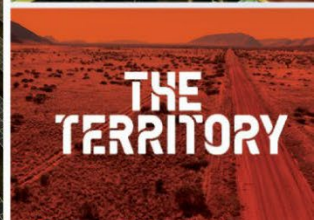
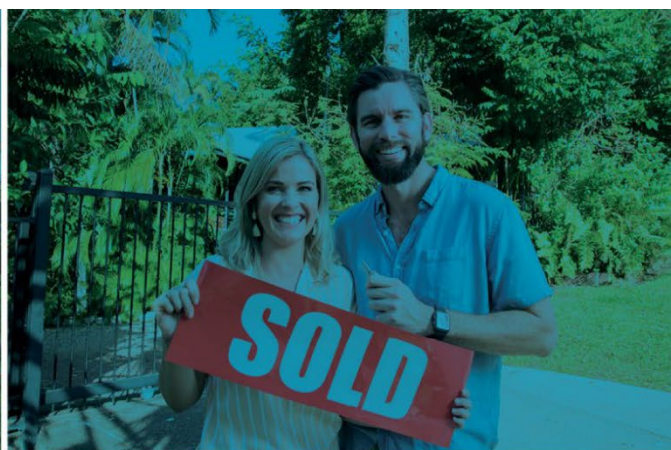
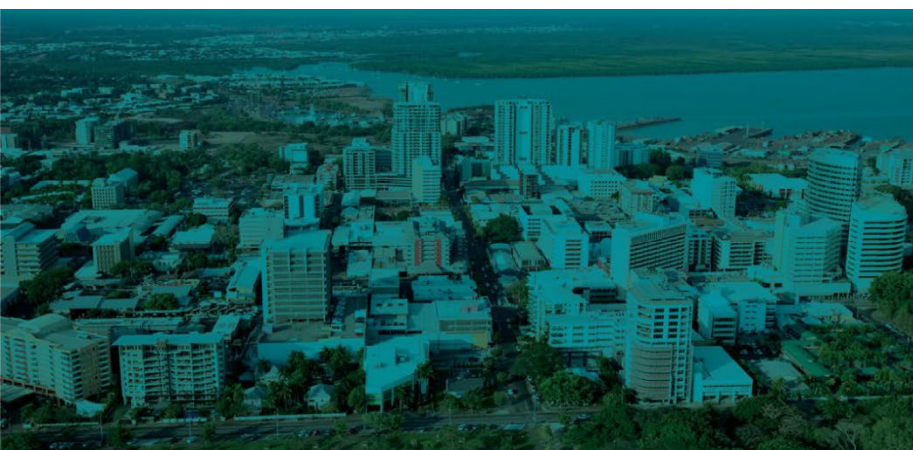


Northern Territory Economic and Fiscal Outlook

Tim McManus

Under Treasurer

28 October 2024



Agenda

1. The role of the Department of Treasury and Finance
2. The Territory's fiscal and economic outlook
3. How Treasury is supporting government to achieve its strategic priorities
4. Our role in supporting the development of evidence-based policy
5. Our role in providing commercial and economic analysis and policy advice
6. Some of our key digitisation projects

Introduction

Hi, thanks for joining me this morning.

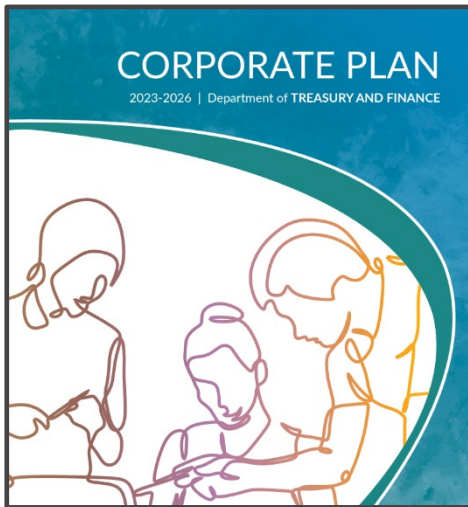
Treasury takes pride in providing objective high quality advice to government on economic and financial matters. However, we do not often give public presentations and I'd like to change this and do more to engage with our stakeholders in the private and non-government sectors, and of course, across government.

I'm hoping this presentation will kick-start a range of follow-up conversations. We, as Treasury, want to get to know you better. We will start the conversation by introducing ourselves and sharing our thoughts on the challenges and opportunities ahead for the Territory.

This morning I'll talk about:

- the role of the Department of Treasury and Finance, including key changes resulting from recent machinery of government changes
- the Territory's fiscal and economic outlook, including contextualising the Territory's unique challenges in these areas
- how the Department of Treasury and Finance is supporting government to achieve its strategic priorities, in particular, rebuilding the Territory economy and implementing several election commitments
- I'll talk about Treasury's role in supporting the development of evidence-based policy, and efficient and effective service delivery
- how we will further strengthen the role of the department in providing commercial and economic analysis and policy advice to government
- and finally, I will touch on some of the department's key digitisation projects and how these will support improved services and outcomes for Territorians.

Role of the Department of Treasury and Finance



Treasury's primary role is to promote the fiscal sustainability and economic development of the Territory and contribute to improved wellbeing of Territorians.

We do this by providing high-quality policy advice on a range of topics including the economy and major projects, fiscal management, Commonwealth funding, own-source revenue, statistical reporting, and superannuation. Our work assists the government with key resource allocation decisions and financial management strategies.

Treasury is a relatively small agency, with about 120 staff. We have a strong focus on attracting, developing and retaining a highly skilled workforce. In

comparison with the broader Northern Territory Public Sector, Treasury staff are relatively young, with most between the ages of 25 and 44, in their mid-career stage and with more females than males.

Treasury is known for “growing our own” and providing opportunities for Territory graduates to build valuable long-term careers in the public sector. I am the third Under Treasurer to come through the Treasury graduate program and many others have forged successful careers as senior executives in Territory government agencies.

Treasury's relatively young demographic reflects our focus on providing early career pathways through our work experience, vacation and graduate programs, with ongoing mentoring and professional development, enabling staff to succeed in their professional goals and career advancement. Treasury is a great place to start and grow your career.

Following the 2024 Election, there have been substantial machinery of government changes within the public sector, including creation of a range of new departments and various functions transferring between agencies.

While Treasury remains largely unchanged, we have been tasked with the new role of providing oversight of whole of government commercial contract management. This is a new function and Treasury will work with lead agencies to ensure there are appropriate planning and governance processes in place when establishing new or extending existing major commercial contracts. This will leverage Treasury's existing commercial expertise and role in managing whole-of-government financial risks that are often associated with such agreements.

Effective management of long-term commercial contracts is necessary to ensure the Territory receives the best value for money from these arrangements over time.

Treasury has also been tasked with promotion of economic growth, which will mean a more outward facing Treasury, including increased public engagement. Today's presentation is a first step in this direction.

The Territory's economic and fiscal outlook

Territory key economic indicators (%)

	2023-24e	2024-25f	2025-26f	2026-27f	2027-28f
Gross state product ¹	4.9	2.3	7.1	4.1	2.1
State final demand ¹	1.7	1.9	- 0.2	2.1	1.9
Population ²	0.8	0.9	1.1	1.1	1.1
Employment ¹	1.5	1.1	0.9	1.3	1.3
Unemployment rate ³	4.4	4.6	4.8	4.7	4.6
Consumer price index ¹	3.6	2.9	2.5	2.4	2.4
Wage price index ¹	4.1	3.2	3.1	3.1	3.0

e: estimate; f: forecast

1 Year-on-year percentage change.

2 Change in June quarter compared with June quarter the previous year.

3 Year average.

Source: Department of Treasury and Finance, ABS

I'll now provide an overview of the Territory's economic and fiscal outlook

The Territory economy strengthened in 2023-24, with state final demand, a key measure of economic activity, growing by 4.1%, exceeding our expectations. As a result, economic growth as measured by gross state product is now likely to be higher than forecast in the Pre-Election Fiscal Outlook. The stronger finish to the year reflects a surge in private and public investment, and a more resilient household sector, which has been supported by recent Commonwealth tax cuts and improving real wage outcomes. Real wage growth is now positive, following a period of decline in recent years, as new bargaining agreements come into effect that recognise and offset recent cost of living pressures.

Inflation pressures continue to ease in Darwin. Inflation has declined for six consecutive quarters to be 3% in June 2024, well below the national rate of 3.8%, and is expected to return to the RBA target band of 2% to 3% later this year. Wage growth is back above inflation, growing by 3.8% over the year to June 2024.

The Territory's gross state product (GSP) is now estimated exceed the 4.9% forecast for 2023-24 in the Pre-Election Fiscal Outlook. Improvements in household spending reflect strong growth in household incomes over the past 12 months. The resilience of the labour market has also played an important role deflecting the negative impact of cost-of-living pressures on economic activity.

Employment growth increased by 2% over the year to September, bringing an additional 2,675 people into work in the Territory. Importantly, demand for labour remains strong, with around 5,100 unfilled vacancies reported by the ABS in August 2024.

Looking forward, GSP is expected to remain solid across the forward estimates period. In 2024-25, activity will be underpinned by public housing and road investment, and the completion of the Santos Barossa project as new wells are connected to the upgraded Darwin liquefied natural gas (LNG) plant. GSP will be boosted in 2025-26 as the new LNG export capacity comes online from September 2025.

Business investment and major projects remain an important driver of economic growth in the Territory. Major projects, such as the Ichthys LNG plant and the Darwin LNG project, and the development of the waterfront precinct have defined previous periods of economic strength in the Territory, bringing work and prosperity to Territory businesses and the community.

Over the Budget and forward estimates period, projects on the horizon to keep an eye on include the development of the Beetaloo Sub-Basin, with the Territory Government recently signing gas supply contracts with Tamboran Resources and Empire Energy, the two main players currently operating in the Sub-Basin.

The Nolans Rare Earths mining and processing project near Alice Springs is also expected to result in a significant amount of investment once final investment decision is reached. This project will see the Territory become a globally significant supplier of rare earths metals, which are needed to produce electric vehicles and renewable energy technologies. The project has made significant progress securing financing, including a US\$550 million financing agreement with the Commonwealth, and other deals with the Canadian Government and South Korean Government export credit agencies. This indicates a final investment decision is imminent and will boost confidence in the Territory's, and particularly Central Australia's business community.

The Territory's public sector investment will be driven by significant investment in roads, the \$4 billion joint Territory and Commonwealth investment in remote housing, and Commonwealth Defence infrastructure investment that many local Territory businesses now play critical roles delivering.

The large pipeline of in-progress, committed, and potential work in the Territory underpins the need for flexible sources of labour supply. The Territory's labour market is currently strong, supported by public and private investment.

The unemployment rate was 4.2% in September 2024, well below the decade average of 5.1%. The Territory's participation rate is high, with 72.3% of the civilian population aged 15 and older either in work or looking for work, compared to 67.2% nationally. The number of Territorians in jobs grew by 2% to 138,500 persons over the year to September 2024.

Population growth and meeting demand for labour remains a key challenge for the Territory.

The Territory's population grew by only 0.8% over the year to March 2024. Overseas migration was the main contributor to growth, followed by births, however the Territory continues to lose people to other states each year.

Work will need to be done to increase the Territory's population and labour supply to support key projects. As I mentioned before, there are currently 5,100 vacancies in the Territory and access to labour is fundamental to increasing the attractiveness of the Territory as an investment destination.

Consistent and sustainable population and labour force growth are important ingredients for any successful regional economy. For the Territory, stronger labour supply and population will build scale in many industries. Greater scale can support broader services and greater diversity of opportunities and make the Territory a more attractive place to live and invest.

A larger population base can lead to bigger and more frequent flights, and downward pressure on fares. Scale can also lead to more competitive shopping options and new entrants to the market. Increased demand can lead to more local specialisation, such as for medical services, meaning we won't need to fly as many people to interstate for certain specialist treatments.

Consistency of growth is also important as it provides certainty for businesses and households investing in the Territory, noting investment decisions often require several years of advanced planning.

From 2003 to 2013 the Territory's population grew at an average rate of 1.7% per year, supported by work on Darwin LNG, the Ichthys LNG project, and Darwin Waterfront. During this period a significant expansion in dwelling supply occurred to house workers and create space for tourist accommodation. By contrast, over the decade between 2013 and 2023, population growth averaged only 0.5% per year. This low and slow growth in population and the economy has led to a long period of stagnant real estate prices and subdued private construction activity.

More recently the Territory's housing market has struggled with high interest rates. However, stocks of established homes on the market have recently begun to decline, and house prices are broadly stable. That said, dwelling investment has declined significantly, in part reflecting high new building costs, with building approvals currently around all-time lows. Building activity is expected to improve in the near term, as stronger wages and income tax cuts boost real incomes, and anticipated interest rates cuts over the next 18 months take effect. This will be further supported by Commonwealth and Territory investment as part of the National Housing Accord to increase housing supply, and the Territory Government's homeowner incentives to encourage people to put down roots and build a house in the Territory. I will talk more about government's homeowner incentives shortly.

Key fiscal indicators

	2023-24	2024-25	2025-26	2026-27	2027-28
	Unaudited	Budget	Forward estimate		
	\$M	\$M	\$M	\$M	\$M
General government sector					
Net operating balance	- 698	- 415	35	35	219
Non financial public sector					
Fiscal balance	- 1 368	- 1 746	- 696	- 519	- 187
Net debt	8 997	10 821	11 603	12 125	12 255
Net debt to revenue (%)	108	121	128	133	130

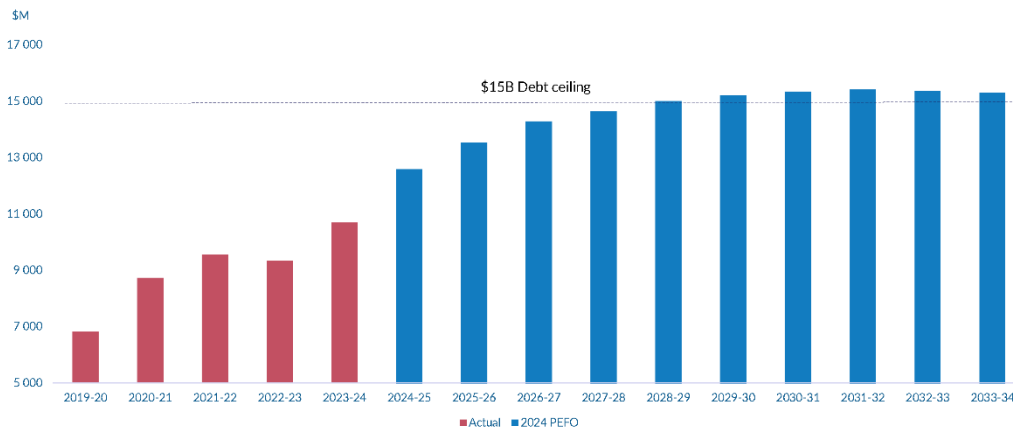
Looking at the Budget now and the Territory faces a very challenging fiscal outlook. The Territory Budget is in structural deficit, meaning there is a fundamental imbalance between receipts and expenditures that is not related to one-off or short-term factors.

The Territory has experienced persistent and large fiscal deficits for the past decade as well as operating deficits almost every year since 2016-17. The Pre-Election Fiscal Outlook showed that the Budget is projected to remain in a fiscal deficit across the budget and forward years, with a return to surplus not projected until 2030-31.

Operating deficits, which are projected to continue until 2025-26 are a particular concern as they indicate the revenue base is not capable of sustainably financing the current level of operating costs (this means there are insufficient revenues to fund operational costs such as wages).

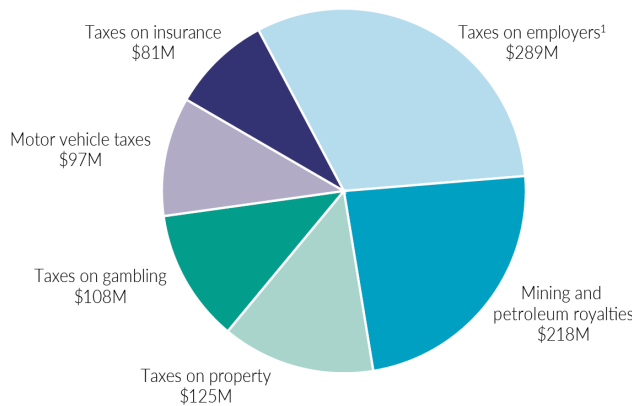
A further risk to the Territory’s fiscal position is the real possibility of increases to current expense projections that will arise if a range of activities continue beyond their current funding profiles. There are significant areas of Territory spending currently budgeted to reduce or cease over the forward estimates, including funding to support cost pressures in hospitals, courts and corrections. Where these service levels or programs are continued at current levels (that are beyond what is factored into the future budget), and not managed through savings or reprioritisation of other existing funding, the Territory’s fiscal outcomes will further deteriorate.

Debt ceiling



Borrowing is required to finance deficits, leading to the accumulation of debt and associated interest expenses. The Territory Government has a legislated borrowing limit, known as the debt ceiling, of \$15 billion, which is designed to ensure the Territory’s debt levels do not become unsustainable. A key immediate focus for Treasury and government will be to ensure expenditure growth is sufficiently restrained so our debt levels and associated interest expenses remain manageable.

Territory’s fiscal and economic outlook – sources of revenue



¹ Excludes internal payroll tax payments within the non financial public sector.

Note: 2024-25 estimates do not factor in the payroll tax waiver from 1 January 2025 to 30 June 2025.

It is also important to note that, compared with other states, the Territory's fiscal outcomes are much more heavily influenced by external factors. This is because about \$6.5 billion or 79% of the Territory's revenue for the general government sector is sourced from Commonwealth payments, compared to around 44% on average in other jurisdictions.

Further to this, GST revenue accounts for around two-thirds of Commonwealth payments to the Territory, making it our largest revenue source and one primarily driven by economic conditions and decisions outside the Territory.

Another way to look at this higher reliance on Commonwealth funding is that the Territory's own-source revenue base is a relatively smaller proportion of our total revenue, meaning local economic performance has a smaller impact on government fiscal outcomes than in other states.

The Territory has a small own-source revenue tax base, with a population of about 254,000 residents. This means the Territory's ability to generate own-source revenue from taxes such as stamp duty on property and vehicle transfers, vehicle registrations, payroll tax, and gambling and casino taxes, is limited.

Territory own-source revenue from taxes and royalties in 2023-24 was around \$1 billion. This compares to other states and territories with own-source revenue ranging from \$47.4 billion in New South Wales to \$1.8 billion in Tasmania.

However, the Territory is highly prospective for minerals and natural gas and petroleum. This means there is strong potential for additional sources of revenue as new mines and gas production comes on line.

The Territory's small population and relatively narrow economic base also means that while economic growth is important for the prosperity of the Territory, we cannot simply grow our way out of our fiscal challenges in the short to medium term. It is also why common measures of fiscal sustainability such as debt to gross state product ratios are less meaningful for the Territory. Instead, the Territory will need to focus on growing the economy while restraining public expenditure growth. Focusing on evidence-based policy and efficient and effective service delivery is critical to achieving this outcome.

A key element that supports rebuilding the economy is the achievement of a sustainable fiscal position. To support this, Treasury monitors and analyses agencies' financial performance and their compliance to targets and budgets. These outcomes are then reported to government, where emerging financial risks are identified, and mitigating and treatment measures are proposed.

Furthermore, having a fiscal strategy that supports employment and economic development, funding the delivery of government services and managing debt is critical to rebuilding the economy.

We will be assisting government to develop a fiscal strategy that is appropriate for the Territory context, and monitor and report on progress towards and achievement of the fiscal strategy. This reporting holds government and the public service to account, and ensures government spending and taxing policies and decisions are guided by principles that support achievement of fiscal strategy objectives and targets that will benefit all Territorians.

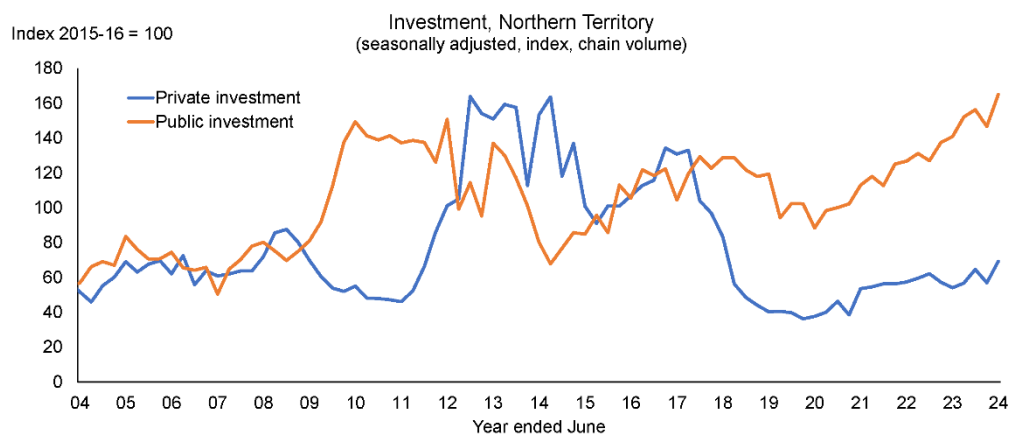
Supporting government to achieve its strategic priorities

Government's policy agenda is built around three key pillars:

- reduce crime
- rebuild the economy, and
- restore the Territory lifestyle.

Within this agenda, Treasury's focus will be on rebuilding the economy.

Private and public investment



The Territory's economic growth in recent years has been driven by the Barossa construction project and a significant increase in government spending on services and infrastructure. A more balanced mix of investment is required to achieve more stable and sustainable economic and population growth.

Accordingly, rebuilding the economy in a fiscally constrained environment requires a laser-like focus on growing private investment. Private investment is the key driver of long-term economic prosperity. Establishing effective policy settings that encourage private sector investment will be essential to foster sustained economic development and accelerate the Territory's population growth, while minimising government budget pressures.

The government has committed to a number of priority actions to drive rebuilding of the economy agenda.

Treasury and the Department of the Chief Minister and Cabinet are leading the development of an Economic Development Strategy. This strategy will outline government's priorities and direct the efforts of key economic delivery agencies.

In developing the strategy, Treasury will assess both barriers and opportunities for the Territory's key growth sectors including energy, minerals, agribusiness, defence and tourism.

This approach will ensure our efforts and limited resources are directed toward supporting sectors where the Territory excels and demonstrates significant growth potential. Additionally, identifying opportunities to increase trade with Asia will be a priority.

A cornerstone of the strategy will be to fulfil the government's commitment to reform regulatory processes, enhance efficiency and provide certainty for project proponents and investors.

Complex regulatory hurdles and inefficient government processes can significantly increase the cost of doing business. This further compounds the high costs businesses in the Territory face, including increased logistics and workforce costs.

The Territory is an accessible and flat bureaucracy, and should be one of if not the easiest jurisdiction to do business in Australia. To this end, the Territory Government is:

- establishing an approvals fast-track taskforce to cut red and green tape, and better coordinate agencies to halve approval timeframes for businesses and industries
- establishing a new Office of the Territory Coordinator to strategically coordinate projects of economic significance and maintain a strong focus on development.

Treasury will continue to play a role facilitating strategic investments, enabling the private sector to get on with expanding the productive capacity of the Territory economy.

Treasury is also developing an institutional investor framework to re-engage with institutional investors and ensure our policy settings and projects are well aligned to support major private investments in housing, tourism, commercial ventures and industrial land, and future infrastructure needs.

As we invest in key industries and create job opportunities, we will attract new residents seeking better quality of life and career prospects, thereby boosting population growth.

Treasury will increasingly play a role, working with other Territory Government agencies and the Commonwealth to ensure sufficient labour supply is available to meet demand, in particular advocating on behalf of Territory businesses to increase the Territory's skilled migration allocation.

Treasury has also been tasked with progressing several of government's election commitments. Most notable of these are home owner incentive grants and amendments to the Territory's payroll tax arrangements.

The government has introduced the HomeGrown Territory housing grants, which include:

- \$50,000 first home owner grant to build or buy new in the Territory
- \$10,000 first home owner grant to buy an established home in the Territory
- \$30,000 grant for non-first home owners to build or buy new in the Territory.

The grants are not for investment properties, they are for principal place of residence and each grant has a 12-month residency requirement. To give effect to the new first home owner grants, DTF has amended the *First Home Owner Grant Act 2000*, with retrospective effect to 1 October 2024.

DTF has also helped draft amendments to the Territory's *Payroll Tax Act 2009*. From 1 July 2025 the tax free threshold will increase from \$1.5 million to \$2.5 million, meaning fewer Territory businesses will have to pay payroll tax. Also being introduced from 1 July 2025 is a payroll tax exemption for apprentices and trainees.

Both of these election commitments are designed to incentivise businesses to invest and grow in the Territory. And because 1 July 2025 is some time away, the Treasurer has also approved those businesses with total payroll below the new threshold of \$2.5 million to cease paying payroll tax from 1 January 2025. They will be eligible for a 6-month waiver from 1 January to 30 June 2025.

Evidence-based policy and efficient and effective service delivery

The majority of agency funding across budget years is adjusted by annual indexation for cost and demand growth, less any efficiency dividends. Budget papers and related materials generally focus on new initiatives and policies, however new initiatives and policy changes typically only account for a small fraction of total expenditure in each budget. Without a systematic approach to evaluation there is a risk that almost all expenditure is rolled over from one year to the next with little assessment of effectiveness, efficiency and alignment to government priorities.

We have many programs across government and we owe it to Territorians to make sure those programs are achieving the expected outcomes. It is important we understand whether our programs are really helping the people we think we they are helping. Programs may look and sound effective but may lead to unintended consequences, or simply not be driving the desired change.

This is why evaluation is important to good public policy. It can lead to some tough conversations across government and with service providers but we need to be less attached to our programs and more attached to the outcomes we are trying to achieve. We need to see less advocacy for programs for programs sake and more genuine curiosity about the best way to achieve outcomes in our context.

We established our Program Evaluation Framework in 2020 to help guide these conversations. As our evaluations increase, we are building an evidence base by asking questions such as:

- have we achieved what we set out to do?
- could we have done things better or more efficiently?
- should we continue to do this, or try something else?

That last point is really important. Sometimes we need to stop programs to make space for new programs. The opportunity costs of continuing to invest in ineffective services are significant. We need to ask, could this money be better spent elsewhere? When done well, de-implementation of ineffective programs minimises harm, prevents waste, builds public trust in government services and ultimately improves outcomes.

Treasury has an important role here. Stakeholders may be reluctant to share bad news with Treasury, worried program funding will be cut. However, we need to find the right balance between accountability and learning.

As part of this work, you'll see an increased focus on outcome-based key performance indicators in our budget papers and, over time, in our grant agreements. This is because we need to know whether our agencies are effectively contributing to the delivery of government priorities and whether our programs are achieving their objectives. We cannot just assume that because something is popular, it is effective.



The framework, toolkit and associated materials are all publicly available on the Treasury website if you'd like to find out more. And we would be happy to have follow-up conversations to support this process.

Digitisation projects

Finally, this morning I'd like to tell you about Treasury's key digital projects.

As a small central agency with significant responsibilities including whole of government budget management and reporting, and whole of government management and collection of own-source revenue, it is critical that our ICT systems are contemporary and secure.

In this regard, Treasury is investing in two critically important systems, both being delivered in stages over consecutive years, and both bringing much enhanced capability for our staff and external stakeholders.

The first is Sage, a whole of government budget management system, which following rollout of phase 1, will result in all agencies using the same budgeting system for the first time, leading to more informed management decisions and facilitating much more efficient supervision and oversight of government's financial position. Phase 2 of Sage will allow the retirement of the APEX budget and reporting system, currently celebrating its 24th birthday, which is no longer able to provide the contemporary functionality required.

The other game-changing new system is RevConnect. This new system will be the first time the Territory has had the ability to manage all its own-source revenue lines in one comprehensive system. Including receipting payments, allocating to the client account, automating case allocation, automating some communication with clients, having all forms digitised, managing debt and importantly, in conjunction with the new data warehouse, allow real-time reporting and analytics across all tax and royalty lines.

RevConnect will replace a 1992 mainframe cash-based receipting and payment allocation system. It will replace the current externally facing internet-based portal for payroll tax and stamp duty clients (INTRA), and it will replace many old Microsoft Access databases, excel spreadsheets, checklists, manual work-arounds and calculators.

RevConnect will provide a much better experience for taxpayers, and cut red tape and compliance time.

Customer Charter

As the central agency responsible for financial management, economic, revenue and superannuation policy advice, our services support informed decision making to benefit all Territorians. Our Customer Charter is our commitment to how we engage with all stakeholders and customers.

 <p>Trusted expertise</p>	 <p>Accountability and integrity</p>	 <p>Engaging effectively</p>	 <p>Professional and respectful</p>
<ul style="list-style-type: none"> • We are leaders in our fields. • We will provide responsive, reliable and consistent advice. • Our advice is accurate and relevant. 	<ul style="list-style-type: none"> • We will respond in a timely manner. • We maintain confidentiality. • We keep stakeholders informed. • We behave with integrity at all times and uphold high standards. • We model ethical behaviour. 	<ul style="list-style-type: none"> • We are collaborative and get results by engaging effectively across government, industry and with other stakeholders. • We listen to understand your point of view. 	<ul style="list-style-type: none"> • We will be transparent and provide explanations for decisions. • We will commit to open communication. • We conduct ourselves respectfully and professionally at all times.

December 2021



I hope this presentation has given you some idea about who Treasury is and what we do. We want to engage more meaningfully with our stakeholders and we want to get a better understanding of where you see the opportunities and challenges. I can't promise we will always agree but I can promise that we will genuinely listen to understand your point of view.

I hope you will take this opportunity to engage with Treasury more closely and proactively as we embark on the work ahead. There are certainly some challenges ahead for us, particularly regarding getting the budget back to a sustainable position, but together we can support more informed policy development and decision-making to benefit all Territorians.

Thank you for coming this morning.