**	**4 472 094**	**5 250 354**	**5 813 103**	**6 326 437**

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

Table 8.3

General government sector cash flow statement

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	645 286	539 633	581 952	613 386	636 944
Receipts from sales of goods and services	403 817	401 825	402 098	404 460	404 522
Grants and subsidies received	4 221 884	4 369 445	4 377 254	4 536 327	4 683 335
Interest receipts	99 858	82 284	85 123	88 607	90 944
Dividends and income tax equivalents	66 535	58 728	75 031	74 466	91 225
Other receipts	815 003	734 127	663 074	647 449	625 178
Total operating receipts	**6 252 383**	**6 186 042**	**6 184 532**	**6 364 695**	**6 532 148**
Cash payments for operating activities					
Payments for employees	- 2 858 239	- 2 863 447	- 2 872 707	- 2 931 794	- 2 920 931
Payment for goods and services	- 1 775 860	- 1 677 202	- 1 668 697	- 1 687 215	- 1 721 093
Grants and subsidies paid	- 1 486 966	- 1 406 591	- 1 352 856	- 1 348 363	- 1 371 330
Interest paid	- 250 384	- 295 111	- 329 790	- 363 882	- 395 412
Other payments					
Total operating payments	**- 6 371 449**	**- 6 242 351**	**- 6 224 050**	**- 6 331 254**	**- 6 408 766**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 119 066**	**- 56 309**	**- 39 518**	**33 441**	**123 382**
Cash flows from investments in non financial assets					
Sales of non financial assets	77 611	44 383	45 611	45 611	45 611
Purchases of non financial assets	- 945 957	- 990 947	- 803 309	- 667 530	- 709 225
Net cash flows from investments in non financial assets	**- 868 346**	**- 946 564**	**- 757 698**	**- 621 919**	**- 663 614**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 987 412**	**- 1 002 873**	**- 797 216**	**- 588 478**	**- 540 232**
Net cash flows from investments in financial assets for policy purposes[1]	168 161	- 27 000	- 19 000	- 8 800	13 500
Net cash flows from investments in financial assets for liquidity purposes	- 67 762	- 61 543	- 73 498	- 75 439	- 25 055
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 767 947	- 1 035 107	- 850 196	- 706 158	- 675 169
Net cash flows from financing activities					
Advances received (net)	- 18 580	- 9 232	- 9 948	- 10 645	- 11 508
Borrowing (net)	691 818	934 807	819 673	642 180	517 999
Deposits received (net)	- 69 545	13 245	39 742	39 241	55 673
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	603 693	938 820	849 467	670 776	562 164
NET INCREASE/DECREASE IN CASH HELD	- 283 320	- 152 596	- 40 247	- 1 941	10 377
Net cash flows from operating activities	- 119 066	- 56 309	- 39 518	33 441	123 382
Net cash flows from investments in non financial assets	- 868 346	- 946 564	- 757 698	- 621 919	- 663 614
CASH SURPLUS (+)/DEFICIT (-)	**- 987 412**	**- 1 002 873**	**- 797 216**	**- 588 478**	**- 540 232**
Future infrastructure and superannuation contributions/ earnings[2]	- 40 648	- 34 678	- 36 759	- 38 965	- 41 302
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 028 060**	**- 1 037 551**	**- 833 975**	**- 627 443**	**- 581 534**

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

Table 8.4

Public non financial corporation sector comprehensive operating statement

		2018-19	2019-20	2020-21	2021-22	2022-23
		Estimate	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Current grants	174 969	189 782	172 422	182 001	194 154
	Capital grants	38 188	37 162	26 848	22 449	22 934
	Sales of goods and services	725 189	794 219	818 507	871 004	903 129
	Interest income	2 156	2 060	2 078	2 137	2 098
	Other revenue	36 537	75 142	51 127	37 142	37 512
	TOTAL REVENUE	977 039	1 098 365	1 070 982	1 114 733	1 159 827
less	EXPENSES					
	Employee benefits expense	131 174	127 046	124 240	123 793	133 514
	Superannuation expenses	16 934	16 934	16 934	16 934	16 934
	Depreciation and amortisation	180 005	197 786	186 459	182 859	182 463
	Other operating expenses	578 114	571 134	564 200	604 785	645 858
	Interest expenses	64 476	76 413	79 404	83 498	87 350
	Other property expenses	22 449	26 419	23 902	23 700	33 119
	Current grants	175	222	227	232	238
	Capital grants					
	Subsidies and personal benefit payments	1 251	1 273	1 287	1 318	1 351
	TOTAL EXPENSES	994 578	1 017 227	996 653	1 037 119	1 100 827
equals	NET OPERATING BALANCE	- 17 539	81 138	74 329	77 614	59 000
plus	Other economic flows – included in operating result	- 17 992	- 743	- 2 571	- 2 632	- 2 714
equals	OPERATING RESULT	- 35 531	80 395	71 758	74 982	56 286
plus	Other economic flows – other comprehensive income	- 229				
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 35 760	80 395	71 758	74 982	56 286
	NET OPERATING BALANCE	- 17 539	81 138	74 329	77 614	59 000
less	Net acquisition of non financial assets					
	Purchases of non financial assets	220 405	246 884	224 326	216 619	190 737
	Sales of non financial assets	- 1 942	- 6 606	- 1 906	- 14 932	- 1 932
	less Depreciation	180 005	197 786	186 459	182 859	182 463
	plus Change in inventories	8 054	- 5 462	6 744	2 019	3 814
	plus Other movements in non financial assets	19 500	54 089	27 817	12 589	12 588
	equals Total net acquisition of non financial assets	66 012	91 119	70 522	33 436	22 744
equals	FISCAL BALANCE	- 83 551	- 9 981	3 807	44 178	36 256

Table 8.5

Public non financial corporation sector balance sheet

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	146 571	149 660	182 781	212 991	259 131
Advances paid					
Investments, loans and placements					
Receivables	149 356	153 657	152 877	155 937	158 005
Equity					
Investments in other public sector entities					
Equity accounted investments					
Investments – shares	3	3	3	3	3
Other financial assets		7 351	6 585	5 794	4 978
Total financial assets	**295 930**	**310 671**	**342 246**	**374 725**	**422 117**
Non financial assets					
Inventories	197 880	192 418	199 162	201 181	204 995
Property, plant and equipment	3 391 703	3 870 712	3 935 247	3 967 046	3 986 228
Investment property					
Other non financial assets	11 382	8 599	7 842	7 460	7 207
Total non financial assets	**3 600 965**	**4 071 729**	**4 142 251**	**4 175 687**	**4 198 430**
TOTAL ASSETS	**3 896 895**	**4 382 400**	**4 484 497**	**4 550 412**	**4 620 547**
LIABILITIES					
Deposits held	799	799	799	799	799
Advances received					
Borrowing	1 472 202	1 892 002	1 926 416	1 928 175	1 957 267
Superannuation					
Other employee benefits	55 458	56 019	56 210	56 269	56 330
Payables	124 772	122 922	132 617	131 559	131 710
Other liabilities	32 170	30 899	28 878	34 869	30 498
TOTAL LIABILITIES	**1 685 401**	**2 102 641**	**2 144 920**	**2 151 671**	**2 176 604**
NET ASSETS/(LIABILITIES)	**2 211 494**	**2 279 759**	**2 339 577**	**2 398 741**	**2 443 943**
TOTAL EQUITY	**2 211 494**	**2 279 759**	**2 339 577**	**2 398 741**	**2 443 943**
NET FINANCIAL WORTH[1]	- 1 389 471	- 1 791 970	- 1 802 674	- 1 776 946	- 1 754 487
NET DEBT[2]	**1 326 430**	**1 743 141**	**1 744 434**	**1 715 983**	**1 698 935**

1 Net financial worth equals total financial assets minus total liabilities.
2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.6

Public non financial corporation sector cash flow statement

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Receipts from sales of goods and services	706 147	808 265	817 723	865 703	898 802
Grants and subsidies received	213 901	227 129	199 386	204 572	217 088
Interest receipts	2 233	2 060	2 078	2 137	2 098
Dividends and income tax equivalents					
Other receipts	22 597	5 761	23 310	24 613	24 979
Total operating receipts	**944 878**	**1 043 215**	**1 042 497**	**1 097 025**	**1 142 967**
Cash payments for operating activities					
Income tax equivalents paid	- 24 354	- 26 418	- 23 902	- 22 206	- 33 011
Payments for employees	- 162 547	- 153 151	- 150 715	- 150 400	- 160 119
Payment for goods and services	- 582 948	- 579 303	- 554 606	- 598 280	- 640 263
Grants and subsidies paid	- 1 426	- 1 495	- 1 514	- 1 550	- 1 589
Interest paid	- 64 773	- 76 015	- 79 789	- 83 307	- 87 125
Other payments					
Total operating payments	**- 836 048**	**- 836 382**	**- 810 526**	**- 855 743**	**- 922 107**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**108 830**	**206 833**	**231 971**	**241 282**	**220 860**
Cash flows from investments in non financial assets					
Sales of non financial assets	1 942	6 606	1 906	14 932	1 932
Purchases of non financial assets	- 220 405	- 246 884	- 224 326	- 216 619	- 190 737
Net cash flows from investments in non financial assets	**- 218 463**	**- 240 278**	**- 222 420**	**- 201 687**	**- 188 805**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 109 633**	**- 33 445**	**9 551**	**39 595**	**32 055**
Net cash flows from investments in financial assets for policy purposes[1]					
Net cash flows from investments in financial assets for liquidity purposes		742	766	791	816
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 218 463	- 239 536	- 221 654	- 200 896	- 187 989
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	58 973	33 876	34 414	1 759	29 092
Deposits received (net)	- 750				
Dividends paid	- 14 780	- 8 084	- 21 610	- 21 935	- 25 823
Other financing (net)	25 000	10 000	10 000	10 000	10 000
NET CASH FLOWS FROM FINANCING ACTIVITIES	68 443	35 792	22 804	- 10 176	13 269
NET INCREASE/DECREASE IN CASH HELD	- 41 190	3 089	33 121	30 210	46 140
Net cash flows from operating activities	108 830	206 833	231 971	241 282	220 860
Net cash flows from investments in non financial assets	- 218 463	- 240 278	- 222 420	- 201 687	- 188 805
Dividends paid	- 14 780	- 8 084	- 21 610	- 21 935	- 25 823
CASH SURPLUS (+)/DEFICIT (-)	**- 124 413**	**- 41 529**	**- 12 059**	**17 660**	**6 232**

1 Includes equity acquisitions, disposals and privatisations (net).

Table 8.7

Non financial public sector comprehensive operating statement

		2018-19	2019-20	2020-21	2021-22	2022-23
		Estimate	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	635 554	529 901	572 220	603 654	627 212
	Current grants	3 944 989	4 037 523	4 134 519	4 329 242	4 365 926
	Capital grants	297 690	351 333	251 467	210 952	321 284
	Sales of goods and services	1 052 431	1 118 721	1 143 280	1 198 137	1 230 458
	Interest income	99 858	82 527	85 342	88 801	91 113
	Dividend and income tax equivalent income	24 226	29 520	30 324	32 391	33 412
	Other revenue	586 060	504 352	432 844	419 187	397 555
	TOTAL REVENUE	6 640 808	6 653 877	6 649 996	6 882 364	7 066 960
less	EXPENSES					
	Employee benefits expense	2 653 328	2 648 788	2 653 163	2 705 541	2 707 813
	Superannuation expenses					
	Superannuation interest cost	92 572	95 089	100 653	105 703	110 240
	Other superannuation expenses	341 125	264 287	260 802	262 014	254 063
	Depreciation and amortisation	608 090	715 051	702 841	693 925	684 214
	Other operating expenses	2 092 840	1 931 967	1 922 660	1 978 787	2 013 928
	Interest expenses	312 530	371 146	408 856	446 725	481 964
	Other property expenses					
	Current grants	1 025 702	989 583	997 945	994 730	1 004 515
	Capital grants	112 807	90 797	44 098	29 465	26 754
	Subsidies and personal benefit payments	158 892	120 173	121 789	125 135	128 437
	TOTAL EXPENSES	7 397 886	7 226 881	7 212 807	7 342 025	7 411 928
equals	NET OPERATING BALANCE	- 757 078	- 573 004	- 562 811	- 459 661	- 344 968
plus	Other economic flows – included in operating result	- 102 214	35 645	35 374	37 086	38 173
equals	OPERATING RESULT	- 859 292	- 537 359	- 527 437	- 422 575	- 306 795
plus	Other economic flows – other comprehensive income	61 383	102 687	102 687	102 687	102 687
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 797 909	- 434 672	- 424 750	- 319 888	- 204 108
	NET OPERATING BALANCE	- 757 078	- 573 004	- 562 811	- 459 661	- 344 968
less	Net acquisition of non financial assets					
	Purchases of non financial assets	1 166 362	1 237 831	1 027 635	884 149	899 962
	Sales of non financial assets	- 79 553	- 50 989	- 47 517	- 60 543	- 47 543
	less Depreciation	608 090	715 051	702 841	693 925	684 214
	plus Change in inventories	8 054	- 5 462	6 744	2 019	3 814
	plus Other movements in non financial assets	19 500	15 127	12 317	12 589	12 588
	equals Total net acquisition of non financial assets	506 273	481 456	296 338	144 289	184 607
equals	FISCAL BALANCE	- 1 263 351	- 1 054 460	- 859 149	- 603 950	- 529 575

Table 8.8

Non financial public sector balance sheet

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	319 905	167 309	127 062	125 121	135 498
Advances paid	171 418	178 418	182 418	181 218	157 718
Investments, loans and placements	2 056 677	2 150 619	2 258 073	2 369 241	2 431 194
Receivables	468 418	461 781	456 935	456 826	459 915
Equity					
Investments in other public sector entities	21 631	21 631	21 631	21 631	21 631
Equity accounted investments					
Investments - shares	5 003	15 003	20 003	20 003	20 003
Other financial assets	18 603	25 954	25 188	24 397	23 581
Total financial assets	**3 061 655**	**3 020 715**	**3 091 310**	**3 198 437**	**3 249 540**
Non financial assets					
Inventories	210 220	204 758	211 502	213 521	217 335
Property, plant and equipment	18 896 217	20 377 639	20 676 011	20 826 684	21 015 750
Investment property	45 650	41 650	37 650	33 650	29 650
Other non financial assets	133 295	130 491	129 713	129 310	129 036
Total non financial assets	**19 285 382**	**20 754 538**	**21 054 876**	**21 203 165**	**21 391 771**
TOTAL ASSETS	**22 347 037**	**23 775 253**	**24 146 186**	**24 401 602**	**24 641 311**
LIABILITIES					
Deposits held	125 886	136 042	142 663	151 694	161 227
Advances received	265 330	256 098	246 150	235 505	223 997
Borrowing	6 347 653	8 309 996	9 166 566	9 812 229	10 360 532
Superannuation	3 631 479	3 528 792	3 426 105	3 323 418	3 220 731
Other employee benefits	722 733	723 294	723 485	723 544	723 605
Payables	351 100	350 947	363 228	363 155	363 010
Other liabilities	1 041 778	1 043 678	1 076 333	1 110 289	1 110 549
TOTAL LIABILITIES	**12 485 959**	**14 348 847**	**15 144 530**	**15 719 834**	**16 163 651**
NET ASSETS/(LIABILITIES)	**9 861 078**	**9 426 406**	**9 001 656**	**8 681 768**	**8 477 660**
NET WORTH	**9 861 078**	**9 426 406**	**9 001 656**	**8 681 768**	**8 477 660**
NET FINANCIAL WORTH[1]	- 9 424 304	-11 328 132	-12 053 220	-12 521 397	-12 914 111
NET FINANCIAL LIABILITIES[2]	9 445 935	11 349 763	12 074 851	12 543 028	12 935 742
NET DEBT[3]	**4 190 869**	**6 205 790**	**6 987 826**	**7 523 848**	**8 021 346**

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

Table 8.9

Non financial public sector cash flow statement

	2018-19	2019-20	2020-21	2021-22	2022-23
	Estimate	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	635 554	529 901	572 220	603 654	627 212
Receipts from sales of goods and services	1 046 107	1 146 284	1 156 013	1 206 353	1 239 648
Grants and subsidies received	4 243 423	4 389 041	4 386 102	4 540 316	4 687 210
Interest receipts	99 858	82 527	85 342	88 801	91 113
Dividends and income tax equivalents	27 401	24 226	29 519	30 325	32 391
Other receipts	837 252	739 613	686 109	671 787	649 882
Total operating receipts	**6 889 595**	**6 911 592**	**6 915 305**	**7 141 236**	**7 327 456**
Cash payments for operating activities					
Payments for employees	- 3 011 054	- 3 006 866	- 3 013 690	- 3 072 462	- 3 071 318
Payment for goods and services	- 2 294 603	- 2 196 375	- 2 161 884	- 2 223 274	- 2 298 715
Grants and subsidies paid	- 1 296 030	- 1 200 553	- 1 163 832	- 1 149 330	- 1 159 706
Interest paid	- 312 924	- 369 039	- 407 539	- 445 106	- 480 510
Other payments					
Total operating payments	**- 6 914 611**	**- 6 772 833**	**- 6 746 945**	**- 6 890 172**	**- 7 010 249**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 25 016**	**138 759**	**168 360**	**251 064**	**317 207**
Cash flows from investments in non financial assets					
Sales of non financial assets	79 553	50 989	47 517	60 543	47 543
Purchases of non financial assets	- 1 166 362	- 1 237 831	- 1 027 635	- 884 149	- 899 962
Net cash flows from investments in non financial assets	**- 1 086 809**	**- 1 186 842**	**- 980 118**	**- 823 606**	**- 852 419**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 111 825**	**- 1 048 083**	**- 811 758**	**- 572 542**	**- 535 212**
Net cash flows from investments in financial assets for policy purposes[1]	193 161	- 17 000	- 9 000	1 200	23 500
Net cash flows from investments in financial assets for liquidity purposes	- 67 762	- 60 801	- 72 732	- 74 648	- 24 239
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 961 410	- 1 264 643	- 1 061 850	- 897 054	- 853 158
Net cash flows from financing activities					
Advances received (net)	- 18 580	- 9 232	- 9 948	- 10 645	- 11 508
Borrowing (net)	750 791	972 364	856 570	645 663	548 303
Deposits received (net)	- 29 105	10 156	6 621	9 031	9 533
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	703 106	973 288	853 243	644 049	546 328
NET INCREASE/DECREASE IN CASH HELD	- 283 320	- 152 596	- 40 247	- 1 941	10 377
Net cash flows from operating activities	- 25 016	138 759	168 360	251 064	317 207
Net cash flows from investments in non financial assets	- 1 086 809	- 1 186 842	- 980 118	- 823 606	- 852 419
CASH SURPLUS (+)/DEFICIT (-)	**- 1 111 825**	**- 1 048 083**	**- 811 758**	**- 572 542**	**- 535 212**
Future infrastructure and superannuation contributions/ earnings[2]	- 40 648	- 34 678	- 36 759	- 38 965	- 41 302
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 152 473**	**- 1 082 761**	**- 848 517**	**- 611 507**	**- 576 514**

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

Table 8.10

Public financial corporation sector comprehensive operating statement

		2018-19 Estimate $000
	REVENUE	
	Current grants	
	Capital grants	
	Sales of goods and services	822
	Interest income	257 244
	Other revenue	
	TOTAL REVENUE	258 066
less	EXPENSES	
	Employee benefits expense	613
	Superannuation expenses	88
	Depreciation and amortisation	
	Other operating expenses	1 636
	Interest expenses	231 503
	Other property expenses	7 268
	Current grants	
	Capital grants	
	Subsidies and personal benefit payments	
	TOTAL EXPENSES	241 108
equals	NET OPERATING BALANCE	16 958
plus	Other economic flows – included in operating result	
equals	OPERATING RESULT	16 958
plus	Other economic flows – other comprehensive income	
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	16 958
	NET OPERATING BALANCE	16 958
less	Net acquisition of non financial assets	
	Purchases of non financial assets	
	Sales of non financial assets	
	less Depreciation	
	plus Change in inventories	
	plus Other movements in non financial assets	
	equals Total net acquisition of non financial assets	
equals	FISCAL BALANCE	16 958

Table 8.11

Public financial corporation sector balance sheet

	2018-19 Estimate $000
ASSETS	
Financial assets	
Cash and deposits	21 862
Advances paid	69 479
Investments, loans and placements	5 882 873
Receivables	4 050
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments – shares	
Other financial assets	
Total financial assets	**5 978 264**
Non financial assets	
Inventories	
Property, plant and equipment	
Investment property	
Other non financial assets	
Total non financial assets	
TOTAL ASSETS	**5 978 264**
LIABILITIES	
Deposits held	388
Advances received	208 736
Borrowing	5 671 955
Superannuation	
Other employee benefits	196
Payables	51 131
Other liabilities	24 227
TOTAL LIABILITIES	**5 956 633**
NET ASSETS/(LIABILITIES)	**21 631**
TOTAL EQUITY	**21 631**
NET FINANCIAL WORTH[1]	21 631
NET DEBT[2]	**- 93 135**

1 Net financial worth equals total financial assets minus total liabilities.
2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.12

Public financial corporation sector cash flow statement

	2018-19 Estimate
	$000
Cash receipts from operating activities	
Receipts from sales of goods and services	822
Grants and subsidies received	
Interest receipts	257 328
Other receipts	
Total operating receipts	**258 150**
Cash payments for operating activities	
Income tax equivalents paid	- 8 220
Payments for employees	- 701
Payment for goods and services	- 1 636
Grants and subsidies paid	
Interest paid	- 231 481
Other payments	
Total operating payments	**- 242 038**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**16 112**
Cash flows from investments in non financial assets	
Sales of non financial assets	
Purchases of non financial assets	
Net cash flows from investments in non financial assets	
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**16 112**
Net cash flows from investments in financial assets for policy purposes[1]	2 592
Net cash flows from investments in financial assets for liquidity purposes	- 738 416
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 735 824
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	712 738
Deposits received (net)	
Dividends paid	- 19 181
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	693 557
NET INCREASE/DECREASE IN CASH HELD	- 26 155
Net cash flows from operating activities	16 112
Net cash flows from investments in non financial assets	
Distributions paid	- 19 181
CASH SURPLUS (+)/DEFICIT (-)	**- 3 069**

1 Includes equity acquisitions, disposals and privatisations (net).

Table 8.13

Total public sector comprehensive operating statement

		2018-19 Estimate $000
	REVENUE	
	Taxation revenue	635 554
	Current grants	3 944 989
	Capital grants	297 690
	Sales of goods and services	1 051 806
	Interest income	100 058
	Dividend and income tax equivalent income	
	Other revenue	585 988
	TOTAL REVENUE	6 616 085
less	EXPENSES	
	Employee benefits expense	2 653 941
	Superannuation expenses	
	Superannuation interest cost	92 572
	Other superannuation expenses	341 141
	Depreciation and amortisation	608 090
	Other operating expenses	2 093 029
	Interest expenses	286 989
	Other property expenses	
	Current grants	1 025 702
	Capital grants	112 807
	Subsidies and personal benefit payments	158 892
	TOTAL EXPENSES	7 373 163
equals	NET OPERATING BALANCE	- 757 078
plus	Other economic flows – included in operating result	- 102 214
equals	OPERATING RESULT	- 859 292
plus	Other economic flows – other comprehensive income	61 383
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 797 909
	NET OPERATING BALANCE	- 757 078
less	Net acquisition of non financial assets	
	Purchases of non financial assets	1 166 362
	Sales of non financial assets	- 79 553
	less Depreciation	608 090
	plus Change in inventories	8 054
	plus Other movements in non financial assets	19 500
	equals Total net acquisition of non financial assets	506 273
equals	FISCAL BALANCE	- 1 263 351

Table 8.14

Total public sector balance sheet

	2018-19 Estimate $000
ASSETS	
Financial assets	
Cash and deposits	319 905
Advances paid	171 418
Investments, loans and placements	2 056 677
Receivables	444 165
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments - shares	5 003
Other financial assets	18 603
Total financial assets	**3 015 771**
Non financial assets	
Inventories	210 220
Property, plant and equipment	18 896 217
Investment property	45 650
Other non financial assets	133 295
Total non financial assets	**19 285 382**
TOTAL ASSETS	**22 301 153**
LIABILITIES	
Deposits held	104 412
Advances received	214 068
Borrowing	6 327 254
Superannuation	3 631 479
Other employee benefits	722 929
Payables	398 154
Other liabilities	1 041 779
TOTAL LIABILITIES	**12 440 075**
NET ASSETS/(LIABILITIES)	**9 861 078**
NET WORTH	**9 861 078**
NET FINANCIAL WORTH[1]	- 9 424 304
NET DEBT[2]	**4 097 734**

1 Net financial worth equals total financial assets minus total liabilities.
2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.15

Total public sector cash flow statement

	2018-19 Estimate $000
Cash receipts from operating activities	
Taxes received	635 554
Receipts from sales of goods and services	1 045 482
Grants and subsidies received	4 243 423
Interest receipts	99 858
Other receipts	837 252
Total operating receipts	**6 861 569**
Cash payments for operating activities	
Payments for employees	- 3 011 755
Payment for goods and services	- 2 294 792
Grants and subsidies paid	- 1 296 030
Interest paid	- 287 077
Other payments	
Total operating payments	**- 6 889 654**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 28 085**
Cash flows from investments in non financial assets	
Sales of non financial assets	79 553
Purchases of non financial assets	- 1 166 362
Net cash flows from investments in non financial assets	**- 1 086 809**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 114 894**
Net cash flows from investments in financial assets for policy purposes[1]	193 161
Net cash flows from investments in financial assets for liquidity purposes	- 67 762
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 961 410
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	709 125
Deposits received (net)	- 2 950
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	706 175
NET INCREASE/DECREASE IN CASH HELD	- 283 320
Net cash flows from operating activities	- 28 085
Net cash flows from investments in non financial assets	- 1 086 809
CASH SURPLUS (+)/DEFICIT (-)	**- 1 114 894**
Future infrastructure and superannuation contributions/earnings[2]	- 40 648
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 155 542**

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

Table 8.16

General government sector taxes

	2018-19 Estimate	2019-20 Budget
	$M	$M
Taxes on employers' payroll and labour force	**263**	**248**
Payroll taxes	263	248
Taxes on property	**172**	**77**
Stamp duties on financial and capital transactions	172	77
Taxes on the provision of goods and services	**134**	**136**
Taxes on gambling	84	85
Taxes on insurance	50	51
Taxes on the use of goods and performance of activities	**77**	**79**
Motor vehicle registration fees	77	79
TOTAL TAXES	645	540

Table 8.17

General government sector grant revenue

	2018-19 Estimate	2019-20 Budget
	$M	$M
Current grant revenue		
Current grants from the Commonwealth (including for on-passing)		
National partnership payments	369	208
Specific purpose payments	401	396
General purpose grants	3 175	3 433
Total current grant revenue	**3 944**	**4 037**
Capital grant revenue		
Capital grants from the Commonwealth (including for on-passing)		
National partnership payments	245	300
General purpose grants	32	32
Total capital grant revenue	**277**	**332**
TOTAL GRANTS REVENUE	4 222	4 369

Table 8.18

General government sector grant expenses

	2018-19 Estimate	2019-20 Budget
	$M	$M
Current grant expenses including subsidies and personal benefit payments		
Local government	93	110
Private and not-for-profit sector (including for on-passing)	1 009	913
Grants to other sectors of government	59	59
Other	197	215
Total current grant expenses including subsidies and personal benefit payments	**1 358**	**1 298**
Capital grant expenses		
Local government	19	7
Private and not-for-profit sector (including for on-passing)	94	83
Grants to other sectors of government	18	18
Other		39
Total capital grant expenses	**131**	**148**
TOTAL GRANT EXPENSES	1 488	1 446

Table 8.19

General government sector dividend and income tax equivalent income

	2018-19 Estimate	2019-20 Budget
	$M	$M
Dividend and income tax equivalent income from public non financial corporations sector	35	49
Dividend and income tax equivalent income from public financial corporations sector	24	30
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	59	78

Table 8.20

General government sector operating expenses

	2018-19 Estimate	2019-20 Budget
	$M	$M
General public services	502	553
Public order and safety	806	803
Economic affairs	388	407
Environmental protection	113	105
Housing and community amenities	740	675
Health	1 665	1 653
Recreation, culture and religion	211	175
Education	1 214	1 217
Social protection	732	643
Transport	325	330
TOTAL OPERATING EXPENSES	**6 696**	**6 561**

Reported by Classifications of Functions of Government – Australia (COFOG-A)

Table 8.21

General government sector purchases of non financial assets by function

	2018-19 Estimate	2019-20 Budget
	$M	$M
General public services	5	10
Public order and safety	98	115
Economic affairs	22	43
Environmental protection	20	22
Housing and community amenities	289	233
Health	68	65
Recreation, culture and religion	60	49
Education	96	62
Social protection	39	51
Transport	249	341
TOTAL PURCHASES OF NON FINANCIAL ASSETS	**946**	**991**

Reported by Classifications of Functions of Government – Australia (COFOG-A)

Appendices

Appendix A

Classification of entities in the Northern Territory

Total public sector

Non financial public sector

General government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation[1]
Batchelor Institute of Indigenous Tertiary Education[1]
Central Australia Health Service[2]
Central Holding Authority
Darwin Waterfront Corporation[1]
Data Centre Services[2]
Department of the Attorney-General and Justice
Department of the Chief Minister
Department of Corporate and Information Services
Department of Education
Department of Environment and Natural Resources
Department of Health
Department of Infrastructure, Planning and Logistics
Department of the Legislative Assembly
Department of Local Government, Housing and Community Development
Department of Primary Industry and Resources
Department of Tourism, Sport and Culture
Department of Trade, Business and Innovation
Department of Treasury and Finance
Desert Knowledge Australia[1]
Motor Accidents (Compensation) Commission[1]
Museums and Art Galleries Board of the Northern Territory[1]
Nominal Insurer's Fund[1]
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission[1]
Northern Territory Major Events Company Pty Ltd[1]
Northern Territory Police, Fire and Emergency Services
NT Build Statutory Corporation[1]
NT Fleet[2]
NT Home Ownership[2]
Office of the Commissioner for Public Employment
Office of the Independent Commissioner Against Corruption
Ombudsman's Office
Territory Families
Territory Wildlife Parks[2]
Top End Health Service[2]

Public Non Financial Corporations

Indigenous Essential Services Pty Ltd[1]
Jacana Energy[1, 3]
Land Development Corporation[2]
Power and Water Corporation[1, 3]
Territory Generation[1, 3]

Public Financial Corporation

Northern Territory Treasury Corporation[2]

1 Non-budget sector entity.
2 Government business division.
3 Government owned corporation.

Appendix B
Glossary

Advances/advances paid

Advances are the creation of financial assets (that is, an increase in the indebtedness to government units) with the aim of funding particular enterprise, household or government activities.

Agency

A unit of government administration, office or statutory corporation, nominated in an Administrative Arrangements Order for the purposes of the *Financial Management Act 1995* and including, where the case requires, a part or division (by whatever name called) of an agency.

Appropriation

An authority given by the Legislative Assembly to make payments, now or at some future time, for the purposes stated, up to the limit of the amount in the particular Act.

Australian Accounting Standards

Statements of accounting standards that can be applied in preparation and presentation of financial statements.

Australian Bureau of Statistics (ABS)

The ABS is a Commonwealth agency that coordinates statistical activities and collaborates with official bodies in the collection, compilation, analysis and distribution of statistics.

Capital grants

Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, cash is transferred to enable the recipient to acquire another asset, or the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit

Reported in the cash flow statement and measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid.

Classifications of Functions of Government of Australia (COFOG-A)

A framework to classify government outlays or expenditure by the purpose served, for example, health or education.

Commonwealth Grants Commission (CGC)

The CGC is a Commonwealth statutory body that makes recommendations to the Commonwealth Treasurer on how the revenues raised from GST should be distributed to the states and territories to achieve horizontal fiscal equalisation.

Commonwealth own-purpose expenses (COPE)

Payments by the Commonwealth for goods and services and associated transfer payments for the conduct of its own general government activities.

Community service obligation (CSO)

A CSO arises when the government requires a government business division or government owned corporation to carry out activities that it would not choose to do on a commercial basis or would only do at higher commercial prices. CSOs allow the government to achieve identifiable community or social objectives that would not be achieved if left to commercial considerations.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners.

Consumer price index (CPI)

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.

Contingent liability

A potential financial obligation arising out of a condition, situation, guarantee or indemnity, the ultimate effect of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Current grants

Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

Finance lease

Lease agreements that transfer substantially all the risks and benefits relating to ownership of an asset from the lessor (legal owner) to the lessee (party using the asset).

Financial asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right to:
  - receive cash or another financial asset from another entity
  - or exchange financial assets or financial liabilities with another entity under conditions potentially favourable to the entity
- or a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments
  - or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Fiscal balance (net lending/borrowing)

Fiscal balance, also referred to as net lending/borrowing, is an operating statement measure that differs from the net operating balance as it includes spending on capital items but excludes depreciation. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit) position indicates that a government's level of investment is greater than its level of savings.

General government sector (GGS)

Defined in Government Finance Statistics as an entity or group of entities mainly engaged in the production of goods and or services outside the normal market mechanism. Goods and services are provided free of charge or at nominal charges well below costs of production.

Generally Accepted Accounting Principles (GAAP)

Term used to describe broadly the body of principles that governs the accounting for financial transactions underlying the preparation of a set of financial statements.

Goods and services tax (GST) revenue

The Territory's share of nationally collected GST, based on the Territory's population share weighted by its GST relativity. Revenue-sharing relativities are determined by the Commonwealth Treasurer, informed by the recommendations of the CGC.

Government business division (GBD)

A Territory-controlled trading entity that follows commercial practices and is required to comply with competitive neutrality principles.

Government finance statistics (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.

Government owned corporation

An entity in which its objectives are to operate at least as efficiently as any corporate business and maximise sustainable return to government. The *Government Owned Corporations Act 2001* adopts the shareholder model of corporate governance. The Territory has three government owned corporations: Power and Water Corporation, Territory Generation and Jacana Energy.

Grants

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can be either of a current or capital nature (see current grants and capital grants).

Grants can be paid as general purpose grants, which refer to grants not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants, which are paid for a particular purpose and or have conditions attached regarding their use.

Grants for on-passing

All grants paid to one institutional sector (for example, a state general government) to be passed on to another institutional sector (for example, local government or a non profit institution).

Gross domestic product (GDP)

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. GDP can be calculated by summing total output, total income or total expenditure.

Gross state product (GSP)

Measures the total value of goods and services produced in a jurisdiction. It is the sum of all income, namely wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks and a balancing item.

Guarantee

An undertaking to answer for the debt or obligations of another person or entity.

Indemnity

A written undertaking to compensate, protect or insure another person or entity against future financial loss, damage or liability.

Intergovernmental agreement

An agreement signed by all states, territories and the Commonwealth in December 2008 defining the framework for federal financial relations, encompassing Commonwealth funding to states and territories through general revenue assistance, specific purpose payments and national partnership payments.

National partnership agreements

National partnership (NP) agreements are agreements between the Commonwealth, states and territories with defined objectives, outcomes, outputs and performance measures related to the delivery of specified projects or to facilitate reforms of national significance.

National partnership payments

NP payments are tied Commonwealth grants provided to states and territories to enable them to achieve the outcomes and outputs of an agreement.

Net acquisition/(disposal) of non financial assets from transactions

Purchases (or acquisitions) of non financial assets less sales (or disposals) of non financial assets, less depreciation, plus changes in inventories and other movements in non financial assets.

Purchases and sales (or net acquisitions) of non financial assets generally include accrued expenses and payables for capital items. Purchases exclude non-produced assets and valuables, which are included in other movements in non financial assets.

Net actuarial gains

Includes actuarial gains and losses on defined benefit superannuation plans.

Net cash flows from investments in financial assets (liquidity management purposes)

Cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes)

Cash receipts from liquidation or repayment of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disasters.

Net debt

Net debt measures a government's net stock of selected gross financial liabilities less financial assets.

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowings, less the sum of cash and deposits, advances paid and investments, loans and placements.

Net financial liabilities

Total liabilities less financial assets, other than equity in public non financial corporations and public financial corporations. This measure is broader than net debt, as it includes significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the public non financial corporation and public financial corporation sectors, it is equal to negative net financial worth.

Net financial worth

A measure of a government's net holdings of financial assets. It is calculated from the Uniform Presentation Framework Balance Sheet as financial assets minus liabilities. Net financial worth is a broader measure than net debt as it incorporates provisions (such as superannuation, but excludes depreciation and doubtful debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities.

Net operating balance

The revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations and excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

Provides a relatively comprehensive picture of a government's overall financial position. It is calculated as total assets less total liabilities less shares and other contributed capital. It includes a government's non financial assets such as land and other fixed assets, which may be sold and used to repay debt, as well as its financial assets and liabilities including debtors, creditors and superannuation liabilities. Net worth also shows asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.

Non-budget sector entity

An entity in which the Territory has a controlling interest. The entity is consolidated at whole-of-government level but is not presented separately in the Territory's financial reports. Outside the scope of the *Financial Management Act 1995*, it is generally a statutory body that does not meet the definition of a general government sector entity, public non financial corporation or public financial corporation.

Non financial assets

Assets that are not financial assets, predominantly land and other fixed assets.

Non financial public sector (NFPS)

The sector formed through a consolidation of the general government and public non financial corporation subsectors.

Other economic flows

Changes in the volume or value of an asset or liability that do not result from transactions (such as revaluations and other changes in the volume of assets).

Other superannuation expense

Includes all superannuation expenses from transactions except superannuation interest cost. It generally includes current service cost, which is the increase in entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are considered other economic flows.

Payables

Includes short-term and long-term trade debt, accounts payable, accrued expenses, grants and interest payable.

Public financial corporations (PFC)

Government-controlled entities that perform central bank functions, and or have the authority to incur liabilities and acquire financial assets in the market on their own account.

Public non financial corporations (PNFC)

Public enterprises primarily engaged in the production of goods or services of a non financial nature, for sale in the market place, at prices that aim to recover most of the costs involved.

Receivables

Includes short-term and long-term trade credit, accounts receivable, prepaid expenses, grants, taxes and interest receivable.

Sale of goods and services

Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rental income from the use of non-produced assets such as land. User charges include sale of goods and services revenue.

Specific purpose payments (SPPs)

A Commonwealth financial contribution to support delivery of services in a particular sector. Payments are made from the Commonwealth Treasury to state and territory treasuries and are appropriated to the relevant government agency.

State final demand (SFD)

Final consumption expenditure plus gross fixed capital formation in each jurisdiction. It represents the total expenditure on consumption and investment in a jurisdiction.

Superannuation interest cost

Interest cost is the increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement, as per the relevant accounting standard. The cost is measured net of the return on plan assets of defined benefit schemes.

Tax equivalent regime

The mechanism to ensure government business divisions and government owned corporations incur similar tax liabilities to privately owned organisations. Thus, greater parity exists between the cost structures of government-controlled trading entities and the private sector, aiding in the achievement of competitive neutrality.

Total public sector (TPS)

The total public sector is formed through a consolidation of the non financial public sector and public financial corporations.

Treasurer's Advance

An appropriation purpose of that name as specified in the *Appropriation Act*, which provides a pool of funds specifically set aside in each budget to meet one-off unexpected costs that arise during the year and are substantial enough to warrant additional appropriation.

Uniform Presentation Framework (UPF)

A uniform framework agreed by the Council of Federal Financial Relations to incorporate accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting. The UPF requires Commonwealth, state and territory governments to present a minimum set of budget and financial outcome information based on the GFS, according to an agreed format and specified reporting arrangements.