NORTHERN TERRITORY GOVERNMENT

BUDGET PAPER NO. 2 BUDGET STRATEGY AND OUTLOOK

BUDGET 2015-16

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Budget Strategy and Outlook
2015-16

Budget Paper No. 2

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In this book, the term 'state' or 'states' includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

Under Treasurer's Certification

In accordance with provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in the April 2015 Budget documentation are based on Government decisions that I was aware of or that were made available to me by the Treasurer before 22 April 2015. The projections presented are in accordance with the Uniform Presentation Framework.

Jodie Ryan

Under Treasurer

23 April 2015

Chapter 1
Overview

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

Fiscal Outlook

The 2015-16 Budget has been developed in accordance with the Territory Government's fiscal strategy, which is focused on repairing the Territory's finances by returning the Budget to a balanced position by 2017-18.

Since August 2012 the Government has consistently demonstrated its commitment to the fiscal strategy by encouraging economic development, prioritising expenditure and reducing debt levels, without compromising the delivery of core government services. The 2015-16 Budget achieves the Government's commitment to return the Budget to surplus at the non financial public sector with a surplus of $9 million forecast for 2017-18, increasing to $35 million in 2018-19. In addition, net debt is now projected to be $2.6 billion by 2018-19 with the net debt to revenue ratio at 39 per cent.

The projections in the 2015-16 Budget are significantly improved from those estimated last year. The improved fiscal outlook since May 2014 has been predominantly achieved through a combination of:

- increased GST revenue, largely due to increases in both national collections and the Territory's expected relative share;
- higher own-source revenue, mainly due to increases in payroll tax and conveyance stamp duty, reflective of current economic conditions; and
- the sale of the Territory Insurance Office, finalised on 1st January 2015.

The improvement in both the fiscal balance and net debt has enabled Government to fund new initiatives in priority service delivery areas and increase investment in economic, social and community infrastructure projects without placing additional pressure on the Territory's fiscal objectives and debt profile.

Against this backdrop the fiscal outlook in the 2015-16 Budget includes:

- a general government operating surplus of $679 million in 2014-15, with operating surpluses averaging $181 million projected from 2015-16 and over the forward estimates;
- fiscal deficits for the non financial public sector forecast in 2014-15 through 2016-17 before returning to surplus in 2017-18 and 2018-19;
- substantial infrastructure investment in 2015-16 of $1.39 billion;
- net debt improving over the forward estimates and by 2018-19 is forecast to be $2.6 billion; and
- a net debt to revenue ratio significantly below the fiscal strategy target of 60 per cent in all years, with 39 per cent projected in 2018-19.

Further information on the comparison between the estimates contained in the 2015-16 Budget and those projected at the time of the May 2014 Budget is provided in Chapter 2.

Table 1.1 highlights the key fiscal aggregates for the general government sector and the non financial public sector, for the 2015-16 Budget.

Table 1.1: Key Fiscal Indicators and Aggregates

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
Net operating balance – GGS	679	227	233	187	78
Fiscal balance – NFPS	**- 57**	**- 285**	**- 174**	**9**	**35**
Net debt – NFPS	2 451	2 641	2 742	2 684	2 628
Net debt to revenue – NFPS (%)	36	41	41	40	39

GGS: general government sector; NFPS: non financial public sector
Source: Department of Treasury and Finance

Economic Outlook

The key economic forecasts prepared for the 2015-16 Budget are detailed in Table 1.2. Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14, the highest growth rate of all jurisdictions. Over the next few years, the Territory economy is expected to commence a period of transition from investment-led growth to growth driven by production and exports. The outlook is for the Territory economy to grow by 4.5 per cent per annum over the next three years from 2014-15 before moderating to 3 per cent from 2017-18.

Business investment is expected to decline substantially over the next few years albeit off a higher base. However, this will be offset in 2015-16 by a decline in imports and a significant boost in public investment as a result of the Territory Government's economic, community and social infrastructure program. From 2016-17, economic growth is expected to be underpinned by a substantial increase in liquefied natural gas production and exports.

Robust economic growth in recent years has led to strong Territory labour market conditions, with employment growth exceeding expectations in 2013-14. For 2014-15 and 2015-16 employment growth is expected to moderate to 1.5 per cent, however the unemployment rate is expected to remain relatively low at 4.2 and 4.5 per cent, respectively. Labour market conditions are expected to soften over the medium term as the Ichthys LNG project transitions from the construction phase to the less labour-intensive production phase.

Darwin consumer price index growth moderated from 3.9 per cent in 2013 to 2.9 per cent in 2014, significantly reducing the gap with national outcomes. The moderation was largely due to lower growth in housing costs, namely utilities, house purchase price and rents. The outlook is for growth in the Darwin CPI to continue to moderate to 2.5 per cent in 2015 and 2.3 per cent in 2016 coinciding with the forecast easing of population and employment growth over this period.

Wage pressures have weakened due to excess labour capacity across Australia. The outlook is for the growth in the Territory's wage price index to moderate over the medium term, primarily reflecting a forecast of subdued employment conditions in the private sector.

Table 1.2: Key Economic Forecasts (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Gross state product[1]	6.5	4.5	4.5	4.5	3.0	3.0
Population[2]	1.9	0.9	1.8	1.0	1.0	1.0
Employment[3]	4.6	1.5	1.5	0.7	0.7	2.0
Unemployment rate[4]	4.4	4.2	4.5	4.7	4.7	4.7
Consumer price index[5]	3.9	2.9	2.5	2.3	2.5	2.5
Wage price index[5]	2.9	2.8	2.7	2.5	2.5	2.5

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

Chapter 2

Fiscal Outlook and Strategy

Overview

This chapter addresses the requirement under section 10(1)(a) of the *Fiscal Integrity and Transparency Act* (FITA) that each fiscal outlook report contains updated financial projections for the budget year and the following three financial years for the Northern Territory general government sector and the non financial public sector. It also complies with section 2(2) of FITA to publicly release a fiscal strategy statement and includes an assessment of the Government's adherence to its fiscal strategy targets.

Although the full set of financial projections is provided in Chapter 8, this chapter provides:

- a comparison of the projections in the 2015-16 Budget, with the estimates provided in the May 2014-15 Budget and the 2014-15 Mid-Year Report;
- a discussion of the forward estimates; and
- an assessment against the fiscal strategy targets.

In August 2012 the Territory was facing a deteriorating fiscal outlook with significant increases in net debt projected across the forward estimates. In its first Budget, in May 2013, the Government committed to strengthen the Territory's finances and return the budget to a sustainable position by eliminating the fiscal deficit by 2017-18.

To this end, a number of measures were implemented, including limiting expense growth, increasing efficiency through restructuring and reorganising services across government and introducing greater contestability for government service delivery.

General Government Sector Net Operating Balance

Table 2.1 highlights the significant improvements in the general government operating statement and compares the updated projections with those published at the time of the 2014-15 Budget (May 2014) and the 2014-15 Mid-Year Report (December 2014).

Table 2.1: General Government Sector – Net Operating Balance

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
2014-15 Budget	63	99	69	1	n.a.
2014-15 Mid-Year Report	137	149	121	24	n.a.
2015-16 Budget	**679**	**227**	**233**	**187**	**78**
Variation from 2014-15 Budget	616	128	164	186	n.a.

n.a.: not available at the time of publishing the 2014-15 Budget and 2014-15 Mid-Year Report
Source: Department of Treasury and Finance

As shown in Table 2.1, a general government operating surplus of $679 million is estimated for 2014-15, a substantial improvement from the surplus of $63 million projected at the time of the May 2014 Budget. The improvement is largely due to the one-off effect of the sale of the Territory Insurance Office (TIO) combined with greater than expected increases in GST and own-source revenue.

Forecast operating surpluses for 2015-16 and over the forward estimates, averaging $181 million per annum, are also greatly improved from the May 2014 Budget. This reflects the Government's continued fiscal restraint combined with moderate increases in both own-source revenue and the GST. The improvement has enabled Government to fund new initiatives in priority service delivery areas without placing additional pressure on the Territory's fiscal objectives.

As foreshadowed in the May 2014 Budget, a number of functions were identified, as part of the Improving Public Sector Services Review, that would be more efficiently delivered by either outsourcing to the private sector or in an alternative manner. These initiatives, which include tourism development, government printing services and infrastructure project management, have now been successfully implemented. The tender process for outsourcing the Darwin Bus Service was also completed in 2014-15, with the service now fully delivered by the private sector.

In addition, in January 2015, the Government finalised the sale of the TIO freeing up in excess of $400 million in equity and improving net debt by reducing the reliance on additional borrowings to fund important community infrastructure. Around $200 million of the proceeds will be reinvested for immediate infrastructure projects under Building the Territory, including flood mitigation works across the Territory. The remainder has been quarantined in an Infrastructure Development Fund to promote future investment in infrastructure that supports longer term economic growth and wellbeing of Territorians.

These funds have the potential to be further enhanced by the Territory's participation in the Commonwealth's Asset Recycling Initiative over the next few years. The Territory has commenced discussions with the Commonwealth to access the Initiative which could see the Commonwealth contribute an amount equivalent to 15 per cent of the proceeds from qualifying asset sales towards new economic enabling infrastructure. From the proceeds of the sale of TIO alone, the Territory could potentially receive up to $40 million, which would not only enhance economic growth but lead to the development of additional infrastructure across the Territory.

As part of the TIO sale transaction the Government retained ownership of the Motor Accident Compensation (MAC) Scheme. On advice from the Australian Bureau of Statistics (ABS) the scheme has been reclassified from the public financial corporations sector to the general government sector. The effect of this transfer has been incorporated into the updated budget projections and has significantly contributed to the reduction in net debt.

In addition to the focus on containing expenditure growth, there have been increases in own-source revenue during 2014-15. The estimated revenue from taxes and royalties in 2014-15 is $782.5 million, compared to the forecast of $732.7 million in the 2014 Budget. The increase of $49.8 million is predominantly due to increases in payroll tax and conveyance stamp duty as a result of growth in employment and wages among the larger employers making up the bulk of the payroll tax base, along with both price and volume growth in property sales, particularly residential property.

Despite the increases in 2014-15, lower growth is expected across all main own-source revenue categories from 2015-16, albeit off the higher 2014-15 base, due to expectations that payroll tax and stamp duty will start to return to more historic levels. The 2015-16 estimates also include policy decisions of government that are explained later in this chapter and in more detail in Chapter 4: Budget Initiatives.

In addition to own-source revenue, there has been an increase in GST revenue since last Budget. The change in the estimated outcome in 2014-15 is mainly due to an increase in national GST collections, including a balancing adjustment of $26 million paid in 2014-15 in respect to an underpayment in 2013-14. In 2015-16 the Territory's GST revenue is expected to be $86 million higher than estimated in the 2014-15 Budget due to an upward revision in growth to GST national collections and the GST relativity that was estimated by the Territory in the last Budget, partially offset by a decrease in the Territory's estimated share of the national population.

Non Financial Public Sector Fiscal Balance

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

Table 2.2 Non Financial Public Sector – Fiscal Balance

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
2014-15 Budget	- 723	- 92	- 53	- 39	n.a.
2014-15 Mid-Year Report	- 660	- 79	- 39	- 25	n.a.
2015-16 Budget	**- 57**	**- 285**	**- 174**	**9**	**35**
Variation from 2014-15 Budget	666	- 193	- 121	48	n.a.

n.a.: not available at the time of publishing the 2014-15 Budget and 2014-15 Mid-Year Report
Source: Department of Treasury and Finance

As shown in Table 2.2, the fiscal balance, which includes net investment in capital spending, follows the same trend as the improvement in the general government operating balance in 2014-15. However, it worsens in 2015-16 and 2016-17 when compared to the May 2014 Budget and 2014-15 Mid-Year Report as a direct result of the Government's decision to invest $200 million of the TIO proceeds towards economic, community and social infrastructure projects. The larger deficit in 2015-16 also reflects the revised timing of capital expenditure from 2014-15 into 2015-16.

The target of eliminating the fiscal balance deficit is expected to be achieved in 2017-18, as per the fiscal strategy, with a $9 million surplus projected, growing to $35 million in 2018-19. The surplus reflects the improved operating balance and lower levels of infrastructure spending. While infrastructure spending reduces over the forward estimates, the level of spending remains higher than historical levels. These projected surpluses lower the Government's net borrowing requirement. However, any future spending decisions will need to be funded through additional revenue or further efficiency measures, to ensure the Budget does not return to a deficit position.

The key offsetting revenue and expense-related variations that have contributed to the movements in the fiscal balance in 2014-15 and 2015-16 are described in more detail below.

Policy and Non-Policy Changes Since May 2014 Budget

Table 2.3 sets out changes that have affected the non financial public sector fiscal balance for 2014-15 and 2015-16 since the May 2014 Budget was delivered.

Table 2.3: Variations to the Non Financial Public Sector's Fiscal Balance since May 2014

	2014-15	2015-16
	$M	$M
2014-15 BUDGET	**- 722.6**	**- 92.3**
Revenue – policy		
Community Benefit Fund applied to casinos		7.8
Abolition of the apprentices payroll tax exemption		4.4
Payroll tax charities exemption		3.0
Abolition of stamp duty on life insurance		- 2.0
Increased stamp duty concession for seniors, pensioners and carers		- 0.2
Proceeds of TIO sale	410.9	
Total revenue – policy	**410.9**	**13.0**
REVENUE		
Revenue – non policy		
Payroll tax	34.5	25.7
Stamp duty and other taxes	9.6	6.0
GST revenue	48.0	86.0
New and revised Commonwealth revenue	179.4	48.3
Interest income	11.3	23.9
Income tax, dividends and other revenue	82.7	59.7
Total revenue – non policy	**365.5**	**249.6**
TOTAL REVENUE	**776.4**	**262.6**
OPERATING EXPENSES		
Expenses – policy		
New and expanded policy initiatives	76.3	183.8
Efficiency dividend		- 34.3
Total expenses – policy	**76.3**	**149.5**
Expenses – non policy		
New and revised Commonwealth revenue-related expenses	139.4	99.3
Transfer of payments to capital	- 47.0	- 86.6
Interest expense	- 16.2	- 17.0
Other	0.7	20.6
Total expenses – non policy	**76.9**	**16.2**
TOTAL OPERATING EXPENSES	**153.2**	**165.7**
Net capital payments		
Building the Territory		125.0
New and revised Commonwealth revenue-related payments	- 65.0	98.1
Transfer of payments from expenses	47.0	86.6
Increased capital receipts	- 12.7	- 33.9
Other	- 11.8	14.0
Total net capital payments	**- 42.5**	**289.8**
TOTAL EXPENSES	**110.7**	**455.5**
TOTAL VARIATION	**665.7**	**- 192.9**
2015-16 BUDGET	**- 56.9**	**- 285.2**

Source: Department of Treasury and Finance

Revenue Changes

Non financial public sector revenue is expected to increase by $776.4 million in 2014-15 and $262.6 million in 2015-16. The revenue-related policy changes since the 2014 Budget total $410.9 million in 2014-15 resulting from the sale of TIO. The final sale proceeds were slightly lower than the Government announced in November 2014 due to the movement in the value of net assets between the time final offers were made in November 2014 and when the sale was formally completed on 1 January 2015. For 2015-16 revenue policy decisions total $13.0 million and include:

- $7.8 million to expand the application of the community benefit levy to Territory casinos from 1 July 2015. The additional revenue is to be directed into greater support for community needs and gambling amelioration programs;
- an additional $4.4 million ongoing in payroll tax as a result of removing the exemption for apprentices from 1 July 2015. The additional revenue is fully reinvested into more targeted support for apprentices and trainees through the Training for the Future – Employer Support Scheme;
- an additional $3 million as a result of reforms to the payroll tax charities exemption from 1 July 2015; offset by
- the abolition of life insurance duty from 1 July 2015 resulting in a reduction in stamp duty of $2 million; and
- an increase in the Senior, Pensioner and Carer Concession on stamp duty from $8500 to $10 000 from 28 April 2015, resulting in an reduction in revenue of $200 000.

The non policy revenue-related variations since the May 2014 Budget total $365.3 million in 2014-15 and $249.6 million in 2015-16. The main changes include:

- an increase in payroll tax of $34.5 million in 2014-15 and $25.7 million in 2015-16 due to growth in both employment and wages during 2014-15 among the larger employers making up the Territory's payroll tax base. The level of growth in 2014-15 is not expected to fully flow through to 2015-16;
- increased stamp duty and other taxes of $9.6 million in 2014-15, largely due to a higher number of residential stamp duty transactions, a small increase in the average value of those transactions along with some high-value commercial transactions. The same level of growth is not expected to fully flow through to 2015-16;
- GST revenue is projected to be up by $48 million in 2014-15 due to a one-off $26 million balancing payment related to the 2013-14 final national GST collections, and $22 million related to growth in the GST collections for 2014-15. For 2015-16, GST has been revised upwards by $86 million reflecting the estimated increase in national GST collections and an increase in the estimated GST relativity offset by a reduction in the Territory's share of the national population, when compared to the Territory's estimate in the May 2014 Budget. The 2015-16 increase flows through to the forward estimates;
- tied funding from the Commonwealth has increased by $179.4 million in 2014-15 and $48.3 million 2015-16. The key variations include:
  - increased health infrastructure funding of $51 million in 2014-15 and $25 million in 2015-16 for remote health centres and regional hospitals;
  - additional recurrent funding of $55 million in 2014-15 for various health national partnership agreements and other Commonwealth agreements, including $20 million for

the Indigenous Head Deed agreement, which includes funding for primary health care, child and maternal health, chronic disease and Stronger Futures funding;

   - additional funding to the Department of Education of $17 million in 2014-15 and $13 million in 2015-16 under the Students First agreement, and $10 million in 2014-15 for Trade Training Centres and Child Care and Family Centres across remote regions of the Territory; and
   - additional funding of $5.3 million in 2015-16 under the National Partnership Agreement on Homelessness;

- increase in interest income of $11.3 million in 2014-15 and $23.9 million in 2015-16 associated with the increase in cash balances partly as a result of the sale of TIO; and
- an increase in income tax, dividends and other revenue of $82.7 million in 2014-15 and $59.7 million in 2015-16 resulting from the realignment of agencies and other trading entities revenues and returns to government in line with expectations, together with the recognition of revenue transferred from the public financial corporations sector due to the MAC Scheme being brought into general government.

Expense Changes

Non financial public sector expenses are projected to increase by $153.2 million in 2014-15 and $165.7 million in 2015-16.

In regards to policy-related expense variations, new and expanded initiatives total $76.3 million and $183.8 million in 2014-15 and 2015-16, respectively. In 2015-16 the new and expanded initiatives, a number of which are one-off and do not flow through to the forward estimates, are partially offset by an increase to the efficiency dividend of $34.3 million.

The main new and expanded initiatives for 2014-15 and 2015-16 include:

- $32 million in 2014-15 and $34 million in 2015-16 to expand and create economic development opportunities across the Territory, including funding to promote investment in oil and gas resources, harbour and foreshore developments, the Northern Australia Development Office and establishing the Office of Major Infrastructure and Investment;
- $32.1 million in 2015-16 for Health and Hospital Services including $17 million for core clinical systems and ICT improvements, $4.9 million for mental health services, $3 million for medical equipment, and $3.9 million for additional operational funding for the Royal Darwin Hospital emergency department;
- $8.5 million per annum ongoing from 2014-15 to support increased numbers of children in out of home care;
- $12.6 million in 2014-15 and $10.3 million in 2015-16 for global school budgeting implementation and additional support for enrolment growth in non-government and independent public schools;
- $10.7 million per annum ongoing from 2015-16 to fulfil the election commitment of 120 additional police officers, including $2 million for additional Aboriginal Community Police Officers across the Territory;
- $1.7 million in 2015-16 for police protective and enhanced tactical equipment;
- $6.8 million in 2014-15 and $9.5 million in 2015-16 for capital sporting grants including tennis, lawn bowls, BMX and velodrome complex upgrades;
- $12.75 million in 2015-16 to boost tourism in the Territory including $4.75 million for remote and regional tourism infrastructure development grants;

- $4 million in 2015-16 for flood mitigation works across the Territory;
- $9.4 million in 2015-16 for Territory Business, including $4.4 million for the Training for the Future – Employer Support Scheme and $2 million for Business in the Bush;
- $1.7 million in 2014-15 and $10.5 million in 2015-16 towards Aboriginal Affairs, including establishing the Community Champions Program and the Office of Aboriginal Affairs; and
- $3 million in 2015-16 to expand telecommunications services in remote regions.

Further information on the policy initiatives in the Budget can be found in Chapter 4 of this Budget Paper.

The non policy expense variations total $76.9 million in 2014-15 and $16.2 million in 2015-16, with the largest contributors being:

- additional expenditure related to tied Commonwealth revenues described above, with $139.4 million in 2014-15 and $99.3 million in 2015-16;
- transfers of expenses to capital payments totalling $47 million in 2014-15 and $86.6 million in 2015-16; and
- lower interest expenses reflecting the revised timing of the commissioning of the Darwin Correctional Precinct in 2014-15, combined with Government's reduced borrowing program.

There have also been some variations to net capital spending resulting in a reduction of $42.5 million in 2014-15 and an increase of $289.8 million in 2015-16 due to:

- increased Territory infrastructure funding of $125 million in 2015-16 dedicated to Building the Territory initiatives funded by the sale of TIO;
- variations associated with Commonwealth-related payments including transfers between years resulting in a reduction of $65 million in 2014-15 and an increase of $98.1 million in 2015-16, mainly due to the revised timing of the National Partnership Agreement on Remote Indigenous Housing;
- the transfer of payments to capital from expenses of $47 million in 2014-15 and $86.6 million in 2015-16; and
- increased capital receipts of $12.7 million in 2014-15 and $33.9 million in 2015-16 predominantly due to revised land sales for Zuccoli and residential sales relating to stage 2 of the waterfront development in 2015-16.

2015-16 Budget and 2016-17 to 2018-19 Forward Estimates

Basis of Forward Estimates

In accordance with FITA, five years of estimates are maintained and used by Government, both as a policy and an operational tool. This provides the framework within which agencies plan and also 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 decisions 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;
- consumer price index (CPI) – inflator; and
- efficiency dividend – deflator.

The wage inflator applied to employee costs in 2015-16 and over the forward estimates period is 3 per cent. A CPI factor of 2.5 per cent is applied to operational costs from 2015-16 ongoing, other than property management managed by the Department of Corporate and Information Services, which receives a higher parameter. An additional parameter of 4 per cent is applied to wage and non-wage expenditure for the Top End and Central Australia Health Services in recognition that hospital costs are generally higher than CPI.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and technology and delivering services more efficiently over time, as is the case with private sector enterprises. An efficiency dividend of 2.5 per cent has been applied in 2015-16, with 1 per cent over the forward estimate period. Efficiency dividends are not applied to grants and some contractual obligations.

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

Operating Revenue – Forward Estimates

As shown in Table 2.4 there has been a significant increase in revenue in 2014-15 largely due to the sale of the TIO. Once the effect of the sale is removed, the underlying increase in total revenue is projected to increase on average by 1.4 per cent per annum from 2014-15 through to 2017-18. The significant reduction in revenue in 2018-19 is due to the cessation of the Remote Indigenous Housing agreement on 30 June 2018.

Table 2.4: Non Financial Public Sector – Revenue

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
Revenue					
Taxation revenue	608	619	628	643	658
GST revenue	3 177	3 271	3 408	3 543	3 685
Current grants	903	865	880	891	771
Capital grants	314	281	244	136	21
Sales of goods and services	1 085	1 099	1 116	1 131	1 158
Interest income	75	100	111	118	121
Dividend and income tax equivalent income	182	36	34	35	35
Mining royalties income	164	168	164	164	164
Other	365	69	75	76	77
Total revenue	**6 873**	**6 508**	**6 660**	**6 737**	**6 689**
Year-on-year percentage increase (%)	18	- 5	2	1	- 1

Source: Department of Treasury and Finance

Taxation revenue is the most significant component of the Territory's own-source revenue and is predicted to increase in all years compared with May 2014 Budget projections. The Territory's taxation revenue for 2014-15 is expected to total $608 million. In 2015-16, taxation revenue is expected to increase by 1.9 per cent to $619 million, with an average increase of 2.1 per cent over the forward estimates. The growth is predominantly due to increases in payroll tax and conveyance stamp duty reflecting trend economic growth in the Territory.

Compared to the 2014 Budget, the estimate of the Territory's GST revenue in 2014-15 has been revised upwards by $48 million related to higher GST collections. From 2014-15, GST revenue is expected to grow at an average of 4 per cent over the forward estimates, reflecting expected growth in national GST collections and forecasts of parameters that determine the Territory's share of the national GST collections.

Further details on GST can be found in Chapter 5 of this Budget Paper.

During each budget year there are significant changes in tied Commonwealth funding estimates as funding agreements are finalised. These adjustments tend not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. However, timing differences in the receipt of tied revenue and associated expenditure introduce a degree of volatility affecting the budgeted and actual outcomes in a given year.

Current and capital grants are currently projected to decrease by 10.3 per cent over the forward estimates as a result of agreements with the Commonwealth being for fixed periods and also expiring. The most significant of which is Remote Indigenous Housing, which concludes in 2017-18, resulting in a reduction in current and capital grants in excess of $100 million in 2018-19. Until these are renegotiated, they are not included in the forward estimates.

Revenue from the sales of goods and services has increased in all years when compared to the 2014 Budget and is expected to increase by 1.8 per cent from 2015-16 and over the forward estimate period.

The remainder of own-source revenue is mainly attributable to mining royalties, which is projected to remain relatively flat over the forward years and is largely unchanged since the May 2014 Budget.

As previously mentioned there has been a significant increase in other revenue and dividend income in 2014-15 when compared to the May 2014 Budget, reflecting the sale of TIO, however estimates are predicted to remain largely unchanged for all forward years.

Operating Expenses

Table 2.5 sets out the revised expense projections for total expenditures for 2014-15, 2015-16 and the forward years.

Table 2.5: Non Financial Public Sector – Expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	2 120	2 194	2 258	2 322	2 386
Superannuation expenses	367	368	369	367	369
Depreciation and amortisation	519	509	490	489	489
Other operating expenses	1 839	1 894	1 980	1 986	2 033
Interest expenses	316	318	319	328	339
Current grants	810	789	811	844	771
Capital grants	80	87	43	34	32
Subsidies and personal benefit payments	127	120	122	125	129
Total expenses	**6 179**	**6 280**	**6 391**	**6 496**	**6 547**
Year-on-year percentage increase (%)	7	2	2	2	1
Net capital	744	1 024	911	698	573
Total expenditure	**6 923**	**7 304**	**7 302**	**7 194**	**7 120**
Year-on-year percentage increase (%)	6	6	- 0	- 1	- 1

Source: Department of Treasury and Finance

Consistent with the target of eliminating the fiscal deficit by 2017-18, the Government has made the decision to ensure that total expenses remain below total revenue for the Budget year and the forward estimates. Expense growth has been brought under control by delivering on the savings measures announced in the previous two Budgets and the 2012-13 Mini-Budget. These measures are built upon in this Budget with the application of an additional 1.5 per cent efficiency dividend resulting in additional savings of $34 million ongoing from 2015-16.

Consistent with the revenue estimates, the reduction in total expenditure in 2018-19 reflects the conclusion of the Remote Indigenous Housing agreement in 2017-18.

Employee expenses account for about one third of total expenses over the forward estimate period and are estimated to increase on average from the budget year by 2.9 per cent, largely as a result of the Government's wages policy, which limits growth in wages to 3 per cent, offset by the efficiency dividend.

Underlying growth from the budget year in other operating expenses is estimated at 2.4 per cent per annum. When compared to the May 2014 Budget, interest expenses are on average $40 million lower per annum over the forward estimates and are reflective of the improved fiscal and net debt position.

Included in expenditure estimates is a contingency allowance in all forward estimate years. The inclusion of a contingency allowance is consistent with the practices in other states to meet unforeseen expenditure (such as cyclones Lam and Nathan) and support limited new and expanded initiatives. In order to achieve projected budget outcomes, additional expenditure above these amounts will need to be met through reprioritisation of existing expenditure or additional efficiency gains, with any additional revenue to be used to reduce debt.

The fluctuation in current and capital grants expense across the forward estimate period is in line with the timing of tied Commonwealth funding agreements, in particular, the Stronger Futures package and the Remote Indigenous Housing agreement.

Net capital payments are projected to peak in 2015-16 and 2016-17 reflecting increased infrastructure investment in community projects partially funded by the sale by TIO. The investment in infrastructure, while remaining higher than historical levels, is reducing over the forward estimates period, with the further reduction in 2018-19 as a result of the cessation of the Remote Indigenous Housing program.

Key Fiscal Indicators – Balance Sheet

The improvement in general government operating surpluses combined with the projected return to surplus at the non financial public sector has resulted in a significant improvement in the Territory's Balance Sheet position. This is evidenced by the considerably lower net debt position than published in the May 2014 Budget.

As shown in Table 2.6, compared to the May 2014 Budget net debt has significantly decreased and by 2018-19 is projected to be $2.6 billion. This represents a reduction of almost $3 billion from that projected for the final year of the forward estimates at the time of the Pre-Election Fiscal Outlook published in August 2012.

Table 2.6: Non Financial Public Sector – Net Debt and Net Debt to Revenue Ratio

	2013-14[1]	2014-15	2015-16	2016-17	2017-18	2018-19
	Outcome	Estimate	Budget	Forward Estimate		
	$M	$M	$M	$M	$M	$M
Net debt						
2014-15 Budget	3 406	4 066	4 117	4 139	4 159	n.a.
2014-15 Mid-Year Report	3 091	3 698	3 735	3 742	3 748	n.a.
2015-16 Budget	**3 091**	**2 451**	**2 641**	**2 742**	**2 684**	**2 628**
Variation from 2014-15 Budget	- 315	- 1 615	- 1 476	- 1 397	- 1 475	n.a.
Net debt to revenue (%)						
2014-15 Budget	58	67	66	65	65	n.a.
2014-15 Mid-Year Report	53	59	59	58	58	n.a.
2015-16 Budget	**53**	**36**	**41**	**41**	**40**	**39**
Variation from 2014-15 Budget	- 5	- 31	- 25	- 24	- 25	n.a.

n.a.: not available at the time of publishing the 2014-15 Budget and 2014-15 Mid-Year Report
1 2014-15 Mid-Year Report and 2015-16 Budget reflect actual outcome.
Source: Department of Treasury and Finance

The $1.6 billion improvement in net debt in 2014-15 is due to the $315 million better outcome for 2013-14 than projected in the May 2014 Budget, combined with the $666 million projected improvement in the 2014-15 fiscal balance. In addition to the improved fiscal outcomes, significant increases to financial investments of around $570 million, related to the transfer of the MAC Scheme from the public financial corporations sector to the general government sector and greater than expected returns of the Conditions of Service Reserve, have also contributed to the lower net debt. These improvements have flowed through to the forward estimates.

As a result of the reduction in net debt, the net debt to revenue ratio is projected to peak at 41 per cent in 2015-16 before reducing to 39 per cent by 2018-19. This represents a reduction of 59 percentage points from that projected at the time of the Pre-Election Fiscal Outlook.

Assessment of Updated Fiscal Outlook Against the Fiscal Strategy

This section focuses on the assessment of the Government's adherence to its fiscal objectives and targets. It builds on the earlier section of this chapter that addresses the requirement of FITA that each fiscal outlook report contains an explanation of the factors and considerations that contribute to any material differences between the updated financial projections and expected outcomes for the key fiscal indicators as specified in the Government's fiscal strategy statement.

Key Fiscal Indicators

The key indicators against which the Government's adherence to its fiscal policy can be measured and assessed are:

- the non financial public sector's fiscal balance;
- the general government sector's net operating balance;
- the rate of return earned on capital employed by government owned corporations;
- the Territory's taxation effort compared with other jurisdictions; and
- the non financial public sector's net debt to total revenue ratio.

Key fiscal target: by 2017-18 the fiscal imbalance in the Territory's non financial public sector is to be eliminated

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

The 2015-16 Budget confirms the Government's commitment to returning the budget to surplus with a modest fiscal balance surplus of $9 million projected for the 2017-18 target year, increasing to $35 million in 2018-19 (Table 2.2).

Given the narrow surpluses, any future spending decisions will need to be funded through additional revenue or further efficiency measures, to ensure the Budget does not return to a deficit position.

Associated fiscal outcome: by 2016-17, the Territory's general government sector is achieving a net operating surplus

The net operating balance is measured by the general government sector's total annual revenues less its total annual operating expenses (including annual depreciation, a non-cash expense). A net operating deficit indicates that total annual operating expenses exceed total annual revenues.

As highlighted in the 2013-14 Treasurer's Annual Financial Report the Government has achieved this element of the strategy three years ahead of the fiscal strategy target and surpluses are now projected in 2014-15 and all forward years (Table 2.1).

The decline in the surplus over the forward estimates is partially due to a decline in Commonwealth revenue for capital purposes. The Government will need to maintain its focus on continuous service delivery improvements and efficiencies to ensure operating deficits do not emerge over later years in the forward estimates.

Associated fiscal outcome: by 2016-17, taxation effort in the Territory's general government sector is more on par with the average effort of the states

Taxation effort assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below the Australian average of 100 per cent. This measure is a lagging indicator as the Commonwealth Grants Commission (CGC) updates the information annually based on the actual outcome of the previous year. The Territory's taxation effort has improved from 78 per cent in 2011-12, as presented in the May 2013 Budget, to 87 per cent in 2013-14, the latest year assessed by the CGC.

Significant increases in tax collections and mining royalties, reflecting strengthening economic conditions in the Territory, combined with policy changes relating to retargeting home assistance stamp duty and increases in motor vehicle registrations initiatives adopted by Government as part of the 2012-13 Mini Budget, have resulted in an improvement in the Territory's revenue-raising effort.

Given recent economic outcomes, it is expected that the Territory's taxation effort will continue to move towards the average of the states.

The Territory's revenue effort is described in more detail in Chapter 6 of this Budget Paper.

Associated fiscal outcome: by 2016-17, the Territory's government owned corporation is moving towards commercial rates of return on capital employed

Upon the initial implementation of this fiscal measure in the 2013-14 Budget, the Territory had only one government owned corporation, the Power and Water Corporation (PWC). As a result of the utilities reform agenda, PWC was separated into three distinct entities, Territory Generation, Jacana Energy and PWC. These entities have been consolidated to remove transactions between each entity to enable a more accurate assessment against this element of the fiscal strategy.

The commercial rate of capital employed associated with this target is 6 per cent. In the 2015-16 Budget the government owned corporations are trending to achieving a commercial rate of return, with a projected 4 per cent return in 2015-16 on capital employed and improving in forward years to 6 per cent by 2018-19. It is expected that the effects of structural separation will result in ongoing improvements to the financial performance of the three government owned corporations, ensuring this element of the target is met.

Associated fiscal outcome: by 2020, the Territory's non financial public sector net debt as a percentage of revenue is returning towards 60 per cent

As discussed earlier in this chapter, the net debt to revenue projections have improved significantly since the May 2014 Budget with Government achieving this element of the fiscal strategy well before the 2020 stated target. The net debt to revenue ratio for the non financial public sector is projected to be 41 per cent in 2015-16 and decreasing across the budget cycle to 39 per cent in 2018-19 (Table 2.6).

Maintaining this element of the fiscal strategy is contingent on all other elements of the strategy being met and further improving over time.

Conclusion

The 2015-16 Budget achieves Government's key fiscal target of returning the Budget to surplus in the non financial public sector. It presents improvements in all measures when compared to the 2014-15 Budget and highlights the early achievement of most fiscal strategy measures well before their target dates. Continued focus on sound fiscal management and expenditure restraint is required to ensure projected improvements continue to be realised.

Chapter 3

Risks and Contingent Liabilities

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

This chapter outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities.

Risks to the Budget

Revenue

GST Revenue

Volatility in GST revenue represents the largest revenue risk for the Territory, with GST revenue accounting for about 50 per cent of the Territory's total revenue. Therefore, changes in GST revenue estimates can significantly affect the Territory's budget outcome and capacity to deliver government services.

The Territory's GST entitlement is dependent on three parameters, national GST collections, the Territory's share of the national population and GST relativities as recommended by the Commonwealth Grants Commission (CGC). There are many variables that influence each of these parameters, adding to the complexity of forecasting GST revenue to the Territory over the budget and forward estimates period.

A further risk to the Territory's GST revenue in forward years is the proposed review of GST distribution that will be considered in the White Paper on the Reform of the Federation, due for completion in 2016.

National GST Collections

The Territory's estimates of national GST collections in 2015-16 and over the forward estimates period are informed by the Commonwealth's most recent published advice (the 2014-15 Mid-Year Economic and Fiscal Outlook) and forecasts of national economic indicators.

The Territory's GST revenue is directly affected by variations in national GST collections. A ±1 percentage point change in the GST collections growth rate is estimated to have a ±$31 million impact on the Territory's GST revenue in 2015-16. If variations of ±1 percentage point occurred in each of the budget and forward estimates years, the cumulative impact on Territory GST revenue is about ±$340 million.

Territory's Share of National Population

The estimates of the Territory's population growth for the budget and forward estimates largely reflect the impact of major projects. Following moderate growth in 2014-15, the Territory's population growth is expected to strengthen in 2015-16, driven by the workforce requirements of the Ichthys liquefied natural gas (LNG) project. Over the forward estimates period, the Territory's population growth is expected to moderate to levels more aligned to natural increase, as the Ichthys LNG project moves to the production phase and economic activity moves to new projects and other activities.

Overall, the Territory's population is expected to grow at a slower rate than nationally between 2015-16 and 2018-19. Estimates of the Territory's population growth relative to the national rate influences the Territory's share of the national population, and therefore impact on forecasts of the Territory's GST revenue. The effect of a ±1 percentage point variation in the Territory's forecast population growth is estimated at ±$30 million in 2015-16, all other things equal. The cumulative impact of a ±1 percentage point variation in the estimate of the Territory's population growth rate over the budget and forward estimates period is about ±$333 million.

GST Relativities

The CGC is responsible for recommending GST relativities, which are updated each year. However every five years there is a major review of the CGC's methodology, with 2015 being a review year. The Commonwealth Treasurer approved the CGC providing the 2015 Review Final Report to the states and territories in April 2015. The outcomes of the 2015 Review are discussed in further detail in Chapter 5 of this Budget Paper.

The 2015-16 GST relativities reflect not only the changes in states' and territories' fiscal capacities since the CGC's 2014 Update, but also the impact of methodological changes adopted by the CGC in its 2015 Review and revisions to the data used in the CGC's assessments. The CGC has recommended a decrease in the Territory's GST relativity from 5.66061 in 2014-15 to 5.57053 in 2015-16.

The impact of a 1 per cent variation in the Territory's GST relativity is around ±$31 million per annum. A ±1 percentage point variation in the Territory's GST relativity in each year of the forward estimates period would have a cumulative impact of around ±$131 million.

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

Other Commonwealth Grants and Subsidies

Commonwealth funding is provided under either the Intergovernmental Agreement on Federal Financial Relations (IGA) through Special Purpose Payments (SPP), National Health Reform (NHR) payments, Students First – A Fairer Funding Agreement for Schools payments and National Partnership (NP) payments, or through Commonwealth own purpose expenses (COPE) provided directly to agencies.

The IGA affords flexibility of expenditure across the relevant sector for SPPs (in 2015-16 provided for the skills and workforce, disability and housing sectors) without input controls, co-investment and maintenance of effort requirements. These payments are ongoing and are indexed on a sector-specific basis, providing a degree of certainty for the Territory's budgeting, although adequacy of indexation in terms of capturing cost growth remains an ongoing risk.

NHR payments are predominantly based on either hospital activity or 'block funding' for smaller hospitals in recognition of their circumstances. A risk remains that the Territory's circumstances will not be adequately recognised in the funding arrangements, therefore potentially affecting the adequacy of Commonwealth funding.

NP agreements continue to include many risks to states including co-investment, input controls, burdensome reporting and administrative arrangements, and potential withdrawal of seed funding. The expiry of NP agreements, which by their nature are time limited, also potentially poses a risk to the Territory's Budget, particularly where funding has raised service delivery expectations.

The Territory has seven NP agreements, including schedules under agreements, expiring during 2014-15, for which total funding of $8.4 million is expected to be received in 2014-15. A further 14 NP agreements, including schedules under agreements, are due to expire by the end of 2015-16, with expected total funding of $31.6 million during this period. Should the funding under these agreements not be renewed or rolled into an existing SPP, the Territory would need to either reduce service delivery levels or provide additional funding. In addition, timing of Commonwealth decisions regarding the treatment of expiring NP agreements and their funding is also critical to ensure continuity in delivery or to allow for alternative approaches to be considered should funding not be available.

With the potential budget pressure issues prevailing at the Commonwealth level, there is a further risk of reduced funding levels to all state and territory-tied funding if these payments are used to achieve the revised priorities of the Commonwealth. For example, the Commonwealth's 2014-15 Budget included key decisions to modify or terminate a number of payments to states that were considered unsustainable or ineffective, resulting in a reduction of $22.5 million in Commonwealth funding to the Territory in 2014-15. If the Commonwealth continues to make unilateral decisions to reverse earlier Commonwealth funding commitments, the Territory will continue to face increased ongoing uncertainty.

Own-Source Revenue

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

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

Mining revenue forecasts rely mainly on advice from mining companies of their expected liability for the financial year. Unpredicted market changes in mineral prices, production or exchange rates will have a material effect on this forecast.

Forecasting conveyance stamp duty is also difficult because it is linked to activity in the property market. The extent and timing of any market changes or growth, decline in property prices, or transaction levels is difficult to predict and can have a significant effect on conveyance duty collections. In addition, the Territory has a relatively small conveyance duty base, which includes valuable commercial properties including pastoral properties and mining projects. These factors introduce significant variability in collections as a result of the impact of the duty collected from large commercial transactions.

In total, a variation of ±1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about $8 million for 2015-16.

Expenses and Payments

The forward estimates for expenses are based on known policy decisions, with adjustments for non-policy changes.

A potential risk to these estimates is the effect of cyclones Lam and Nathan. While estimates for remediation and rectification works have been factored in the 2015-16 Budget and forward estimates, the risk to the budget outcome in 2015-16 will be dependent on the accuracy of these estimates and potential hidden costs that may crystallise or become evident when remediation works are being undertaken. The level of reimbursement through the National Disaster Relief and Recovery Arrangements scheme is also unknown at this time.

Future enterprise bargaining agreements represent a risk to the Budget to the extent that the outcome of negotiations is over and above amounts currently factored into the forward estimates. However the majority of agreements have been finalised recently, deferring this risk to the later years of the forward estimates.

In accordance with FITA, the 2015-16 Budget includes forward estimates up to 2018-19. There is the potential for the fiscal aggregates beyond the forward estimates period to be affected by existing commitments. These could either take the form of recurrent costs that are not expected to materialise until later in the forward estimates period, recurrent initiatives that roll out over time and have therefore not yet reached their peak of funding, or capital infrastructure for which the associated recurrent costs are not fully incorporated into forward years as their completion falls either close to or outside of the forward estimates period.

Government Owned Corporations

Government owned corporations comprise Power and Water Corporation (PWC), Territory Generation and Jacana Energy. 2014-15 is the first year of structural separation of PWC and the first time the new utilities have produced full Statements of Corporate Intent (SCIs). Work is still underway to fully separate the financials for the new entities and therefore there may be changes through 2015-16 to the financial projections in the 2015-16 SCIs. Updated revenue estimates, combined with revised operating and capital costs forming the basis of the government owned corporations' 2015-16 SCIs, have been factored into the 2015-16 Budget and forward estimates. The extent to which the government owned corporations achieve their SCI targets represents an ongoing risk to the budget.

Contingent Liabilities

A contingent liability is a liability that the Government may be called on to meet at some future date if a specified event should occur. Contingent liabilities of the Territory may arise out of a range of circumstances, the most common being indemnities and guarantees contained in agreements executed by the Territory. Contingent liabilities may also arise as a result of undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity.

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

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

With the exception of agreements to supply electricity and gas to Pine Creek and McArthur River mine, which ceased in March 2015, quantifiable and unquantifiable contingent liabilities remain unchanged since the November 2014-15 Mid-Year Report and the 2013-14 Treasurer's Annual Financial Report (TAFR).

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

Quantifiable Contingent Liabilities

Details of estimated amounts of remaining material quantifiable contingent liabilities as at 30 June 2014, resulting from guarantees or indemnities granted by the Territory are presented in Table 3.1.

Table 3.1: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability as at 30 June 2014
	$M
Public Trustee Common Fund 1	33

Source: Department of Treasury and Finance

The Public Trustee Common Fund 1, which had a reported total of $33 million as at 30 June 2014, is government guaranteed.

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

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

Unquantifiable Contingent Liabilities

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

Transport

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

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

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

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

The Darwin Port Corporation (DPC) has leased facilities at the Darwin Port to the concession holder, interfacing the port and the railway. There are contingent liabilities that arise out of any loss or claim incurred or suffered as a result of the corporation's failure to comply with its environmental obligation contained in the lease. The lease contains similar indemnities given by the lessee with respect to contamination caused by the lessee and a failure to comply with its environmental obligations.

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

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

DPC has entered into an agreement that indemnifies the other party against any claim, loss, damage, liability, cost and expense that may be incurred or sustained by Shell arising out of any breach of DPC's obligation under the agreement, or in connection with any failure or defect in the integrity of the bunker lines.

The Territory has provided an indemnity to DPC in relation to certain remedial works at East Arm Port. The indemnity covers third-party claims that may be made against DPC, as well as rectification of damage to the wharf or other DPC property caused by the carrying out of the remedial works. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Health and Community Services

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

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

There are no reportable contingent liabilities in this category.

Government Administration

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

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

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

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

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

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

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

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

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

Secure Facilities

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

The Territory has indemnified the proponent for losses arising from uninsurable risks. Except for this indemnity, which is unquantifiable, there are no other reportable contingent liabilities in this category.

Finance

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

There are no reportable contingent liabilities in this category.

Property and Business Services

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

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

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

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

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

Chapter 4
Budget Initiatives

This chapter summarises the Government's new initiatives for expenditure and revenue included in the 2015-16 Budget.

A detailed discussion on revenue initiatives, including revenue policy changes is also presented in the last section of this chapter.

For more detail on initiatives, as well as capital works projects proceeding in 2015-16, refer to *Budget Paper No. 3* and *Budget Paper No. 4*.

Expenditure Initiatives

	2014-15 Estimate	2015-16 Budget
	$000	$000
Auditor-General's Office		
Increased capacity to conduct audit activities		823
Total		**823**
Northern Territory Electoral Commission		
Redistribution of Territory Legislative Assembly boundaries	500	150
Funding to support additional electoral activities	390	500
Total	**890**	**650**
Department of the Chief Minister		
Additional resources to implement recommendations of the Protocol Services Review	873	873
Establish the Central Australia Development Office	529	529
Funding to support the Indigenous Land Administration Project Team	1 268	1 268
Establish Northern Australia Development Offices across the Territory	1 606	152
Operational funding to support the Territory Advisory Council	380	380
Review into appointment of judicial officers and building security	500	
Establishment of the Strategic Defence Advisory Committee	1 800	1 800
Funding to support the Digital Strategy to provide a centralised customer-centric government website	280	130
Funding to support Major Events	700	780
Harbour foreshore development planning	6 000	6 300
Wadeye Regional Coordination	404	507
Funding to support youth services through localised prevention and early intervention programs	500	1 100
Strategic oil and gas initiatives including securing a gas pipeline connecting the Territory to eastern gas markets	12 776	11 394
Funding for Territory show societies and their showgrounds		1 030
Increased community, stakeholder and industry engagement	650	2 240
Funding to support FestivalsNT		500
75th Anniversary of the Bombing of Darwin – 'The Territory Remembers'		750
Establish and operate the Office of the Coordinator General for Major Projects, Infrastructure and Investment	3 917	4 167
Total	**32 183**	**33 900**

(continued)

	2014-15 Estimate	2015-16 Budget
	$000	$000
Department of the Legislative Assembly		
Funding for additional security and CCTV monitoring at Parliament House	375	375
Total	**375**	**375**
Tourism NT		
Develop tourism infrastructure, products and marketing		8 000
Provide public WiFi in key wayside stops and locations utilised by the community and visitors		500
Tourism Infrastructure Development Fund, with a focus on regional, remote and Indigenous tourism products		4 750
Total		**13 250**
Department of Primary Industry and Fisheries		
Establish an Indigenous Marine Training program in Nhulunbuy		250
Northern Territory Fishery Enhancement Program		250
Interest subsidy scheme for growers affected by the Cucumber Green Mottle Mosaic Virus	600	600
Central Australia Horticultural Development Program		600
Total	**600**	**1 700**
Department of Land Resource Management		
Replace a drilling rig		2 000
Improve wildfire mitigation and response throughout the Territory		550
Accelerate land suitability assessment for agricultural development		500
Total		**3 050**
Office of the Commissioner for Public Employment		
Indigenous Employment and Career Development Strategy 2015-20		500
Total		**500**
Department of Lands, Planning and the Environment		
Develop an information and communications technology (ICT) solution to support Swimming Pool Safety Reform		400
Increased capacity to support the land release program, planning advisory and management of ICT reforms		2 438
Flood mitigation works across the Territory		4 000
Goyder's Park Stage 1, adjacent to the Cruise Ship Terminal		900
Total		**7 738**
Department of the Attorney-General and Justice		
Domestic and Family Violence Reduction Strategy 2014-17	3 070	3 070
Total	**3 070**	**3 070**
Department of Children and Families		
Increased funding to support Children in out of home care	8 500	8 500
Total	**8 500**	**8 500**

(continued)

	2014-15 Estimate	2015-16 Budget
	$000	$000
Department of Health		
Stage 1 of the Core Clinical System Renewal Program and upgrade and modernise Health ICT infrastructure		11 730
Additional support for mental health services		4 875
Additional resources for equipment		3 000
Funding for a new patient index system and upgrades to the Procurement and Document Records Management systems to support the continuity of patient care		5 300
Funding to support Pathways to Aboriginal Community Control in primary health care		921
Funding to support increased Aboriginal and Torres Straight Islander health practitioners in the work place		1 169
Operational funding for the Emergency Medicine Unit at Royal Darwin Hospital emergency department		3 892
Visiting sonographer service in Katherine		196
Hospital In the Home Service in the Alice Springs community		719
Expanding midwifery group practice in the Alice Springs community		350
Total		**32 152**
Department of Business		
Increased support to administer the *Workers Rehabilitation and Compensation Act*	1 170	
Implement Business in the Bush initiatives to support Indigenous businesses and increase employment opportunities		2 000
Increased funding for the October Business Month 21st Anniversary		400
Funding for migration initiatives for Territory business		734
Expanding services and programs to develop NT Business		1 469
Training for the Future Employer Support Scheme		4 400
Darwin Turf Club upgrades	250	
Thoroughbred Racing Northern Territory support		386
Total	**1 420**	**9 389**
Department of Corporate and Information Services		
Expanding telecommunications services in remote communities		3 000
Total		**3 000**
Northern Territory Police, Fire and Emergency Services		
Temporary beat locations	750	
Additional monitoring and CCTV cameras in Palmerston		600
Funding towards the replacement of the current police case management system		1 000
Establishing the Emergency Management Training Unit		625
Additional tactical and protection equipment		1 686
Additional frontline police officers		8 700
Additional Aboriginal community police officers		2 000
Total	**750**	**14 611**

(continued)

	2014-15 Estimate	2015-16 Budget
	$000	$000

Department of Education

Funding to support enrolment growth in the non-government sector	3 635	2 344
Funding to support independent public schools	1 000	2 000
Global School Budgeting Funding Implementation Package	8 000	6 000
Establishment of a Neighbourhood Activity Centre at Sanderson High School	80	450
Total	**12 715**	**10 794**

Department of Transport

Support the Recreational Vessel Regulatory Review	80	
System upgrades to support the free 10-year licences for P-plate drivers initiative	50	
Funding to support registration and licensing services by third-party providers		1 413
Establish a regional bus service for Tiwi Islands	1 005	407
Increased support for Transport Infrastructure Planning Division to respond to high priority projects		1 491
Increased funding for transport infrastructure planning including the Mount Isa to Tennant Creek rail spur and Stuart Highway duplication in Alice Springs		1 000
Increased funding to support the development and delivery of the Northern Territory Aviation Industry and Services Strategy		200
Increased funding for Darwin special needs bus services	77	110
Additional funding for Royal Australian Air Force's Base Tindal to operate as an alternate destination for international carriers servicing Darwin	1 193	716
Additional support for Bus Network safety and security		1 070
Total	**2 405**	**6 407**

Department of Infrastructure

Funding for stages 3 and 4 upgrades for the Alice Springs Youth Centre		2 722
Total		**2 722**

Department of Local Government and Community Services

Establish and operate the Community Champions Remote Development Unit to support economic development, monitor local initiatives and improve government service delivery	721	6 721
Additional funding to support the Central Remote Communities Information Management System		750
Establish the Office of Aboriginal Affairs	440	1 750
Funding to support an Indigenous economic development grants program	500	2 000
Total	**1 661**	**11 221**

Department of Housing

Additional funding for property management		3 000
Urban public housing complex improvement program		200
Additional repairs and maintenance funding		3 200
Funding to support a new urban public housing strategy		1 000
Total		**7 400**

(continued)

	2014-15 Estimate	2015-16 Budget
	$000	$000
Department of Sport and Recreation		
Upgrade to Satellite City BMX track in Palmerston	1 980	
New lawn bowls facilities in Alice Springs	1 500	
Grant towards the construction of a regional tennis centre		8 000
Upgrade lawn bowls facility in Darwin	2 000	
Darwin Velodrome upgrade		1 500
Katherine Country Club golf course redevelopment	820	
Riding for the Disabled facilities in Marlow Lagoon and Alice Springs	500	
Increased repairs and maintenance funding for the TIO Stadium		1 000
Total	**6 800**	**10 500**
Department of Arts and Museums		
Northern Territory Heritage Enhancement Action Plan		350
Funding to upgrade the Library Management System		541
Increased funding for the Godinymayin Yijard Rivers Arts and Culture Centre in Katherine		500
Total		**1 391**

Revenue Initiatives

A number of revenue measures are included in the 2015-16 Budget and are described in detail in this section.

Stamp Duty Measures

Senior, Pensioner and Carer Concession

The Senior, Pensioner and Carer stamp duty concession is provided to seniors (aged 60 years and over) and Northern Territory Pensioner and Carer Concession cardholders, when purchasing a principal place of residence up to the value of $750 000. The concession was previously $8500, and has been increased to $10 000 in this Budget, for transactions entered into from 28 April 2015 onwards. The estimated cost to the Budget in 2015-16 is around $200 000.

The increase means that eligible home buyers will pay no stamp duty on the first $292 300 of their home's value. The concession reduces the barrier to purchasing a new home and facilitates moving into a home that better suits the home buyer's needs.

Abolition of Life Insurance Stamp Duty

Life insurance policies for Territory residents are liable to stamp duty at a rate of 10 cents per $100 of the sum insured.

From 1 July 2015, stamp duty on life insurance will be abolished at a cost to the Budget of $2 million per annum. Abolishing stamp duty on life insurance reduces the costs of life insurance for Territorians and reduces compliance costs for the insurance industry.

Additionally, all life insurance riders, as additional insurance added to life insurance products, will be taxed as general insurance. This is similar to Western Australia and Victoria, which have also abolished life insurance stamp duty, providing certainty to industry and a harmonised treatment of these products.

Gaming Tax Measures

In the Territory, hotels are required to pay, in addition to gaming machine taxes, a community benefit levy of 10 per cent of monthly gross gaming machine profits to the Community Benefit Fund. The Community Benefit Fund provides funding for gambling research and amelioration programs, along with grants for community enhancing projects. However, Territory casinos have not been required to pay the levy.

From 1 July 2015, Territory casinos will be required to pay the 10 per cent community benefit levy in the same manner as Territory hotels. This will increase the Community Benefit Fund by $7.8 million per annum, increasing its capacity to provide grants for community improvements and fund additional gambling amelioration programs.

Payroll Tax Measures

Apprentices Exemption

The *Payroll Tax Act* currently provides exemptions from payroll tax for wages paid to apprentices and trainees. The exemption relies on the employee being in an approved apprenticeship or trainee arrangement, but has no link to actual course attendance, training undertaken or completion. This means that the exemption is poorly targeted, inefficient and open to misuse by some employers. Additionally, small Territory businesses under the $1.5 million payroll tax threshold receive no benefit from the exemption.

To address these inefficiencies and inequalities, the payroll tax exemption for apprentices and trainees will be abolished from 1 July 2015. The resulting $4.4 million per annum saving to the Budget will instead be passed on to employers through a new direct assistance program 'Training for the Future' at a cost of $4.4 million. The new program will provide employers with financial incentives to employ and train apprentices including a commencement grant, a completion grant and a recommencement grant, ensuring that taxpayers' money is directed to programs that deliver results and genuine outcomes.

Charities Exemption

Charitable entities receive a payroll tax exemption in recognition of the valuable work they do in our communities. However, recent interstate court decisions have widened the exemption beyond its intended scope, and in particular, the exemption can be available for investment activities and the operation of commercial, for-profit businesses, which have no direct relation to the purpose of a charity. Other court decisions have also allowed organisations that have not historically been regarded as charitable to receive the payroll tax exemption, including chambers of commerce and professional associations.

In order to ensure that the exemption is being provided for the purpose for which it is intended, the *Payroll Tax Act* will be amended from 1 July 2015 in two key respects. Firstly, the exemption will be removed for any commercial work, or work performed in competition with the private sector. This will ensure that the commercial activities of a charity will be subject to the same taxation rules as every other business conducting the same activities. Secondly, bodies that promote trade, industry or commerce, and professional associations, will not be entitled to receive the charities exemption.

These reforms leverage off similar reforms interstate and contain safeguards to ensure that the amendments do not affect traditional charities. The Bill also provides the Commissioner of Territory Revenue with flexibility in administering the new exemption to ensure it is appropriately targeted without affecting charities that benefit the community.

Due largely to the cessation of tax avoidance schemes by commercial businesses, the reforms are expected to increase payroll tax collections by about $3 million per annum.

Other Minor Administrative Reform

The Government has also approved a package of changes that enhance the simplicity, efficiency and equity of the Territory's taxation laws and the First Home Owner Grant scheme.

The measures, which generally commence from 1 July 2015, will:

- amend the *Payroll Tax Act* 'relevant contract' provisions to maintain harmonisation with other states;
- amend stamp duty legislation to give effect to current standing waivers;
- clarify the Commissioner's valuation powers;
- clarify that the stamp duty exemption for health insurance includes overseas student and temporary visa holder health insurance contracts; and
- clarify the circumstances when the Commissioner may disregard arrangements that reduce the value of property when making stamp duty assessments.

Chapter 5

Intergovernmental Financial Relations Issues

Overview

In 2015-16 the Territory is expecting to receive $4417 million in Commonwealth funding, representing about 68 per cent of the Territory's total non financial public sector revenue. This comprises $3275 million in untied payments, largely GST revenue, and $1142 million in tied payments.

GST revenue is the largest single fiscal transfer from the Commonwealth, representing about 50 per cent of the Territory's total revenue. In 2015-16, the Territory is expected to receive $3271 million in GST revenue, a $94 million increase from the estimate of $3177 million for 2014-15. The increase is driven by higher estimates of national GST collections and the Territory's share of the national population, partially offset by a decrease in the Territory's GST relativity from 5.66061 in 2014-15 to 5.57053 in 2015-16.

The decrease in the Territory's GST relativity reflects the outcomes of the Commonwealth Grants Commission's (CGC's) 2015 Methodology Review, mainly the differential assessment of Commonwealth payments to states and territories under the National Partnership (NP) Agreement on Remote Indigenous Housing and lower assessed non-road investment. The main issues for the Territory in the CGC's 2015 Review are discussed in detail later in this chapter.

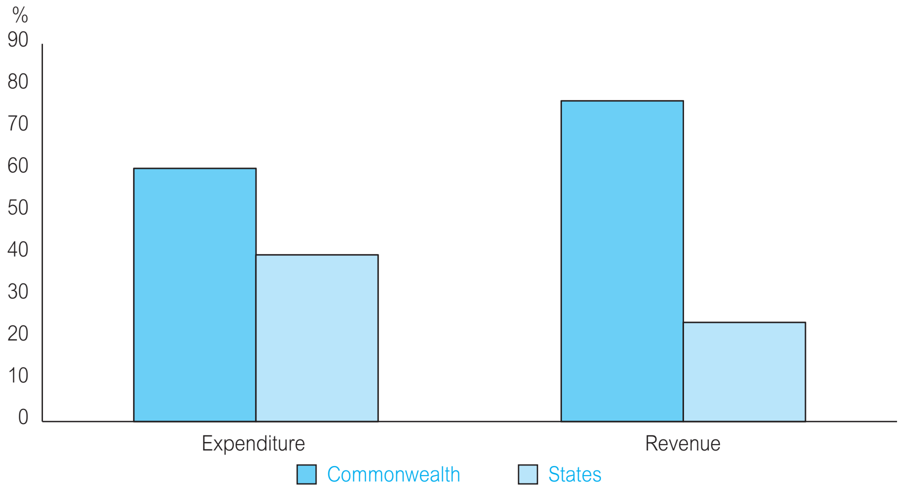
Tied Commonwealth revenue is estimated to contribute $1142 million or 18 per cent of the Territory's total revenue in 2015-16. While an overarching objective of the Intergovernmental Agreement on Federal Financial Relations (IGA) was less Commonwealth prescription on tied Commonwealth funding, this has not been fully realised, particularly with the development of a number of prescriptive national reform agreements in recent years. However, the Council of Australian Governments' (COAG) decision in December 2013 to direct effort into rationalising the number of existing NP agreements across several sectors has reduced their reporting burden while maintaining the integrity of the IGA.

Federal Financial Relations

Australia's system of federal financial relations is characterised by a high level of vertical fiscal imbalance compared with other federations, necessitating significant revenue transfers from the Commonwealth to the states. These transfers are in recognition that states' expenditure obligations under the Australian constitution far outweigh their capacities to raise revenue, while for the Commonwealth, the opposite is true.

Chart 5.1 highlights the level of vertical fiscal imbalance in Australia. In 2013-14, states were responsible for around 41 per cent of total Commonwealth and state government expenditure in Australia, but only raised around 25 per cent of total revenue. Conversely, the Commonwealth raised around 75 per cent of total Commonwealth and state revenue, but its expenditure obligations only accounted for around 59 per cent of total expenditure. As a result, the Commonwealth makes transfers to the states to support the provision of states' expenditure obligations, such as health care, education, public safety and transport.

Chart 5.1: Comparison of Commonwealth and States' Total Expenditure and Revenues, 2013-14



Source: Commonwealth 2013-14 Final Budget Outcome; Commonwealth Grants Commission 2015 Review Final Report

Further to the high level of vertical fiscal imbalance, the Australian federation is also characterised by significant differences in the fiscal capacities of the states, or horizontal fiscal imbalance, which is a factor of differences in states' demographic, geographic and economic circumstances. Consequently, the Commonwealth provides differing levels of funding to each state, on both an aggregate and per capita basis, as a means of equalising the fiscal capacities of jurisdictions.

Table 5.1 shows the level of Commonwealth funding proportional to each state's total general government revenue in 2013-14.

Table 5.1: Commonwealth Funding as a Percentage of States' Total General Government Revenue, 2013-14

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Revenue from the Commonwealth, $ per capita	3 968	4 146	4 290	3 248	4 501	5 485	4 727	15 336	4 201
Commonwealth proportion of total state revenue, %	45	46	45	30	49	57	42	72	44

Source: Commonwealth 2013-14 Final Budget Outcome; State/Territory 2013-14 Annual Financial Reports

Commonwealth funding to the states includes both general revenue assistance, where the Territory can use the funds in accordance with its policy priorities (untied funding, comprising GST revenue and grants in lieu of uranium royalties arising from the Commonwealth's ownership of uranium), and tied funding to be used for specific purposes, predominantly in the form of Specific Purpose Payments (SPPs) and National Partnership (NP) payments. The majority of Commonwealth revenue to the Territory is provided under the IGA. Funding is also provided by Commonwealth own-purpose expenses (COPEs), which are primarily fee-for-service arrangements payable to either government or non-government entities. COPE funding is excluded from IGA payment arrangements.

Table 5.2 shows that in 2015-16, total Commonwealth payments to the Territory are estimated to be $4417 million, of which 22 per cent comprises tied SPPs, NP payments and National Health Reform (NHR) funding, with a further 74 per cent comprising GST revenue and grants in lieu of uranium royalties.

Compared with 2014-15, total revenue from the Commonwealth is expected to increase by $23 million or less than 1 per cent in 2015-16. The increase is largely due to the increase in GST revenue, partially offset by a decrease in NP payments, which is discussed later in this chapter, and COPEs.

Table 5.2: Components of Territory Revenue[1]

	2013-14 Actual	2014-15 Estimate	2015-16 Budget
	$M	$M	$M
General revenue assistance			
GST revenue[2]	2 828	3 177	3 271
Grants in lieu of uranium royalties	5	3	4
Tied revenue			
Specific Purpose Payments[3]	256	319	339
National Partnership payments	448	530	470
National Health Reform funding	135	155	175
Other Commonwealth payments[4]	219	210	158
Total Commonwealth revenue	3 891	4 394	4 417
Territory own-source revenue	1 956	2 479	2 091
Total revenue	**5 847**	**6 873**	**6 508**

1 Includes non financial public sector.
2 Includes balancing adjustments for over/under payments of GST in the previous financial year.
3 Includes payments 'through' the Territory for non-government schools.
4 For consistency of reporting with the Commonwealth, funding under the Natural Disaster Relief and Recovery Arrangements is reported as tied funding.
Source: Department of Treasury and Finance

Intergovernmental Agreement on Federal Financial Relations

The IGA, agreed by all states and the Commonwealth in 2008, provides a framework for national collaboration on policy development and service delivery, and facilitates the implementation of nationally important economic and social reforms.

The aim of the IGA is to improve the effectiveness of government services through:

- fair and sustainable federal financial arrangements;
- clearly defined roles and responsibilities between the Commonwealth and states;
- enhanced public accountability through simpler, standardised and more transparent performance reporting;
- performance reporting that focuses on the achievement of outcomes and outputs;
- reduced administration and compliance overheads;
- elimination of financial and other input controls imposed on states, for service delivery, in Commonwealth funding agreements; and
- the equalisation of fiscal capacities between states.

These arrangements are formalised through:

- National Agreements (NAs) for significant state services (health care, school education, skills and workforce development, disability, affordable housing and Indigenous reform);
- NP agreements for nationally significant reforms, service delivery initiatives and/or projects; and
- the provision of GST revenue to the states, with all proceeds from the GST provided on an untied basis and distributed among the states in accordance with the principle of horizontal fiscal equalisation (HFE).

GST Revenue

GST revenue is the largest revenue transfer from the Commonwealth, representing an estimated 53 per cent of Commonwealth payments to the states. For the Territory, GST revenue accounts for about 74 per cent of total Commonwealth payments in 2015-16.

A state's GST revenue entitlement is dependent on three factors: national GST collections, the state's GST per capita relativity and the state's share of the national population. The Commonwealth determines states' GST entitlements by multiplying each state's population by its GST relativity to derive its weighted population. A state's share of GST revenue is equivalent to its share of the weighted population.

Table 5.3 shows the parameters used to estimate the Territory's GST revenue in the 2015-16 Budget.

Table 5.3: Territory GST Revenue Parameter Estimates

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Estimate	Budget	Forward Estimates		
GST collections ($M)	51 090	53 710	56 718	59 724	62 889	66 222
Territory GST relativity	5.31414	5.66061[1]	5.57053[2]	5.52449	5.47845	5.43241
Territory share of national population (%)	1.0404	1.0319	1.0323	1.0248	1.0174	1.0101
Territory GST revenue ($M)	2 828[3]	3 177[3]	3 271	3 408	3 543	3 685

1 Actual relativity as determined by the CGC in its 2014 Update.
2 Relativity recommended by the CGC in its 2015 Review Final Report.
3 Includes balancing adjustment for the over/underpayment of GST revenue to the Territory in the preceding year.
Source: Commonwealth Grants Commission, Department of Treasury and Finance

In 2014-15, the Territory is expected to receive $3177 million in GST revenue, representing a 12.3 per cent increase from 2013-14. The increase in the Territory's GST revenue in 2014-15 is mainly due to a significant increase in the Territory's GST relativity compared to 2013-14. In its *Report on GST Revenue Sharing Relativities – 2014 Update*, the CGC recommended an increase in the Territory's GST relativity from 5.31414 in 2013-14 to 5.66061 in 2014-15, a level that is unprecedented and unlikely to be maintained in the medium term due to changes in other states' fiscal capacities. The increase in the Territory's GST revenue also reflects an estimated 5.1 per cent increase in GST collections between 2013-14 and 2014-15 and a balancing adjustment of $26 million in respect to an underpayment of GST in 2013-14. It is estimated that these effects will be partially offset by the impact of a decrease in the Territory's share of the population from 1.040 per cent in 2013-14 to 1.032 per cent in 2014-15.

The Territory's GST revenue is expected to increase by 3 per cent to $3271 million in 2015-16. This is $86 million higher than estimated at the time of the 2014-15 Budget, primarily due to an upward revision in estimates of the GST collections and the Territory's GST relativity, partially offset by a decrease in the Territory's estimated share of the national population, as shown in Table 5.4.

Table 5.4: Factors Contributing to the Revision in the Territory's GST Revenue Estimate

	2014-15	2015-16
GST revenue	$M	$M
As at 2014-15 Budget	3 129	3 185
As at 2015-16 Budget	3 177	3 271
Difference	**48**	**86**
Change caused by new:		
National GST collections	55	55
Relativities	0	94
Population	- 7	- 31
Interactions[1]	0	- 32
Total	**48**	**86**

1 Impact of rounding and the interaction between the updated parameters in the calculation of states' GST shares.
Source: Department of Treasury and Finance

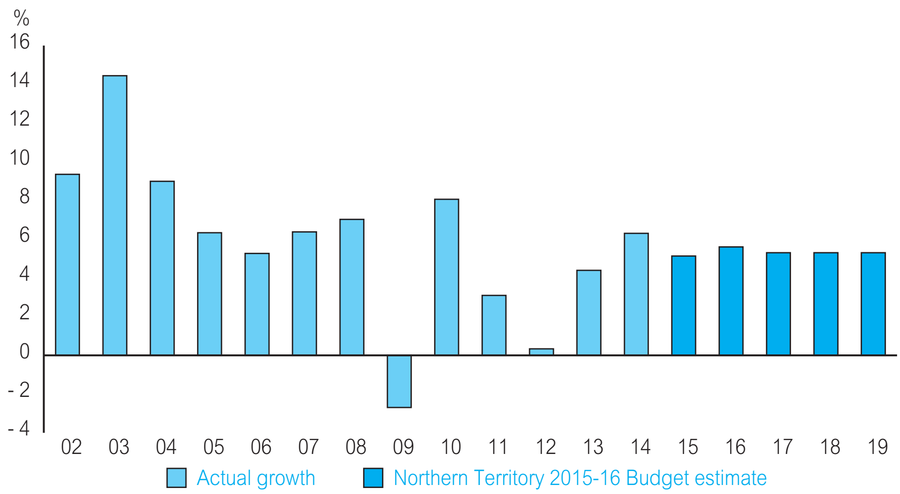
A discussion of the GST parameters (national GST collections, GST population and relativities) follows.

National GST Collections

National GST collections are expected to increase by 5.1 per cent in 2014-15 and 5.6 per cent in 2015-16, before moderating to 5.3 per cent per annum from 2016-17 to 2018-19 (Chart 5.2). GST collections are significantly impacted by consumer sentiment and the resulting consumption patterns, particularly in relation to discretionary spending.

As Chart 5.2 shows, there has been a notable moderation in the growth of GST collections from when the GST was introduced in July 2000, suggesting a shift in consumer spending patterns from items that attract GST (mainly discretionary spending) to items that are GST-exempt. This mainly reflects the higher growth in prices of non-discretionary items such as residential rent, health and education since the introduction of the GST. This trend is expected to continue over the forward estimates period, with growth in GST collections averaging 5.3 per cent per annum.

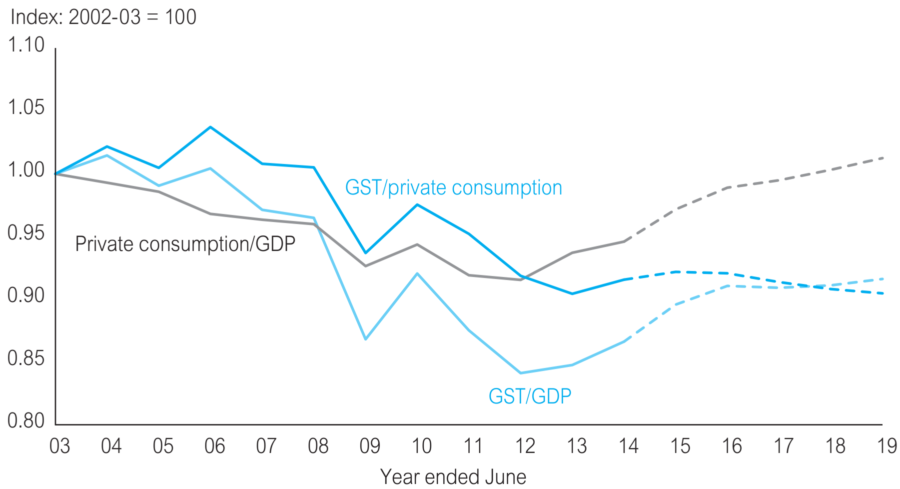
Chart 5.2: Annual Growth in National GST Collections



Source: Department of Treasury and Finance

Chart 5.3 shows that, as a proportion of gross domestic product (GDP), GST collections fell below overall private consumption in 2007-08, reflecting a decrease in consumer spending on discretionary items. While private consumption is expected to increase over the budget and forward estimates period, supported by relatively low interest rates, the proportion of spending that relates to discretionary items is expected to remain constrained over this period, reflecting an expected increase in spending on non-discretionary items such as health and housing.

Chart 5.3: Index of GST and Private Consumption as a Proportion of GDP



Source: ABS; Deloitte Access Economics; Department of Treasury and Finance

Population

The Territory's population is estimated to increase by 0.9 per cent in 2014-15, with population inflows to meet the workforce requirements of the Ichthys liquefied natural gas (LNG) project and associated economic activities being partially offset by outflows arising from the curtailment of operations at the Gove alumina refinery. Population growth is expected to strengthen to 1.8 per cent in 2015-16, as the workforce requirements of the Ichthys LNG project peak and the impacts of the Gove refinery curtailment subside. From 2016-17 onwards, Territory population growth is expected to moderate to 1 per cent per annum, a level more aligned to natural increase. Chapter 4 of the *Northern Territory Economy* Budget Paper provides more detail on the Territory's population characteristics and forecast growth patterns.

GST Relativities

The GST relativity component of the GST revenue distribution formula determines whether a state will receive more or less than its population share of the GST revenue pool. The relativities are the culmination of the CGC's work as the independent body responsible for recommending to the Commonwealth Treasurer the distribution of GST revenue between the states each year, in accordance with the principle of HFE. The CGC defines HFE as:

> *State governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency* (CGC 2015 Review Final Report).

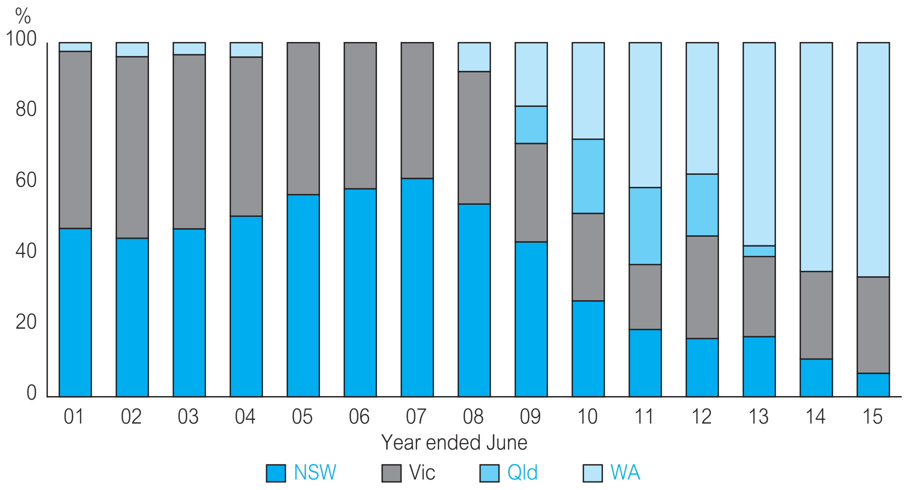
HFE aims to ensure that each state has the fiscal capacity to provide its citizens with the same access to government services and infrastructure, no matter where they live. In order to assess states' fiscal capacities, the CGC determines an 'average' state policy by examining what states do across all areas of state responsibility, and takes into account unavoidable differences between states that affect their capacities to deliver an average level of services, such as population characteristics, geographic size and remoteness, structure of economies and natural resource endowments.

The Territory requires significantly more than its population share of the GST pool to provide services at national average levels, due to its lower than average capacity to raise own-source revenue and the significantly higher costs of providing services compared with elsewhere. The major drivers of the Territory's above-average service delivery costs are its small and sparsely distributed population (a significant proportion of which resides in remote areas), a relatively large Indigenous population, isolation from major supply centres in the eastern states and the lack of economies of scale in service delivery and central administration.

It is important to note that states' shares of GST revenue change over time as factors affecting state revenues and expenses change. For example, a state's health expenditure needs will increase over time if it has an increasing share of the national elderly population, or a state's share of GST revenue will decrease over time if its capacity to raise revenue from its own sources increases relative to other states' revenue-raising capacities (all other things remaining equal).

States are sometimes classified into 'donor' and 'recipient' states, with the donor states are those that receive less than their population share of GST revenue and the recipient states are those that receive more. Chart 5.4 shows changes in the contributions of the donor states to the redistribution of GST revenue to the other states. It shows that between 2004-05 and 2006-07 Western Australia was a recipient state, receiving more than its population share of GST revenue, and that until 2008-09, Queensland was also a recipient state and has been since 2013-14. The change in Western Australia and Queensland's status from recipient to donor states during this period reflects the increased revenue-raising capacities due to the mining boom. Chart 5.4 also shows that New South Wales has been receiving an increasing share of GST revenue over time, moving closer to an equal per capita share, as its revenue capacity decreased following the global financial crisis and the associated impact on its property market and its expenditure needs have increased.

Chart 5.4: 'Donor' States' Share of the Redistribution of GST Revenue to Other States



Source: Commonwealth Grants Commission

Commonwealth Grants Commission – 2015 Methodology Review

Every five years the CGC undertakes a review of its methodology for assessing states' GST revenue needs. The 2015 Methodology Review has been completed, with the CGC providing its Final Report to the Commonwealth Treasurer in February 2015 and the Commonwealth Treasurer approving it to be released to the states and territories in April 2015. In the 2015 Review Final Report, the CGC recommended a decrease in the Territory's GST relativity from 5.66061 in 2014-15 to 5.57053 in 2015-16. The CGC also recommended decreases in the

GST relativities of New South Wales, Western Australia and the Australian Capital Territory, while it recommended increases in the GST relativities of Victoria, Queensland, South Australia and Tasmania (Table 5.5).

Table 5.5: Illustrative Change in GST Revenue Between 2014-15 and 2015-16

	NSW	VIC	Qld	WA	SA	TAS	ACT	NT
2014-15	0.97500	0.88282	1.07876	0.37627	1.28803	1.63485	1.23600	5.66061
2015-16	0.94737	0.89254	1.12753	0.29999	1.35883	1.81906	1.10012	5.57053
Impact ($M)	- 517	131	556	- 494	284	225	- 129	- 56
Impact ($ per capita)	- 67	22	114	- 182	166	436	- 325	- 223

Source: CGC 2015 Review Final Report

Table 5.5 shows the CGC's estimates of the GST impact of changes in states' GST relativities in the 2015 Review using GST collection and population forecasts from the Commonwealth's 2014-15 Mid-Year Economic and Fiscal Outlook. It shows that the impact of the decrease in the Territory's GST relativity is an estimated $56 million decrease in the Territory's GST revenue in 2015-16 compared to 2014-15. In per capita terms, the Territory is the second most adversely affected jurisdiction, after the Australian Capital Territory.

The Department of Treasury and Finance was involved in all stages of the 2015 Review process, providing three main submissions and a number of supplementary submissions dealing with specific aspects of the CGC's assessment methodology. The Territory's submissions consistently defended the current form of HFE, which is the sole objective of GST distribution under the IGA, agreed by the Commonwealth and all states.

The 2015 Review process was conducted over a shorter period than previous methodology reviews, which limited the scope of substantive method changes that could be considered. The issues that were most significant to the Territory in the 2015 Review were the assessment of the Remote Indigenous Housing agreement, proposed changes to the CGC's approach to achieving contemporary GST relativities, and the appropriate way of capturing the characteristics of Indigenous people in the CGC's assessments.

Treatment of National Partnership Agreement on Remote Indigenous Housing

In calculating relativities the CGC takes into account the level of tied funding received by a state. Other things being equal, an increase in tied funding will reduce a states need for GST revenue. The Remote Indigenous Housing agreement is a 10-year funding strategy agreed by the Commonwealth and all states in 2008 to address overcrowding, homelessness, poor housing conditions and severe housing shortages in remote Indigenous communities. The Territory receives an above-average share of Remote Indigenous Housing funding in recognition of the significantly greater need in the Territory's Indigenous communities compared to communities in other states.

In the 2015 Review the CGC made a decision to differentially assess Commonwealth funding to states under Remote Indigenous Housing, a significant departure from the 2010 Review approach, where Remote Indigenous Housing funding did not affect states' GST relativities. The CGC's reasoning is that differentially assessing Remote Indigenous Housing payments reflects changes in the delivery of remote Indigenous housing services since the 2010 Review, with states gradually assuming greater responsibility for services. The Territory argued that Remote Indigenous Housing funding should be excluded from the CGC's assessments, as it addresses unmet need arising from a significant shortage of housing in remote Indigenous communities.

The CGC will phase in the new approach to assessing Remote Indigenous Housing over three years. It is estimated that in 2015-16, the impact of this change will be a $30 million reduction in the Territory's GST revenue, which is equivalent to around 45 per cent of the Territory's estimated Remote Indigenous Housing funding in that year. This impact is expected to increase over time with the phasing in of the new assessment method.

Enhancing the contemporary nature of horizontal fiscal equalisation

The CGC aims to develop GST relativities that are appropriate for the year in which they are applied in determining states' shares of GST revenue. In this regard, in the 2010 Review the CGC based its assessments on average revenue and expenditure data for the three most recently completed financial years. This approach was supported by the majority of states, as it achieved an appropriate balance between reflecting, as far as possible, states' likely fiscal circumstances in the application year and stability in states' GST revenue.

In the 2015 Review, Western Australia expressed concerns that the current approach to contemporaneity did not sufficiently reflect its fiscal circumstances, which are currently characterised by significant reductions in mining revenue due to recent and forecast declines in iron ore prices. In recognition of these concerns, the Commonwealth Treasurer directed the CGC to provide advice (and related GST relativities) on a possible approach for mitigating the negative effects of revenue volatility on the GST distribution system.

In response to the Commonwealth Treasurer's request, the CGC advised that it was not able to develop a modification to the current GST distribution system that would be reliable over time. The CGC noted that the current system mitigates the impacts of revenue volatility in a robust fashion, mainly through the averaging of changes to states' fiscal capacities over three years.

Notwithstanding the above advice, the CGC provided the Commonwealth Treasurer with illustrative GST relativities that could be used to provide additional GST revenue of up to $500 million to Western Australia in 2015-16, with this adjustment funded by reductions in the GST revenue of all other states.

Indigenous socio-economic characteristics

The 2015 Review Final Report includes a change in the CGC's assessment of the additional cost of providing services to the Indigenous population, an issue that the Territory raised following the Australian Bureau of Statistics' 2011 Census of Population and Housing.

Between the 2006 and 2011 censuses, there was significant growth in the Indigenous population in all states except the Territory. It was noted that the growth rates experienced in other states were significantly higher than could be explained through demographic growth (births less deaths). Rather, the growth was mainly due to an increase in the number of people identifying as Indigenous in the 2011 Census compared to the 2006 Census, particularly in the eastern states. It was also observed that the socioeconomic characteristics of newly identifying Indigenous people were largely similar to those of the non-Indigenous population.

The assessment of Indigeneity in the CGC's previous methodology assumed that the Indigenous population was socio-economically homogenous. This meant that an Indigenous person living in an inner-city suburb in a large capital city was considered to have the same socio-economic characteristics and hence the same need for Government services as an Indigenous person living in a small, isolated remote community, which is counterintuitive. Consequently, in the 2015 Review, the CGC undertook to identify a more appropriate measure of disadvantage within the Indigenous population.

In the Final Report, the CGC assessed Indigenous status based on the Indigenous Relative Socio-economic Outcomes (IRSEO) index, which captures the different socio-economic characteristics within the Indigenous population. According to IRSEO, while 10.3 per cent of the national Indigenous population resides in the Territory, it accounts for 37.5 per cent of the most disadvantaged Indigenous people in Australia. This compares to 17 per cent in New South Wales, 16.8 per cent in Queensland and less than 1 per cent in Victoria, despite these states accounting for 31.1 per cent, 28.2 per cent and 7.1 per cent of the total Indigenous population, respectively.

While the CGC's new approach has had a positive impact on the Territory's GST relativity, it is difficult to quantify this impact, as Indigenous status is assessed across a number of categories and interacts with other sociodemographic characteristics assessed by the CGC.

Specific Purpose Payments

SPPs are provided by the Commonwealth to support states to achieve the outputs and outcomes of the relevant sector's NA established under the IGA. In 2015-16 it is expected that there will be three SPPs associated with an NA (disability, affordable housing, and skills and workforce development). Under the IGA, SPP funding is ongoing, indexed annually and untied within the relevant sector. SPP's are distributed amongst the states in accordance with a population-share basis.

Two former SPPs have been superseded. On 1 July 2012, the National Healthcare SPP was replaced by National Health Reform funding, which comprises base funding equivalent to the Healthcare SPP and efficient growth funding from 1 July 2014. From 1 January 2014, the National Schools SPP was replaced by funding of the Students First program.

In 2015-16, the Territory expects to receive $44.4 million in SPPs for skills and workforce development, affordable housing and disability. Table 5.6 provides estimates of SPPs to be received by the Territory in 2014-15 and 2015-16.

Table 5.6: Specific Purpose Payments

	2014-15 Estimate	2015-16 Budget
	$M	$M
Students First funding[1]	275.4	294.0
Pay Equity for the Social and Community Services Sector	0.7	0.9
National Skills and Workforce Development	15.0	15.3
National Affordable Housing	13.6	13.9
National Disability[2]	14.6	15.2
Total	**319.3**	**339.3**

1 Includes payments for non-government schools.
2 The budget-neutral adjustment to the disability SPP to ensure neutrality of the realigned Commonwealth and state responsibilities for aged care and disability services, agreed under the NHR agreement, is still subject to negotiation.
Source: Department of Treasury and Finance

National Partnership Payments

The IGA established NP agreements to implement projects of national importance and/or involving significant reform or service delivery initiatives. NP agreements have been agreed for initiatives across a broad range of state services, including where the initiatives relate to reform directions which are described in an existing NA. Project Agreements (PAs) are a simpler form of NP agreements for initiatives that have relatively low funding and are considered low risk. Some NP agreements require Implementation Plans to be developed to outline state-specific arrangements where sufficient detail cannot be provided in the overarching NP agreement.

NP payments are now the major source of tied Commonwealth funding, with the Territory estimated to receive NP revenue of $530 million in 2014-15 and $470 million in 2015-16.

NP payments may be provided as an upfront payment to facilitate initiatives, or paid on achievement of specified performance benchmarks or milestones. The Commonwealth and Territory also provide own-purpose funding for a small number of NPs. Table 5.7 provides estimates of NP revenue by each agency responsible for delivering the service in the Territory.

The Territory currently has around 40 NP agreements and PAs, with another 10 under negotiation, including some that represent the continuation of previous funding. There are also around 20 Implementation Plans either agreed or under development.

In December 2013 COAG agreed to reduce intergovernmental red tape by rationalising funding agreements and reducing their reporting burden. It was decided that, if this approach was successful, it would be applied to more agreements in the 2014-15 financial year. As a result, the first round of rationalisation of NP agreements took place in 2014-15, combining several low value NPs into the new NP Agreement on Specified Projects, with reduced reporting levels. In 2015 negotiations may occur to rationalise a second round of agreements, and if so, the NPs designated for rationalisation will be identified accordingly.

Table 5.7: National Partnership Payments

	2014-15 Estimate	2015-16 Budget
	$M	$M
Department of the Chief Minister	4.2	1.8
Tourism NT	0.8	0.8
Department of Primary Industry and Fisheries	1.5	
Department of Land Resource Management	0.5	0.2
Department of Mines and Energy	3.9	4.3
Department of Children and Families	15.8	16.1
Department of Health	124.0	104.0
Department of Correctional Services	0.3	
Department of Business	8.0	7.9
Northern Territory Police, Fire and Emergency Services	28.6	28.2
Department of Education	56.8	40.6
Department of Transport	124.0	111.8
Department of Local Government and Community Services	24.9	25.0
Department of Housing	135.7	128.6
Department of Arts and Museums	0.7	0.8
Total[1,2]	**529.7**	**470.1**

1 Includes Department of Infrastructure-managed projects on behalf of government agencies.
2 Does not include Legal Assistance Services, which are paid directly to the Northern Territory Legal Aid Commission.
Source: Department of Treasury and Finance

NP revenue included in the Territory's Budget represents funding that has been agreed by the Territory and Commonwealth governments. As additional agreements are finalised through the year, the Territory's NP revenue for 2015-16 and forward estimates will be adjusted accordingly. Timing of revenue over the life of an agreement is dependent on the achievement of agreed milestones and/or performance benchmarks and the nature of the initiative.

The $60 million decrease in NP revenue from 2014-15 to 2015-16 is attributed to a reduction in funding across various initiatives, including the timing of capital funding for the Palmerston and Alice Springs hospitals under the Health and Hospitals fund agreement. In addition, capital funding for various other projects such as for trade training centres in schools and transport infrastructure projects are declining in 2015-16. Several NP agreements have recurrent funding decreases in 2015-16, including Universal Access to Early Childhood Education, Stronger Futures in the Northern Territory Alice Springs Transformation Plan, Remote Indigenous Housing and Pest and Disease Preparedness and Response Programs. There will also be the expiry of some NP agreements in 2014-15 (refer to Table 5.8).

Expiring National Partnership Agreements

The Territory has seven NP agreements, or schedules under agreements, expiring during 2014-15, for which total funding of $8.4 million is expected to be received in 2014-15. The majority of these agreements were short-term programs and/or had a substantial service delivery component in the health sector. A further 14 NP agreements, or schedules under agreements, are due to expire by the end of 2015-16 for which total funding of $31.6 million is expected to be received in 2015-16. While the majority of these agreements have a significant high service delivery component, more than half of the expected total funding during this period is capital funding.

Table 5.8 shows the NP agreements due to expire in 2014-15 and the Commonwealth funding expected to be received by the Territory in their final year before expiry.

Table 5.8: Expiring National Partnership Agreements

	Expiring in 2014-15
	$M
Natural Disaster Resilience	1.3
More Support for Students with Disabilities	0.6
National Perinatal Depression Initiative	0.3
Renal Services to Aboriginal and Torres Strait Islander People in the Central Region of the Northern Territory	1.7
National Quality Agenda for Early Childhood Education and Care	0.4
Indigenous Teenage Sexual and Reproductive Health and Young Parent Support	3.9
Improving Public Hospital Services	0.2
Total	**8.4**

Source: Department of Treasury and Finance

Under the IGA, the Council on Federal Financial Relations, comprising all state, territory and Commonwealth treasurers, may make recommendations as to the treatment of funding under expiring NP agreements. Little is known about the continuation of the majority of expiring NP agreements, and the final decision on available funding remains a Commonwealth budgetary matter.

If Commonwealth funding is ceased, then additional demands may be placed on state and territory finances, which may or may not accord with state and territory priorities. While the expiry of NP agreements that focus on discrete initiatives (such as infrastructure) can be relatively easily managed by states and territories, it is more problematic where the NP agreement creates expectations of ongoing service delivery. The effect of expiring NP agreements on the Territory's budget remains a risk and will continue to be closely monitored.

Reward Payments

A small number of NP agreements include reward payments for achievement of performance benchmarks. Up until 30 June 2014, payments were released following an assessment by the COAG Reform Council (CRC) and subsequent determination by the relevant Commonwealth Minister on the basis of the CRC's assessment. In 2014-15 the Territory will receive $0.2 million in reward payments under the NP on Improving Public Hospital Services: National Elective Surgery Target for 2013 performance against benchmarks, assessed by the CRC prior to 30 June 2014.

Subsequently, the Commonwealth's 2014-15 Budget abolished the CRC from 1 July 2014, and it is expected that the Productivity Commission will assess the NP agreement on Essential Vaccines in 2014-15 for reward payments.

Commonwealth Revenue Received by Territory Agencies

Details of the significant SPPs and NP payments received by Territory agencies are provided in the following section.

Department of Mines and Energy

Project Agreement for the Management of the Former Rum Jungle Mine Site

The Project Agreement for the Management of the Former Rum Jungle Mine Site aims to support delivery of the Rum Jungle Mine Site Rehabilitation Project (stage 2) at the former Rum Jungle site, Rum Jungle Creek South, Mt Burton and Mt Fitch sites. In 2015-16, the Territory is expected to receive funding of approximately $4.3 million.

Department of Health

National Health Reform Agreement

The NHR agreement provides a framework for reforms of public hospital funding and governance across Australia, and was signed by COAG in August 2011. The reform has been implemented progressively, with state and Commonwealth funding contributions transitioning to the new arrangements since July 2012. The NHR agreement aims to improve both health outcomes for all Australians and the sustainability of the Australian health system, and builds on the service delivery principles and objectives for the health system agreed in the National Healthcare Agreement.

In accordance with the NHR agreement, the Territory's Department of Health was transformed from a single organisation into three entities, comprising the Department of Health, Top End Health Service, and Central Australia Health Service. This decentralisation of health services provides clear delineation between governance, policy development and regulatory functions and the delivery of healthcare services.

From 1 July 2014, new funding arrangements for hospitals under the NHR agreement were fully implemented resulting in public hospitals funded based on levels of activity. The activity-based funding (ABF) arrangements aim to improve patient access to services and increase public hospital efficiencies by funding hospitals for agreed services based on a national efficient price rather than on an historical basis.

Pricing under the NHR agreement is determined by the Independent Hospitals Pricing Authority (IHPA), however the agreed price for services within a hospital system may differ to the efficient price determined by the IHPA. The Territory's contribution to ABF is determined by the difference between the agreed price and the Commonwealth's contribution towards the efficient price.

In 2015-16, the Territory anticipates receiving NHR payments of $175 million, to support the implementation of the NHR agreement through funding for hospital services, teaching, training and research, and public health activities. While this funding will be based on hospital activity (or block funding where this is more appropriate), NHR payments in 2015-16 will be no less than would have been paid under the previous healthcare SPP.

National Partnership Agreement on Health Services

The NP agreement on Health Services aims to improve the health and wellbeing of Australians through the delivery of high-quality services. The NP agreement encompasses a wide range of initiatives articulated in separate IPs. Initiatives include the National Critical Care Trauma Response Centre, with $15.5 million expected to be received in 2015-16.

National Partnership Agreement on Health Infrastructure

The NP agreement on Health Infrastructure encompasses existing Health and Hospital Fund infrastructure projects in the Territory, including the establishment of new and redevelopment of existing remote health centres as well as minor upgrades to most regional hospitals. Other infrastructure initiatives include the development of the Palmerston Regional Hospital, for which the Territory anticipates receiving $46 million in 2015-16.

National Partnership Agreement on Essential Vaccines

The NP agreement on Essential Vaccines aims to improve the health and wellbeing of Australians through the cost-effective delivery of immunisation programs under the National Immunisation Program (NIP). Over time, the Commonwealth will take responsibility for the purchase of NIP vaccines for use by states and territories, with Commonwealth reimbursement of state and territory NIP vaccine purchases during the transition. In 2014-15, the Territory is expected to receive funding of approximately $4 million under this NP, dependent on the uptake of immunisations.

National Disability Specific Purpose Payment

The National Disability SPP supports the achievement of outputs and outcomes under the National Disability Agreement, which aims to enable people with a disability to achieve economic participation and social inclusion, and to enjoy choice, wellbeing and the opportunity to live as independently as possible. It also aims to ensure that families and carers of people with a disability are well supported. The Commonwealth has assumed funding and policy responsibility for all aged care services for non-Indigenous people aged 65 years and over, and Indigenous people aged 50 years and over. The Territory has funding and program responsibility for basic community care services for people under these ages in line with its principal responsibility for the delivery of other disability services under the National Disability Agreement. In 2015-16, the Territory expects to receive $15.2 million for the National Disability SPP.

Department of Business

National Skills and Workforce Development Specific Purpose Payment

The National Skills and Workforce Development SPP supports the achievement of the objectives included in the National Agreement on Skills and Workforce Development. In 2015-16, the Territory expects to receive $15.3 million for the National Skills and Workforce Development SPP.

The NA on Skills and Workforce Development aims to achieve a vocational education and training (VET) system that delivers a more productive and highly skilled workforce, enabling all working-age Australians to participate effectively in the labour market and contribute to Australia's economic future. It was revised in April 2012 and while it maintains a broadly similar intent to the previous NA, the revised agreement has a stronger focus on VET reform and economic participation.

National Partnership Agreement on Skills Reform

The NP agreement on Skills Reform sets out specific initiatives to be achieved under the national skills reform agenda, which in turn supports the principles articulated in the revised NA on Skills and Workforce Development. The NP agreement aims to create a more accessible and equitable training system for working-age Australians and increase the transparency, quality, efficiency and responsiveness of the VET sector to individuals, employers and industry. Funding provided under the NP agreement supports implementation of the reforms and the delivery of increased training outcomes. In 2015-16, the Territory expects to receive $3.9 million under the NP agreement on Skills Reform.

Department of Education

Students First – A Fairer Funding Agreement for Schools

The former Commonwealth Government developed the National Education Reform Agreement (NERA) with the aim of changing the funding arrangements for all schools across Australia, through providing funding for all government and non-government schools on a per student basis, with loadings to recognise the additional resources required to provide education services to disadvantaged students. However, not all states agreed to the terms of the NERA and at the time of the 2013 federal election, the Northern Territory, Queensland and Western Australia had not signed.

These three states have since signed separate bilateral education reform agreements with the Commonwealth. Unlike the NERA, the bilateral agreements do not require states to provide any additional funding as a prerequisite for additional Commonwealth funding, nor do they include the reporting requirements of the NERA.

As all states have now signed up to some form of education reform agreement, on 1 January 2014 the Commonwealth commenced a new national funding agreement for schools. The Students First program reinstates funding removed by the former Commonwealth Government and ensures that no state or territory misses out on school funding. Funding to the education sector has increased through the Students First model.

In 2015-16 the Territory anticipates receiving $294 million in Students First payments, funded as an SPP, comprising $148.8 million for government schools, and $145.3 million for non-government school which is on-passed by the Territory. An amendment to the indexation of funding was announced in the Commonwealth's 2014-15 Budget as part of key savings decisions undertaken by the Commonwealth, whereby from 2018 indexation will be determined by the CPI with an allowance for changes in enrolments.

Under the Students First agreement, the Commonwealth will work with the Territory Government, teachers and parents to focus on the key areas of teacher quality, school autonomy, engaging parents in education and strengthening the curriculum.

National Partnership Agreement on Universal Access to Early Childhood Education

The Territory will continue to participate in the NP agreement on Universal Access to Early Childhood Education, which aims to improve access to quality early childhood education and preschool programs in the year before full-time schooling. The Territory expects to receive $1.5 million in 2015-16 from the Commonwealth under this agreement.

Department of Transport

National Partnership Agreements as part of the Infrastructure Investment Program in the Northern Territory

The NP agreements that are part of the Infrastructure Investment Program in the Northern Territory aim to improve the productivity, efficiency and safety of an integrated national land transport network in the Territory, to enhance Australia's economic growth and international competitiveness. They encompass a number of road programs including national network construction and maintenance and off-network projects. In 2015-16, the Territory anticipates receiving $111.5 million under these NP agreements.

Department of Housing

National Affordable Housing Specific Purpose Payment

The National Affordable Housing SPP supports the achievement of the National Affordable Housing agreement's objectives. In 2015-16, the Territory expects to receive $13.9 million for the National Affordable Housing SPP to fund supported accommodation projects.

The National Affordable Housing agreement aims to provide support and accommodation for people who are homeless or at risk of homelessness, to assist people with social housing and those in the private rental market who are purchasing houses. Improving affordable housing opportunities and reducing overcrowding for Indigenous people is a specific focus of this agreement.

National Partnership Agreement on Remote Indigenous Housing

The NP agreement on Remote Indigenous Housing aims to facilitate significant reform in the provision of housing for Indigenous people in remote communities and to address overcrowding, homelessness, poor housing conditions and severe housing shortage in these communities. Increasing the supply of new houses, improving the condition of existing houses and ensuring that social housing is well maintained and managed are key components of this NP agreement, which is funded until 2018. In 2015-16 it is anticipated that the Territory will receive $66.6 million under this agreement.

As part of Stronger Futures in the Northern Territory, the Territory also anticipates receiving Commonwealth funding of $56.7 million in 2015-16 for housing and other related works in remote areas.

Multi-agency Agreements

National Partnership Agreement on Stronger Futures in the Northern Territory

The Stronger Futures in the Northern Territory NP agreement was signed by the Commonwealth and Territory governments in August 2012 and broadly represents the continuation of funding for a number of key service delivery areas previously supported through the Closing the Gap in the Northern Territory NP. It is a 10-year funding package that commenced in 2012-13, totalling $3.49 billion, which aims to improve Indigenous outcomes through the program areas of health; schooling; community safety and justice; tackling alcohol abuse; child, youth, family and community wellbeing; housing; municipal and essential services; Alice Springs transformation; remote engagement and coordination; and jobs.

Eight agencies are directly engaged in the delivery of initiatives under this agreement, with Commonwealth NP payments of $171 million anticipated to be received in 2015-16. Commonwealth and Territory own-purpose funding will also contribute to the achievement of this NP's outcomes.

In 2014 negotiations commenced with the Commonwealth to vary a number of Implementation Plans under the agreement, with the objective to clarify or amend performance benchmarks, reduce reporting burden and increase flexibility regarding the purpose to which the Stronger Futures investment is directed. To date the Schooling Implementation Plan is the only plan to be successfully revised. The Housing Implementation Plan is in the final stages of the revision process, while the remainder of implementation plans are at various stages in the negotiation process.

Performance Reporting

A key principle of the IGA is enhanced accountability to both governments and the public through simpler, standardised and more transparent performance reporting. Performance measures in both NAs and NPs are required to be outcome and/or output focused and reported in a timely manner. Prior to 30 June 2014, as well as considering the performance of states for NP agreements with reward payments outlined above, the CRC annually assessed and publicly reported on the performance of states under each NA.

Performance reports were issued by the CRC for the baseline, first, second and third years of all NAs. Fourth year performance reports under the National Healthcare agreement and the National Indigenous Reform agreement were released at the end of 2013-14, while the remaining fourth year NA performance reports did not get released prior to the abolishment of the CRC.

The reports issued to the end of 2013-14 indicated an overall incremental improvement in Territory performance, reflecting the enhancement of service delivery arising from the significant investments made in recent years. While the Territory had a particular data quality concern with the use of data sourced from national surveys, which did not fully sample the diversity of the Territory's population and thus did not fully reflect the Territory's circumstances, this issue was commonly acknowledged in relevant CRC publications.

In 2015 the Productivity Commission has been tasked with preparing performance reports for the National Indigenous Reform agreement and the Essential Vaccines National Partnership agreement. Similar to the CRC's assessment process, the Productivity Commission will use the same data sources from the Steering Committee for the Report on Government Service Provision. These data sources have been subject to an initial examination of evidence of government performance regarding agreed NA performance measures and benchmarks, outputs and outcomes for data quality and appropriateness.

White Papers – Federal Financial Reform and Taxation Reform

During the 2013 federal election, the Coalition committed to commissioning white papers on taxation reform and reform of the federation.

In September 2014, the Commonwealth released its *A Federation for Our Future* Issues Paper, which set out parameters for debate, including:

- the values and goals underpinning the Australian Federation;
- the allocation of roles and responsibilities between the Commonwealth and the states;
- the vertical fiscal imbalance and HFE; and
- other intergovernmental relations issues including transparency and performance reporting.

The Commonwealth has since released issues papers on health, early childhood education and care, schools, skills, higher education, and housing and homelessness to frame discussion and solicit views for the Reform of the Federation White Paper.

The Territory has consistently advocated for recognition in the white papers of the need to address Indigenous disadvantage and develop Northern Australia. The Territory has also noted the disproportionate importance of HFE to a small jurisdiction with an emerging economy and a challenging geographic and demographic profile such as the Territory.

The White Paper on Tax Reform was released on 30 March 2015 and concludes that Australia relies too much on corporate and income taxes and not enough on consumption taxes like the GST. It also questions the need for negative gearing and favourable taxation treatment of superannuation contributions. Changes to the rate and base of the GST, including reducing the low value threshold for imported goods, were also discussed. Stamp duty on housing, which is known to distort economic behaviour, was also open for discussion.

The Tax and Federation White Papers are being developed concurrently with the Federation Green Paper, which is expected to be released in the second half of 2015, and the White Papers for both expected to follow in 2016.

National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS) was a key recommendation from the Productivity Commission's report into a national long-term disability care and support scheme. The NDIS will reform the way the Commonwealth and states fund and deliver disability services in Australia.

The NDIS is aimed at providing lifelong care and support for people with a significant disability, including greater choice and control over the supports received and a focus on early intervention.

In December 2012, COAG signed an Intergovernmental Agreement for the NDIS launch. The agreement sets out the objectives, roles and responsibilities of all parties during the first stage of the NDIS and provides a framework for progressing to a full scheme.

All jurisdictions, with the exception of Queensland, have agreed to participate in trial sites. On 1 July 2014, a two-year trial commenced in the Barkly region and is expected to inform the roll out of the scheme across the Territory and other parts of Australia.

Indigenous Expenditure Report

The Indigenous Expenditure Report (IER) is a biennial publication produced by the Steering Committee for the Review of Government Service Provision.

The IER provides nationally comparable information on Commonwealth and state government expenditure for services provided to Indigenous people. The objective of the IER is to facilitate, over time, an understanding of the link between expenditure and outcomes for Indigenous people and to provide additional information to support the development of policies aimed at closing the gap in outcomes between the Indigenous and non-Indigenous populations.

The 2014 IER was released in December 2014 and pertains to general government expenditure on services related to Indigenous people in 2012-13. The key findings from the 2014 IER for the Territory were:

- in 2012-13, the Territory spent $2.7 billion on services related to Indigenous people, equating to 55.5 per cent of the Territory's total general government expenditure. In comparison, Indigenous people represent 30 per cent of the Territory's population;
- expenditure on Indigenous-related services was highest in the areas of safe and supportive communities ($742 million), healthy lives ($683 million) and home environment ($569 million);
- on a per capita basis, Territory expenditure on services related to Indigenous people was 2.7 times higher than that related to non-Indigenous people;
- the per capita expenditure on services related to Indigenous people in the Territory was $38 074. This was the highest of all states with expenditure highest in the areas of safe and supportive communities ($10 427 per capita), followed by healthy lives ($9603 per capita) and home environment ($7998 per capita).

The next iteration of the IER is due for release in 2016 with work on gathering the data required to compile the report scheduled to begin in 2015-16.

Chapter 6

Territory Taxes and Royalties

Overview

Nationally, own-source revenue represents around one half of states' total revenue, with the remaining revenue sourced from Commonwealth grants. Although the Territory is more reliant on Commonwealth grants than other jurisdictions, the Territory's own-source revenue forms an important component of total revenue. Own-source revenue provides states with the fiscal autonomy to tailor infrastructure and services to meet the needs of their respective jurisdiction.

Territory own-source revenue predominantly comprises taxes and mining revenue but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

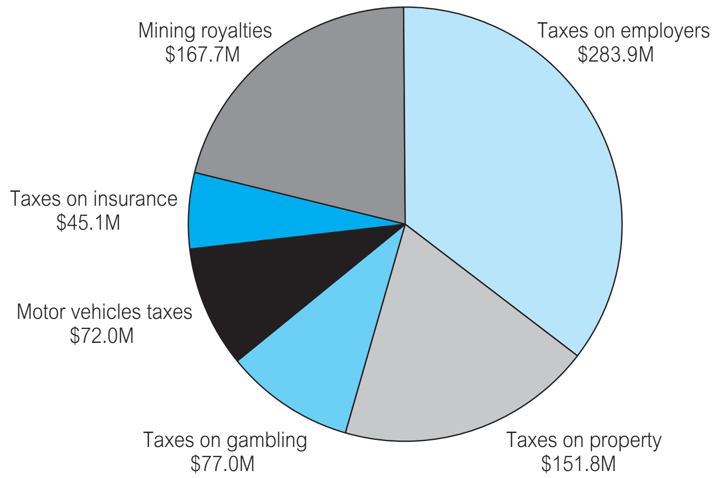
This chapter provides details of the Territory's own-source revenue categories of taxes and royalties, information on revenue forecasts and a comparison of the Territory's taxation revenue with other jurisdictions. It also includes a statement of the Territory's forecast tax expenditure as a result of concessions and exemptions for 2015-16 through to 2018-19, as required by the *Fiscal Integrity and Transparency Act* (FITA).

Analysis of Territory Taxes and Royalties

The projected revenue for 2015-16 from taxes and royalties for the general government sector totals $797.5 million. The main contributors are taxes on employers (payroll tax) at $283.9 million or 35.6 per cent, mining royalties at $167.7 million or 21 per cent and taxes on property (stamp duties on capital transactions) at $151.8 million or 19 per cent.

Chart 6.1 shows the Territory's estimated main own-source revenues for 2015-16 according to the classification used in the Uniform Presentation Framework adopted for the Territory's reporting requirements.

Chart 6.1: Main Own-Source Revenue Categories, 2015-16



Note: Excludes payroll tax from general government entities.
Source: Department of Treasury and Finance

The estimated revenue in 2014-15 from taxes and royalties totals $782.5 million, compared to the forecast total of $732.7 million from the 2014 Budget. The increase of $49.8 million from the original forecast is predominantly due to higher payroll tax and conveyance stamp duty revenue, reflecting economic conditions in the Territory. In particular, this is a result of growth in employment and wages among the large employers making up the bulk of the payroll tax base, and both prices and sales volume growth for property, particularly residential property.

Moderate growth across all main own-source revenues is expected for 2015-16, other than in relation to taxes on property. Taxes on property is forecast to decline slightly, reflecting the effect of several large one-off commercial transactions increasing receipts in 2014-15 and an expectation that sales volume and price growth may soften in the residential market.

Table 6.1: Main Own-Source Revenue Categories

	2014-15 Budget	2014-15 Estimate	2015-16 Budget
	$000	$000	$000
Mining royalties	164 127	164 127	167 660
Taxes on employers	244 669	280 374	283 932
Taxes on property	141 930	157 697	151 847
Taxes on gambling	63 863	66 447	77 049
Motor vehicle taxes	71 502	69 204	71 953
Taxes on insurance	46 643	44 687	45 068
Total	**732 734**	**782 536**	**797 509**

Source: Department of Treasury and Finance

Revenue Initiatives

The 2015-16 Budget includes a number of changes to revenue policies, which were described in detail in Chapter 4. In summary, the main policy measures are:

- an increase in the Senior, Pensioner and Carer Concession on stamp duty from $8500 to $10 000 from 28 April 2015;
- abolition of stamp duty on life insurance from 1 July 2015. Additionally, the stamp duty legislation will be amended to clarify that life insurance riders, as additional insurance added to life insurance products, are to be taxed as general insurance;
- imposition of a community benefit levy on Territory casinos at a rate of 10 per cent on the monthly gross profits from casino gaming machines, commencing 1 July 2015;
- amendment of the payroll tax exemption for charitable entities, with effect from 1 July 2015, to clarify exemptions are no longer allowed for charities that operate commercial activities or for associations that are carried on for the promotion of trade, industry or commerce;
- removal of the payroll tax exemption for apprentices and trainees from 1 July 2015, with the payroll tax receipts to be passed on to employers through direct assistance under the new ‘Training for the Future’ program, which will deliver assistance to all Territory businesses that employ apprentices and trainees; and
- minor administrative reforms that enhance the simplicity, efficiency and equity of the Territory’s taxation laws and the First Home Owner Grant scheme.

Mining and Petroleum Revenue

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

The Territory's mining royalty revenues are generally based on a profit-based regime specified under the *Mineral Royalty Act*. The other states predominantly use output-based royalty schemes that impose a royalty rate on the value of production (*ad valorem*) or on the tonnage extracted. The Territory's profit-based regime uses the net value of a mine's production to calculate royalty. This is the operating revenue derived from mining activities in excess of $50 000 after deducting allowable project costs, prior year carried forward losses, the cost of capital employed in the mine and the cost of capital and exploration expenditure on the mine site.

Mineral royalties are collected in the Territory from mining and quarrying for gold, silver, bauxite, manganese, lead, zinc, sand, gravel, laterite, vermiculite and lime. The Territory is unable to impose royalties on uranium mined in the Territory as, unlike the states, the Commonwealth retains the ownership of uranium. Nonetheless, the Territory receives a grant in lieu of uranium royalty from the Commonwealth. The only uranium mine in the Territory is the Ranger Project, which has an *ad valorem* royalty scheme settled by the Commonwealth. The Territory receives grant payments reflecting the royalty regime that applied at the time the Ranger Project arrangements were settled. However, Commonwealth legislation provides that royalty on any future uranium mines in the Territory will be based on the Territory's *Mineral Royalty Act*. The royalties will continue to be paid to the Territory as a grant in lieu of royalty.

A key feature of the Territory's *Mineral Royalty Act* is that both prices and mining costs, including mine set-up costs carried forward to profitable years, are taken into account in royalty calculations. If commodity prices, production costs or the value of the Australian dollar rise or fall, royalty liabilities vary accordingly. This variability produces stronger growth in royalty revenues in times of high mineral prices than under *ad valorem* royalties.

In 2014-15, it is expected that the Territory will receive $164.1 million in mining revenue, in line with the forecast in the 2014 Budget.

Mining revenue forecasts are reliant on advice from mining companies of estimated liability and related company estimates of commodity price movements, production levels and the value of the Australian dollar. The forecast for royalty revenue in 2015-16 is $167.7 million and is based on forecasts from royalty payers that profitability will continue based on the assumptions that the Australian dollar does not materially strengthen and reasonable commodity prices will be achieved.

Taxation Revenue

The Territory's taxation revenue for 2014-15 is expected to total $618.4 million. In 2015-16, taxation revenue is expected to increase by 1.8 per cent to $629.8 million.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. Table 6.2 shows the original Budget and revised Estimate of the Territory's taxation revenue for 2014-15 and forecast for 2015-16.

Table 6.2: Northern Territory Taxation Revenue

	2014-15 Budget	2014-15 Estimate	2015-16 Budget
	$000	$000	$000
Taxes on employers			
Payroll tax[1]	244 669	280 374	283 932
Taxes on property			
Conveyance duty	139 898	157 226	151 371
Other duty	2 032	471	476
Taxes on the provision of goods and services			
Taxes on gambling	63 863	66 447	77 049
Taxes on insurance	46 643	44 687	45 068
Taxes on use of goods and performance of activities			
Motor vehicle taxes	71 502	69 204	71 953
Total	**568 607**	**618 409**	**629 849**

1 Comprising payroll tax from public financial corporations, public non financial corporations and the private sector.
Source: Department of Treasury and Finance

Payroll Tax

Payroll tax is payable in the Territory when the total annual Australian wages of an employer (or group of employers) exceeds the Territory's annual threshold amount, which is $1.5 million. The threshold reduces proportionately if an employer pays wages in another state or territory. The threshold amount is a deduction from taxable wages, which operates so businesses with total Australian wages of up to $1.5 million do not pay any payroll tax. The deduction reduces by $1 for every $4 in wages paid by an employer above the $1.5 million threshold. This means that an employer who pays wages of $7.5 million or more does not receive a deduction.

Payroll tax is calculated at the rate of 5.5 per cent, based on taxable wages (less the deduction) paid by an employer for services rendered by employees in the Territory.

In 2014-15, payroll tax revenue is expected to be $280.4 million, an increase of $35.7 million from the estimate of $244.7 million in the 2014 Budget. This reflects employment and wages growth in the Territory during 2014-15, particularly among the larger employers making up the Territory's payroll tax base.

In 2015-16, payroll tax receipts are expected to remain relatively steady from the higher 2014-15 base, at $283.9 million, reflecting projected employment growth and growth in average weekly earnings, and an increase in revenue from the abolition of the apprentices payroll tax exemption. This is partially offset by a reduction in employment caused by the curtailment of processing at the Gove alumina refinery and reduced on-shore construction activity relating to the INPEX project. Over the forward estimates period, payroll tax revenue is expected to increase at a rate of 2.5 per cent per annum.

Stamp Duty

Conveyance Duty

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

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

In 2014-15, the Territory is expected to collect $157.2 million in stamp duty on conveyances, compared with $139.9 million estimated in the 2014 Budget. The increase in conveyance duty collections is due mainly to a higher than predicted number of residential transactions, some increase in the average value of those transactions, together with several very high value commercial transactions.

In 2015-16, conveyance duty is estimated to decline by $5.8 million to $151.4 million, reflecting expectations that residential and commercial property stamp duty revenue will decrease slightly, due to less high value commercial transactions and stable or lower prices and transaction volumes in the residential property market.

Stamp Duty on Insurance

Insurance duty is imposed on general and life insurance policies until 30 June 2015, after which life insurance duty will be abolished. General insurance contributes the majority of the revenue collected from this revenue source. Stamp duty on general insurance is calculated at a rate of 10 per cent of the premium paid on all general insurance products that relate to property or risk in the Territory. Where the policy also relates to a risk or property outside the Territory, the premium is apportioned. Until 30 June 2015, stamp duty on life insurance is levied on life insurance policies for people residing in the Territory and is calculated at a rate of 10 cents per $100 or part thereof of the sum insured.

Revenue from insurance duty is forecast to be $44.7 million in 2014-15. Based on historical growth rates but offset by the abolition of duty on life insurance, insurance duty is forecast to grow by 1 per cent to $45.1 million in 2015-16, and 5 per cent per annum over the forward estimates.

Motor Vehicle Taxes

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

Generally, stamp duty is levied on the purchase price of the vehicle at a rate of $3 per $100 or part thereof. Revenue from this source in 2014-15 is estimated to be $24.1 million. In 2015-16, it is expected to increase to $24.7 million, which includes the long-term growth rate that has been applied to the forward estimates of 2.5 per cent per annum.

Motor vehicle registrations comprise heavy vehicle and light vehicle registrations. Heavy vehicle registration fees are determined by the Standing Council on Transport and Infrastructure. Light vehicle registration fees are determined by each state. In the Territory, the light vehicle fee is calculated by reference to a differential rate scale based on the engine capacity of the vehicle. In 2014-15, the Territory is forecast to receive $45.1 million in motor vehicle registration fees, increasing to $47.3 million in 2015-16. This increase reflects long-term growth rates plus the expected consumer price index adjustments to light vehicle registration fees, as these fees are expressed in revenue units that are indexed annually.

Gambling Taxes

Gambling taxes constitute a significant, although reducing, proportion of state revenues. In 2015-16, gambling tax revenue is forecast to be $77 million, or the fourth largest contributor to own-source revenue. The components of gambling taxes in the Territory are community gaming machine tax, lotteries tax, wagering tax, bookmaker turnover tax, casino/internet tax and the community benefit levy.

In 2014-15, the Territory is estimated to receive $66.4 million in gambling taxes, which is an improvement of $2.6 million on the 2014 Budget forecast.

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

Table 6.3: Estimated Revenue from Gambling Taxes

	2014-15 Budget	2014-15 Estimate	2015-16 Budget
	$000	$000	$000
Wagering taxes	3 888	3 137	3 215
Casino/internet tax	11 314	10 656	10 922
Bookmakers – racing and sports betting	5 648	4 938	5 116
Community gaming machines	18 366	22 544	23 671
Lotteries	22 433	22 316	22 874
Community benefit levy	2 214	2 856	11 251
Total	**63 863**	**66 447**	**77 049**

Source: Department of Treasury and Finance; Department of Business

In 2015-16, bookmaker turnover tax is expected to marginally increase by $0.2 million to $5.1 million, reflecting the increase in the value of revenue units from $1.11 to $1.15 from 1 July 2015.

Lotteries tax for 2015-16 is expected to increase, reflecting the annual growth rates of 2.5 per cent used in the forward estimates. Similarly, casino and community gaming machine taxes are expected to record only moderate growth.

The community benefit levy is expected to increase significantly, from $2.9 million in 2014-15 to $11.3 million in 2015-16 as a result of Government's decision to impose the levy on the two Territory casinos in addition to Territory hotels. This will be directed to the Community Benefit Fund and reinvested into community needs and gambling amelioration programs.

Wagering taxes are expected to remain stagnant, reflecting the market impact of consumers switching from betting with totalisators to utilising fixed-odds betting services provided by TABs and corporate bookmakers.

Interstate Tax Comparison

The composition of state taxes is broadly similar between the states, however there are differences in the application of particular taxes. These differences primarily relate to rates, exemptions and thresholds. The ability of states to modify their rates and tax base promotes competition between states and provides the autonomy and capacity to structure their tax system to accommodate their specific fiscal, economic and social circumstances.

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

Commonwealth Grants Commission

Revenue Effort

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

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

Table 6.4 provides a comparison of the CGC's assessment of own-source revenue-raising effort in 2013-14 (the latest year that an assessment is available). The total own-source revenue figure includes taxation, mining revenue, contributions by trading enterprises and public safety user charges. The table shows that the Territory's own-source revenue-raising effort is the second lowest of the states (an improvement from 2012-13, when the Territory had the lowest own-source revenue effort). The Territory's own-source revenue-raising effort is below the national average of 100 per cent, although on a par with Victoria and South Australia. However, taxation effort of the Territory remains the lowest of all the states.

Table 6.4: 2013-14 Revenue Effort by Jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	106	102	89	99	104	94	96	87
Total own-source revenue	104	95	102	98	95	91	139	94

Source: Commonwealth Grants Commission 2015 Review

The Territory's low total taxation and own-source revenue-raising effort largely reflects the position adopted by the Territory to not impose a land tax. However, consistent with the Government's strategy of moving the Territory's revenue effort to the average of the states, a number of charges and tax arrangements have been varied since 2012-13. The effect of some of these changes is reflected in the above and has resulted in the tax effort increasing by 9 percentage points from 78 per cent in 2011-12. It would be expected that the Territory's effort will continue to move closer to the average of the states when taxation changes taking effect from 1 July 2015 are taken into account.

Revenue Capacity

States are constrained from growing their own-source revenues by either replacing current taxes with a new growth tax or by expanding existing tax bases. This is evident as nationally, state own-source revenue comprises only about 50 per cent of total state revenue. However, in 2014-15 the Territory's taxation and royalty own-source revenue is much lower, comprising about 12.74 per cent of total revenue for the general government sector.

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

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

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

Table 6.5: Assessed Revenue-Raising Capacity, 2013-14

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	103	90	95	144	79	57	95	107
Land tax	99	107	101	122	71	58	62	75
Stamp duty	117	99	92	108	59	50	87	77
Insurance tax	106	93	100	96	113	79	87	88
Motor tax	89	103	105	116	105	113	85	89
Total taxation	**105**	**97**	**97**	**120**	**80**	**68**	**88**	**91**
Mining revenue	39	3	96	568	46	21	0	141

Source: Commonwealth Grants Commission 2015 Review

For most of the major state taxes, the Territory is assessed as having a relatively low capacity to raise revenue. In all categories other than payroll tax, especially land tax and conveyance duty, the Territory's capacity is significantly below the national average of 100 per cent. This reflects the Territory's different circumstances, such as a relatively small number of very high value commercial and residential properties, although average land prices in the Territory are higher than the national average.

The Territory is compensated for its relatively small own-source revenue base by the CGC's equalisation process through a higher share of goods and services tax revenue.

Representative Taxpayer Model

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

Payroll Tax

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

Table 6.6: State and Territory Payroll Tax Rates and Annual Thresholds

	NSW	Vic	Qld[1]	WA	SA	Tas	ACT	NT[2]	Average
Threshold ($M)	0.75	0.55	1.1	0.8	0.6	1.25	1.85	1.5	1.05
Rate (%)	5.45	4.85	4.75	5.5	4.95	6.1	6.85	5.5	5.49

1 Queensland's threshold reduces as an employer's wages increase, so that no exemption is provided for employers with wages over $5.5 million.
2 The Territory's threshold reduces as an employer's wages increase, so that no exemption is provided for employers with wages over $7.5 million.
Source: State legislation and information available at 20 March 2015

Table 6.7 provides the effective payroll tax rate at various wage levels for each jurisdiction after considering individual state thresholds and the payroll tax rates. For businesses with wages of $3 million and below, the Territory has a competitive payroll tax scheme as it has an effective tax rate below the national average. For very large businesses with wage costs of $20 million or more, the Territory has a more favourable effective payroll tax rate than the Australian Capital Territory and Tasmania, and is reasonably comparable to Western Australia and New South Wales.

Table 6.7: Effective State and Territory Payroll Tax Rates at Various Wage Levels

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
$M	%	%	%	%	%	%	%	%	%
1	1.36	2.18	0.00	1.10	1.98	0.00	0.00	0.00	0.83
2	3.41	3.52	2.67	3.30	3.47	2.29	0.51	1.72	2.61
3	4.09	3.96	3.76	4.03	3.96	3.56	2.63	3.44	3.68
4	4.43	4.18	4.30	4.40	4.21	4.19	3.68	4.30	4.21
5	4.63	4.32	4.63	4.62	4.36	4.58	4.32	4.81	4.53
10	5.04	4.58	4.75	5.06	4.65	5.34	5.58	5.50	5.06
20	5.25	4.72	4.75	5.28	4.80	5.72	6.22	5.50	5.28

Source: State legislation and information available at 20 March 2015

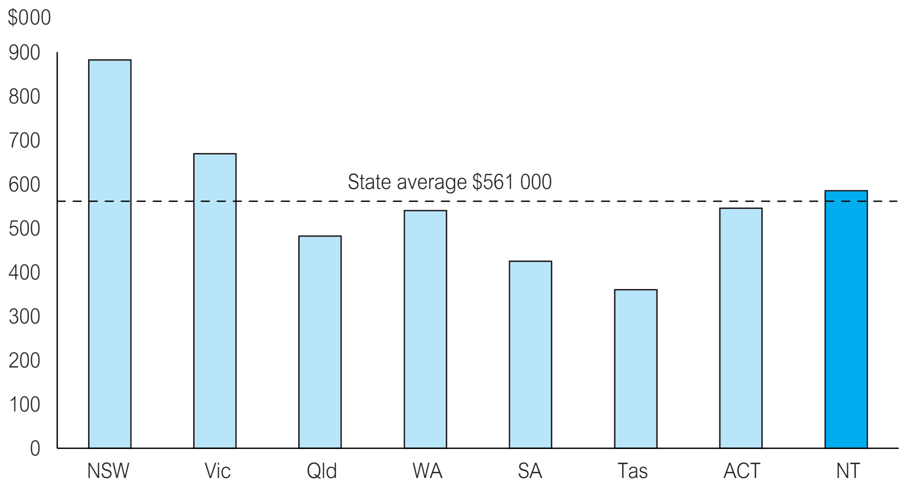
Stamp Duty on Conveyances in the Territory

Non-first homebuyers in the Territory receive a rebate of $7000 on the purchase of a new home to be used as a principal place of residence, which is equivalent to a stamp duty concession on around the first $231 500 of the value of the residence.

In addition, from 28 April 2015, Senior, Pensioner and Carer Concession cardholders receive a concession of $10 000 (previously $8500) on the purchase of a principal place of residence for property values up to $750 000. This is equivalent to a stamp duty concession on the first $292 300 of the value of the residence.

It is difficult to compare stamp duty on houses in each state, given the significant variation in median house prices. Chart 6.2 shows that Darwin has the third highest median house price behind Melbourne and Sydney.

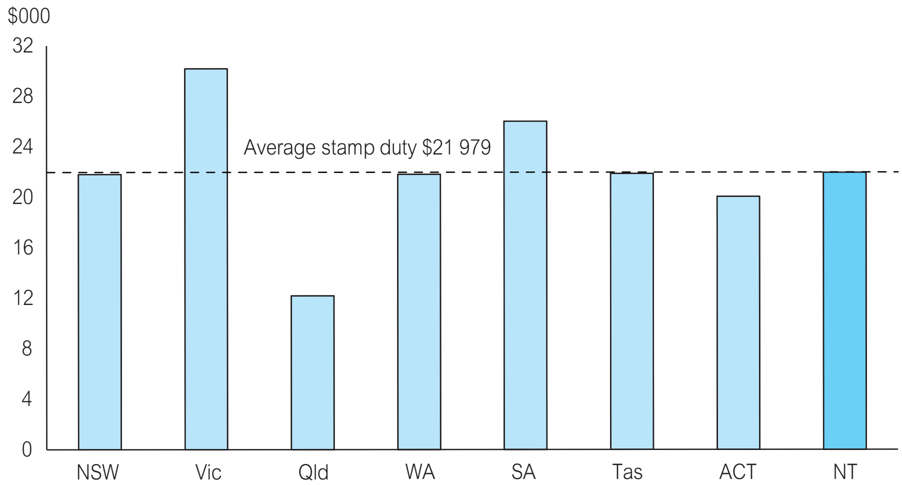
Chart 6.2: Median House Prices



Note: Median state capital house prices as at December 2014.
Source: Real Estate Institute of Australia

However, one method is to compare the stamp duty that would be payable in each state for similarly priced housing. Chart 6.3 provides an inter-jurisdictional comparison of the amount of stamp duty levied on new principal places of residence valued at the median house price in Darwin ($585 000). It indicates that stamp duty in the Territory on the reference property is slightly lower than the national average.

Chart 6.3: Stamp Duty Payable on Purchase of Darwin Median-Priced New House



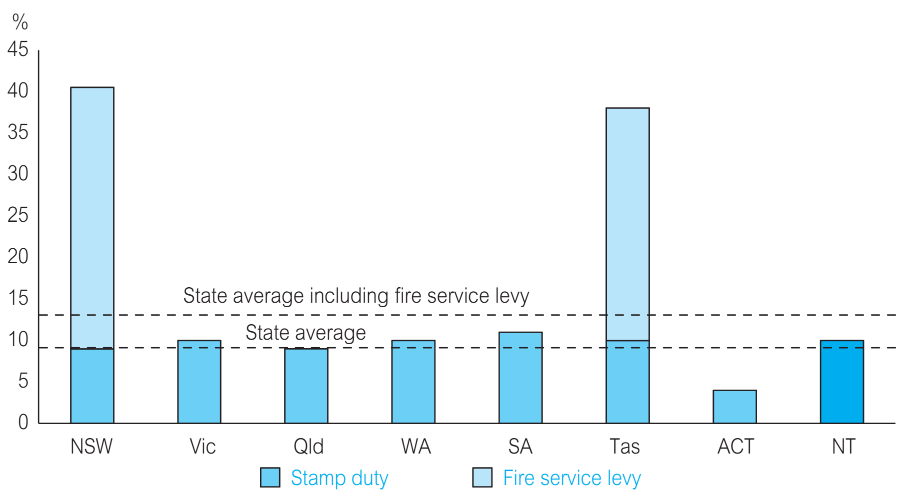
Source: Real Estate Institute of Australia; state legislation and information available at 20 March 2015

Insurance Duty

As shown in Chart 6.4, the Territory is an average taxing jurisdiction for insurance. By comparison, the total tax load on insurance in New South Wales and Tasmania is significantly above the national average when fire services levies are taken into account.

All states impose taxes on general insurance premiums at rates between 4 per cent and 11 per cent, with New South Wales, Queensland and Tasmania having special rates on particular classes of general insurance business. All states, apart from Western Australia, also impose taxes on life insurance policies at different rates. In addition, New South Wales and Tasmania collect a portion of their fire services levies through a charge on insurers. While Tasmania raises a levy on insurance similar to Queensland, South Australia and Western Australia, a large proportion of the levy is sourced from a charge on property owners through local councils. The Territory does not impose any emergency or fire services levies on the general public, although, like the states, it does charge for commercial fire alarm monitoring.

Chart 6.4: Average State Tax Rate on General Insurance Premiums



Source: State legislation and information available at 20 March 2015

Stamp Duty on Motor Vehicles

Chart 6.5 compares the stamp duty applicable for a new motor vehicle valued at $34 990. The chart shows that the stamp duty payable in the Territory is below the national average and the equal second lowest in Australia.

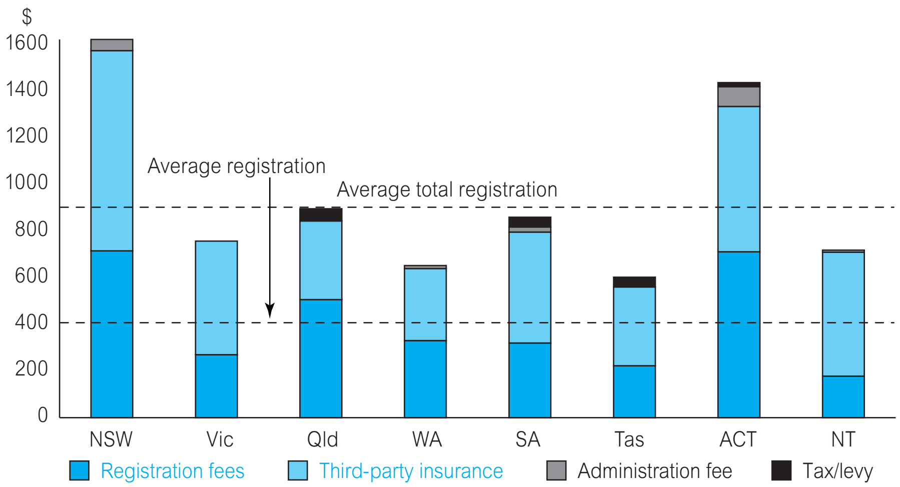
Chart 6.5: Stamp Duty on Purchase of $34 990 Motor Vehicle

Source: State legislation and information available at 20 March 2015

Motor Vehicle Registration

Motor vehicle registration fees comprise registration, compulsory third-party insurance and other fees, and therefore vary significantly between jurisdictions. Chart 6.6 compares the costs of registering a medium-sized passenger vehicle in each jurisdiction. At $693.45, the Territory has the third lowest total registration cost in Australia.

Chart 6.6: Annual Registration Fees and Charges for a Medium-Sized Passenger Vehicle



Note: Based on six-cylinder, 2015 Holden Commodore VF Evoke Sports Automatic.
Source: State legislation and information available at 20 March 2015

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

However, total registration costs in the Territory are the third lowest in Australia, significantly below the national average due to the low registration fees and the fact that the Territory does not, unlike some jurisdictions, also add ancillary taxes and levies. These additional levies imposed in other jurisdictions include fire and emergency service levies, motor taxes, traffic improvement levies and road safety contributions.

Land Revenue

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

Land tax is an important source of income for states, estimated to generate more than $6.9 billion in revenue in 2014-15. Land tax is levied on the landowner's total holdings of commercial land and investment residential property, although generally an exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However, in its 2015 Review, the CGC assessed that the Territory could raise about $62.9 million if it adopted the average state policies on land tax.

Tax Expenditure Statement

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

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

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

The tax expenditure identified in this statement relates to the more important and material concessions available in the Territory. In accordance with FITA, the tax expenditure statement provides an estimate of expenditure in 2014-15 and forecast information for 2015-16 and following three financial years.

Methodology

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

Measuring tax expenditure requires the identification of:

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

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

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

Payroll Tax

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

Table 6.8: Payroll Tax Expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
Tax expenditure ($M)	201.5	209.0	214.0	219.0	224.2

Source: Department of Treasury and Finance

As data is not generally collected from employers that do not have a payroll tax liability, tax expenditure in relation to many payroll tax concessions is difficult to estimate. Accordingly, the reported estimated tax expenditure outlined in Table 6.8 has been calculated by adding recorded tax concessions to a figure derived by comparing Australian Taxation Office data about wages paid by employers in the Territory to data reported by employers registered for payroll tax in the Territory. The difference provides a reasonable estimate of wages paid by non-registered employers that are not subject to Territory payroll tax because of the small business exclusion (detailed below).

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

Small Business Exclusion

Employers with wages below $1.5 million are not required to pay tax, a saving of up to $82 500. Employers with payrolls exceeding $1.5 million receive a deduction of up to $1.5 million, which reduces by $1 for every $4 in wages paid by the employer where the wages paid by the employer exceeds $1.5 million. This means employers with wages of $7.5 million or more will not receive a deduction and will pay tax on the total wages paid by the employer.

Charities and Other Exempt Bodies

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

Apprentices and Graduates

Until 30 June 2015, businesses receive payroll tax exemptions for apprentices and graduates of approved tertiary institutions. This exemption will be removed with effect from 1 July 2015, with the additional revenue used to fund direct grant programs to businesses employing apprentices in the Territory.

Stamp Duty on Conveyances

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

Table 6.9: Stamp Duty on Conveyances Expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
Tax expenditure ($M)	6.9	7.0	7.0	7.0	7.0

Source: Department of Treasury and Finance

Tax expenditure estimates in Table 6.9 are based on an historical revenue base indexed by normal growth parameters and mainly comprise the following concessions.

Corporate Reconstructions Exemption

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

Principal Place of Residence Rebate

Homebuyers who purchase a new home are entitled to a rebate of $7000 when purchasing a principal place of residence. Tax expenditure is estimated by actual collections in relation to the rebate.

Senior, Pensioner and Carer Concession

From 28 April 2015, a concession of $10 000 (previously $8500) is provided for Senior, Pensioner and Carer Concession cardholders when purchasing a principal place of residence up to the value of $750 000. Tax expenditure is estimated by actual collections in relation to the rebate.

Other Conveyance Duty Exemptions

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

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

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

Stamp Duty on General Insurance Policies

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

Table 6.10: Stamp Duty on General Insurance

	2014-15	2015-16	2016-17	2017-18	2018-19
Tax expenditure ($M)	27.5	28.1	28.7	29.4	30.1

Source: Department of Treasury and Finance

The Territory provides stamp duty concessions on certain insurance products to reduce the costs of such insurance, namely workers compensation insurance and private health insurance. Tax expenditure outlined in Table 6.10 has been estimated using total work health insurance policy premiums paid during past years compared to total payroll data of employers in the

Territory and data on private health insurance premiums obtained from the Private Health Insurance Administration Council.

Motor Vehicle Registration Fees

Motor vehicle registration concessions are available to Northern Territory Pensioner and Carer Concession or Northern Territory Seniors cardholders. Table 6.11 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.11: Motor Vehicle Registration Fees Expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
Tax expenditure ($M)	3.5	3.5	3.5	3.5	3.5

Source: Department of Treasury and Finance

Chapter 7

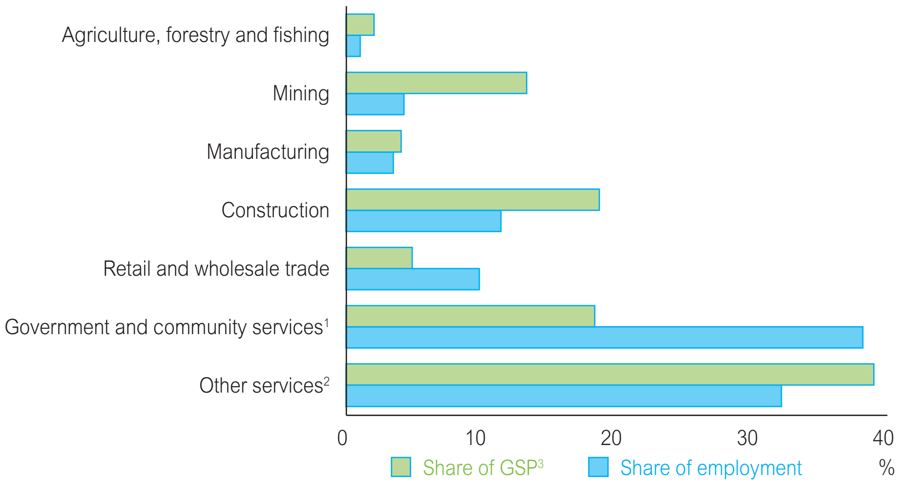
The Territory Economy

Overview

The structure of the Northern Territory economy is influenced by the Territory's distinctive demographic and geographic characteristics and the abundance of natural resources. Relative to other jurisdictions, the Territory economy is at an earlier stage of development, with less depth and diversity among industries.

The Territory economy is dominated by the construction; government and community services; and mining industries (Chart 7.1). These industries account for about half of the Territory's total economic output. Similarly, the key employment industries in the Territory are government and community services; construction; and retail and wholesale trade.

Chart 7.1: Share of Total Territory GSP and Employment by Industry, 2013-14



GSP: gross state product
1 Government and community services comprises public administration and safety; education and training; and health care and social assistance industries.
2 Includes ownership of dwellings; taxes less subsidies on products; and statistical discrepancy.
3 Inflation adjusted.
Source: ABS, *Australian National Accounts: State accounts*, Cat. No. 5220.0

In 2013-14 the Territory outperformed most other jurisdictions with the highest economic and employment growth and the second lowest average unemployment rate. Economic growth in the Territory is expected to moderate over the medium term, but remain one of the highest rates of growth among jurisdictions over this period.

State final demand (SFD) grew strongly in recent years partly driven by prepayments for pre-assembled modules and equipment required for the Ichthys liquefied natural gas (LNG) project, which were built in overseas locations. These payments were made in advance of delivery to the Territory and therefore do not correlate with the physical work done in the Territory. SFD has overstated the level of economic activity in the Territory in the years when the prepayments were made and will understate the level of onshore activity in the years when the pre-assembled modules are installed. The difference in timing contributes to the forecast contraction in SFD (Table 7.1), further enhanced by the decline in business investment, albeit from record levels. In contrast, GSP recognises the work done at the time when the modules are installed and the exports related to the Ichthys LNG project, and as a result shows a steady path of growth.

The Territory economy is expected to commence a period of transition over the medium term, from investment-led activity to growth driven by production and exports. The less labour-intensive nature of the production and export phase means that employment and population growth is forecast to moderate over the budget and forward estimates period. Growth in the Darwin consumer price index (CPI) moderated from 3.9 per cent in 2013 to 2.9 per cent in 2014. Price pressures are expected to continue to ease over the medium term, reflecting forecast lower population and employment growth as well as expected increases in new dwelling stock and further proposed land release in the Territory. Table 7.1 shows the forecasts for key economic indicators for the Territory over the budget and forward estimates period.

Table 7.1: Economic Growth (%)

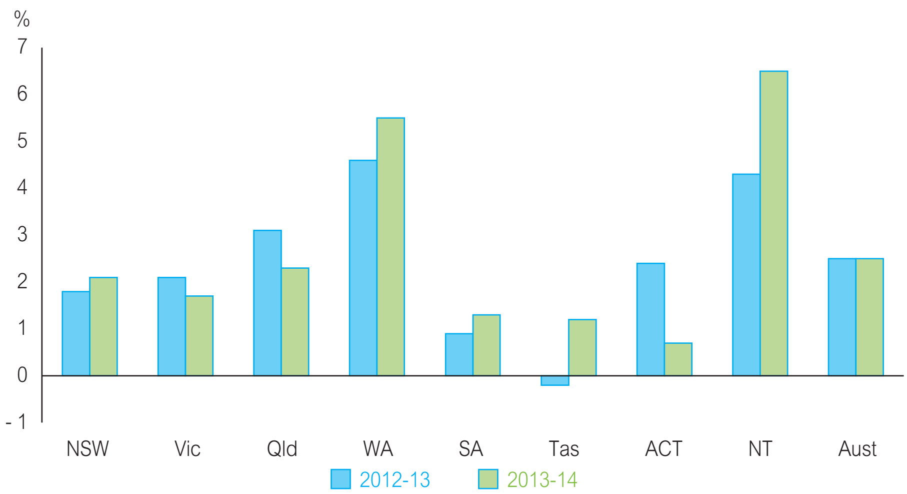
	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Gross state product[1]	6.5	4.5	4.5	4.5	3.0	3.0
State final demand[1]	4.5	5.8	- 3.7	- 15.6	- 2.2	1.4
Population[2]	1.9	0.9	1.8	1.0	1.0	1.0
Employment[3]	4.6	1.5	1.5	0.7	0.7	2.0
Unemployment rate[4]	4.4	4.2	4.5	4.7	4.7	4.7
Consumer price index[5]	3.9	2.9	2.5	2.3	2.5	2.5
Wage price index[5]	2.9	2.8	2.7	2.5	2.5	2.5

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

Economic Growth

Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14. Growth was driven by record levels of business investment, as well as increases in dwelling investment and household consumption. The Territory recorded the highest increase in GSP among jurisdictions in 2013-14. GSP growth in other jurisdictions ranged from 0.7 per cent in the Australian Capital Territory to 5.5 per cent in Western Australia (Chart 7.2). Nationally, gross domestic product (GDP) grew by 2.5 per cent in 2013-14.

Chart 7.2: Change in GSP and GDP[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Territory economic growth is expected to moderate to 4.5 per cent in 2014-15, driven by an increase in business investment coinciding with peak construction activity related to the Ichthys LNG project. Despite the moderation, economic growth is expected to remain one of the highest among jurisdictions.

From 2015-16 the Territory economy is expected to commence a period of transition from investment-led growth to growth driven by production and exports. As construction activity related to the Ichthys LNG project winds down, business investment is forecast to decline. This is expected to be offset by a decline in imports following high levels in 2014-15 with the arrival of machinery and equipment for the Ichthys LNG project. In addition, public investment is forecast to rise in 2015-16 underpinned by the Territory Government's strong investment in economic, community and social infrastructure.

LNG production from the Ichthys plant at Bladin Point is expected to commence in 2016-17. This will lead to a substantial increase in goods exports, which will support Territory economic growth in the outer years. The Territory economy is forecast to grow by 4.5 per cent in 2015-16 and 2016-17 before moderating to 3 per cent from 2017-18.

Household Consumption

Territory household consumption grew by 3.4 per cent in 2013-14, driven by an increase in net interstate expenditure as well as increased spending on health, rent and other dwelling services. While household consumption growth was below the 10-year average level (4.3 per cent), it remained above the national growth rate (2.2 per cent).

While all components of Territory household consumption grew in 2013-14, with the exception of transport, growth in the majority of the components was below historical trend levels. Spending on discretionary items, furnishings and household equipment; recreation and culture; and hotels, cafés and restaurants recovered in 2013-14, after a decline in 2012-13, but remain below previous expenditure peaks.

The outlook is for household consumption growth to remain subdued over the medium term, consistent with forecasts of moderating growth in population and employment over this period. In addition, restraint in wages growth is likely to limit the pace of growth in disposable income and therefore consumption.

Dwelling Investment

Dwelling investment rebounded strongly in 2013-14 growing by 39.4 per cent following a decline of 25.4 per cent in the previous year. Growth was driven by record levels of private residential construction activity.

Dwelling investment in the Territory is expected to remain at historically elevated levels in the short to medium term as evidenced by a healthy pipeline of dwelling construction activity. Dwelling investment will also be supported by the Government's land release program and changes to the First Home Owners Grant (FHOG), previously announced in the 2014-15 Budget, which is targeted at the purchase or construction of a new home.

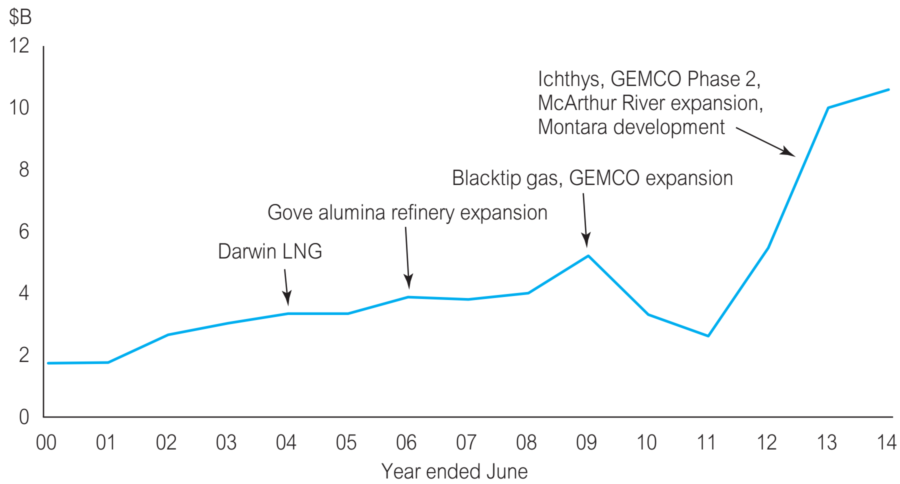
Housing demand in the Territory is expected to soften over the medium term in line with the forecast easing in population growth. This is expected to result in dwelling investment returning to long-term trend levels over the medium term.

Business Investment

Strong economic growth in the Territory in recent years has been driven by unprecedented levels of business investment. In 2013-14 business investment in the Territory totalled $10.6 billion, an increase of 6 per cent from the previous year and more than double the 10-year average of $5.2 billion.

The recent surge in business investment in the Territory has been concentrated in the resource sector in response to strong global demand for the Territory's export commodities. These include the Ichthys LNG project; expansions at the Groote Eylandt Mining Company manganese processing plant and the McArthur River zinc/lead mine; and the development of Montara and nearby oilfields. (Chart 7.3).

Chart 7.3: Territory Business Investment[1]



1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

In 2014-15 business investment is expected to rise, coinciding with the peak in construction activity following the arrival of large prefabricated modules for the Ichthys LNG project. From 2015-16 business investment is forecast to decline before returning to a more sustainable long-term rate of growth from 2017-18 onward. The decrease in business investment reflects the staged completion of the construction phase of the Ichthys LNG project. The extent of the decline will depend on the timing of known future projects, particularly in the resources, defence and agriculture sectors.

Public Final Demand

Public final demand grew by 0.7 per cent in 2013-14, comprising a 3.3 per cent increase in public consumption and a 11.4 per cent decline in public investment.

The 2015-16 Budget provides for increased levels of Territory Government expenditure on infrastructure from 2015-16, with a focus on transport, health and education infrastructure. As a result, public investment is expected to increase over the short to medium term. Public investment is expected to be the key driver of economic growth in the Territory over this period, partly offsetting the impact of a forecast decline in business investment.

Public consumption is expected to remain subdued over the budget and forward estimates period. This is consistent with the Territory Government's strategy of eliminating the fiscal deficit by 2017-18 and returning debt to sustainable levels. This also reflects the Commonwealth Government's goal of achieving fiscal consolidation through structural savings to the budget.

Net Exports

Investment in the resources sector has underpinned growth in the Territory's goods exports over the past two years. In addition, the volume of international live cattle exports improved in 2013-14 following increased demand from Indonesia and Vietnam. This was partly offset by a decrease in alumina exports following the curtailment of operations at the Gove alumina refinery.

Net exports are expected to contract in 2014-15 following the arrival of machinery and equipment imports related to the Ichthys LNG project. Furthermore, Territory goods exports are expected to be negatively impacted by the recent closure of some Territory mines and dwindling levels of stockpiled uranium at the Ranger mine. This is expected to be partly offset by increased agricultural and forestry goods exports.

Territory net exports are forecast to grow substantially from 2016-17 and emerge as the primary driver of Territory economic growth in the outer years.

External Environment

The Territory has a small, open economy that can be influenced by external economic conditions.

Australian economic conditions are important to the Territory, affecting population migration, interstate trade and tourism. The Australian economy is currently in a major transition phase from growth driven by record levels of resource investment, to growth underpinned by production and exports and broader-based economic activity. Growth in the Australian economy is expected to remain below historical average levels in the short term, before rising to its trend rate of about 3 per cent by 2016.

The global economy's importance to the Territory is reflected through overseas investment, international tourism and trade activity. The International Monetary Fund (IMF) expects global economic growth to trend upwards to 3.5 per cent in 2015 and 3.7 per cent in 2016, with a key contributor of growth in the short to medium term being improvement in conditions in the United States' (US) economy.

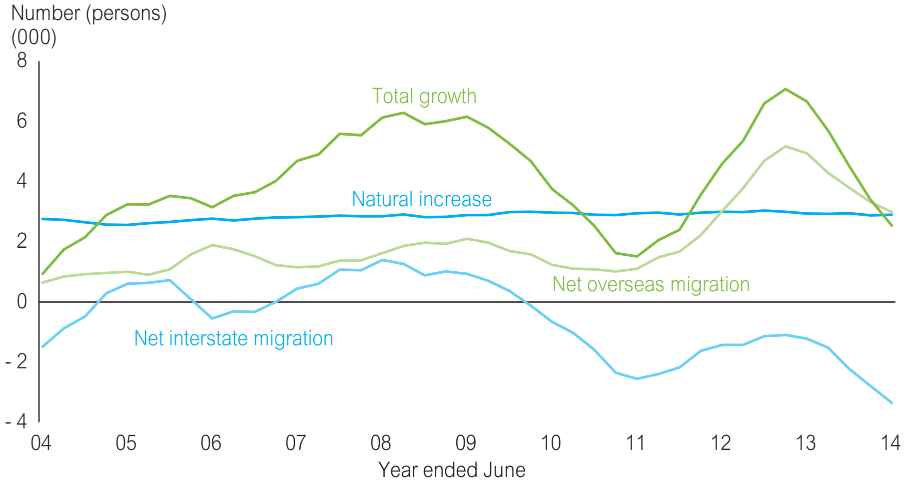
Japan is the Territory's largest export destination, accounting for almost half of total exports. Economic growth in Japan is expected to remain weak over the medium term, although this is unlikely to have a significant impact as exports to Japan largely comprise LNG, which is traded under long-term contracts.

Economic growth in China is expected to moderate, but remain at relatively high levels compared with global growth. As China's demand slows, this may result in decreased demand for, and prices of, Territory commodities. The positive outlook for the US economy has implications for global growth through increased demand for exports from Europe and Asia, which will indirectly benefit Territory exports. More directly, improvement in the US economy may lead to increased visitors from the US, which is a key tourist source market for the Territory.

Population

The Territory's resident population increased by 1 per cent to 245 079 people in the year to 30 June 2014. Net overseas migration and natural increase made similar contributions to population growth in 2013-14, each adding nearly 3000 people to the Territory's population in 2013-14 (Chart 7.4). These gains were partially offset by a loss of about 3300 through net interstate migration.

Chart 7.4: Components of Population Growth (moving annual total)



Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

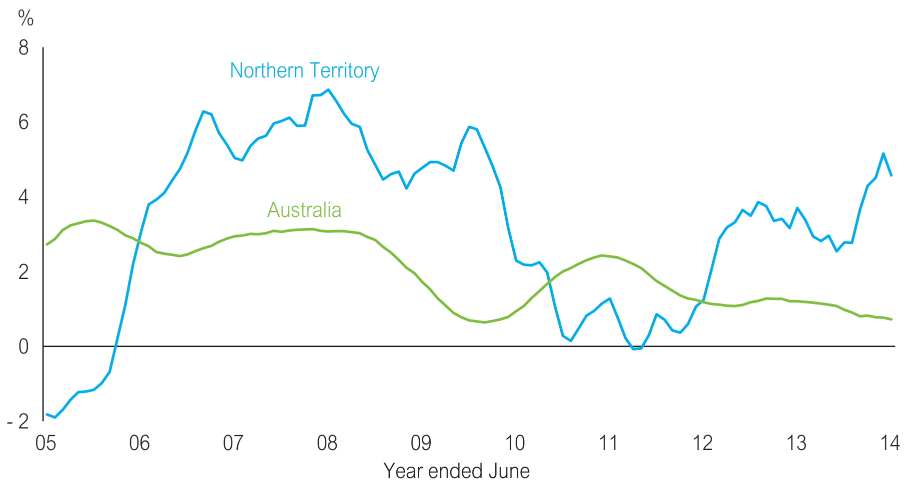
Recent elevated levels of interstate migration outflows reflected a combination of a high number of interstate departures and low levels of interstate arrivals. Contributing to these trends were increased outward movements among older age groups and initial population losses associated with the curtailment of operations at the Gove alumina refinery. Further, lower levels of interstate arrivals likely reflect changing work practices (increased fly-in fly-out workers) and the difficulties of capturing movements in a highly mobile workforce.

Population growth is expected to remain subdued at 0.9 per cent in 2014 before strengthening to 1.8 per cent in 2015 as the population effects from the curtailment of operations at the Gove alumina refinery pass and the workforce requirements for the construction phase of the Ichthys LNG project peak. From 2016 population growth is forecast to moderate to 1 per cent, reflecting the softening in labour market conditions and the expected departure of workers from the Ichthys LNG project and their dependents.

Labour Market

Resident employment growth in the Territory strengthened from 3.7 per cent in 2012-13 to 4.6 per cent in 2013-14 (Chart 7.5). Strong employment conditions in the Territory were underpinned by a ramping up of the construction workforce for the Ichthys LNG project and increased dwelling construction activity. The Territory's unemployment rate averaged 4.4 per cent during 2013-14.

Chart 7.5: Year-on-Year Change in Employment



Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0

Labour market conditions are expected to soften over the medium term as the Ichthys LNG project transitions from the construction phase to the less labour-intensive production phase. However, the full impact of the Ichthys LNG project transition on employment and the unemployment rate is softened by the expected loss of fly-in fly-out workers that are not included in the Territory's labour force data. In line with the forecast slow-down in economic activity, employment is expected to grow by 1.5 per cent in 2014-15 and 2015-16 before moderating to 0.7 per cent in 2016-17 and 2017-18.

The Territory's unemployment rate is expected to average 4.2 per cent in 2014-15, before rising to 4.5 per cent in 2015-16 and 4.7 per cent in the outer years. Despite the forecast rise, the Territory's unemployment rate is expected to remain one of the lowest among jurisdictions.

Prices and Wages

Growth in the Darwin CPI moderated to 2.9 per cent in 2014, down from 3.9 per cent in 2013.

Housing costs are a major expenditure item for Territory households and have been a key contributor to the growth in the Darwin CPI in recent years. Over the past year, however, the Darwin property market has cooled coinciding with a substantial increase in the number of new dwellings. Darwin median rents and house prices declined through the year to December quarter 2014, which has contributed to moderation in the Darwin CPI over this period.

The outlook is for growth in the Darwin CPI to moderate to 2.5 per cent in 2015, before further slowing to 2.3 per cent in 2016. The forecast moderation reflects an expected slow-down in population and employment growth as construction activity related to the Ichthys LNG project winds down. Cost pressures in rents and home purchase prices are expected to further ease, reflecting the increased supply of new dwellings and the Government's land release program. In the outer years, the Darwin CPI is expected to grow by 2.5 per cent.

The Territory wage price index (WPI) increased by 2.8 per cent in 2014, above the national average of 2.6 per cent but below the Territory's 10-year average of 3.7 per cent. The Territory WPI is forecast to grow by 2.7 per cent in 2015, before moderating further and remaining at 2.5 per cent from 2016, consistent with softening labour market conditions.

Chapter 8

Uniform Presentation Framework

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

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

The *Fiscal Integrity and Transparency Act* requires that fiscal outlook reports be prepared in accordance with external reporting standards, including the Australian Accounting Standards or the UPF.

The tables in this chapter meet the Territory's reporting obligations under both the *Fiscal Integrity and Transparency Act* and the UPF. They include, for each sector of government, a:

- Comprehensive Operating Statement;
- Balance Sheet; and
- Cash Flow Statement.

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

- taxes;
- grant revenue and expenses;
- dividend and income tax equivalent income;
- general government operating expenses by function; and
- a revised 2015-16 Loan Council Allocation.

The financial statements for the general government, public non financial corporation and non financial public sectors include the revised 2014-15 Estimate, 2015-16 Budget and 2016-17 to 2018-19 Forward Estimates. The statements for the public financial corporation sector and total public sector present the 2014-15 Estimate only, with the remaining supplementary tables presenting both the 2014-15 Estimate and the 2015-16 Budget.

Table 8.1

General Government Sector Comprehensive Operating Statement

		2014-15	2015-16	2016-17	2017-18	2018-19
		Estimate	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	618 409	629 849	638 863	653 416	668 356
	Current grants	4 079 592	4 135 739	4 288 198	4 433 672	4 455 250
	Capital grants	309 109	266 439	229 909	123 167	13 413
	Sales of goods and services	329 249	375 592	380 417	382 370	382 043
	Interest income	75 495	100 138	110 923	117 903	120 833
	Dividend and income tax equivalent income	231 378	79 255	84 660	110 460	106 448
	Other	498 661	208 925	207 446	206 915	206 623
	TOTAL REVENUE	**6 141 893**	**5 795 937**	**5 940 416**	**6 027 903**	**5 952 966**
less	**EXPENSES**					
	Employee benefits expense	2 013 818	2 075 154	2 140 995	2 205 430	2 272 683
	Superannuation expenses					
	Superannuation interest cost	142 928	138 337	133 639	129 094	128 080
	Other superannuation expenses	210 523	214 951	219 660	222 531	225 357
	Depreciation and amortisation	321 151	327 706	327 121	327 132	326 528
	Other operating expenses	1 349 663	1 400 753	1 472 907	1 497 836	1 526 053
	Interest expenses	246 400	253 354	249 907	252 670	257 139
	Other property expenses					
	Current grants	865 664	846 256	869 403	904 239	832 570
	Capital grants	98 882	104 960	60 577	52 881	50 936
	Subsidies and personal benefit payments	213 573	207 443	233 077	248 904	255 363
	TOTAL EXPENSES	**5 462 602**	**5 568 914**	**5 707 286**	**5 840 717**	**5 874 709**
equals	**NET OPERATING BALANCE**	**679 291**	**227 023**	**233 130**	**187 186**	**78 257**
plus	Other economic flows – included in operating result	136 999	42 044	38 046	39 101	40 102
equals	**OPERATING RESULT**	**816 290**	**269 067**	**271 176**	**226 287**	**118 359**
plus	Other economic flows – other comprehensive income	- 391 738	311 392	338 645	349 469	357 480
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**424 552**	**580 459**	**609 821**	**575 756**	**475 839**
	NET OPERATING BALANCE	**679 291**	**227 023**	**233 130**	**187 186**	**78 257**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	605 979	861 991	787 976	581 557	421 698
	Sales of non financial assets	- 80 597	- 88 982	- 95 034	- 92 621	- 87 708
	less Depreciation	321 151	327 706	327 121	327 132	326 528
	plus Change in inventories					
	plus Other movements in non financial assets	492 561	- 20 830			
	equals **Total net acquisition of non financial assets**	**696 792**	**424 473**	**365 821**	**161 804**	**7 462**
equals	**FISCAL BALANCE**	**- 17 501**	**- 197 450**	**- 132 691**	**25 382**	**70 795**

Table 8.2

General Government Sector Balance Sheet

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	405 211	204 982	188 806	177 700	197 335
Advances paid	185 596	163 143	144 733	130 605	116 477
Investments, loans and placements	2 382 208	2 487 269	2 474 930	2 595 789	2 726 498
Receivables	296 285	296 820	309 151	342 218	348 465
Equity					
Investments in other public sector entities	2 847 760	2 846 539	2 885 880	2 946 391	3 021 610
Investments – other					
Other financial assets					
Total financial assets	**6 117 060**	**5 998 753**	**6 003 500**	**6 192 703**	**6 410 385**
Non financial assets					
Inventories	11 288	11 288	11 288	11 288	11 288
Property, plant and equipment	11 649 052	12 090 542	12 473 490	12 652 531	12 677 230
Investment property	79 833	69 773	59 713	49 653	39 593
Other non financial assets	122 370	122 358	122 346	122 334	122 322
Total non financial assets	**11 862 543**	**12 293 961**	**12 666 837**	**12 835 806**	**12 850 433**
TOTAL ASSETS	**17 979 603**	**18 292 714**	**18 670 337**	**19 028 509**	**19 260 818**
LIABILITIES					
Deposits held	233 857	249 242	270 787	307 697	361 499
Advances received	340 095	300 147	289 564	281 578	272 998
Borrowing	3 754 065	3 746 475	3 738 027	3 730 900	3 722 970
Superannuation	3 970 212	3 689 212	3 408 212	3 127 212	2 846 212
Other employee benefits	601 199	607 199	611 199	612 199	612 199
Payables	190 474	190 515	190 741	191 826	192 004
Other liabilities	714 612	754 376	796 438	835 972	835 972
TOTAL LIABILITIES	**9 804 514**	**9 537 166**	**9 304 968**	**9 087 384**	**8 843 854**
NET ASSETS/(LIABILITIES)	**8 175 089**	**8 755 548**	**9 365 369**	**9 941 125**	**10 416 964**
Contributed equity					
Accumulated surplus/(deficit)	1 074 222	1 651 950	2 218 478	2 729 771	3 126 439
Reserves	7 100 867	7 103 598	7 146 891	7 211 354	7 290 525
NET WORTH	**8 175 089**	**8 755 548**	**9 365 369**	**9 941 125**	**10 416 964**
NET FINANCIAL WORTH[1]	- 3 687 454	- 3 538 413	- 3 301 468	- 2 894 681	- 2 433 469
NET FINANCIAL LIABILITIES[2]	6 535 214	6 384 952	6 187 348	5 841 072	5 455 079
NET DEBT[3]	**1 355 002**	**1 440 470**	**1 489 909**	**1 416 081**	**1 317 157**

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

Table 8.3

General Government Sector Cash Flow Statement

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	618 167	629 699	638 863	653 416	668 356
Receipts from sales of goods and services	362 180	410 856	415 655	417 616	417 383
Grants and subsidies received	4 388 701	4 402 178	4 518 107	4 556 839	4 468 663
Interest receipts	75 495	100 138	110 923	117 903	120 833
Dividends and income tax equivalents	213 089	91 164	85 595	91 679	100 201
Other receipts	724 814	401 086	400 134	399 720	397 975
Total operating receipts	**6 382 446**	**6 035 121**	**6 169 277**	**6 237 173**	**6 173 411**
Cash payments for operating activities					
Payments for employees	- 2 321 701	- 2 391 364	- 2 472 530	- 2 548 637	- 2 625 399
Payment for goods and services	- 1 572 579	- 1 625 681	- 1 697 931	- 1 726 910	- 1 755 891
Grants and subsidies paid	- 1 145 906	- 1 137 468	- 1 162 891	- 1 206 024	- 1 138 869
Interest paid	- 233 731	- 253 508	- 249 980	- 252 634	- 257 238
Other payments					
Total operating payments	**- 5 273 917**	**- 5 408 021**	**- 5 583 332**	**- 5 734 205**	**- 5 777 397**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1 108 529**	**627 100**	**585 945**	**502 968**	**396 014**
Cash flows from investments in non financial assets					
Sales of non financial assets	80 597	88 982	95 034	92 621	87 708
Purchases of non financial assets	- 605 979	- 861 991	- 787 976	- 581 557	- 421 698
Net cash flows from investments in non financial assets	**- 525 382**	**- 773 009**	**- 692 942**	**- 488 936**	**- 333 990**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**583 147**	**- 145 909**	**- 106 997**	**14 032**	**62 024**
Net cash flows from investments in financial assets for policy purposes[1]	335 604	47 784	44 966	41 977	18 080
Net cash flows from investments in financial assets for liquidity purposes	- 760 560	- 69 951	43 341	- 88 912	- 97 761
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 950 338	- 795 176	- 604 635	- 535 871	- 413 671
Net cash flows from financing activities					
Advances received (net)	640	- 39 948	- 10 583	- 7 986	- 8 580
Borrowing (net)	153 892	- 7 590	- 8 448	- 7 127	- 7 930
Deposits received (net)	- 558 579	15 385	21 545	36 910	53 802
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 404 047	- 32 153	2 514	21 797	37 292
NET INCREASE/DECREASE IN CASH HELD	- 245 856	- 200 229	- 16 176	- 11 106	19 635
Net cash flows from operating activities	1 108 529	627 100	585 945	502 968	396 014
Net cash flows from investments in non financial assets	- 525 382	- 773 009	- 692 942	- 488 936	- 333 990
CASH SURPLUS (+)/DEFICIT (-)	**583 147**	**- 145 909**	**- 106 997**	**14 032**	**62 024**
Future infrastructure and superannuation contributions/ earnings[2]	- 18 835	- 26 789	- 28 397	- 30 101	- 31 907
UNDERLYING SURPLUS (+)/DEFICIT (-)	**564 312**	**- 172 698**	**- 135 394**	**- 16 069**	**30 117**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	583 147	- 145 909	- 106 997	14 032	62 024
Acquisitions under finance leases and similar arrangements	- 521 305				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	61 842	- 145 909	- 106 997	14 032	62 024

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

Table 8.4

Public Non Financial Corporation Sector Comprehensive Operating Statement

		2014-15	2015-16	2016-17	2017-18	2018-19
		Estimate	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Current grants	144 850	146 696	171 748	186 702	191 361
	Capital grants	22 160	31 998	31 903	31 574	26 359
	Sales of goods and services	782 090	747 101	759 325	771 866	799 511
	Interest income	2 735	3 325	3 544	2 914	2 796
	Other	34 604	30 382	34 327	36 152	37 180
	TOTAL REVENUE	**986 439**	**959 502**	**1 000 847**	**1 029 208**	**1 057 207**
less	**EXPENSES**					
	Employee benefits expense	106 470	119 082	117 341	116 774	113 081
	Superannuation expenses	16 708	17 366	17 936	18 127	17 965
	Depreciation and amortisation	197 919	180 963	162 629	161 787	162 501
	Other operating expenses	526 497	527 030	541 239	522 492	540 608
	Interest expenses	72 305	68 248	72 388	78 124	84 578
	Other property expenses	24 842	20 119	19 812	30 905	23 399
	Current grants	319	254	261	267	274
	Capital grants					
	Subsidies and personal benefit payments	2 233	2 174	2 229	2 285	2 342
	TOTAL EXPENSES	**947 293**	**935 236**	**933 835**	**930 761**	**944 748**
equals	**NET OPERATING BALANCE**	**39 146**	**24 266**	**67 012**	**98 447**	**112 459**
plus	Other economic flows – included in operating result	- 116 096	- 3 482	- 3 239	- 3 344	- 3 446
equals	**OPERATING RESULT**	**- 76 950**	**20 784**	**63 773**	**95 103**	**109 013**
plus	Other economic flows – other comprehensive income	360 612	5 270	10 535	14 088	18 063
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**283 662**	**26 054**	**74 308**	**109 191**	**127 076**
	NET OPERATING BALANCE	**39 146**	**24 266**	**67 012**	**98 447**	**112 459**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	225 171	250 617	219 510	208 784	240 197
	Sales of non financial assets	- 6 864		- 1 026	- 154	- 1 359
	less Depreciation	197 919	180 963	162 629	161 787	162 501
	plus Change in inventories	17 096	2 408	4 849	5 719	5 748
	plus Other movements in non financial assets	16 197	16 659	17 075	17 502	17 940
	equals **Total net acquisition of non financial assets**	**53 681**	**88 721**	**77 779**	**70 064**	**100 025**
equals	**FISCAL BALANCE**	**- 14 535**	**- 64 455**	**- 10 767**	**28 383**	**12 434**

Table 8.5

Public Non Financial Corporation Sector Balance Sheet

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	166 290	172 472	181 353	207 221	250 494
Advances paid					
Investments, loans and placements					
Receivables	140 959	120 333	121 597	126 815	133 587
Equity	3	3	3	3	3
Other financial assets					
Total financial assets	**307 252**	**292 808**	**302 953**	**334 039**	**384 084**
Non financial assets					
Inventories	180 775	183 183	188 032	193 751	199 499
Property, plant and equipment	3 764 886	3 836 729	3 901 190	3 944 058	4 014 909
Investment property					
Other non financial assets	98 688	118 427	137 431	172 996	214 485
Total non financial assets	**4 044 349**	**4 138 339**	**4 226 653**	**4 310 805**	**4 428 893**
TOTAL ASSETS	**4 351 601**	**4 431 147**	**4 529 606**	**4 644 844**	**4 812 977**
LIABILITIES					
Deposits held	10 002	10 002	10 002	10 002	10 002
Advances received					
Borrowing	1 252 131	1 363 003	1 423 313	1 465 174	1 551 264
Superannuation					
Other employee benefits	50 452	50 633	52 751	54 964	57 276
Payables	130 886	105 158	99 640	98 166	101 365
Other liabilities	82 001	77 443	79 651	91 778	93 091
TOTAL LIABILITIES	**1 525 472**	**1 606 239**	**1 665 357**	**1 720 084**	**1 812 998**
NET ASSETS/(LIABILITIES)	**2 826 129**	**2 824 908**	**2 864 249**	**2 924 760**	**2 999 979**
Contributed equity	834 438	830 486	826 534	822 582	818 630
Accumulated surplus/(deficit)	837 160	833 361	866 119	916 494	977 602
Reserves	1 154 531	1 161 061	1 171 596	1 185 684	1 203 747
TOTAL EQUITY	**2 826 129**	**2 824 908**	**2 864 249**	**2 924 760**	**2 999 979**
NET FINANCIAL WORTH[1]	- 1 218 220	- 1 313 431	- 1 362 404	- 1 386 045	- 1 428 914
NET DEBT[2]	**1 095 843**	**1 200 533**	**1 251 962**	**1 267 955**	**1 310 772**

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

Table 8.6

Public Non Financial Corporation Sector Cash Flow Statement

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Receipts from sales of goods and services	783 601	760 164	761 607	764 097	793 198
Grants and subsidies received	167 010	178 694	203 651	218 276	217 720
Interest receipts	2 880	3 325	3 544	2 914	2 796
Other receipts	16 488	18 956	12 222	14 801	13 693
Total operating receipts	**969 979**	**961 139**	**981 024**	**1 000 088**	**1 027 407**
Cash payments for operating activities					
Income tax equivalents paid	- 16 659	- 25 996	- 20 640	- 26 851	- 20 657
Payments for employees	- 133 548	- 146 502	- 143 659	- 143 160	- 139 107
Payment for goods and services	- 472 487	- 546 215	- 541 615	- 520 658	- 535 859
Grants and subsidies paid	- 2 519	- 2 428	- 2 490	- 2 552	- 2 616
Interest paid	- 71 749	- 65 227	- 72 480	- 79 263	- 84 467
Other payments					
Total operating payments	**- 696 962**	**- 786 368**	**- 780 884**	**- 772 484**	**- 782 706**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**273 017**	**174 771**	**200 140**	**227 604**	**244 701**
Cash flows from investments in non financial assets					
Sales of non financial assets	6 864		1 026	154	1 359
Purchases of non financial assets	- 225 171	- 250 617	- 219 510	- 208 784	- 240 197
Net cash flows from investments in non financial assets	**- 218 307**	**- 250 617**	**- 218 484**	**- 208 630**	**- 238 838**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**54 710**	**- 75 846**	**- 18 344**	**18 974**	**5 863**
Net cash flows from investments in financial assets for policy purposes[1]	- 9 837				
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 228 144	- 250 617	- 218 484	- 208 630	- 238 838
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	- 169 425	110 872	60 310	41 861	86 090
Deposits received (net)					
Dividends paid	- 16 800	- 24 892	- 29 133	- 31 015	- 44 728
Other financing (net)	156 482	- 3 952	- 3 952	- 3 952	- 3 952
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 29 743	82 028	27 225	6 894	37 410
NET INCREASE/DECREASE IN CASH HELD	15 130	6 182	8 881	25 868	43 273
Net cash flows from operating activities	273 017	174 771	200 140	227 604	244 701
Net cash flows from investments in non financial assets	- 218 307	- 250 617	- 218 484	- 208 630	- 238 838
Dividends paid	- 16 800	- 24 892	- 29 133	- 31 015	- 44 728
CASH SURPLUS (+)/DEFICIT (-)	**37 910**	**- 100 738**	**- 47 477**	**- 12 041**	**- 38 865**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	37 910	- 100 738	- 47 477	- 12 041	- 38 865
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	37 910	- 100 738	- 47 477	- 12 041	- 38 865

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

Table 8.7

Non Financial Public Sector Comprehensive Operating Statement

		2014-15	2015-16	2016-17	2017-18	2018-19
		Estimate	Budget	Forward Estimates		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	608 056	619 440	628 374	642 932	657 974
	Current grants	4 079 592	4 135 739	4 288 198	4 434 172	4 455 750
	Capital grants	314 071	280 809	243 743	136 221	20 789
	Sales of goods and services	1 084 721	1 099 433	1 116 272	1 130 605	1 158 107
	Interest income	75 495	100 138	110 923	117 933	120 863
	Dividend and income tax equivalent income	181 644	35 813	33 833	34 827	35 144
	Other	528 949	236 354	238 816	240 101	240 837
	TOTAL REVENUE	**6 872 528**	**6 507 726**	**6 660 159**	**6 736 791**	**6 689 464**
less	**EXPENSES**					
	Employee benefits expense	2 120 288	2 194 236	2 258 336	2 322 204	2 385 764
	Superannuation expenses					
	Superannuation interest cost	142 928	138 337	133 639	129 094	128 080
	Other superannuation expenses	224 499	229 621	234 905	237 967	240 631
	Depreciation and amortisation	519 070	508 669	489 750	488 919	489 029
	Other operating expenses	1 838 865	1 893 857	1 979 921	1 985 938	2 032 557
	Interest expenses	315 970	318 277	318 751	327 910	338 951
	Other property expenses					
	Current grants	810 023	789 119	810 770	844 070	770 825
	Capital grants	80 457	87 332	42 508	34 361	31 953
	Subsidies and personal benefit payments	126 883	120 312	122 452	125 423	128 863
	TOTAL EXPENSES	**6 178 983**	**6 279 760**	**6 391 032**	**6 495 886**	**6 546 653**
equals	**NET OPERATING BALANCE**	**693 545**	**227 966**	**269 127**	**240 905**	**142 811**
plus	Other economic flows – included in operating result	20 903	38 562	34 807	35 757	36 656
equals	**OPERATING RESULT**	**714 448**	**266 528**	**303 934**	**276 662**	**179 467**
plus	Other economic flows – other comprehensive income	- 289 896	313 931	305 887	299 094	296 372
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**424 552**	**580 459**	**609 821**	**575 756**	**475 839**
	NET OPERATING BALANCE	**693 545**	**227 966**	**269 127**	**240 905**	**142 811**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	831 150	1 112 608	1 007 486	790 341	661 895
	Sales of non financial assets	- 87 461	- 88 982	- 96 060	- 92 775	- 89 067
	less Depreciation	519 070	508 669	489 750	488 919	489 029
	plus Change in inventories	17 096	2 408	4 849	5 719	5 748
	plus Other movements in non financial assets	508 758	- 4 171	17 075	17 502	17 940
	equals **Total net acquisition of non financial assets**	**750 473**	**513 194**	**443 600**	**231 868**	**107 487**
equals	**FISCAL BALANCE**	**- 56 928**	**- 285 228**	**- 174 473**	**9 037**	**35 324**

Table 8.8

Non Financial Public Sector Balance Sheet

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	414 238	214 009	197 833	186 727	206 362
Advances paid	185 596	163 143	144 733	130 605	116 477
Investments, loans and placements	2 382 208	2 487 269	2 474 930	2 595 789	2 726 498
Receivables	383 622	370 856	383 406	403 904	410 993
Equity					
Investments in other public sector entities	21 631	21 631	21 631	21 631	21 631
Investments – other	3	3	3	3	3
Other financial assets					
Total financial assets	**3 387 298**	**3 256 911**	**3 222 536**	**3 338 659**	**3 481 964**
Non financial assets					
Inventories	192 063	194 471	199 320	205 039	210 787
Property, plant and equipment	15 413 938	15 927 271	16 374 680	16 596 589	16 692 139
Investment property	79 833	69 773	59 713	49 653	39 593
Other non financial assets	221 058	240 785	259 777	295 330	336 807
Total non financial assets	**15 906 892**	**16 432 300**	**16 893 490**	**17 146 611**	**17 279 326**
TOTAL ASSETS	**19 294 190**	**19 689 211**	**20 116 026**	**20 485 270**	**20 761 290**
LIABILITIES					
Deposits held	86 596	95 799	108 463	119 505	130 034
Advances received	340 095	300 147	289 564	281 578	272 998
Borrowing	5 006 196	5 109 478	5 161 340	5 196 074	5 274 234
Superannuation	3 970 212	3 689 212	3 408 212	3 127 212	2 846 212
Other employee benefits	651 651	657 832	663 950	667 163	669 475
Payables	311 778	286 102	280 804	280 407	283 782
Other liabilities	752 573	795 093	838 324	872 206	867 591
TOTAL LIABILITIES	**11 119 101**	**10 933 663**	**10 750 657**	**10 544 145**	**10 344 326**
NET ASSETS/(LIABILITIES)	**8 175 089**	**8 755 548**	**9 365 369**	**9 941 125**	**10 416 964**
Contributed equity					
Accumulated surplus/(deficit)	1 911 382	2 485 311	3 084 597	3 646 265	4 104 041
Reserves	6 263 707	6 270 237	6 280 772	6 294 860	6 312 923
NET WORTH	**8 175 089**	**8 755 548**	**9 365 369**	**9 941 125**	**10 416 964**
NET FINANCIAL WORTH[1]	- 7 731 803	- 7 676 752	- 7 528 121	- 7 205 486	- 6 862 362
NET FINANCIAL LIABILITIES[2]	7 753 434	7 698 383	7 549 752	7 227 117	6 883 993
NET DEBT[3]	**2 450 845**	**2 641 003**	**2 741 871**	**2 684 036**	**2 627 929**

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

Table 8.9

Non Financial Public Sector Cash Flow Statement

	2014-15	2015-16	2016-17	2017-18	2018-19
	Estimate	Budget	Forward Estimates		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	608 056	619 440	628 374	642 932	657 974
Receipts from sales of goods and services	1 118 251	1 147 762	1 153 796	1 158 082	1 187 134
Grants and subsidies received	4 393 663	4 416 548	4 531 941	4 570 393	4 476 539
Interest receipts	75 495	100 138	110 923	117 933	120 863
Dividends and income tax equivalents	179 724	40 247	35 813	33 833	34 827
Other receipts	740 978	419 785	412 090	414 246	411 393
Total operating receipts	**7 116 167**	**6 743 920**	**6 872 937**	**6 937 419**	**6 888 730**
Cash payments for operating activities					
Payments for employees	- 2 445 133	- 2 527 591	- 2 605 689	- 2 681 325	- 2 754 133
Payment for goods and services	- 2 017 311	- 2 148 368	- 2 215 816	- 2 223 670	- 2 268 030
Grants and subsidies paid	- 986 377	- 975 572	- 975 564	- 1 003 854	- 931 641
Interest paid	- 302 600	- 315 410	- 318 916	- 329 013	- 338 939
Other payments					
Total operating payments	**- 5 751 421**	**- 5 966 941**	**- 6 115 985**	**- 6 237 862**	**- 6 292 743**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1 364 746**	**776 979**	**756 952**	**699 557**	**595 987**
Cash flows from investments in non financial assets					
Sales of non financial assets	87 461	88 982	96 060	92 775	89 067
Purchases of non financial assets	- 831 150	- 1 112 608	- 1 007 486	- 790 341	- 661 895
Net cash flows from investments in non financial assets	**- 743 689**	**- 1 023 626**	**- 911 426**	**- 697 566**	**- 572 828**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**621 057**	**- 246 647**	**- 154 474**	**1 991**	**23 159**
Net cash flows from investments in financial assets for policy purposes[1]	482 249	43 832	41 014	38 025	14 128
Net cash flows from investments in financial assets for liquidity purposes	- 760 560	- 69 951	43 341	- 88 912	- 97 761
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 022 000	- 1 049 745	- 827 071	- 748 453	- 656 461
Net cash flows from financing activities					
Advances received (net)	640	- 39 948	- 10 583	- 7 986	- 8 580
Borrowing (net)	- 15 533	103 282	51 862	34 734	78 160
Deposits received (net)	- 573 711	9 203	12 664	11 042	10 529
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 588 604	72 537	53 943	37 790	80 109
NET INCREASE/DECREASE IN CASH HELD	- 245 858	- 200 229	- 16 176	- 11 106	19 635
Net cash flows from operating activities	1 364 746	776 979	756 952	699 557	595 987
Net cash flows from investments in non financial assets	- 743 689	- 1 023 626	- 911 426	- 697 566	- 572 828
CASH SURPLUS (+)/DEFICIT (-)	**621 057**	**- 246 647**	**- 154 474**	**1 991**	**23 159**
Future infrastructure and superannuation contributions/earnings[2]	- 18 835	- 26 789	- 28 397	- 30 101	- 31 907
UNDERLYING SURPLUS (+)/DEFICIT (-)	**602 222**	**- 273 436**	**- 182 871**	**- 28 110**	**- 8 748**
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	621 057	- 246 647	- 154 474	1 991	23 159
Acquisitions under finance leases and similar arrangements	- 521 305				
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	99 752	- 246 647	- 154 474	1 991	23 159

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

Table 8.10

Public Financial Corporation Sector Comprehensive Operating Statement

		2014-15 Estimate
		$000
	REVENUE	
	Current grants	
	Capital grants	
	Sales of goods and services	119 149
	Interest income	296 379
	Other	151
	TOTAL REVENUE	**415 679**
less	**EXPENSES**	
	Employee benefits expense	16 695
	Superannuation expenses	974
	Depreciation and amortisation	538
	Other operating expenses	92 080
	Interest expenses	245 489
	Other property expenses	12 074
	Current grants	2 352
	Capital grants	
	Subsidies and personal benefit payments	
	TOTAL EXPENSES	**370 202**
equals	**NET OPERATING BALANCE**	**45 477**
plus	Other economic flows – included in operating result	- 232 524
equals	**OPERATING RESULT**	**- 187 047**
plus	Other economic flows – other comprehensive income	- 9 685
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 196 732**
	NET OPERATING BALANCE	**45 477**
less	**Net acquisition of non financial assets**	
	Purchases of non financial assets	
	Sales of non financial assets	- 2 855
	less Depreciation	538
	plus Change in inventories	
	plus Other movements in non financial assets	
	equals **Total net acquisition of non financial assets**	**- 3 393**
equals	**FISCAL BALANCE**	**48 870**

Table 8.11

Public Financial Corporation Sector Balance Sheet

	2014-15 Estimate
	$000
ASSETS	
Financial assets	
Cash and deposits	18 102
Advances paid	85 025
Investments, loans and placements	4 570 375
Receivables	10 352
Equity	
Other financial assets	
Total financial assets	**4 683 854**
Non financial assets	
Inventories	
Property, plant and equipment	
Investment property	
Other non financial assets	
Total non financial assets	
TOTAL ASSETS	**4 683 854**
LIABILITIES	
Deposits held	405
Advances received	230 062
Borrowing	4 338 122
Superannuation	
Other employee benefits	215
Payables	53 227
Other liabilities	40 192
TOTAL LIABILITIES	**4 662 223**
NET ASSETS/(LIABILITIES)	**21 631**
Contributed equity	18 714
Accumulated surplus/(deficit)	2 917
Reserves	
TOTAL EQUITY	**21 631**
NET FINANCIAL WORTH[1]	21 631
NET DEBT[2]	**- 104 913**

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

Table 8.12

Public Financial Corporation Sector Cash Flow Statement

	2014-15 Estimate
	$000
Cash receipts from operating activities	
Receipts from sales of goods and services	75 144
Grants and subsidies received	
Interest receipts	299 478
Other receipts	151
Total operating receipts	**374 773**
Cash payments for operating activities	
Income tax equivalents paid	- 15 247
Payments for employees	- 23 794
Payment for goods and services	- 168 292
Grants and subsidies paid	- 2 352
Interest paid	- 262 624
Other payments	
Total operating payments	**- 472 309**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 97 536**
Cash flows from investments in non financial assets	
Sales of non financial assets	2 855
Purchases of non financial assets	
Net cash flows from investments in non financial assets	**2 855**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 94 681**
Net cash flows from investments in financial assets for policy purposes[1]	- 603 352
Net cash flows from investments in financial assets for liquidity purposes	1 355 646
NET CASH FLOWS FROM INVESTING ACTIVITIES	755 149
Net cash flows from financing activities	
Advances received (net)	- 6 487
Borrowing (net)	- 665 149
Deposits received (net)	- 556 274
Dividends paid	- 163 082
Other financing (net)	- 4 982
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 1 395 974
NET INCREASE/DECREASE IN CASH HELD	- 738 361
Net cash flows from operating activities	- 97 536
Net cash flows from investments in non financial assets	2 855
Distributions paid	- 163 082
CASH SURPLUS (+)/DEFICIT (-)	**- 257 763**
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/DEFICIT (-)	- 257 763
Acquisitions under finance leases and similar arrangements	
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 257 763

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

Table 8.13

Total Public Sector Comprehensive Operating Statement

		2014-15 Estimate
		$000
	REVENUE	
	Taxation revenue	607 538
	Current grants	4 079 592
	Capital grants	314 071
	Sales of goods and services	1 202 393
	Interest income	95 834
	Dividend and income tax equivalent income	1 397
	Other	525 502
	TOTAL REVENUE	**6 826 327**
less	**EXPENSES**	
	Employee benefits expense	2 136 983
	Superannuation expenses	
	Superannuation interest cost	142 928
	Other superannuation expenses	225 417
	Depreciation and amortisation	519 608
	Other operating expenses	1 925 408
	Interest expenses	285 419
	Other property expenses	
	Current grants	812 375
	Capital grants	80 457
	Subsidies and personal benefit payments	126 883
	TOTAL EXPENSES	**6 255 478**
equals	**NET OPERATING BALANCE**	**570 849**
plus	Other economic flows – included in operating result	- 211 621
equals	**OPERATING RESULT**	**359 228**
plus	Other economic flows – other comprehensive income	65 324
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**424 552**
	NET OPERATING BALANCE	**570 849**
less	**Net acquisition of non financial assets**	
	Purchases of non financial assets	831 150
	Sales of non financial assets	- 90 316
	less Depreciation	519 608
	plus Change in inventories	17 096
	plus Other movements in non financial assets	508 758
	equals **Total net acquisition of non financial assets**	**747 080**
equals	**FISCAL BALANCE**	**- 176 231**

Table 8.14

Total Public Sector Balance Sheet

	2014-15 Estimate
	$000
ASSETS	
Financial assets	
Cash and deposits	414 238
Advances paid	185 596
Investments, loans and placements	2 382 208
Receivables	343 284
Equity	
Investments in other public sector entities	
Investments – other	3
Other financial assets	
Total financial assets	**3 325 329**
Non financial assets	
Inventories	192 063
Property, plant and equipment	15 413 938
Investment property	79 833
Other non financial assets	221 058
Total non financial assets	**15 906 892**
TOTAL ASSETS	**19 232 221**
LIABILITIES	
Deposits held	68 899
Advances received	245 062
Borrowing	5 014 013
Superannuation	3 970 212
Other employee benefits	651 866
Payables	354 505
Other liabilities	752 575
TOTAL LIABILITIES	**11 057 132**
NET ASSETS/(LIABILITIES)	**8 175 089**
Contributed equity	
Accumulated surplus/(deficit)	1 914 299
Reserves	6 260 790
NET WORTH	**8 175 089**
NET FINANCIAL WORTH[1]	- 7 731 803
NET DEBT[2]	**2 345 932**

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

Table 8.15

Total Public Sector Cash Flow Statement

	2014-15 Estimate
	$000
Cash receipts from operating activities	
Taxes received	607 538
Receipts from sales of goods and services	1 189 786
Grants and subsidies received	4 393 663
Interest receipts	99 431
Other receipts	737 576
Total operating receipts	**7 027 994**
Cash payments for operating activities	
Payments for employees	- 2 468 409
Payment for goods and services	- 2 177 046
Grants and subsidies paid	- 988 729
Interest paid	- 289 682
Other payments	
Total operating payments	**- 5 923 866**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1 104 128**
Cash flows from investments in non financial assets	
Sales of non financial assets	90 316
Purchases of non financial assets	- 831 150
Net cash flows from investments in non financial assets	**- 740 834**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**363 294**
Net cash flows from investments in financial assets for policy purposes[1]	- 126 085
Net cash flows from investments in financial assets for liquidity purposes	563 993
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 302 926
Net cash flows from financing activities	
Advances received (net)	8 513
Borrowing (net)	- 669 237
Deposits received (net)	- 550 986
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 1 211 710
NET INCREASE/DECREASE IN CASH HELD	- 410 508
Net cash flows from operating activities	1 104 128
Net cash flows from investments in non financial assets	- 740 834
CASH SURPLUS (+)/DEFICIT (-)	**363 294**
Future infrastructure and superannuation contributions/earnings[2]	- 18 835
UNDERLYING SURPLUS (+)/DEFICIT (-)	**344 459**
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/DEFICIT (-)	363 294
Acquisitions under finance leases and similar arrangements	- 521 305
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 158 011

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

Table 8.16

General Government Sector Taxes

	2014-15 Estimate	2015-16 Budget
	$M	$M
Taxes on employers' payroll and labour force	**280**	**284**
Payroll taxes	280	284
Taxes on property	**158**	**152**
Stamp duties on financial and capital transactions	158	152
Taxes on the provision of goods and services	**111**	**122**
Taxes on gambling	66	77
Taxes on insurance	45	45
Taxes on the use of goods and performance of activities	**69**	**72**
Motor vehicle registration fees	69	72
TOTAL TAXES	**618**	**630**

Table 8.17

State and Territory General Government Sector Grant Revenue

	2014-15 Estimate	2015-16 Budget
	$M	$M
Current grant revenue		
Current grants from the Commonwealth (including for on-passing)		
National partnership payments	256	229
Specific purpose payments	293	319
General purpose grants	3 531	3 588
Total current grant revenue	**4 080**	**4 136**
Capital grant revenue		
Capital grants from the Commonwealth (including for on-passing)		
National partnership payments	274	241
Specific purpose payments	26	20
General purpose grants	9	5
Total capital grant revenue	**309**	**266**
TOTAL GRANTS REVENUE	**4 389**	**4 402**

Table 8.18

State and Territory General Government Sector Grant Expenses

	2014-15 Estimate	2015-16 Budget
	$M	$M
Current grant expenses including subsidies and personal benefit payments		
Local Government	137	128
Private and not-for-profit sector (including for on-passing)	720	704
Grants to other sectors of Government	56	57
Other	166	165
Total current grant expenses including subsidies and personal benefit payments	**1 079**	**1 054**
Capital grant expenses		
Local Government	7	5
Private and not-for-profit sector (including for on-passing)	46	62
Grants to other sectors of Government	17	18
Other	29	20
Total capital grant expenses	**99**	**105**
TOTAL GRANT EXPENSES	**1 178**	**1 159**

Table 8.19

General Government Sector Dividend and Income Tax Equivalent Income

	2014-15 Estimate	2015-16 Budget
	$M	$M
Dividend and income tax equivalent income from public non financial corporation sector	50	43
Dividend and income tax equivalent income from public financial corporation sector	181	36
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	**231**	**79**

Table 8.20

General Government Sector Operating Expenses

	2014-15 Estimate	2015-16 Budget
	$M	$M
General public services	143	134
Public order and safety	691	704
Education	1 056	1 075
Health	1 319	1 343
Social security and welfare	357	359
Housing and community amenities	547	550
Recreation and culture	197	201
Fuel and energy	151	137
Agriculture, forestry, fishing and hunting	85	82
Mining, manufacturing and construction	36	34
Transport and communications	266	267
Other economic affairs	154	168
Other purposes	459	515
TOTAL OPERATING EXPENSES	**5 463**	**5 569**

Table 8.21

2015-16 Loan Council Allocation

	Loan Council Allocation	Budget-time Estimate
	$M	$M
General government sector cash deficit (+)/surplus (-)	20	146
Public non financial corporations sector cash deficit (+)/surplus (-)	30	101
Non financial public sector cash deficit (+)/surplus (-)	50	247
less Acquisitions under finance leases and similar arrangements		
equals ABS GFS cash deficit (+)/surplus (-)	50	247
less Net cash flows from investments in financial assets for policy purposes	11	44
plus Memorandum items		
2015-16 LOAN COUNCIL NOMINATION	**39**	**203**
Tolerance limit (2% of non financial public sector cash receipts from operating activities)	131	
Change in loan council allocation	164	

Note: This table sets out the Territory's 2015-16 Loan Council Allocation (LCA) Budget update of $203 million as compared to that nominated and endorsed with the Loan Council of $39 million. Nominations for 2015-16 were provided by all jurisdictions on the basis of policies commenced up to and including in their Mid-Year Budget updates. The budget-time estimate reflects an increase in capital investment on social and community infrastructure projects under Building the Territory. Jurisdictions must publicly announce to the Loan Council where it is likely to exceed the tolerance limit. The Territory's 2015-16 LCA is outside the tolerance limit of 2 per cent of non financial public sector operating cash receipts of $131 million that applies between the LCA and budget-time nomination.

Appendices

Appendix A
Classification of Entities in the Northern Territory

Total Public Sector

Non Financial Public Sector

General Government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation[1]
Batchelor Institute of Indigenous Tertiary Education[1]
Central Australia Health Service[2]
Central Holding Authority
Darwin Waterfront Corporation[1]
Data Centre Services[2]
Department of Arts and Museums
Department of the Attorney-General and Justice
Department of Business
Department of the Chief Minister
Department of Children and Families
Department of Corporate and Information Services
Department of Correctional Services
Department of Education
Department of Health
Department of Housing
Department of Infrastructure
Department of Land Resource Management
Department of Lands, Planning and the Environment
Department of the Legislative Assembly
Department of Local Government and Community Services
Department of Mines and Energy
Department of Primary Industry and Fisheries
Department of Sport and Recreation
Department of Transport
Department of Treasury and Finance
Desert Knowledge Australia[1]
Motor Accidents (Compensation) Commission[1,5]
Museums and Art Galleries Board of the Northern Territory[1]
Nominal Insurer's Fund[1]
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission[1]
Northern Territory Major Events Company Pty Ltd[1]
Northern Territory Police, Fire and Emergency Services
NT Build Statutory Corporation[1]
NT Fleet[2]
NT Home Ownership[2]
Office of the Commissioner for Public Employment
Ombudsman's Office
Parks and Wildlife Commission of the Northern Territory
Territory Wildlife Parks[2]
Top End Health Service[2]
Tourism NT

Public Non Financial Corporations

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

Public Financial Corporation[4]

Northern Territory Treasury Corporation[2]

1 Non-budget sector entity.
2 Government business division.
3 Government owned corporation.
4 Government owned entity sold 1 January 2015.
5 Previously included with the Territory Insurance Office. From 1 January 2015 separately recorded in the general government sector.

Appendix B
Glossary

Advances/Advances Paid

Loans acquired for policy rather than liquidity management purposes. Included are long-term and short-term loans, non-marketable debentures, and long-term and short-term promissory agreements (bonds and bills) issued to public sector units for achieving government policy objectives.

Agency

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

Australian Accounting Standards

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

Capital Grants

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

Cash Surplus/Deficit

Reported in the Cash Flow Statement and measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid, less value of assets acquired under finance leases and similar arrangements.

Commonwealth Own-Purpose Expenses

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

Comprehensive Result

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

Consumer Price Index

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

Contingent Liability

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

Current Grants

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

Finance Lease

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

Financial Asset

Any asset that is:

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

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

Fiscal Balance

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

General Government Sector

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

Generally Accepted Accounting Principles

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

Goods and Services Tax Revenue

On 1 July 2000, the Commonwealth introduced the GST. Payments from the Commonwealth return the GST revenue to the states and territories, replacing the previous general purpose grants.

Government Business Division

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

Government Finance Statistics

Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. Government Finance Statistics (GFS) in Australia are developed by the Australian Bureau of Statistics in conjunction with all governments and are mainly based on international statistical standards, developed in consultation with member countries by the International Monetary Fund.

Government Owned Corporation

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

Government Purpose Classification

Classifies outlays or expenditure transactions by the purpose served, for example, health or education.

Grants

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

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

Grants for On-Passing

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

Gross Domestic Product

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

Gross State Product

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

Guarantee

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

Indemnity

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

Loan Council

The Australian Loan Council coordinates borrowing by Commonwealth and state governments. Current arrangements seek to emphasise transparency of public sector finances, through financial market scrutiny of proposed borrowing to restrict borrowing to prudent levels.

Loan Council Allocation

The nomination to the Loan Council of the level of financing required.

Memorandum Items – Loan Council

Memorandum items are used to adjust the cash surplus/deficit to include in the Loan Council Allocation certain transactions that may have the characteristics of public sector borrowings but do not constitute formal borrowings.

National Partnership Agreements

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

Net Acquisition/(Disposal) of Non Financial Assets from Transactions

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

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

Net Actuarial Gains

Includes actuarial gains and losses on defined benefit superannuation plans.

Net Cash Flows from Investments in Financial Assets (Liquidity Management Purposes)

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

Net Cash Flows from Investments in Financial Assets (Policy Purposes)

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

Net Debt

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

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

Net Financial Liabilities

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

Net Financial Worth

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

Net Operating Balance

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

Net Worth

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

Non Financial Assets

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

Non Financial Public Sector

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

Other Economic Flows

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

Other Superannuation Expense

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

Payables

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

Public Financial Corporations

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

Public Non Financial Corporations

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

Receivables

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

Sale of Goods and Services

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

Specific Purpose Payments

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

State Final Demand

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

Superannuation Interest Cost

The expense resulting from the increase in the liability due to the fact that, for all participants in the scheme, retirement (and death) is one year nearer, and so one fewer discount factors must be used to calculate the present value of the benefits for each future year. Interest cost is the increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement, as per the relevant accounting standard. The cost is measured net of the return on plan assets of defined benefit schemes.

Tax Equivalents Regime

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

Treasurer's Advance

An appropriation purpose of that name as specified in an *Appropriation Act*, which provides a pool of funds specifically set aside in each Budget to meet operational contingencies that arise during the year.

Uniform Presentation Framework

A uniform reporting framework agreed by the Australian Loan Council in 2000, which is a revision of the agreement reached at the 1991 Premiers' Conference. The Uniform Presentation Framework (UPF) was further updated and re-issued in April 2008 to incorporate accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting. The UPF specifies that the Commonwealth, state and territory governments will present a minimum set of budget and financial outcome information on the Government Finance Statistics basis, according to an agreed format and specified Loan Council reporting arrangements.