Chapter 2

Fiscal outlook

Overview

The information provided in this chapter meets the requirements of section 10(1)(a) of the FITA for each fiscal outlook report to contain updated financial projections for the budget year and following three financial years, along with the revised estimate for the year preceding the budget year for the general government and non financial public sectors.

The full set of financial statements is presented in Chapter 8, *Uniform Presentation Framework*, with this chapter providing a comparison of the projections in the 2021-22 Budget with those provided in the 2020-21 Budget. As the 2021-22 Budget concurrently satisfies the FITA requirements of a mid-year fiscal outlook report, no comparison has been provided against mid-year fiscal outlook projections.

For 2021-22, the general government net operating balance is expected to be a deficit $497 million and the non financial public sector fiscal balance a deficit $1.36 billion. Net debt for the non financial public sector is expected to be $9 billion in 2021-22, with the net debt to revenue ratio forecast to be 122%.

In the 2021-22 Budget, total revenue in the non financial public sector is estimated to be $7.4 billion in 2021-22, reducing to $6.89 billion in 2024-25, with total expenditure (including net capital) estimated to be $9.36 billion in 2021-22 and $8.23 billion by 2024-25. This chapter discusses the forward estimates and 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 2020-21 Budget.

Table 2.1: General government sector – net operating balance

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	- 1 676	- 774	- 819	- 739	n/a
2021-22 Budget	- 1 240	- 497	- 536	- 480	- 570
Variation from 2020-21 Budget	436	277	283	259	n/a

n/a: not available at the time of publishing the 2020-21 Budget

The net operating balance represents total revenue less total operating expenses, with capital spending only recognised in the fiscal balance. As shown in Table 2.1, while remaining in a deficit position, the general government sector net operating balance is projected to improve when compared to forecasts at the time of the 2020-21 Budget.

For 2020-21, the net operating balance is now estimated to be $1.24 billion, a $436 million improvement from the 2020-21 Budget. From 2021-22 and across the forward estimates, net operating balance deficits are expected to stabilise with a net operating balance deficit of $497 million in 2021-22 and deficits averaging $529 million per annum over the forward estimates period. The improved net operating balance deficits since the 2020-21 Budget are predominantly due to:

- improvements in the Territory's GST revenue as a result of upward revisions to forecast growth in the national GST pool and improvement in the Territory's GST relativity
- additional own-source revenue, mainly mining royalties

- increased Commonwealth revenue for capital purposes where expenditure is recognised in the fiscal balance only
- partially offset by the effect of government policy decisions, mainly to support the Territory's economic recovery, protect Territorians against COVID-19, and address demand pressures for government services.

Further analysis of government policy changes and non-policy changes is provided later in this chapter.

Non financial public sector fiscal balance

The fiscal balance projections are influenced by the same factors affecting the general government sector net operating balance, however the fiscal balance includes net capital investment and excludes depreciation. The general government sector excludes the three public non-financial corporations: 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 highlights the movements in the non financial public sector fiscal balance and compares the updated projections with those published in the 2020-21 Budget.

Table 2.2: Non financial public sector – fiscal balance

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	- 2 450	- 1 713	- 1 136	- 938	n/a
2021-22 Budget	- 1 873	- 1 356	- 1 215	- 807	- 629
Variation from 2020-21 Budget	577	357	- 79	131	n/a

n/a: not available at the time of publishing the 2020-21 Budget

As shown in Table 2.2, the fiscal balance deficit is expected to peak at $1.87 billion in 2020-21 and reduce over the forward estimates to $629 million by 2024-25. The fiscal balance deficit is anticipated to improve by $986 million over the budget cycle when compared with the 2020-21 Budget.

Medium-term fiscal outlook

This section provides an assessment of the Territory's updated medium-term fiscal projections consistent with the Territory Government's *A plan to fix the budget*.

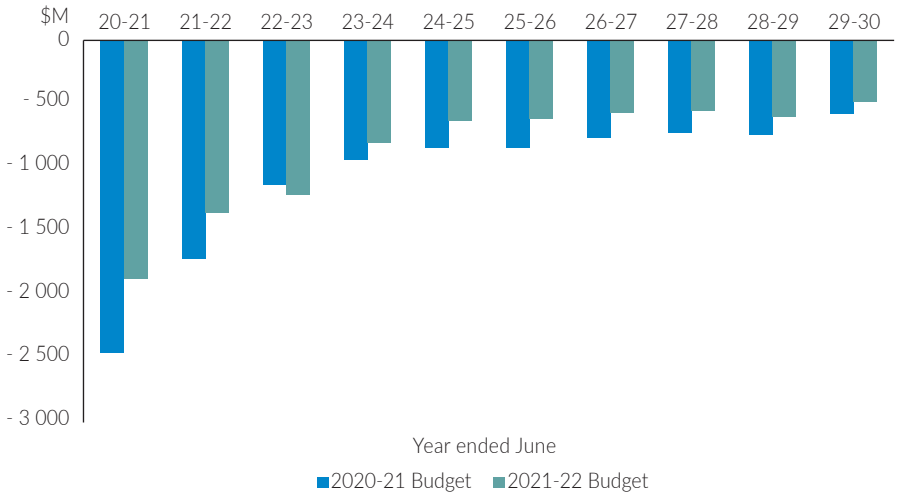
Chart 2.1 compares the updated projections in the 2021-22 Budget for the non financial public sector's fiscal balance with those reported in the 2020-21 Budget. The chart illustrates that the fiscal balance has improved in all years when compared to the 2020-21 Budget, with the exception of 2022-23 but remains in a deficit balance across all years.

While GST revenue estimates have improved in the 2021-22 Budget, the increase is not sufficient to offset the cumulative loss of Commonwealth revenues over recent years. Accordingly, without significant reductions in government expenditure that would undermine service standards or worsen economic outcomes, the fiscal balance is not projected to return to surplus over the medium-term outlook.

Consistent with economic forecasts, the fiscal outlook does not factor in the impact of potential or planned projects yet to reach final investment decision. To the extent that these projects proceed over the coming years, the fiscal outlook will improve through increased economic activity and additional own-source revenues.

Furthermore, the Territory has not adopted the Commonwealth's 2020-21 Mid-Year Economic and Fiscal Outlook (MYEFO) estimates of GST pool growth in the forward estimate years given the significant level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative growth rates over this period. Any increase in national economic activity and subsequent GST collections above the Territory estimates will have a positive impact on the fiscal balance projections.

Chart 2.1: Non financial public sector fiscal balance – medium-term outlook



Given the uncertainty associated with the impacts of COVID-19 on the national economy, including lockdowns, border restrictions and consumer confidence, there is a high degree of volatility associated with 10-year projections. Based on current projections, net debt is estimated to be $13.7 billion by 2029-30, with the net debt to revenue ratio projected to be 181% at that point. When compared to the 2020-21 Budget, net debt has improved by $2.3 billion by 2029-30, and the net debt to revenue ratio by 35 percentage points. Any improvement in the economic and fiscal outlook as a result of projects proceeding, or upturn in the national economy, would also improve the net debt position.

Reconciliation with previous fiscal projections

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

The most recent fiscal outlook report published under the FITA is the 2020-21 Budget. Accordingly, the analysis in the remainder of this chapter reflects policy and non-policy changes since the 2020-21 Budget. Policy variations are the result of government decisions to implement new or expand existing agency programs and savings, revenue and contingency measures. Non-policy variations are the result of influences outside government's control, such as the timing of payments or changes in external economic conditions.

Policy and non-policy changes since 2020-21 Budget

Table 2.3 summarises the effect of policy and non-policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget.

Table 2.3: Non financial public sector fiscal balance – policy and non-policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
2020-21 Budget	- 2 450	- 1 713	- 1 136	- 938
Policy changes	- 50	- 151	- 128	- 49
Non-policy changes	627	507	51	180
2021-22 Budget	- 1 873	- 1 356	- 1 215	- 807

As shown in Table 2.3, the improvement in the fiscal balance in 2020-21 to 2021-22 is largely attributable to non-policy changes, notably increased GST revenue and own-source revenues.

Details of policy and non-policy changes are discussed in further detail below.

Policy changes since 2020-21 Budget

Table 2.4 outlines the effect of policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget. The policy changes over the budget and forward estimates relate to government's operational and capital commitments, offset by new savings and contingency measures.

Table 2.4: Non financial public sector fiscal balance – policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Recurrent				
Operational commitments	- 51	- 124	- 89	- 95
Savings and contingency measures	1	52	46	46
Net recurrent	- 50	- 72	- 43	- 49
Capital commitments	nil	- 79	- 85	nil
Total policy changes	- 50	- 151	- 128	- 49

The policy changes over the budget cycle largely relate to continued funding to protect Territorians against COVID-19, initiatives to support economic recovery, funding to meet demand growth for government services and initiatives aimed at enhancing community safety. Additional funding was also provided to support the delivery of government's infrastructure program. Policy decisions are discussed in more detail below.

Operational commitments

Key commitments include:

- initiatives aimed at protecting Territorians against COVID-19:
  - $25.2 million in 2020-21 and $15 million in 2021-22 to support the Territory's public health response to COVID-19 and fund the vaccine rollout
  - $3.5 million in 2021-22 to maintain the Howard Springs quarantine facility and border control infrastructure across the Territory

- initiatives to support economic recovery:
  - $60 million in 2021-22 and $60 million in 2022-23 to expand the Local Jobs Fund package to provide concessional loans and equity finance to deliver financing options to small and emerging businesses with long-term potential. These payments are recognised as financial assets in accordance with accounting standards and do not affect the fiscal balance
  - $26.3 million in 2021-22 and $12.3 million ongoing from 2022-23 to support the tourism and hospitality sector through focused and effective marketing to increase visitation to the Territory, encouraging private investment and continuing to support festivals and events
  - $7.8 million in 2021-22, $10.5 million in 2022-23 and $9.5 million ongoing from 2023-24 to fund resource exploration for areas of high prospectivity, develop a market-led process for renewables in remote communities and undertake a hydrogen trial, and establish the Territory's mineral development taskforce
  - $5.6 million ongoing from 2021-22 to manage parks and reserves and $12 million over four years from 2021-22 to 2024-25 to support the continuation of the Aboriginal ranger grants program
  - $2 million in 2021-22 and $3.7 million ongoing from 2022-23 to establish Infrastructure NT and the Infrastructure Commissioner to undertake strategic planning for future industry and population growth, boost capacity to design and deliver new land releases, provide additional resources for the Territory Strategic Water Plan and to target international migrant programs
  - $1.5 million per annum from 2021-22 to 2023-24 and $1 million ongoing from 2024-25 to establish the Investment and Major Projects commissioners, and fast track a sustainable development precinct for agribusiness
  - $1 million in 2020-21, $3.5 million in 2021-22 and 2022-23, $2 million in 2023-24 and $3 million in 2024-25 and 2025-26 to develop new advanced manufacturing opportunities, and fund resource and agribusiness studies
- funding to address demand for government services:
  - $23 million in 2021-22, $22.9 million in 2022-23 and $22.7 million ongoing from 2023-24 to maintain police numbers, increase CCTV monitoring, improve capability within Northern Territory Emergency Services, expand school-based policing, and meet information and communications technology (ICT) system costs associated with National Disability Insurance Scheme worker screening
  - $15 million in 2020-21 and $10 million ongoing from 2021-22 to support correctional services
  - $4.9 million in 2020-21 and $1.9 million ongoing from 2021-22, including $3 million in 2020-21 for one-off legal expenses in courts and the Northern Territory Legal Aid Commission, and ongoing funding to support the operation of the Judicial Commission and victims of crime services
- initiatives aimed at enhancing community safety:
  - $6.2 million over three years from 2021-22 to continue the Biz Secure program from 1 July 2021
  - $2.5 million in 2021-22 and $3.5 million ongoing from 2022-23 to fund first response services to antisocial behaviour in Darwin, Palmerston and Alice Springs
  - $1.7 million in 2022-23 and $2 million ongoing from 2023-24 to fund the operations of a Barkly youth work camp
  - $1 million in 2020-21 and 2021-22, $1.1 million in 2022-23 and $3.2 million ongoing from 2023-24 to support youth services in Alice Springs and Tennant Creek.

Savings and contingency measures

In addition, the 2021-22 Budget incorporates savings and contingency measures to offset the impact of other policy commitments. Key savings and contingency measures include:

- reducing the consumer price index (CPI) indexation in agency budgets to nil in 2021-22, 1.4% in 2022-23, 1.8% in 2023-24 and 2.2% ongoing from 2024-25, consistent with updated economic forecasts
- utilising contingency of $35 million per annum previously set aside to offset the cost of policy decisions.

Capital commitments

The Territory Government approved additional funding to provide a total of $400 million in both 2021-22 and 2022-23 to progress Territory-funded capital projects on the infrastructure program.

Non-policy changes since 2020-21 Budget

Table 2.5 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget.

Table 2.5: Non financial public sector fiscal balance – non-policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
GST revenue	379	359	240	217
Taxation and mining royalties	70	36	31	49
Interest variations	- 4	16	33	46
Government owned corporations	29	- 13	- 116	- 21
Leases	- 8	1	- 48	8
Revised timing of ship lift facility	7	173	- 60	- 90
Commonwealth and agency-related adjustments	153	- 64	- 30	- 29
Total non-policy changes	627	507	51	180

The non-policy changes since the 2020-21 Budget result in an improvement in the fiscal balance in all years over the budget cycle. Key variations include:

- an increase in GST revenue forecasts averaging $299 million per annum from 2020-21 compared to the 2020-21 Budget, largely as a result of upward revisions to national GST pool growth and increase in the Territory's GST relativity for 2021-22
- increases in taxation and mining royalty revenue across all years, largely relating to revised estimates from miners and one-off increases in 2020-21 in gambling taxes and motor vehicle taxes
- an improvement to net interest variations from 2021-22 due to lower interest expenses than previously forecast as a result of decreased borrowing requirements following the GST revenue increases
- revised revenue and expense assumptions and capital requirements incorporated in the government owned corporations' statements of corporate intent (SCIs)
- a net worsening of $47 million over the budget cycle due to the upfront recognition of renewed office accommodation and transport asset leases, in accordance with accounting standards
- the revised timing of payments for the $400 million ship lift facility over 2020-21 to 2024-25 in line with estimated timing of construction

- Commonwealth and agency-related adjustments, resulting in an improvement in 2020-21 and worsening across the budget and forward estimates. These are largely related to the revised timing of milestone payments for ICT systems, road and other infrastructure projects and school and health-related expenses.

2021-22 Budget and forward estimates

Basis of forward estimates

In accordance with the FITA, five years of forward estimates are published 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.

As part of the 2020-21 Budget, agency budgets were adjusted to reflect a nil wages indexation from 2021-22 to 2024-25, in line with the government's 2021–2024 wages policy. The wages policy included an annual $1,000 lump sum payment for public sector employees that has been funded from within existing agency resources.

The CPI parameter for the budget year is generally adjusted to match the year-on-year change in the Darwin CPI for the latest December quarter to better reflect actual price trends. While the Darwin CPI declined by 0.2% in the December 2020 quarter, a CPI factor of nil has been applied to operational costs in 2021-22. From 2022-23, CPI parameters are aligned to the Department of Treasury and Finance forecasts, with 1.4% estimated for 2022-23, 1.8% in 2023-24, and 2.2% thereafter, reflecting the long-term average inflation rate. Property management, undertaken on behalf of government by the Department of Corporate and Digital Development, receives a parameter of 3%, in line with contractual arrangements.

An additional growth parameter of 1.4% from 2021-22 is applied to wage and non-wage expenditure for all health expenditure in recognition of the cost of delivering health services.

An efficiency dividend is applied to operational costs, employee costs, and recurrent grants and subsidies premised on improving processes and technology, and delivering services more efficiently over time, as is the case with private sector enterprises. An efficiency dividend of 1% per annum has been applied from 2021-22, a reduction from 3% in 2020-21.

For the following departments, 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:

- Department of Education
- Northern Territory Police, Fire and Emergency Services
- the correctional services component of the Department of the Attorney-General and Justice
- the children and families component of the Department of Territory Families, Housing and Communities
- the hospital services component of the Department of Health.

For Territory-funded operating grants and subsidies, a composite indexation factor is applied based on 75% of the wages factor and 25% of the CPI factor, less the applicable efficiency dividend for that year.

Government owned corporation forward estimates are based on forecasts provided by the corporations during the development of their SCIs. The forecasts reflect future expectations in revenue, contracted and regulated costs, capital investments, operational efficiencies and other factors agreed by the corporation's shareholding Minister and the Board. Due to the concurrent development of the Territory budget and SCIs, the final approved SCIs for 2021-22 may differ from the estimates contained in the 2021-22 Budget.

Final SCIs will be tabled in the Legislative Assembly within six sitting days after the commencement of 2021-22.

Operating revenue – forward estimates

Table 2.6 shows the composition of Territory revenue for the non financial public sector for the 2020-21 revised estimate, 2021-22 Budget and forward estimates. Territory revenue is projected to decline on average from the budget year by 2.3% per annum, predominantly due to a reduction in current and capital grants associated with one-off COVID-19-related funding from the Commonwealth in 2020-21 and 2021-22.

Table 2.6: Non financial public sector – revenue

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Revenue					
Taxation revenue	509	546	568	588	611
GST revenue	2 896	3 159	3 127	3 207	3 302
Current grants	1 441	1 458	1 075	1 004	962
Capital grants	340	555	466	459	218
Sales of goods and services	1 144	1 106	1 154	1 198	1 235
Interest income	76	81	84	87	90
Dividend and income tax equivalent income	33	41	41	38	33
Mining royalties income	378	344	337	323	331
Other	98	106	92	101	106
Total revenue	6 914	7 396	6 943	7 005	6 888
Year-on-year percentage change (%)	n/a	7.0	- 6.1	0.9	- 1.7

n/a: not applicable

Taxation revenue

Taxation revenue represents the Territory's primary source of income that government can directly influence. It comprises payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. In 2021-22, taxation revenue is projected to increase by 7.2% to $546 million, predominantly due to estimated increases in both payroll tax and conveyance and related duty. Payroll tax revenue is expected to increase as a result of improved economic conditions following the impact of COVID-19 in 2020-21. The estimated increase in conveyance and related duty results from the cessation of home buyer concessions, and improvements in residential and commercial property markets.

From 2021-22, taxation revenue is projected to grow by an average 4% per annum, anticipating an expected return to normal growth levels, albeit from a lower base.

GST revenue

The factors 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 (CGC); and the Territory's share of the national population.

In 2021-22, the Territory's GST revenue is expected to increase to $3.16 billion, $263 million or 9.1% greater than the 2020-21 revised estimate. The increase is largely driven by a significant improvement in the national GST pool, particularly in early 2021, following significant fiscal stimulus programs and the easing of business and border restrictions. The Territory's GST relativity also improved from 4.76893 in 2020-21 to 4.79985 in 2021-22.

Current and capital grants

During each budget year there are significant changes in tied and untied Commonwealth funding estimates as funding agreements cease. Current grant revenue in 2020-21 and 2021-22 include elevated balances due to time-limited Commonwealth funding of $240 million and $274 million, respectively, for the COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians program. Over the forward estimates, current grant revenue returns to more historical levels of around $1 billion per annum.

The variation in capital grants from 2021-22 and across the forward estimates is largely due to the timing of delivery of Commonwealth-funded roads and remote housing projects.

Sales of goods and services

Sales of goods and services include fees and charges, rent and tenancy income collected by various government agencies. The most significant component relates to gas sales, electricity, water and sewerage charges collected by government owned corporations. Revenue from 2020-21 to 2021-22 will decline by 3.3% largely as a result of lower recoverable electricity network revenue as determined by the Australian Energy Regulator and lower forecast gas sales in the Power and Water Corporation. From 2021-22, sales of goods and services revenue growth are expected to return to historical long-term averages with an average growth of 3.9% per annum.

Interest income

Interest income includes returns on short-term and fixed interest investments combined with realised gains on Conditions of Service Reserve investments. Interest income from 2021-22 to 2024-25 is projected to increase with an average annual growth of 3.4%, in line with the anticipated recovery of financial markets.

Mining royalties income

Mining and petroleum income forecasts are largely 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 decrease by $34 million or 9% from 2020-21 to 2021-22, due to stronger than expected commodity prices in 2020-21. From 2021-22 and across the forward estimates, variation in mining royalties remains modest, indicative of the challenges in estimating future commodity price movements and uncertainty with the pace of global economic recovery following COVID-19.

Other revenue

Other revenue comprises miscellaneous revenue, including reimbursements and research funding from non-government organisations, and is expected to remain relatively stable at an average $101 million per annum from 2020-21.

Operating expenses – forward estimates

Table 2.7 sets out the Territory's expenditure projections for the non financial public sector for the 2020-21 revised estimate, 2021-22 Budget and forward estimates. Total expenditure comprises the day-to-day running costs of government, combined with net capital expenditure including the construction of assets and capital purchases, such as vehicles, ICT and equipment, offset by asset sales.

Table 2.7: Non financial public sector – expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	2 838	2 815	2 671	2 648	2 622
Superannuation expenses	456	454	457	467	477
Depreciation and amortisation	756	752	742	743	733
Other operating expenses	2 308	2 239	2 083	2 046	2 057
Interest expenses	396	421	447	468	478
Current grants	1 095	1 095	996	994	970
Capital grants	247	92	32	32	28
Subsidies and personal benefit payments	91	71	70	67	68
Total expenses	8 186	7 940	7 499	7 464	7 432
Year-on-year percentage change (%)	n/a	- 3.0	- 5.6	- 0.5	- 0.4
Net capital	1 126	1 422	1 313	1 074	796
Total expenditure	9 312	9 362	8 811	8 538	8 228
Year-on-year percentage change (%)	n/a	0.5	- 5 .9	- 3.1	- 3.6

n/a: not applicable

As shown in Table 2.7, total expenses are expected to decline by 3% in 2021-22, mainly due to the cessation of Territory Government COVID-19 stimulus measures, including the Business Hardship Package, Home Improvement Scheme and Small Business Survival Fund, funded in 2020-21. Total expenses are projected to decline by a further 5.6% in 2022-23 and remain largely flat from 2023-24 in line with the conclusion of Commonwealth funding agreements and constrained parameter growth applied to Territory-funded expenses, as detailed earlier in this chapter.

Employee and related expenses

Employee and related expenses continue to account for about 40% of total expenses and are estimated to remain relatively stable over 2020-21 and 2021-22, before declining by 4.3% in 2022-23. Employee and related expenses in 2020-21 and 2021-22 incorporate time-limited expenditure to maintain the Territory's public health response to and preparedness for COVID-19 combined with Commonwealth funding for the COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians program. From 2022-23, employee and related expenses will average $3.11 billion per annum over the forward estimates period in line with government's new wages policy from 2021-22.

Other operating expenses

Other operating expenses are expected to decrease by 3% from 2020-21 to 2021-22 and a further 7% from 2021-22 to 2022-23 due to the same factors affecting employee and related expenses. The reduction is however, to a greater extent, due to a larger proportion of Commonwealth funding in 2020-21 and 2021-22 for COVID-19 quarantine arrangements allocated to other operating expenses than to employee expenses. Over the forward estimates, other operating expenses are projected to remain largely constant at an average $2.06 billion per annum.

Interest expenses

Interest expenses are projected to increase over the budget cycle in line with borrowing requirements to fund projected fiscal balance deficits. However, as shown in Table 2.8, when compared to the 2020-21 Budget, interest expenses have declined in all years as a result of lower overall borrowing requirements consistent with the projected improvement to the fiscal balance over the budget cycle.

Table 2.8: Non financial public sector – interest expenses

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	398	434	476	511	n/a
2021-22 Budget	396	421	447	468	478
Variation from 2020-21 Budget	- 2	- 13	- 29	- 43	n/a

n/a: not available at the time of publishing the 2020-21 Budget

Current grants

Current grant expenses are projected to remain stable over 2020-21 and 2021-22 and estimated to decline by 9% in 2022-23 before remaining largely constant over the forward estimates, in line with the cessation of time-limited COVID-19 stimulus measures and Commonwealth funding agreements.

Capital grants

Capital grant expenses are projected to decline by $155 million or 62.6% in 2021-22, predominantly as a result of the Home Improvement Scheme concluding in 2020-21. In 2022-23, capital grants will decline a further 65% to average $31 million per annum over the forward estimates period, due to one-off grants in 2021-22 relating to the Jabiru national broadband network rollout, Kakadu mobile connectivity program, Roadhouse to Recovery grant program and remote homelands upgrades.

Net capital

The revised timing of a number of key projects, including milestone payments for ICT systems, remote Indigenous housing, the ship lift facility and Commonwealth road programs have resulted in variations to net capital spending across the forward estimates. Overall, net capital spending is higher than projected in the 2020-21 Budget due to increased Territory-funded capital investment in both 2021-22 and 2022-23 to progress infrastructure works, and increased Commonwealth funding for roads. These increases are partially offset by a reduction in capital projects and realignment of costs for business transformation projects in the Power and Water Corporation that can no longer be capitalised in accordance with accounting standards.

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 $9 billion in 2021-22, increasing to $11.41 billion by 2024-25 (Table 2.9). The net debt to revenue ratio is projected to be 122% in 2021-22, increasing to 166% by 2024-25. When compared to the 2020-21 Budget, both net debt and net debt to revenue ratio have significantly improved, largely in line with improved fiscal balance deficits. By 2023-24, net debt is expected to improve by $1.14 billion and the net debt to revenue ratio by 24 percentage points.

Table 2.9: Non financial public sector – net debt and net debt to revenue ratio

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2020-21 Budget	8 404	10 084	11 149	12 004	n/a
2021-22 Budget	7 662	9 001	10 163	10 866	11 405
Variation from 2020-21 Budget	- 742	- 1 083	- 986	- 1 138	n/a
Net debt to revenue (%)					
2020-21 Budget	132	148	167	179	n/a
2021-22 Budget	111	122	146	155	166
Variation from 2020-21 Budget	- 20	- 26	- 21	- 24	n/a

n/a: not available at the time of publishing the 2020-21 Budget

Factors affecting net debt are the net result of policy and non-policy changes. Policy changes outlined earlier in this chapter include government's operational and capital commitments, offset by new savings and contingency measures. Non-policy changes include increased GST, taxation and mining royalty revenue, the effect of renewed and extended leases of office accommodation and transport assets, operating and capital results of government owned corporations, and timing of Commonwealth and agency payments. Table 2.10 summarises the effect of policy and non-policy changes on net debt since the 2020-21 Budget and demonstrates that non-policy changes are the main contributor to the improvement in net debt.

Table 2.10: Non financial public sector – cumulative changes to net debt since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative changes				
Policy changes	50	201	329	378
Non-policy changes	- 792	- 1 284	- 1 315	- 1 516
Net impact	- 742	- 1 083	- 986	- 1 138

Table 2.11 provides details on the cumulative factors that have contributed to the improvement in net debt over the forward estimates since the 2020-21 Budget.

Table 2.11: Non financial public sector – detailed cumulative changes to net debt since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative changes				
Operational commitments	51	175	264	359
Savings and contingency measures	- 1	- 53	- 99	- 145
Capital commitments	nil	79	164	164
GST revenue	- 379	- 738	- 978	- 1 195
Taxation and mining royalties	- 70	- 106	- 137	- 186
Interest income	4	- 12	- 45	- 91
Government owned corporations	- 29	- 16	100	121
Leases	8	7	55	47
Revised timing of ship lift facility	- 7	- 180	- 120	- 30
Commonwealth and agency-related adjustments	- 318	- 238	- 189	- 181
Net impact	- 742	- 1 083	- 986	- 1 138