Chapter 5

Intergovernmental financial relations issues

The information provided in this chapter meets the requirements of sections 10(1)(c) and 10(1)(f) of the FITA in respect of Commonwealth revenues, both tied and untied. It includes forecasts of Commonwealth revenues, explanations of material differences between the revised forecasts and those published in the 2020-21 Budget, and an analysis of the changes in the forecasts.

Overview

Total Commonwealth funding to the Territory in 2021-22 is estimated at $5.17 billion. This comprises $3.16 billion in untied GST revenue and $2 billion in tied funding. Commonwealth funding represents 70% of total revenue to the Territory in 2021-22.

GST revenue is the largest single fiscal transfer from the Commonwealth. The Territory is expected to receive $3.16 billion in GST revenue in 2021-22, $263 million higher than the 2020-21 revised estimate of $2.9 billion. This increase represents a year-on-year improvement of 9.1%.

The estimated GST revenue increase between years is mainly due to a significant improvement in the national GST pool following the impacts of COVID-19, particularly in the first quarter of 2021. The improvement also reflects an increase in the Territory's GST relativity between 2020-21 and 2021-22, from 4.76893 to 4.79985.

The increase in the Territory's GST relativity is the result of the CGC Report on GST Revenue Sharing Relativities 2021 Update, which assessed the Territory as requiring increased revenue due to total expenses in all states growing faster than the GST pool, increasing the GST share of those states (such as the Territory) with above-average expense requirements.

Changes to the GST distribution system come into effect in 2021-22, following the Commonwealth legislating changes to the HFE methodology from full HFE, which equalised all jurisdictions to the fiscally strongest state, to 'reasonable' HFE, being the stronger of New South Wales or Victoria, a lower equalisation standard. This reduced the Territory's relativity for 2021-22 from 4.80820 to 4.79985.

The methodology change will phase in over six years and continue to negatively impact the Territory's relativity over the transition period. Additional Commonwealth payments to the GST pool of $600 million in 2021-22 offset the negative impacts of these reforms.

Other GST impacts include disruptions caused by the 2019-20 summer bushfires and COVID-19, which resulted in a 9% decrease in the Territory's 2019-20 GST assessment. Due to payment timing issues associated with the deferral of the Commonwealth 2020-21 Budget, the Territory's GST revenue in 2020-21 was affected by a $216 million balancing adjustment deduction.

Tied Commonwealth revenue is estimated to contribute $2 billion in 2021-22, compared to $1.78 billion in 2020-21. The increase in the tied revenue estimate for 2021-22 is primarily attributable to increases in Federation Funding Agreement (FFA) framework payments for the:

- National Partnership (NP) Agreement on Land Transport Infrastructure Projects ($207.4 million)
- National Health Reform (NHR) ($73.3 million)
- National School Reform (NSR) Agreement ($54.8 million)
- COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians ($34.3 million)
- NP for Remote Housing Northern Territory ($33.1 million).

These were partially offset by reductions in payments for the COVID-19 health response ($53.2 million), other FFA payments ($42.5 million), other Commonwealth payments ($41.6 million) and the NP on Northern Territory Remote Aboriginal Investment (NTRAI) ($30.4 million).

Federal financial relations

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

Commonwealth funding to the Territory includes both untied GST revenue and tied funding to be used for specific purposes. General revenue is discretionary, allowing states to determine how to spend this funding according to their specific priorities, as sovereign governments. Tied funding includes major funding agreements, payments under an FFA, including the former NP and project agreement models, and Specific Purpose Payments (SPPs). Previously, the Territory also received untied funding in the form of GST top-up payments and grants in lieu of uranium royalties. Neither of these payments are expected to continue due to the expiry of the Commonwealth's relativity guarantee for the Territory and the closure of the Ranger uranium mine.

Table 5.1 shows total Commonwealth payments to the Territory are estimated at $5.17 billion in 2021-22, of which 61.1% is general revenue assistance funding and the remaining 38.9% is tied funding.

Compared with 2020-21, total revenue from the Commonwealth is expected to increase by $495.9 million, or about 10.6%, in 2021-22.

Table 5.1: Components of Territory revenue, 2020-21 to 2021-22[1]

	2020-21 Budget	2020-21 Revised	2021-22 Budget
	$M	$M	$M
General revenue assistance	2 518	2 898	3 159
GST revenue[2]	2 517	2 896	3 159
Grants in lieu of uranium royalties	2	2	
Tied revenue	1 607	1 779	2 013
Major funding arrangements[3]	723	695	823
Federation Funding Agreement payments[4]	678	858	1 007
Specific purpose payments[5]	15	15	15
Other Commonwealth payments[6]	191	210	169
Total Commonwealth revenue	4 125	4 677	5 172
Territory own-source revenue	2 255	2 238	2 224
Total revenue	6 380	6 914	7 396

1 Includes non-financial public sector.
2 Includes balancing adjustments for over or under payment of GST in the preceding financial year.
3 Includes NHR, NSR Agreement (including payments 'through' the Territory for non-government schools) and NHHA funding.
4 Includes all payments under an FFA, including NTRAI, NP for Remote Housing NT, NP Agreement on Land Transport Infrastructure Projects, COVID-19 Response (health), COVID-19 Quarantine Arrangements at the NT Centre for National Resilience for Organised National Repatriation of Australians, and other FFA payments.
5 SPP on NASWD.
6 Includes funding under the Disaster Recovery Funding Arrangements and Commonwealth own-purpose expenditure.

GST revenue

Overview

GST revenue is the largest revenue transfer from the Commonwealth, estimated to account for 61.1% of total Commonwealth payments to the Territory in 2021-22.

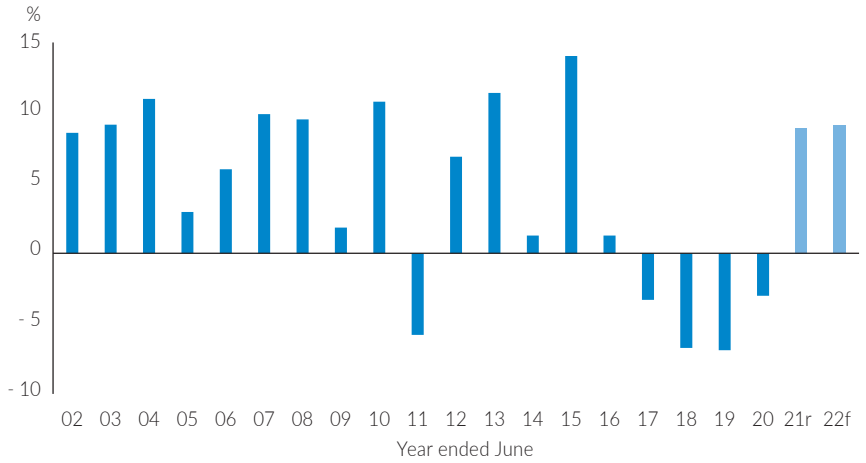
Prior to 2021-22, a state or territory's GST revenue allocation was dependent on three parameters: its GST relativity as recommended by the CGC and approved by the Commonwealth Treasurer, the total amount of GST revenue available for distribution, referred to as the GST pool, and the state or territory's share of the national population. From 2021-22 onwards, GST revenue allocation is also affected by the Commonwealth's legislated changes to the HFE methodology.

In 2020-21, the Territory's GST revenue is expected to be $2.9 billion. This is an improvement of $379 million since the 2020-21 Budget, attributable to significantly stronger than expected national GST pool collections in early 2021 corresponding with the easing of national lockdowns in response to COVID-19.

In 2021-22, the Territory's GST revenue is expected to increase by $263 million (9.1%) to $3.16 billion. The estimated increase is driven by changes in national consumption and the GST pool distribution, including 0.8% increase in the GST pool and an increase in the Territory's GST relativity to 4.79985. The increase also reflects a return to normal GST payment timing in 2021-22 following a larger than usual balancing adjustment that resulted in a deduction of $216 million in 2020-21, associated with the deferral of the Commonwealth 2020-21 Budget.

Since 2000, the Territory's GST revenue has averaged annual growth of about 3.9%. However, as Chart 5.1 shows, the amount of GST revenue the Territory receives can be highly volatile year on year, with annual growth rates ranging from -6.9% up to 14% across the period 2001-02 to 2021-22.

Chart 5.1: Territory GST revenue, annual growth, 2001-02 to 2021-22[1]



r: revised; f: forecast

1 GST revenue amounts include balancing adjustments for the over or under payment of GST revenue to the Territory in the preceding financial year. Excludes GST top-up payment in 2019-20.

Source: Commonwealth Final Budget Outcome 2001-02 to 2019-20, and Department of Treasury and Finance estimate for 2020-21 and 2021-22

Table 5.2 shows how each of the GST parameters have contributed to the difference in the Territory's GST revenue estimates between 2020-21 and 2021-22.

Table 5.2: Estimated drivers of change in the Territory's GST revenue from 2020-21 to 2021-22

	$M
GST revenue for 2020-21	2 896
Change caused by:	
GST relativities	12
GST pool[1]	26
Population share	5
Interaction between GST parameters[2]	221
Total change	263
GST revenue for 2021-22	3 159

1 Includes additional Commonwealth payments to the GST pool in 2021-22.
2 Primarily driven by the removal of the $216 million reduction in 2020-21 as a result of overpayment in 2019-20.

As shown in Table 5.3, the Territory's revised estimate for 2020-21 is $379 million higher than the 2020-21 Budget estimate, primarily reflecting better than expected performance in national consumption in early 2021, leading to stronger national GST collections. Similarly, recovery in GST collections for 2021-22 combined with an increase in the Territory's GST relativity is expected to increase the Territory's 2021-22 Budget by $359 million when compared to the forecast in the 2020-21 Budget.

The magnitude of these revisions reflect the volatility and uncertainty of GST revenue as a result of COVID-19. These differences highlight the difficulty in forecasting GST revenue in an ever-changing environment involving lockdowns, border restrictions, population restrictions and stimulus programs. Further discussion on risks to the forward estimates associated with COVID-19 is set out at Chapter 7, *Risks and contingent liabilities*.

Table 5.3: Factors contributing to revisions in the Territory's GST revenue estimates

	2020-21	2021-22
	$M	$M
GST revenue		
As at 2020-21 Budget	2 517	2 800
As at 2021-22 Budget	2 896	3 159
Difference	379	359
Change caused by:		
GST relativities	nil	32
GST pool	380	309
Population share	- 1	4
Interactions between GST parameters[1]	nil	14
Total	379	359

1 Impact of the interaction between the updated parameters in the calculation of states' GST shares.

Impact of summer bushfires and COVID-19 on GST revenue

GST collections are directly impacted by changes in national consumption and the broader performance of the national economy. The effect of both the summer bushfires of 2019-20 across several states and COVID-19 resulted in significant contractions in the national economy, with gross domestic product (GDP) decreasing by 7% in the June quarter 2020. National household consumption recorded its first quarterly decline since the 2008 global financial crisis (GFC), decreasing by 12.3% in the June quarter 2020, the largest decline on record. Population growth was also affected by COVID-19, with border restrictions preventing the flow of interstate and international migration. Refer to the Northern Territory Economy book for more detail on the economic impacts of COVID-19.

Both the summer bushfires of 2019-20 and COVID-19 resulted in significant reduction to GST revenue, particularly in the GST pool. The GST pool contracted by -7.6% in 2019-20. This was the first time GST collections had contracted since the GFC and the largest decline since the introduction of the GST. This decline effectively reduced GST revenue by $4.9 billion for the states.

In 2020-21, the GST pool is expected to grow by 13.3% from 2019-20 actuals, reflecting national economic recovery following the onset of COVID-19. This estimate is based on the Commonwealth's 2020-21 MYEFO forecast, adjusted to reflect actual GST collections to March 2021, which were much stronger than expected.

New GST distribution system

Changes to the GST distribution system come into effect in 2021-22 following the Commonwealth legislating changes in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

GST relativities are calculated by CGC, the independent body responsible for recommending to the Commonwealth Treasurer how GST revenue should be distributed between the states each year, in accordance with HFE. The principle of HFE is designed to provide each state with the fiscal capacity to deliver the same standard of services and associated infrastructure, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

These amendments make substantive changes to the manner in which GST is distributed between the states. Previously, GST would be distributed based on the principles of full HFE. Under the new methodology, jurisdictions will be equalised to a 'reasonable' HFE standard, being the fiscal capacity of either New South Wales or Victoria, whichever is greater.

In essence, the change will improve the relativity of any state or territory with stronger fiscal performance than New South Wales or Victoria, and reduce the relativity of all other jurisdictions. In practice, this results in an increase to Western Australia's relativity and a reduction in the relativities for all other jurisdictions. These HFE changes are scheduled to transition progressively from 2021-22 over six years.

The new GST distribution system also introduces a minimum GST relativity floor of 0.7 from 2022-23, increasing to 0.75 in 2024-25. If a jurisdiction's relativity is lower than the GST floor, the GST allocations of all other states will be reduced based on their share of the national population to fund the jurisdiction up to the relativity floor. Currently, the only jurisdiction with a relativity of less than 0.7 is Western Australia, reflecting its above-average capacity to raise mining royalties.

To partially offset the negative impacts of these reforms on states and territories other than Western Australia, the Commonwealth has committed to permanently boost the GST pool with additional annual contributions of $600 million from 2021-22, increasing by a further $250 million from 2024-25. These payments will be indexed annually in line with GST pool growth.

In addition to supplementing the GST pool, if any jurisdiction's GST revenue under the new system is less than the GST that would have been realised under the old methodology (excluding the additional GST pool contribution from the Commonwealth), the Commonwealth has guaranteed additional payments to affected jurisdictions as part of a 'no-worse-off' guarantee. To honour this guarantee, the Commonwealth 2020-21 MYEFO estimated payments totalling $31 million in 2021-22 to other states and territories. The Territory is not expected to receive any payments under this guarantee, as the reduction in the Territory's GST allocation caused by the HFE methodology change is expected to be fully offset by an increase in revenue resulting from the Commonwealth supplementing the pool.

This guarantee provides some certainty in the medium term that the HFE changes will not adversely impact the states until it expires in 2026-27, however subsequent GST allocations could be substantially worse with these methodology changes.

The Commonwealth has committed to a review of the HFE reforms by the end of 2026.

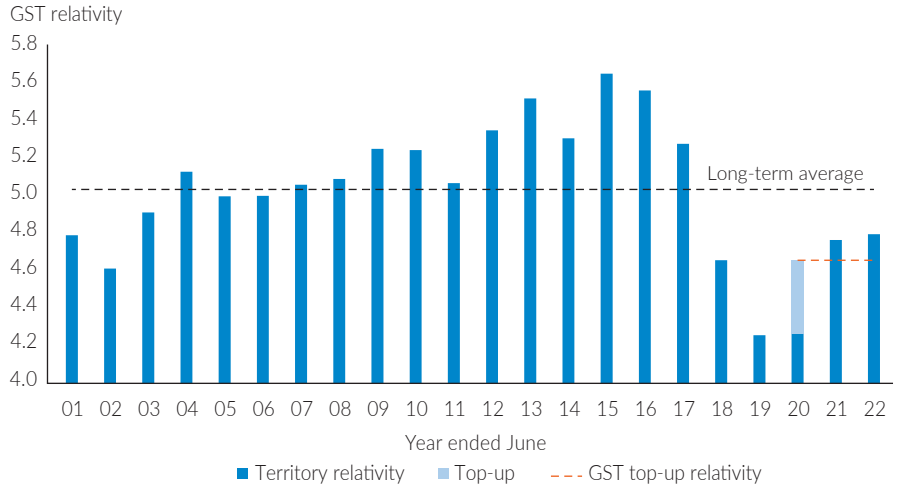
Further discussion on GST revenue risks is found in Chapter 7, *Risks and contingent liabilities*.

GST relativity

The GST relativity is one of the three parameters used to determine a state's GST revenue. The relativity, combined with a state's population, determines whether a state will receive more or less than its population share of the GST pool.

In March 2021, CGC released its 2021 Update, which recommended a slight increase to the Territory's GST relativity to 4.79985 in 2021-22 from 4.76893 in 2020-21. While this is an improvement on the Territory's GST relativity, it is below the Territory's long-term average of 5.04 as shown in chart 5.2.

Chart 5.2: Territory GST relativity, 2000-01 to 2021-22



Source: Commonwealth Final Budget Outcome, 2001-02 to 2019-20, CGC 2021 Update

The 2021-22 GST relativity recognises that the Territory is assessed as having the lowest fiscal capacity of the states, reflecting its:

- above-average assessed expenditure needs due to relatively high shares of disadvantaged population groups, including people living in remote and very remote areas, diseconomies of scale in administration and above-average infrastructure requirements, primarily for roads
- slightly above-average assessed capacity to raise own-source revenue, reflecting its above-average capacity to raise mining revenue, partially offset by its below-average capacity to raise stamp duty and other taxes
- above-average share of Commonwealth payments.

The main contributors to change in the Territory's GST relativity in the 2021 Update are changes in the Territory's circumstances between the years assessed in the CGC 2020 Review (2016-17 to 2018-19) and the 2021 Update (2017-18 to 2019-20), including:

- increased expenditure need as total national expenses grew significantly faster than growth in the GST pool, increasing the Territory's GST assessed need by $85 million
- increased investment need on rural roads and health to reflect an increase in national investment, increasing the Territory's GST assessed need by $34 million
- increased expenditure need for Aboriginal health services to reflect an increase in national spending, increasing the Territory's GST assessed need by $21 million
- decreased expenditure need due to a decrease in the Territory's relative wage cost, decreasing the Territory's GST assessed need by $55 million
- revised data on the population dispersion resulted in a reduced difference between remote and non-remote service delivery for non-admitted patients, and child protection and family services, reducing the Territory's GST assessed need by $49 million.

It is important to note the CGC's assessed revenue-raising capacity and assessed expenditure need for the Territory differs from actual revenue or expenditure incurred by the Territory. The CGC does not make recommendations on how states and territories should allocate their budgets, nor does CGC take into account all factors affecting the cost of delivering services in each state or territory.

The 2021-22 GST relativity also reflects the first year in which relativities are calculated under the new HFE methodology prescribed by the Commonwealth. The HFE reforms will phase in over six years, with the 2021-22 relativity determined on a 'blended' basis, being a combination of the previous 'full' HFE system and the new 'reasonable' HFE system. The methodology change will shift toward the 'reasonable' HFE over six years, and be determined solely under the 'reasonable' HFE from 2026-27 onwards.

If these HFE changes had not occurred, the Territory's 2021-22 GST relativity would be 4.80820 rather than 4.79985. In 2021-22, CGC estimates the impact of this change results in a reduction of the Territory's GST revenue by $11 million. If the transition had occurred in full, the Territory's relativity would be 4.74626. The Territory can expect its relativity to continue to be negatively impacted by this change as the methodology progressively transitions to 'reasonable' HFE by 2026-27.

In addition to the changes in relativities, CGC publishes an estimate of the Territory's total GST allocation. As GST revenue is paid on a forecast basis, allocations may not align with actual state GST revenue annually, with differences accounted for as a balancing adjustment in the subsequent financial year. This balancing adjustment was particularly significant in 2020-21 as a result of an overpayment in 2019-20 associated with the deferral of the Commonwealth 2020-21 Budget, which is not reflected in the CGC 2021 Update.

The CGC also adopts the Commonwealth's 2020-21 MYEFO estimates of the GST pool and national population growth, which differ from the Territory's estimates. Territory GST pool estimates differ to reflect updated GST collection information since the MYEFO was published.

As the economic impacts of COVID-19 began in late 2019-20, they only had a limited effect on GST relativities in the 2021 Update. The impacts of COVID-19 are expected to be more pronounced in the 2022 Update.

Given the zero-sum nature of GST distribution, changes in the circumstances of other states can have a significant influence on the Territory's GST share.

There is uncertainty around how changes in larger states' revenue and expenditure patterns, particularly given the disruptions in normal activities resulting from COVID-19-related border and industry closures and stimulus measures, 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 2021-22 Budget adopts the 2021 GST relativity update for 2021-22. The GST relativity forecast for the forward estimates is based on a three-year average relativity and is held constant over the forecast period, adjusting for the transition to 'reasonable' HFE.

Further discussion on the GST relativity risks is found in Chapter 7, *Risks and contingent liabilities*.

GST pool

Consumers' discretionary spending on goods and services that attract GST drives the size of the GST pool. Forecasts of the GST pool and its growth rates are also affected by changes in GST policy, which may include broadening the scope of GST exemptions.

In 2020-21, the GST pool is expected to grow by 13.3% from 2019-20 actuals, reflecting national economic recovery following the onset of COVID-19. This estimate is based on the Commonwealth's 2020-21 MYEFO forecast, adjusted to reflect actual GST collections by the Australian Taxation Office to the end of March 2021. The updated GST data highlights large increases in GST collections in early 2021, reflecting increased consumption and consumer confidence as border restrictions eased and stimulus programs taking effect.

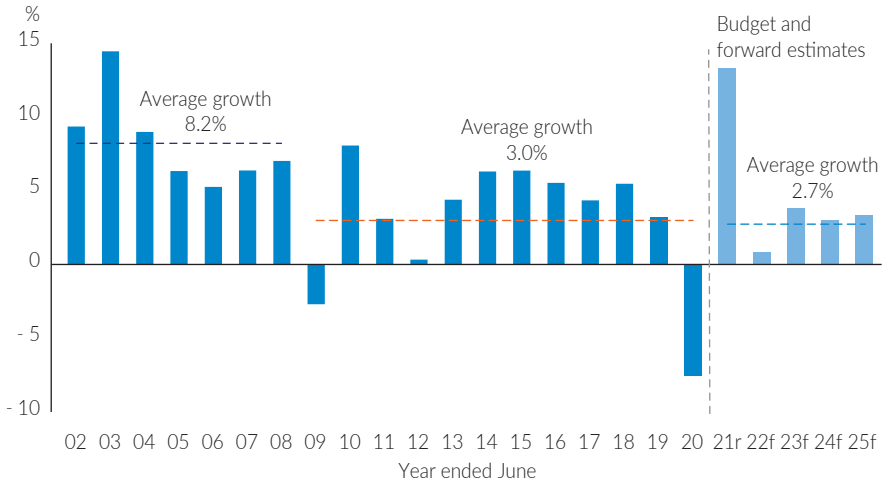
The Territory has not adopted the Commonwealth's MYEFO estimates of GST pool growth in the forward estimate years given the level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative growth rates over this period.

The GST pool is expected to increase in 2021-22 by 0.8%, reflecting a gradual return to long-run average GST pool growth as consumer and business confidence and activity increases with the COVID-19 vaccine rollout, and border and other health-related restrictions lifting. This growth estimate includes an expectation that the strong recovery in GST collections in 2020-21 partly reflects a permanent recovery in national consumption, but is also partly attributable to stimulus measures such as early superannuation withdrawals, JobSeeker and JobKeeper that expired in 2020-21 and are not expected to continue in the forward years.

GST pool growth in 2021-22 also includes the additional Commonwealth contribution to the GST pool of $600 million to coincide with changes to the HFE methodology. This is expected to increase the Territory's GST revenue by $28 million in 2021-22.

In the medium term, growth in the GST pool is assumed to return to the post-GFC average GST growth rate of 3%. Chart 5.3 shows past and expected GST pool growth rates.

Chart 5.3: Growth in the GST pool, 2001-02 to 2024-25



r: revised; f: forecast
Source: Commonwealth Final Budget Outcome, 2001-02 to 2019-20, Department of Treasury and Finance estimates for 2020-21 to 2024-25

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.

Estimates of other states' populations are based on the Commonwealth's 2020-21 MYEFO. The Territory uses its own estimates of Territory population growth, given its local knowledge regarding major projects, border restrictions as a result of COVID-19 and other one-off events that may affect migration levels. Chapter 4 of the Northern Territory Economy book provides more detail on the Territory's population characteristics and forecast growth patterns.

The Territory's 2021-22 Budget estimates the Territory's share of the national population to decline over the budget and forward estimates period from 0.9547% in 2020-21 to 0.9469% in 2024-25. This recognises that the Territory's population growth forecasts are below the national population growth rates.

After experiencing negative growth in 2019-20, the Territory's population is expected to gradually increase over the forward estimates period, influenced by improving economic and labour market conditions, and the Territory's success in managing COVID-19. In the short term, border restrictions imposed by the Commonwealth and state governments have disrupted usual interstate and overseas migration flows.

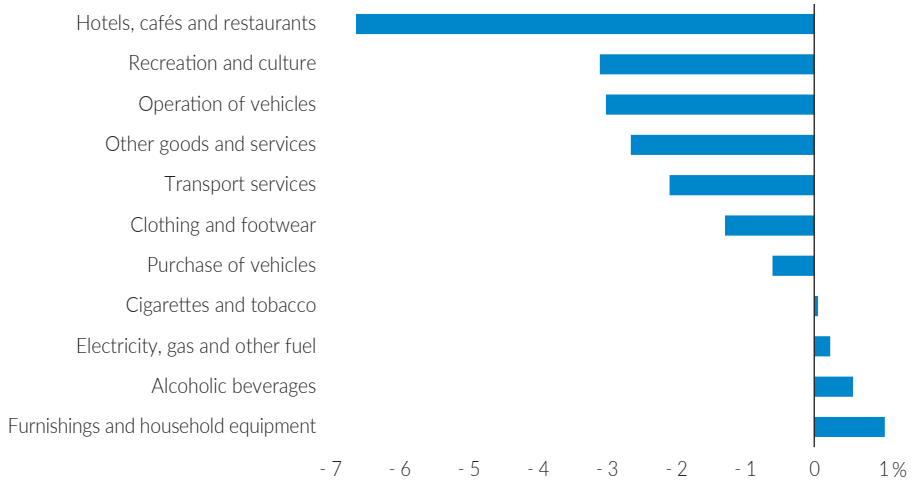
Other issues with GST

Impact of COVID-19 on consumption

GST is only levied on some goods and services, predominantly related to discretionary household expenditure. As a result of the lockdowns across Australia, household consumption patterns dramatically shifted from goods that attract GST towards goods that are GST-free such as health and groceries. A key feature of the lockdowns involved the closure of many hospitality businesses, such as restaurants and cafés, which traditionally constitute a high proportion of GST collections.

Chart 5.4 shows the estimated impact of each consumption category on national GST-taxable consumption. The impact of COVID-19 restrictions resulted in a 56.2% decrease in hotel, cafés and restaurant related consumption in the June quarter 2020, causing an estimated 6.2% decrease in GST-taxable consumption. This was partially offset by an increase in furnishings and household equipment consumption, most likely related to households purchasing home office equipment.

Chart 5.4: National quarterly drivers in GST-taxable consumption, June quarter 2020



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat No. 5206.0; Department of Treasury and Finance

The impact of COVID-19 primarily affected consumption. Avenues for consumption were limited and households spent more time at home during various lockdowns, with the household savings ratio reaching an all-time high of 22% in the June quarter 2020. This is expected to reverse over time as businesses reopen and households resume more normal consumption trends.

Data from the December quarter 2020 National Accounts suggests a recovery in household consumption. This recovery is particularly evidenced by the significant growth in GST collections in 2020-21 when compared to 2019-20.

In the long term, consumption patterns are expected to return to pre-COVID-19 patterns as border restrictions are eased and the COVID-19 vaccine rollout progresses.

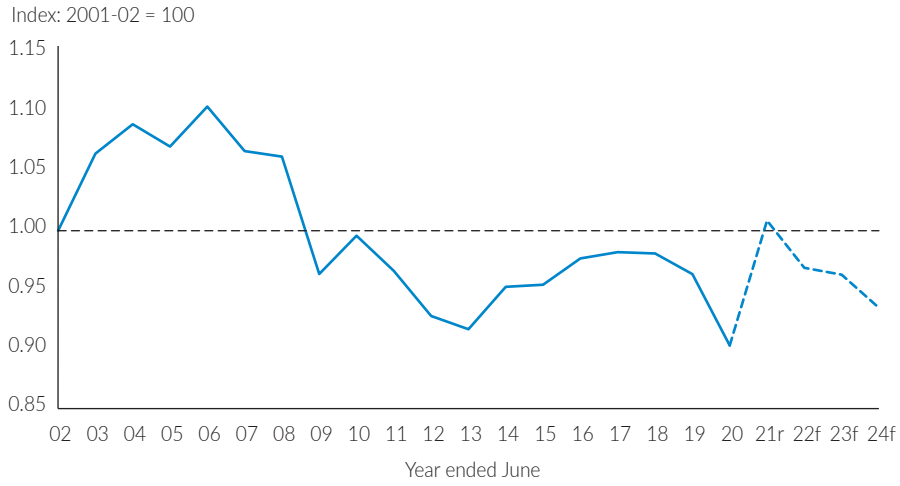
Long-term GST and consumption patterns

When the GST was first introduced in 2000, it was intended that GST revenue would provide a stable source of revenue to the states and would grow with the economy. GST was referred to as a 'growth tax' as it was expected to keep in pace with growth in the economy.

However, GST growth has not kept pace with Australia's GDP growth (181.7% increase since 2001), with the GST pool growth over the same period being 147.3%. If GST collections had kept pace with GDP growth, the GST pool would have been $8.4 billion higher in 2019-20.

This lack of growth is further highlighted by the subdued annual growth in GST collections post-GFC, averaging about 3% compared to pre-GFC annual growth of about 8.2%. Chart 5.5 demonstrates consumption of items attracting GST as a proportion of total household consumption remains below the level when the GST was introduced. This trend is expected to continue in the medium term post-COVID-19.

Chart 5.5: GST as a proportion of household consumption



r: revised; f: forecast
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat No. 5206.0, *Taxation Revenue, Australia*, Cat. No. 5506.0; Deloitte Access Economics, *Business Outlook: March 2021*; Department of Treasury and Finance

This long-term trend indicates both a decline in consumer spending on discretionary items that attract GST, and an increase in consumption of non-discretionary items.

The Commonwealth Parliamentary Budget Office estimates household spending on GST-free goods has more than doubled since the introduction of the GST, while household spending on GST taxable items has grown by less. Its analysis indicates this shift is not just driven by changes in consumer spending patterns, but also by unequal price growth between goods that attract GST and GST-free goods.

One of the largest components of household consumption is rent, accounting for an average of around 20% of consumption over the past three years. Since the introduction of GST, the proportion of consumption attributed to rent has increased by 3.4 percentage points and, as rent does not attract GST, this increase is one of the key drivers in the reduction of the proportion of spending attracting GST. The increase in household spending on rent as a proportion of total spending is both driven by a rise in renters, particularly among young Australians, and a significant increase in rental prices over the past 20 years.

Similarly to rent, household expenditure on education has significantly increased since the introduction of GST. Education is one of the fastest growing areas of GST-free household spending, with the proportion of consumption attributed to education increasing by 2.1 percentage points since the introduction of the GST. This increase reflects a shift in national consumer preferences, including rising tertiary educational attainment and an increasing preference for non-government schooling.

Household spending on health has also significantly increased since the introduction of the GST, with the proportion of consumption attributed to health increasing by 1.8 percentage points. This increase is associated with a variety of factors, including Australia's ageing population and a shift in consumer preferences to specialised doctors and dentist services. Medical technology has also greatly improved in the same period, broadening the scope of diagnosis and improving the quality of overall health care, resulting in associated health costs outpacing other expenditure categories.

If expenditure on rent, education and health continues to grow at a faster rate than other household expenditure, then GST as a proportion of household consumption will continue to decrease.

Household consumption as a proportion of GDP over the short term will continue to fluctuate with changes in mining exports, exchange rates and household savings, therefore impacting future growth in GST collections.

Tied Commonwealth revenue

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

In recent years, major sector-wide funding arrangements have been implemented under the NHR, NSR and National Housing and Homelessness (NHHA) agreements. These arrangements are ongoing and indexed annually on a sector-specific basis, providing a degree of certainty for states' budgeting.

In August 2020, the Council on Federal Financial Relations (CFFR) conducted a major reform of funding arrangements and established the new FFA framework. The FFA framework is a series of five overarching sectoral agreements, with program or project-specific funding arrangements developed in the form of FFA schedules. NP and project agreements have been consolidated into the five FFAs with no new NP or project agreements to be developed. Existing NP and project agreements have not been impacted by the introduction of the FFA framework, rather as these expire over time they will be replaced by newly developed FFA schedules as appropriate. CFFR is scheduled to review the new FFA framework by mid-2021, which may result in further changes to the form of tied funding arrangements.

The National Skills and Workforce Development (NASWD) SPP is the last remaining SPP, with SPPs in other key service delivery areas having been phased out in recent years and replaced with alternative funding arrangements. SPP funding is ongoing, indexed and untied within the relevant sector and distributed among the states on a population-share basis. Negotiations for a new National Skills Agreement are currently underway and it is expected the associated funding arrangements will replace the NASWD SPP once completed.

Table 5.5 sets out tied Commonwealth revenue recognised by the Territory in 2020-21 and 2021-22 for key agreements.

Table 5.5: Tied Commonwealth revenue 2020-21 and 2021-22

	2020-21 Revised	2021-22 Budget
	$M	$M
Major funding arrangements	695	823
National Health Reform	298	372
National School Reform Agreement	377	432
National Housing and Homelessness Agreement	20	20
Federation Funding Agreement payments	858	1 007
Northern Territory Remote Aboriginal Investment	129	99
Remote Housing	91	124
Land Transport Infrastructure Projects	199	406
COVID-19 Response (health)	53	nil
COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians	240	274
Other Federation Funding Agreement payments[1]	147	104
Specific purpose payments	15	15
National Skills and Workforce Development	15	15
Other tied Commonwealth revenue[2]	210	169
Total tied Commonwealth revenue	1 779	2 013

1 Includes all other FFA payments and funding under the Barkly Regional Deal and Darwin City Deal: Education and Community Precinct.
2 Includes funding under the Disaster Recovery Funding Arrangements and Commonwealth own-purpose expenses.

FFA payments included in the Territory's budget represent funding agreed by the Territory and Commonwealth governments. As additional agreements are finalised throughout the year, the Territory's FFA payments for 2021-22 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 revenue expected to be recognised by the Territory in 2021-22 are provided in the following sections.

Major funding arrangements

National Health Reform Agreement

The Territory is a signatory to the 2020–2025 Addendum to the NHR Agreement, which continues the Commonwealth NHR funding arrangements for public hospitals over five years from 2020-21. The addendum provides an activity-based funding framework and arrangements aimed at delivering safe high quality care, a focus on prevention, driving best practice and increasing public hospital efficiencies by funding agreed services based on a national efficient price.

Between 2020-21 and 2024-25, the Commonwealth will continue to cap its total funding contribution growth for NHR payments at 6.5% nationally per annum. Further, in recognition of the Territory's higher annual health costs, the Commonwealth has also extended its commitment of up to an additional $15 million per annum, should there be a gap between the Territory's hospital activity and the Commonwealth's cap over the same period.

The NP on COVID-19 Response was introduced in early 2020 and will complement the NHR Agreement during COVID-19. Further detail on the funding arrangements associated with this NP can be found toward the end of this chapter.

In 2021-22, the Territory expects to receive $371.5 million under the NHR Agreement, an increase of $73.3 million from 2020-21 reflecting updated funding estimates based on advice from the National Health Funding Body.

National School Reform Agreement

The Territory is a signatory to the NSR Agreement 2019-2023 and corresponding bilateral agreement. The agreement sets out national education reforms aimed at driving improved student outcomes and requirements for school funding contributions consistent with the Commonwealth's Quality Schools package. Under the NSR Agreement package, the Commonwealth will transition 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 by 2023.

Under the NSR Agreement package, the Territory has budgeted to receive $431.6 million in 2021-22, an increase of $54.8 million from 2020-21. This is due to the Commonwealth previously pre-paying a portion of the Territory's expected 2020-21 funding allocation for non-government schools in the 2019-20 year to assist with the impacts of COVID-19 on the education sector, and an increase in expected Commonwealth funding for government and non-government schools in 2021-22.

National Housing and Homelessness Agreement

The NHHA seeks to improve outcomes across the housing spectrum, including outcomes for Australians who are homeless or at risk of homelessness, while maintaining funding levels provided under the previous National Affordable Housing SPP and NP agreement on homelessness.

Under the NHHA, the Territory estimates receiving $19.5 million in 2021-22, decreasing marginally from the $20.3 million expected in 2020-21.

Federation Funding Agreement payments

Under the Territory's FFA schedules, Commonwealth funding of $1 billion is expected in 2021-22, an increase of $148.8 million from $858.4 million in 2020-21. This variance is driven by a significant increase in infrastructure investment under the NP Agreement on Land Transport Infrastructure Projects in 2021-22.

The following provides commentary on significant FFA payments 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 is eligible to receive up to $1 billion 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.

The NP on NTRAI is scheduled to expire at the end of 2021-22, presenting a significant financial risk to the Territory's budget. Negotiations between the Commonwealth and the Territory for a continuation of Commonwealth funding have commenced.

In 2021-22, the Territory has budgeted to receive NTRAI payments of $98.7 million, a decrease of $30.4 million from the $129 million the Territory expects in 2020-21. This variance is driven by a decrease in expected funding in the Remote Australia Strategies component of the NP on NTRAI in line with expected project delivery timeframes.

National Partnership for Remote Housing Northern Territory

In March 2019, the Territory and Commonwealth signed the NP for Remote Housing: Northern Territory, aimed at improving remote housing by addressing overcrowding, homelessness, poor housing conditions and severe housing shortages. The agreement will deliver up to $550 million in Commonwealth funding over five years from 2018-19, with $110 million available per year. This effectively matches the Territory's Remote Housing Investment Package, which provides $1.1 billion over 10 years to improve the housing standards in remote communities.

The Territory estimates receiving $123.9 million in 2021-22, $33.1 million more than the $90.8 million expected in 2020-21, in line with the Territory's expectations for meeting the performance obligations contained in the agreement.

National Partnership Agreement on Land Transport Infrastructure Projects

The NP Agreement on Land Transport Infrastructure Projects contributes to a national transport system that is safe, sustainable, drives economic growth and supports a competitive infrastructure market. The agreement is in place for five years from 2019-20 and encompasses a number of components, including Road Investment, Roads of Strategic Importance (ROSI), Black Spot projects, heavy vehicle safety, bridges renewal and the Developing Northern Australia roads programs.

In 2021-22, the Territory anticipates $406.3 million under the agreement, $207.4 million more than the $198.9 million expected in 2020-21, primarily driven by increased investment of $187.5 million under the Road Investment component of the agreement.

The Road Investment component includes funding for a number of large-scale projects, including the rollout of road safety treatments on rural and regional roads and COVID-19 stimulus works announced in 2020. Key projects under this component include future works on the Tiger Brennan Drive/Berrimah Road intersection and upgrades to the Buntine Highway and Central Arnhem roads, as well as the Stuart Highway intersection at Coolalinga. In 2021-22, the Territory expects $283.5 million in road investment component funding, an increase of $187.5 million compared with expected 2020-21 revenue of $96 million.

The ROSI component of the NP aims to better connect regional business and communities across Australia. The Territory expects $101.1 million in 2021-22 under ROSI, an increase of $58.4 million from 2020-21. Significant Commonwealth investment was brought forward in 2019-20 to expedite ROSI programs, and a further $173.6 million in additional funding was announced in early 2021 for upgrades to roads in and around the Beetaloo Sub-basin, including the Buchanan Highway, Western Creek Road and the Gorrie Dry Creek Road.

Adelaide River floodplain upgrades to the Arnhem Highway and Keep River Plains Road upgrades continue to be key projects under the Developing Northern Australia component of the NP in 2021-22. In 2021-22 the Territory anticipates $6.5 million in revenue, a decrease of $39.3 million from 2020-21 as most programs under the component are completed.

Key funding agreements in response to COVID-19

Over the course of COVID-19, a number of targeted funding agreements have been developed aimed at supporting Australia's response to the pandemic. For the Territory, key funding initiatives are those in the areas of public health, including the rollout of the COVID-19 vaccine and providing quarantine facilities for repatriated Australian citizens and permanent residents.

The following provides commentary on key COVID-19 funding agreements in place in the Territory.

National Partnership on COVID-19 Response

The NP on COVID-19 Response was established in early 2020 with the aim of providing additional funding to assist the states in managing their public health responses to the COVID-19 outbreak. In February 2021, the NP on COVID-19 Response was amended to include details for the coordination and delivery of the COVID-19 Vaccination Program across Australia with the intention to provide vaccines free of charge for all people living in Australia.

Funding under the program is provided on a 50/50 fixed price cost-sharing basis with the Commonwealth, states and territories to share the direct cost per vaccination dose. States and territories are required to cover all other additional costs related to the delivery of vaccinations to their communities. In the Territory, the COVID-19 vaccination program commenced in March 2021.

The NP will remain in place for the period of the activation of the Australian Health Sector Emergency Response Plan for Novel Coronavirus. The Territory expects to receive $53.2 million in 2020-21, commensurate with activity levels under the NP. Funding for 2021-22 is contingent on demand for in-scope services.

The Provision of COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians

The agreement puts in place the governance and funding framework to operate the Howard Springs quarantine facility to enable the repatriation of Australian citizens and permanent residents back to Australia. Under a variation to the agreement in early 2021, the capacity at the Howard Springs quarantine facility will be expanded to 2,000 individuals per fortnight from May 2021 until the agreement's expected expiry in December 2021, with all funding to be provided in 2020-21 and 2021-22. Up to $513.5 million in Commonwealth funding is available under the agreement.

The Territory expects to receive $239.6 million under the agreement in 2020-21 and $273.9 million in 2021-22, based on the funding set out in the variation to the agreement in early 2021.

Specific purpose payments

In 2021-22, the Territory expects to receive a total of $14.7 million in SPPs, solely through the NASWD SPP.

The SPP is expected to cease following commencement of the new National Skills Agreement, which is currently under development between the Commonwealth, states and territories. In July 2020, the Territory signed the Heads of Agreement for Skills Reform, which requires jurisdictions to develop the new agreement by August 2021 for intended commencement in January 2022. It is expected the agreement will include a new activity-based funding model that is linked to efficient pricing.

Other tied Commonwealth revenue

The Territory also receives other tied revenue from the Commonwealth, including Commonwealth own-purpose expenses, 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 Disaster Recovery Funding Arrangements. It is estimated revenue for these agreements will total $168.9 million in 2021-22, $41.6 million less than 2020-21.

Barkly Regional Deal

The Barkly Regional Deal is a 10-year initiative, comprising total project funding of $78.4 million, including $45.4 million from the Commonwealth, $30 million from the Territory Government and $3 million from the Barkly Regional Council. The initiatives supported under this deal include $9.5 million to construct and operate a visitor park in Tennant Creek to provide a range of accommodation options for transitional and seasonal visitors from outlying communities; an investment of $2.2 million towards the establishment of the Barkly Business Hub as a 'one-stop-shop' to facilitate regional job and industry growth and development; and $2.5 million for the installation of a new weather radar providing communities across the Barkly with more real-time and short-term weather information. These and other initiatives are designed to improve the productivity and liveability of the Barkly region through increasing economic growth and enhancing social outcomes by reducing overcrowding, improving child safety and supporting local Aboriginal leadership.

The total funding from the Commonwealth in 2021-22 is estimated at $6.4 million. The Territory Government will provide $4.3 million in 2021-22.

Darwin City Deal: Education and Community Precinct

The Darwin City Deal is a 10-year agreement between the Commonwealth, Territory Government and City of Darwin to position Darwin as a thriving and liveable tropical capital city, supported by a growing population and diverse economy. The deal contains a suite of projects, including the construction of a new Education and Community Precinct, being supported as part of a $97.3 million commitment from the Commonwealth from 2019-20 until 2023-24. Funding is to be provided by the Commonwealth, through the Territory Government, to Charles Darwin University. This project will see a new city campus for Charles Darwin University and community hub on the corner of Cavenagh Street and Garramilla Boulevard. The Territory is expecting the remainder of the funding of $27.3 million in 2021-22 towards completing this project.

The Territory Government is funding a range of Darwin City Deal projects contributing to the revitalisation of the city centre, including $20 million for the 450 bay State Square underground carpark, $13 million for a re-imagined State Square precinct, $47 million for a new central business district (CBD) art gallery, $5 million for heat mitigation trials, $5 million for the upgrading of Austin Lane and $1 million for the Darwin Living Lab, established as a partnership between the Commonwealth, Territory Government and City of Darwin to research, test, monitor and evaluate improvements in Darwin's liveability, sustainability and resilience.