ISSUES IN PUBLIC FINANCE

1998-99

Budget Paper No. 3

Chapter 1

NORTHERN TERRITORY FISCAL STRATEGY

The Northern Territory announced a single quantitative fiscal target in 1993-94 and a more comprehensive set of targets in 1994-95. In the development of the 1998-99 Budget, the strategy has been reviewed and updated. The new strategy is:

The Northern Territory Government is committed to the long term viability of the Territory through. The Government's core strategies and fiscal targets are:

- *current expenditure per capita will not increase in real terms;*
- *infrastructure will be maintained at levels sufficient to meet the Territory's economic and social needs;*
- *the Territory's own source revenue effort will be broadly comparable to the States;*
- *Territory debt as a proportion of economic output will decline over time;*
- *Territory debt servicing as a proportion of sound financial management of the Territory's resources total Territory revenue and Commonwealth grants will be broadly comparable to the States.*

Provisos:

- *in any given year, the percentage change in Commonwealth grants to the Northern Territory should not be significantly different to the change for the States;*
- *the Territory should receive adequate discretion in the application of funds to priorities determined by Territorians; and*
- *assessment against the targets should exclude the budgetary impact of major one-off events, such as natural disasters.*

This chapter reviews performance against the targets.

REVIEW OF THE STRATEGY

Fiscal strategies and targets must be constantly kept under review. They need to provide sound and realistic parameters against which the adequacy of fiscal decisions can be assessed. At the same time, however, they need to be responsive to the fiscal and intergovernmental environment as well as the physical environment, as evidenced by the effect on the Northern Territory's budget of the Katherine region floods.

Fiscal strategies and targets are not rules that cannot be broken. Blind observance, if it leads to a lack of response to an essential requirement, is as bad as flagrant disregard of the strategy.

Planning for the 1998-99 Budget indicated that in a number of areas reconsideration of existing policy would be appropriate. There has been considerable but unavoidable growth in demand in social services which has put additional stress on the recurrent and capital budget. There has also been recognition that the Territory's growing stock of assets requires additional levels of maintenance and in particular, the additional expenditure required from the

Katherine region floods has needed to be accommodated.

Accordingly, a number of adjustments to outlays have occurred in support of policy initiatives and also to reclassify some expenditure. The main changes are:

- significant increases in health, education, correctional services and police outlays in 1997-98 and 1998-99 as a result of demand pressures;
- an additional $28M of cash has been allocated in 1998-99 and future years for repairs and maintenance; and
- the project management costs associated with capital and minor new works have been transferred from recurrent to capital.

Also of relevance is the one-off expenditure in 1997-98 and 1998-99 which totals $85M as a result of the Katherine region floods.

The strategy has also been updated so that it is more contemporaneous. References to 1992-93 have been removed, as with the passage of time and change in interest rates, the reference is no longer of significance. References to debt and interest payments have been consolidated into two elements.

The following chapter comprehensively reviews fiscal performance against the strategy and targets, discusses changes to the strategy and any significant policy changes of relevance.

- ***Current expenditure per capita will not increase in real terms.***

This element of the strategy is unchanged. However, changes in current expenditure need to be considered from year to year and over time.

Current expenditure growth can fluctuate from year to year for non-policy related reasons. A number of factors can cause these fluctuations including:

- natural one-off disasters, such as the Katherine region floods;
- expenditure which is budgeted for one year but actually occurs in the following year;
- payment of tied Commonwealth grants fluctuating between years and also affecting the transfer from one year to the next; and
- variations in the Commonwealth payments the Territory receives for on-passing to other bodies, such as local government councils, the university and non-government agencies.

There can be greater demand for services, or the cost of services can rise at a rate above the general inflation rate. For example, both of these factors apply to health outlays where there has been a move to greater use of the public hospital system as a result of reduced private health insurance and unit costs are increasing faster than the Consumer Price Index.

Even if there are policy changes which increase current outlays in a particular year, the key issue in relating that to the strategy is what is happening over time. Obviously, the point can be reached where the time frame for considering the achievement or otherwise of the strategy is meaningless, but the fundamental purpose of the fiscal target is to ensure the trend in outlays is sustainable over time.

Figure 1.1 compares the growth in current expenditure on a year on year basis and averaged over three years.

Figure 1.1

ELEMENT 1: CURRENT EXPENDITURE GROWTH

	1997-98 Estimate	1998-99 Budget
	%	%
Year on Year		
Current Expenditure Growth	8.5	-1.0
Current Expenditure Growth (excluding Katherine)	6.7	0.4
Combined Population and CPI growth	*2.4*	*3.7*
Average over 3 years		
Current Expenditure Growth	6.4	4.4
Current Expenditure Growth (excluding Katherine)	5.8	4.3
Combined Population and CPI growth	*4.6*	*3.4*

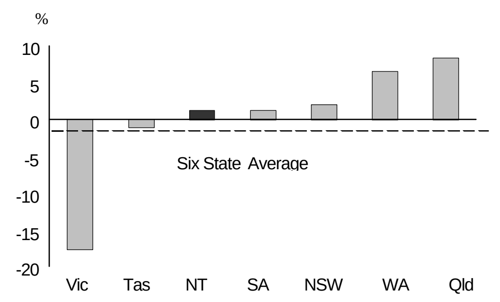
In 1998-99, current expenditure is expected to decrease by 1.0 %, well below the estimated combined rate of inflation and population growth of 3.7%.

The estimate, for 1997-98 is 8.5% on a year on year basis or 6.4% if averaged over time. Both are above target. However, if the current expenditure relating to the Katherine region floods is excluded, the current expenditure growth drops to 6.7% or 5.8% if averaged over three years.

Figure 1.2

GROWTH IN REAL PER CAPITA CURRENT EXPENDITURE

1992-93 TO 1997-98



Source: Government *Financial Estimates,* ABS Cat. No.5501.0; and Northern Territory Treasury.

While these are also both higher than the strategy targets for 1997-98, the reduction in expenditure in 1998-99 reinforces the importance of considering this element over time.

Thus, while the objective is for current expenditure to remain within the real per capita limit over time, year on year fluctuations are to be expected.

While other jurisdictions do not have identical strategies in place, it is instructive to compare growth in current expenditure in the Territory with the outcomes for the other States. Figure 1.2 highlights that for the period from 1992-93 to 1997-98, the Territory's increase in current expenditure relative to the other jurisdictions is close to the average experience of the States.

Figure 1.3

ELEMENT 2: INFRASTRUCTURE

	1997-98 Estimate	1998-99 Budget
	$M	$M
Gross Fixed Capital Expenditure	292	239
Repairs and Maintenance	92	120
Total	**384**	**358**

- ***Infrastructure will be maintained at levels sufficient to meet the Territory's economic and social needs.***

This element of the strategy has been broadened slightly to include the maintenance as well as the provision of capital assets. There are no quantitative targets as capital expenditure is generally 'lumpy', varying in accordance with major projects. The additional increase for maintenance can be seen in Figure 1.3 and largely offsets the decline in capital expenditure. Figure 1.3 excludes the one-off additional maintenance expenditure associated with the Katherine region floods.

The strategy has been met in 1997-98 and 1998-99.

- ***The Territory's own-source revenue effort will be broadly comparable to the States.***

Again, this element of the strategy has been revised to provide a band within which the target is to be measured. The previous target had an upper limit but no lower limit. The new target is therefore somewhat less prescriptive but more realistic with the same essential commitment to making a State-like revenue effort remaining. Figure 1.4 reflects own-source revenue excluding and including revenue replacement payments to illustrate the effect that the High Court's decision on business franchise fees had on the Territory's capacity to raise revenue compared with the States.

Figure 1.4

ELEMENT 3: OWN-SOURCE REVENUE

	1997-98 Estimate	1998-99 Budget
	$ per capita	$ per capita
Excluding revenue replacement payments		
Total Territory Revenue	1 867	1 880
Six States Revenue	2 226	n.a.
Including revenue replacement payments		
Total Territory Revenue	2 329	2 420
Six States Revenue	2 449	n.a.

As discussed throughout this Budget Paper, revenue replacement payments result from the High Court's decision in August 1997 which invalidated State and Territory business franchise fees. The Commonwealth agreed to extend its own excise and wholesale tax arrangements and to return to States and Territories, revenue roughly equivalent to that which had been lost. There is a difference of view as to whether these payments should be classified as Commonwealth grants or own-source revenue and this is discussed elsewhere.

However, the effect of their removal from own source revenue can be seen clearly in Figure 1.4 where the Territory's actual per capita revenue declines significantly when the revenue replacement payments are excluded, but is on par with the States when they are included as own-source revenue. The Territory has lost $462 per capita, more than double the States in own-source revenue.

The reason for this large difference is that the Territory's revenue capacity in the three business franchise fees was about 1.5 times that of the States, and the Territory's revenue effort was also higher than the States. Thus the extent of the Territory's own-source revenue loss is significantly greater than for the States.

A wide-ranging comparison of different tax rates and charges for the Territory and the States is contained in Chapter 10 which confirms that, on the whole, Territorians are subject to similar rates of taxes and charges to their interstate counterparts.

The Commonwealth Grants Commission data does not cover all revenue sources but also confirms that the Territory's effort is broadly comparable to the States.

- ***Debt as a proportion of economic output will continue to decline.***

This strategy consolidates two of the previous elements which stated "that the increase in Territory debt in any year will be no higher than 5% of total expenditure" and that "new borrowings will only be undertaken where there is sufficient return to meet debt servicing costs". The Territory has had no difficulty achieving the old targets since 1991-92 and it is appropriate that a more contemporaneous target be adopted.

Figure 1.5

ELEMENT 4: DEBT

	1997-98 Estimate	1998-99 Budget
	%	%
Northern Territory gross debt to GSP	35.4	33.1

The Territory is actively seeking to reduce the level of gross debt to below $2B by the end of 1997-98 and a further debt reduction program will commence in 1998-99. The Territory is within the new strategy, as shown in Figure 1.5.

- ***Debt servicing as a proportion of total Territory revenue and Commonwealth grants will be broadly comparable to the States.***

This element is similar to the previous strategy concerning interest payments as a proportion of total revenue.

Figure 1.6

ELEMENT 5: DEBT SERVICING

	1997-98 Estimate	1998-99 Budget
Gross Interest Paid ($M)	184	178
Total Revenue and Commonwealth Grants ($M)	1 779	1 835
Ratio of Interest to Revenue and Grants	10.3%	9.7%
Six State Average (est)	10.6%	n.a.

The Territory's debt servicing costs continue to decline, as shown in Figure 1.6. Interest payments in 1997-98 have declined $11M from 1996-97 and a further $6.9M in 1998-99, a result of the Territory Government's decision to significantly reduce gross debt. In 1997-98, the Territory's debt servicing ratio is slightly below the States.

However, the position of the States has declined sharply over time. In 1995-96 the six State debt servicing average was 14.3% which has declined over the two years to 10.6%.

The decline in the States' ratio reflects a number of factors:

- the large asset sales in a number of States, especially Victoria, from which the proceeds have been used to retire debt;
- the refinancing of existing debt at lower interest rates. Most States do not issue debt for longer than ten years, which means that debt is turned over relatively frequently and interest rates have been trending down in recent years; and
- economies of scale available to the larger States in more actively managing their debt.

In recent years there has also been an emerging trend for the larger States to encourage substantial private sector involvement in areas that have traditionally been the preserve of State governments (for example, electricity generation and roads). This practice essentially removes significant items of economic infrastructure off States' budgets entirely. While this trend is likely to continue, the Territory has less opportunity to follow similar options due to the relatively small local economy. Hence the States ratio of interest paid to total revenue is likely to be understated and adjustment to the States data may be required to make meaningful comparisons.

However, as with all elements of the fiscal strategy, they are meant as a trigger for further analysis should there be significant deviations from the targets rather than simply a mechanical calculation of whether or not the targets have been achieved.

FISCAL STRATEGY PROVISOS

The core strategy and fiscal targets are also subject to the following three provisos.

- ***In any given year, the percentage change in Commonwealth grants to the Northern Territory should not be significantly less favourable to the change for the States.***

This is unchanged from the previous strategy.

Figure 1.7

PROVISO 1: COMMONWEALTH GRANTS

Change in Grants	1997-98 Estimate	1998-99 Budget
	%	%
With revenue replacement payments:		
Northern Territory	12.0	3.3
Six State Average (est)	15.9	n.a.
Without revenue replacement payments:		
Northern Territory	5.2	2.3
Six State Average (est)	-0.7	n.a.

Growth in Commonwealth grants to the Northern Territory and the States in 1997-98 appears to be high because of the inclusion of revenue replacement payments. When these payments are excluded, the change in grants drops to 5.2% for the Northern Territory and –0.7% for the States. In 1998-99 the Territory will receive in increase in grants of 3.3%. Commonwealth grants include payments under the Natural Disaster Relief Arrangements in respect of the Katherine floods.

- ***The Territory should receive adequate discretion in the application of funds to priorities determined by Territorians.***

Figure 1.8

PROVISO 2: SPECIFIC PURPOSE GRANTS TO TOTAL GRANTS

	1997-98 Estimate	1998-99 Budget
	%	%
Ratio of Specific Purpose to Total Grants	17.0	16.0

This is unchanged from the previous strategy.

The ratio of specific purpose to general payments is expected to decline in 1998-99, not through a reclassification from specific to general purpose, but rather because of an absolute decline in the amount of specific purpose payments.

- ***Assessment against the targets should exclude the budgetary impact of major one-off events, such as natural disasters.***

This proviso is a new addition from last year. It has been included in the strategy because of the significant effect the Katherine region floods had on the 1997-98 figures and to a lesser extent the 1998-99 Budget.

Chapter 2

FINANCIAL IMPLICATIONS OF STATEHOOD

Since Self-Government, the financial arrangements of the Northern Territory have been modelled on those of the States.

The Territory now possesses largely the same expenditure responsibilities and revenue powers as the States and is treated as a State in its financial relations with the Commonwealth.

Consequently Statehood will have virtually no impact on the Territory's existing financial arrangements.

There are, however, a limited number of areas of responsibility that may be transferred with a grant of Statehood. If this eventuates some adjustments will be required through the fiscal equalisation process. This will affect the categories of revenue and expenditure but the effect on overall financial capacity will be minimal.

HISTORY

Prior to Self-Government in 1978, the Territory was administered by the Commonwealth which had assumed control from South Australia in 1911.

The majority of government services were performed by the Commonwealth Department of the Northern Territory with a few exceptions, such as health and education, which were the responsibility of the respective Commonwealth agencies.

On 1 July 1978, most State-like expenditure responsibilities and revenue raising powers were transferred to the Northern Territory Assembly. Health transferred on 1 January 1979 and Education and Electricity transferred on 1 July 1979. A few powers, such as the ownership of and control over uranium, were not transferred.

Self-Government required the establishment of the Northern Territory Public Service to assume responsibility for the provision of government services. It was also necessary to determine the funding arrangements for the Territory including borrowing powers and the receipt of grants from the Commonwealth.

A Memorandum of Understanding set out the financial arrangements that were to apply between the Commonwealth and the Territory. It stated that these arrangements were to be modelled on those that applied between the Commonwealth and the States, although there was to be a transitional period.

In the years after Self-Government, this involved a set of parallel arrangements to those of the States. However, since 1992 the Territory has been fully integrated into the State arrangements.

DIFFERENCES BETWEEN THE STATES AND THE NORTHERN TERRITORY

The Territory is largely treated as a State with respect to its relations with the Commonwealth. This includes attendance at intergovernmental forums such as the Premiers' Conference and the Council of Australian Governments, and full membership of the Loan Council.

The Territory also has the same borrowing powers as the States and is assessed on the same basis as the States in the distribution of Commonwealth grants. These come in the form of untied grants, where States and Territories have complete discretion as to how they are spent, and tied grants which have conditions attached. A more detailed discussion of this matters can be found later in the chapter.

Despite these similarities, the structure , but not the basis, of the Territory finances is very different from those of the States. This is due to influences on the cost of service delivery in the Territory which result in it receiving a higher level of grants than the States on a per capita basis.

One of the most significant influences is the small population of the Territory. This means that the Territory is less able to realise the economies of scale in service delivery that are available to larger States. The costs of many areas of public administration are also fixed, regardless of population size, which results in a greater per capita expenditure burden in the Territory.

The isolation from southern centres and the dispersed nature of the Territory population also increases costs. In addition to freight and travel expenses there is a need to provide services at a less than economical size in remote areas.

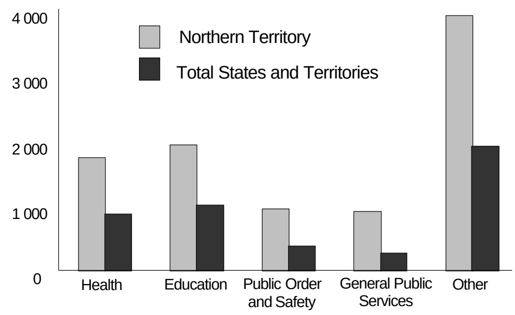
Another feature of the Territory is its social composition which results in greater demand for government services than is experienced in other jurisdictions.

The Commonwealth Grants Commission (CGC) assesses that it costs, on average, 2.7 times more per capita to provide the same services in the Territory as in other jurisdictions.

The effect of these cost influences can be seen in Figure 2.1 which shows per capita expenditures in the Territory and all States and Territories on selected purposes.

Figure 2.1

PER CAPITA COMPARISON OF EXPENDITURE



Source: *Government Financial Estimates*, ABS Cat. No. 5501.0 and Northern Territory Treasury.

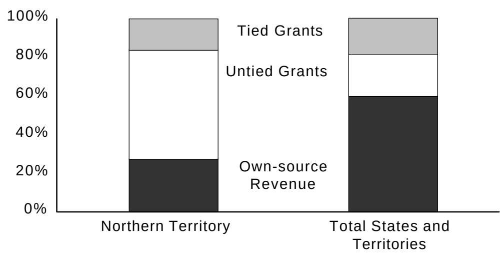
On the revenue side the Territory is assessed as being able to raise slightly more per capita than the average of the States. This is largely due to a higher capacity to extract revenue from mining and petroleum, liquor and tobacco franchise fees, offset by lower capacities in relation to stamp duties and financial transaction taxes.

The Territory's assessed capacity relative to the Australian average is likely to fall after the High Court's decision in August 1997 which effectively removed the States and Territories' ability to levy franchise fees.

The Territory's revenue capacity does not cover the additional costs in the Territory, hence the need for a higher level of Commonwealth grants in order to provide standard government services. Figure 2.2 shows the funding profile of the Territory compared with that of the combined States and Territories.

Figure 2.2

COMPARISON OF REVENUE SOURCES



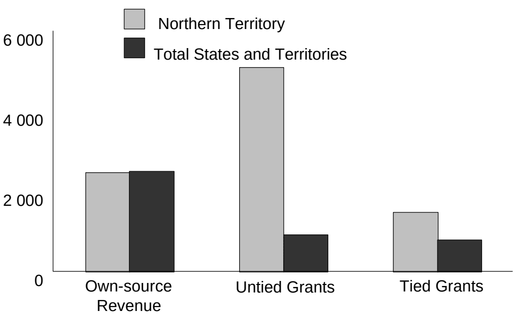
Source: *Government Financial Estimates*, ABS Cat. No. 5501.0, 1998 Commonwealth Offer document and Northern Territory Treasury.

The level of untied Commonwealth grants represents a much larger share of Territory funding at 56%, compared to 22% in the States. However, tied grants represent approximately the same proportion of total funding in the Territory and in the States Territories (16% and 19% respectively).

The smaller share of own-source revenue shown in Figure 2.2 is not a reflection of the Territory's effort in collecting taxes. As indicated above it is a result of the high cost of delivering government services and hence the need for a high level of Commonwealth grants.

Figure 2.3

PER CAPITA COMPARISON OF REVENUE SOURCES



Source: *Government Financial Estimates*, ABS Cat. No. 5501.0, 1998 Commonwealth Offer document and Northern Territory Treasury.

Figure 2.3 shows that the Territory collects approximately the same own-source revenue per capita as the Australian average. A comparison of Territory taxes and charges with the other States can be found in Chapter 10.

Over time as the Territory population grows and the economy broadens the cost disadvantages would be expected to decline.

The remainder of this chapter briefly outlines the present financial arrangements of the Territory and the extent to which they would be affected by Statehood.

COMMONWEALTH GRANTS

As described in Chapter 3, a feature of the Australian federation is vertical fiscal imbalance caused by an inequality of expenditure responsibilities and revenue powers between the levels of government. This results in the Commonwealth making a large transfer of funds to the States and Territories each year.

This transfer takes place in the form of untied grants of approximately $17B and tied grants of approximately $11B each year.

UNTIED GRANTS

The majority of untied grants are provided in the form of financial assistance grants. The size of the Pool of funds is agreed at the Premiers' Conference (although the Commonwealth has the most influence on this amount) and it is then distributed to each jurisdiction according to relativities prepared by the CGC.

The principle used by the CGC that underlies this distribution is that all jurisdictions should be given the capacity to provide an Australian average level of services on the assumption that each jurisdiction imposes a similar level of taxes and charges on their residents. This is known as the principle of horizontal fiscal equalisation.

Without fiscal equalisation there would be different classes of Australian citizens depending on the jurisdiction where an individual lived. Because of the higher cost of providing services as outlined above, the Northern Territory would have to levy higher taxes or provide lower standards of service if there were no fiscal equalisation.

When the cost and revenue influences are combined by the CGC to produce an estimate of the level of financial assistance grants required to provide State-like services, the Territory is assessed as requiring approximately five times the per capita grants received by the States. The next highest jurisdiction is Tasmania which requires about 1.5 times the average per capita share.

At the time of Territory Self-Government, similar arrangements to the present ones existed to distribute untied funds to the States. A grant was determined for the Territory which was akin to those of the States but separate from the State processes.

The Memorandum of Understanding also provided for the Territory to receive the higher of an additional grant of $20M or a special grant determined by the CGC.

The additional grant was to last for three years before being phased out over a further three years. The special grant was modelled on the State arrangements which permitted the States to make special claims for assistance over and above their usual entitlement.

The Territory applied for a special grant each year but for the first four years of Self-Government the additional grant was greater than the assessed special grant. In 1983-84 the Territory received the special grant but in 1984-85 the CGC assessment was that the Territory had been overfunded in previous years. The Commonwealth paid the last additional grant of $5M but also sought to recoup an amount of $12.6M for the so-called overfunding.

Despite the Territory withdrawing further applications for special grants, the Commonwealth instructed the CGC to continue with its reviews. This resulted in a further $14.4M being recouped by the Commonwealth in 1987-88.

This recouping of funding by the Commonwealth failed to recognise the cyclic nature of State and Territory finances. Because the CGC processes involve a lag of years between the year under assessment and when the assessment is done all jurisdictions are subject to significant positive and negative assessments of their financial requirements due to timing issues alone. However, only in respect of the Northern Territory has the Commonwealth determined to make negative adjustments to a current year’s grant for previous ‘overfunding’.

The security that the Memorandum of Understanding had provided had been ignored and was replaced by a general desire to move Territory funding to a more State-like basis.

Consistent with this, the CGC was required to report on the effect of including the Northern Territory in the States’ tax sharing pool in 1985. The CGC concluded that it would not be appropriate for the Territory to be included in the States’ tax sharing arrangements until such time as financial arrangements between the Territory and the Commonwealth were brought more into line with those applying between the Commonwealth and the States.

At the 1985 Premiers' Conference the Commonwealth expressed its preference for the Northern Territory to be included in the States arrangements from 1988-89 onwards, and instituted a series of changes which would assimilate the arrangements by that time. In the meantime, the Territory's general revenue grant, was determined on the same basis as, but separate from, the States.

The major changes that occurred in this period, some with only minimal consultation with the Territory, were as follows:

- some amounts for debt charges and health were absorbed into the general revenue grant and some amounts for road maintenance and public works supervision were transferred into the general purpose capital payments;
- a final payment was made for accrued recreation leave and furlough (long service leave) entitlements of officers who had transferred from the Commonwealth Public Service to the Northern Territory Public Service. These had previously been funded by the Commonwealth on an emerging cost basis;
- the Northern Territory Government and Public Authorities Superannuation Scheme was established in 1986. New employees of the Northern Territory Public Service no longer joined the Commonwealth Superannuation Scheme and existing members were encouraged to transfer. Even though this move involved a shift of liabilities from the Commonwealth to the Territory there was no compensation paid; and
- fiscal restraint by the Commonwealth saw large reductions in the level of general capital-purpose assistance to the Territory (a decline of 48.9% from 1985-86 to 1988-89) and the States.

In 1988-89 the Territory was included in the State financial assistance grants pool. However, the level of funding determined for the Territory was significantly below that which it had been receiving. It was agreed that special revenue assistance would be paid to the Territory to ease the transition to the new lower levels of funding.

In 1989 a review of Northern Territory fiscal disabilities was accepted by the Commonwealth and a supplementary financial arrangement was instituted which included the payment of special revenue assistance, a declining electricity subsidy and a write-off of some debt transferred at Self-Government. After 1993 (the next major CGC review) special revenue assistance was provided to a number of jurisdictions for various reasons. It was no longer the vehicle solely for providing additional assistance to the Northern Territory.

Accordingly, in the area of untied grants the Territory is now treated as a State with no special consideration of its constitutional status.

TIED GRANTS

The allocation of tied grants is in accordance with the Commonwealth's national policy objectives and is independent of the constitutional status of the jurisdiction receiving the funding. Consequently, there would be no change in these arrangements upon the Territory achieving Statehood.

REVENUE

Except for areas discussed under Other Matters below, the Territory has had full State taxing powers since Self-Government.

Accordingly, there is no reason why the Territory's policy on taxes and charges would be affected by Statehood.

TERRITORY BORROWINGS

The other major component of Territory funding is borrowings by the Territory in accordance with Loan Council arrangements. The Loan Council was established in 1923 and has the role of coordinating public sector borrowings under voluntary arrangements.

At the time of Self-Government, the Commonwealth had a program of borrowing on behalf of the States and providing general purpose capital assistance under the Loan Council program.

The Territory was not included within this program but had a separate program on similar terms. The Territory was not a member of Loan Council and only had observer status. In effect it was treated as a Commonwealth statutory authority such as Qantas.

It increasingly became apparent in the 1980s that this was an anomalous situation, particularly having regard to the obligations of the Territory to perform all the State type functions.

In 1992 a new financial agreement was reached which admitted the Northern Territory and the Australian Capital Territory as members of Loan Council. This required legislation to be enacted in all Australian parliaments and was therefore recognition by all governments that the Territory should be placed on equal footing with the States.

The financial agreement also removed the Commonwealth's power to borrow on behalf of the States and abolished some restrictions on the States' ability to borrow in their own name.

OTHER MATTERS

As mentioned previously, at the time of Self-Government not all State responsibilities and powers were transferred to the Northern Territory. Whether and to what extent the remaining powers and responsibilities may be transferred to the Territory with a grant of Statehood is yet to be determined.

In 1995, a Commonwealth and Northern Territory taskforce on economic and financial implications of Statehood for the Northern Territory identified four matters that may have a financial impact upon a grant of Statehood. A summary of these matters follows.

As a general comment any benefits or disadvantages that arise from differences in constitutional status are likely to be taken into account by the CGC when determining a jurisdiction's relativity.

Consequently, changes in the Territory's powers or responsibilities will result in a different assessment of needs by the CGC. For example, transfer of a power that increases revenue capacity will reduce the assessed need for Commonwealth grants. Total funding would remain more or less the same but the balance between own-source revenue and Commonwealth grants would change.

URANIUM MINING

Unlike in the States, the Commonwealth presently retains ownership and control over uranium resources in the Territory. Under this arrangement, the Commonwealth collects royalties on uranium mining and provides a grant in lieu of royalties to the Territory.

This grant is less than the amount the Territory would raise if it were able to levy average royalty rates applied in the States or under the Territory *Mineral Royalty Act*. The fiscal equalisation processes recognise this lower capacity to raise revenue by attributing a capacity equal to the amount received as payment in lieu of uranium royalties.

If control was handed to the Territory which resulted in greater revenue it would largely be offset as the increased capacity would be recognised by the CGC and the level of financial assistance from the Commonwealth would fall.

NATIONAL PARKS

The responsibility for national parks in the Territory (Kakadu and Uluru) presently rests with the Commonwealth, unlike in the States. A transfer of these parks with Statehood would require the Territory to take over the responsibility for the upkeep of the parks, but would also give it access to the revenue generated by the parks. On current conditions this would represent a net cost to the Territory. However, these costs would be recognised by the CGC and be at least partially offset by a change to the level of financial assistance.

ASHMORE AND CARTIER ISLAND TERRITORIES

The uninhabited territories of the Ashmore and Cartier Islands were deemed to be part of the Northern Territory prior to 1978. On Self-Government, the Commonwealth assumed responsibility for these territories although its legislation provided for the application of most Northern Territory laws to these territories.

If they were reincorporated into the Territory upon Statehood, there would be a small increase in administration costs but the Territory would also gain access to revenues flowing from the development of mineral and energy resources in the area.

ABORIGINAL LAND RIGHTS (NORTHERN TERRITORY) ACT 1976

Under section 63 of the *Aboriginal Land Rights (Northern Territory) Act 1976*, the Commonwealth is required to pay an amount into the Aboriginal Benefits Reserve (the Reserve). The amount paid is equivalent to the value of royalties received by the Commonwealth or Northern Territory in respect of all mining undertaken on Aboriginal land.

As the Commonwealth has retained control of uranium, the bulk of the royalties that it receives is paid into the Reserve. For operations where royalties are paid to the Territory, an amount equivalent to the royalties received by the Territory is paid by the Commonwealth into the Reserve.

For 1998-99 payments into the Reserve are estimated to be $33.5M.

The funds in the Reserve are distributed to benefit the Aboriginal people directly affected by mining operations, other Aboriginal groups in the Territory and to cover the administrative costs of the Northern Territory Land Councils.

If the Act was patriated to the Territory with Statehood, the arrangements by which the Commonwealth would continue to contribute to the Reserve would need to be reviewed to ensure that there was no adverse financial impact on the Territory.

Two options are for the Commonwealth to establish a new legislative basis for the payments or for the Territory to make the payments and be compensated through the fiscal equalisation process.

CONCLUSION

In conclusion, there is unlikely to be any significant budgetary effect of a grant of Statehood to the Territory.

The Territory attends Premiers' Conference on an equal footing with the States, it is a full member of Loan Council, and its grants are determined on the same basis as the States.

Decisions on all existing taxes and charges and expenditure responsibilities will be unaffected by Statehood.

While there are some areas where current arrangements between the Commonwealth and the Northern Territory differ from those between the Commonwealth and the States, the fiscal equalisation processes which operate in Australia mean there would be little change to the Territory's overall financial position.

RECENT FISCAL DEVELOPMENTS

Commonwealth financial assistance to the Northern Territory has increased by 20.6% in real terms over the period 1989-90 to 1997-98. This includes the revenue replacement payments made by the Commonwealth as a result of the High Court decision on business franchise fees. However, the Territory population has risen by 17% over this time resulting in only a slight increase in real assistance per capita.

Over the period 1989-90 to 1997-98, Territory own-source revenue has increased 6.8% and the States own-source revenue has increased 8.6%. Commonwealth grants to the Territory have increased by 3% on a per capita basis and 19.4% per capita for the States. The increase to the States is not a real increase in grants, but only the effect of on-passing revenue replacement payments. In 1998-99, Commonwealth grants per capita will be 2% higher for the Territory than in 1989-90 and total revenue is expected to remain constant in real terms. This reflects a slight decrease in Territory own-source revenue offset by an increase in Commonwealth grants.

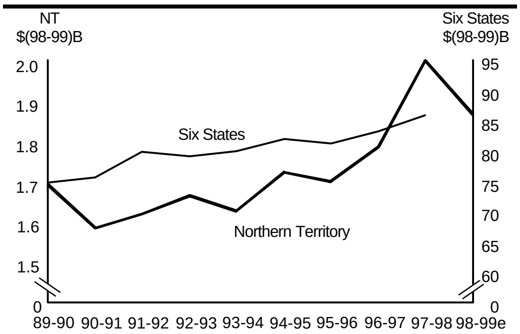
The scope of the data in this chapter has not changed substantially from last year even though the Australian Bureau of Statistics (ABS) has classified all universities as multi-jurisdictional. There is some doubt about the accuracy of the data and its comparability over time. Accordingly, the data in this chapter continues to include universities as part of State and Territory expenditure.

EXPENDITURE

Between 1989-90 and 1997-98, total expenditure by the Territory increased by 18.2%, whereas total expenditure by the States increased by 14.8%. As shown in Figure 3.1, Territory expenditure is expected to decrease significantly in 1998-99 after high expenditure in 1997-98, predominantly resulting from reduced final consumption and capital expenditure, and a drop in interest payments.

Figure 3.1

TOTAL EXPENDITURE



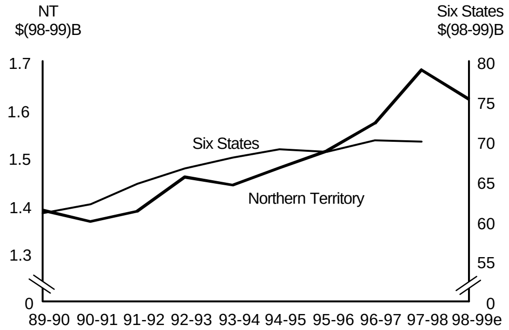
Source: *Government Financial Estimates,* ABS Cat. No.5501.0; and Northern Territory Treasury.

Total expenditure by the public sector (shown in Figure 3.1) can be divided into two major categories: current expenditure and capital expenditure. Current expenditure includes all running costs of government programs, with the major component being personnel costs (Figure 3.2). Capital expenditure encompasses outlays for capital equipment and public works (Figure 3.3).

Over the period 1989-90 to 1997-98, current expenditure of the Territory public sector increased by 21.1%, whereas the current expenditure of the States increased by 14.7%. Current expenditure in the Territory is expected to total $1.6B in 1998-99, which is a significant decrease from 1997-98. This follows substantial real increases during the two years since 1995-96 due to demand increases in health, correctional services and in particular the impact of the Katherine region floods in 1997-98.

Figure 3.2

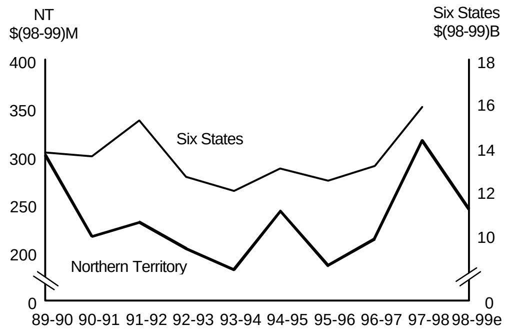
CURRENT EXPENDITURE



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

Figure 3.3

CAPITAL EXPENDITURE



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

Capital expenditure has borne the bulk of budgetary restraint over the period from 1989-90 although there has been significant increases in some years. Territory capital expenditure has increased only 4.7% compared with a rise of 15.1% in the States. The modest growth in Territory Government capital expenditure has been offset by strong Commonwealth and private sector expenditure. In 1998-99 there is an expected 22.6% decrease in real capital expenditure after an abnormally large capital works program in 1997-98.

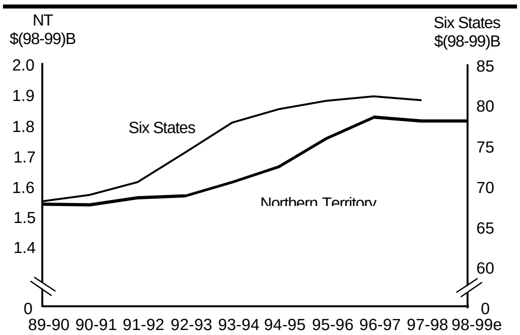
REVENUE

Revenue received by the States and Territories is comprised of two major components:

- own-source revenue which consists of taxes, charges and royalties levied by each jurisdiction; and
- grants from the Commonwealth.

Figure 3.4

TOTAL REVENUE



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

Due to the vertical fiscal imbalance which exists between the two tiers of government, State and Territory own-source revenues are supplemented by financial assistance grants from the Commonwealth.

Between 1989-90 and 1997-98, total revenue for the Northern Territory public sector rose by 17.7%, as shown in Figure 3.4. Over the same period, the total revenue of the States rose by 18.3%. The variation is partly explained by the differential impact of

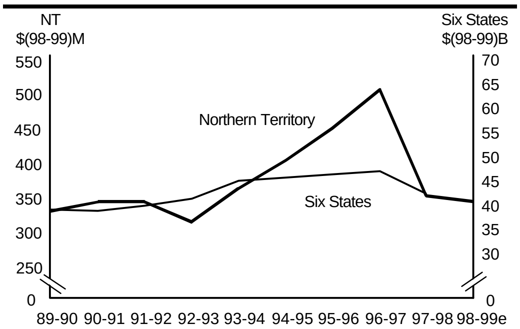
Commonwealth funding decisions, and partly by the fact that the Territory has a limited base from which to raise revenue, despite continued economic and population growth over the period.

TERRITORY REVENUE

Due to the High Court decision on business franchise fees which resulted in a loss of approximately one-third of the Territory's own-source revenue, a rise of 6.8% only has been recorded between 1989-90 and 1997-98 (Figure 3.5). During the same period the States raised their revenue collections by only 8.6%. If the revenue replacement payments were included as own-source revenue, revenue growth over the period 1989-90 to 1997-98 would be 34.5% for the Territory and 21.6% for the States. This comparison illustrates the extent to which business franchise fees have contributed to greater Territory own-source revenue growth compared with the States and the relative disadvantage of the Territory from their loss.

Figure 3.5

OWN-SOURCE REVENUE

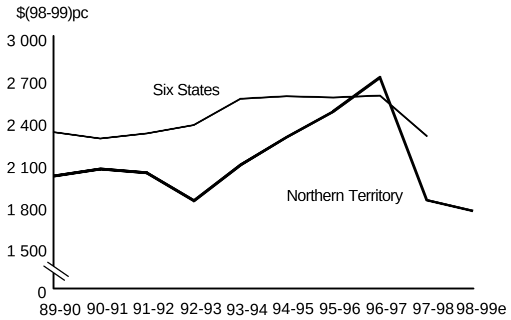


Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

Figure 3.6 shows that over the past decade the Territory's revenue per capita has approached the level of the States up to 1996-97 but has sharply decreased in 1997-98 and 1998-99 due to the loss of business franchise fee revenue. Territory own-source revenue per capita is budgeted to decrease by 4% in 1998-99, after an abnormally high value of stamp duty transactions in 1997-98. This highlights the influence of a small revenue base where single transactions or changes in taxes can dramatically affect the per capita revenue raised, leading to greater variability in receipts than experienced by other jurisdictions.

Figure 3.6

OWN-SOURCE REVENUE PER CAPITA



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

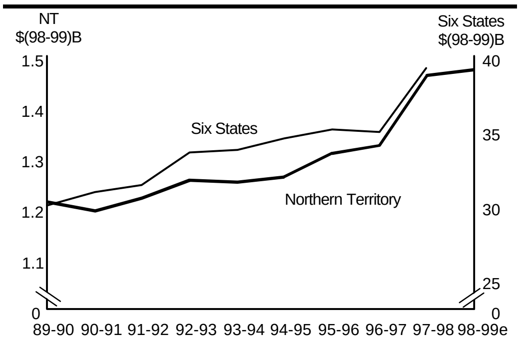
COMMONWEALTH GRANTS

During the mid to late 1980s the Territory experienced large reductions in the level of assistance from the Commonwealth. Since 1991-92 the amount of grants has increased, but at a lower rate than the States. The overall increase between 1989-90 and 1997-98 was 20.6% for the Territory compared with 30.9% for the States. An increase of 0.7% in the real level of assistance is expected for the Territory in 1998-99.

At the 1996 Premiers' Conference, it was agreed that the States and Territories would contribute $619M to the Commonwealth's deficit reduction program in 1996-97, $640M in 1997-98, and $300M in 1998-99. Tasmania and the Australian Capital Territory deferred half of their contribution from 1997-98 to 1998-99. The payment of fiscal contributions in 1998-99 by all jurisdictions was a matter of heated discussion prior to the adjournment of the 1998 Premiers' Conference. The Commonwealth expects that the last tranche of the payment will be made in 1998-99 although the situation with Tasmania and the Australian Capital Territory is unclear. In 1998-99 the Territory's contribution will be $3M.

Figure 3.7

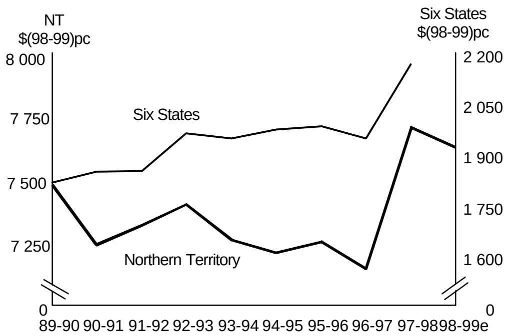
COMMONWEALTH GRANTS



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

Figure 3.8

COMMONWEALTH GRANTS PER CAPITA



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

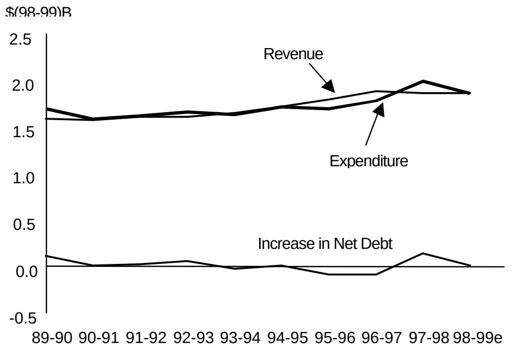
To account for the changes in the population of the Territory and the States, a comparison of Commonwealth grants per capita is useful (Figure 3.8). Over the period 1989-90 to 1997-98, Commonwealth grants per capita to the Territory have increased 3% in real terms, even with the revenue replacement payments treated as a Commonwealth grant. Over the same period Commonwealth grants per capita to the States increased by 19.4%.

The net effect of all these influences on expenditure and revenue is shown in Figure 3.9which also highlights the change in net debt over the period.

The underlying trends shown in Figure 3.9 are that expenditure and revenue are rising in real terms at a slow rate and there is little change in the annual increase in net debt.

Figure 3.9

NORTHERN TERRITORY BUDGET



Source: *Government Financial Estimates*, ABS Cat. No.5501.0; and Northern Territory Treasury.

GROSS AND NET DEBT

Debt is a necessary source of funding for governments. The Territory raises its debt through the Northern Territory Treasury Corporation which issues inscribed stock and other debt securities to domestic and offshore financial institutions and to the Australian public.

A three year debt reduction policy to reduce gross debt to below $2B by the end of 1998-99 had commenced in 1996-97. This policy was adopted in light of the relatively high levels of cash balances and the fact that interest earned on these cash balances is less than the interest paid on the borrowings.

However, a decision has been made to bring forward the reduction of gross debt so it will be below $2B by the end of 1997-98. A further debt reduction program will commence in 1998-99. It is planned to reduce debt levels by $10M in each of the first two years and $20M in 2000-01.

TERRITORY DEBT

At 30 June 1997, the Northern Territory public sector had a gross debt of $2 074M, offset by financial assets of $763M, leaving net debt of $1 311M. Borrowings, advances and cash balances are the key components of net debt.

It is expected that, at 30 June 1998, Northern Territory gross debt will have declined to $1 999M, offset by financial assets of $542M, leaving a net debt of $1 457M.

By 30 June 1999, Territory gross debt is expected to be $1 989M, offset by financial assets of $520M, leaving net debt at $1 469M.

This Government debt data is tabulated in Figure 3.10.

Figure 3.10

NORTHERN TERRITORY GOVERNMENT DEBT

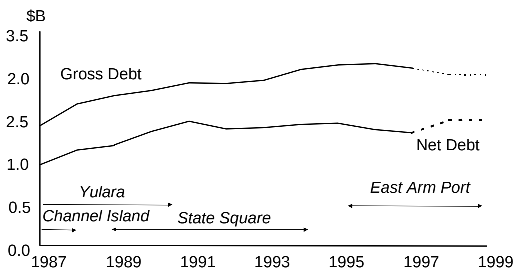
	Gross Debt	Financial Assets	Net Debt
	$M	$M	$M
As at 30 June 1997			
Consolidated Total	2 074	763	1 311
As at 30 June 1998			
Consolidated Total	1 999	542	1 457
As at 30 June 1999			
Consolidated Total	1 989	520	1 469

Source: *Public Sector Financial Assets and Liabilities*, ABS Cat. No. 5513.0; and Northern Territory Treasury.

Figure 3.11 shows the trend over time of Territory gross and net debt. It shows the growth associated with major projects such as the construction of Channel Island power station, the State Square project, Ayers Rock Resort, the provision of infrastructure at East Arm Port and the decision to reduce gross debt from 1996-97 onwards.

Figure 3.11

NORTHERN TERRITORY GROSS AND NET DEBT AS AT 30 JUNE



Source: *Public Sector Financial Assets and Liabilities*, ABS Cat. No. 5513.0; and Northern Territory Treasury.

INTERSTATE COMPARISONS

The 1998-99 financial year will result in a change in the Territory's gross and net debt position relative to the States. The comparisons below are based on published data. Comparisons for 1998-99 are not possible, as data for the six State average was unavailable at time of printing.

Composition of Comparative Budget Structure

The composition of public sector budgets varies from State to State. As shown in Figure 3.12, the structure of the Northern Territory budget is not dramatically different from that of the average of the States except for the ratio of Commonwealth grants to own-source revenue, where the Territory has a much higher reliance on Commonwealth revenue, due to its expenditure disability.

Figure 3.12

COMPARATIVE BUDGET STRUCTURES

	Northern Territory		Six State Average
	1997-98	1998-99	1997-98
	%	%	%
Total Expenditure	***100.0***	***100.0***	***100.0***
Current Expenditure	84.1	86.7	81.9
Capital Expenditure	15.9	13.3	18.1
Less			
Total Revenue	***92.4***	***99.3***	***94.5***
Territory Revenue	18.4	19.6	51.0
Commonwealth Grants	74.0	79.7	43.5
Equals			
Total Financing	***7.6***	***0.7***	***5.5***
Increase in Debt	-3.6	-0.5	1.5
Decrease in Financial Assets	11.2	1.2	-1.0
Use of Provisions	-	-	5.0

Source: *Government Financial Estimates*, Australia, ABS Cat. No.5501.0; and Northern Territory Treasury.

Comparison of Net Debt to Total Revenue

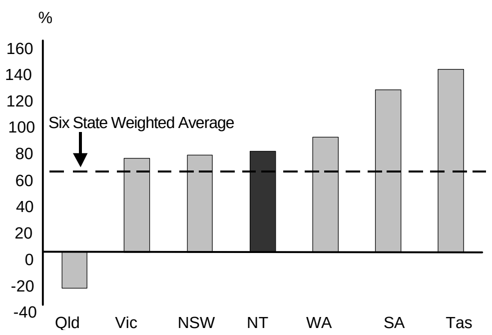
There is considerable diversity among jurisdictions in the ratio of net debt to total revenue**.** As at 30 June 1997, these ratios ranged from –27.3% in Queensland, up to 138.2% in Tasmania. The Northern Territory, at 76.2%, was above the weighted average for the States (61.0%). At 30 June 1998, the Territory's ratio is expected to increase to 83.3%.

There is considerable movement in the net debt position of some States as a consequence of active debt reduction policies. At 30 June 1995, Victoria's net debt as a proportion of total revenue was 189%, the highest of all jurisdictions, but at 30 June 1996 this had fallen dramatically to 116%. The figure for 30 June 1997 is lower again at 71%. This change alone had a significant effect on the six State weighted average which has decreased from 103.1% at 30 June 1995 to 76.7% at 30 June 1996 and 61% at 30 June 1997.

In 1995 the Territory was slightly below the six State weighted average whereas in 1997, it had moved to being above average, even though the ratio of net debt to revenue was decreasing. This demonstrates the influence of a large State like Victoria on interstate comparisons, and the difficulty that arises when considering interstate comparisons in isolation.

Figure 3.13

NET DEBT AS A PROPORTION OF TOTAL REVENUE 30 JUNE 1997



Source: *Government Financial Estimates, Australia*, ABS Cat. No. 5501.0; *Public Sector Financial Assets and Liabilities*, ABS Cat. No. 5513.0; and Northern Territory Treasury.

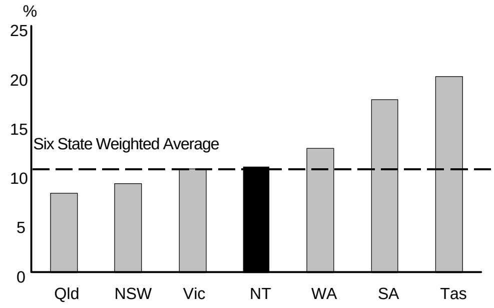
Comparison of Interest as Proportion of Total Revenue

A similar picture emerges when interest as a proportion of total revenue is compared. In 1995-96 the Territory ratio of interest to total revenue was 12.7%, well below the six State weighted average of 14.3%. By 1997-98, the Territory ratio had fallen to 10.6%, the same as the average of the States. The reduction in the States is due to the combined influences of a significant decrease in Victoria's interest payments and the increasing use of off-Budget financing techniques by the larger jurisdictions. It further highlights the difficulties in making interstate comparisons.

The Territory's interest payments have been declining over recent years due to the combined influences of low levels of new borrowings, and the refinancing of maturing debt at lower rates of interest. In 1998-99, the Territory's interest payments are estimated to be $178M, down from $184M in 1997-98 implying a debt servicing ratio of 10%.

Figure 3.14

GROSS INTEREST PAYMENTS TO TOTAL REVENUE 1997-98



Source: *Government Financial Estimates*, ABS Cat. No. 5501.0; and Northern Territory Treasury.

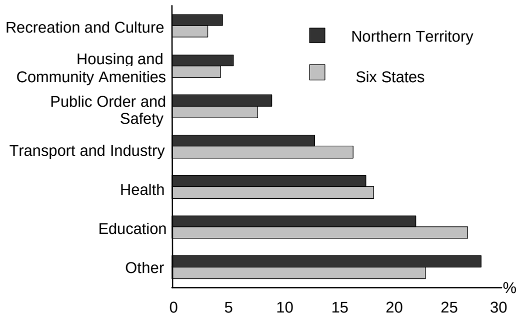
OUTLAYS BY GOVERNMENT PURPOSE

Figure 3.15 shows the breakdown of outlays into selected Government Purpose Classifications (GPC) as estimated by the ABS for 1997-98. The Other category includes general public services (which is the major component), social security and welfare, other economic affairs and other purposes. The transport and industry category includes the fuel and energy, agriculture, forestry, fishing and hunting, mining, manufacturing and construction and transport and communications classifications.

The GPC figures show that the proportion of Territory outlays in the main functional categories is comparable with that of the States in most areas. The Territory spends a larger proportion of its budget in the areas of recreation and culture, housing and community amenities, public order and safety, and other.

Figure 3.15

OUTLAYS BY PURPOSE AS A PROPORTION OF TOTAL OUTLAYS – 1997-98



Source: *Government Financial Estimates*, ABS Cat. No.5501.0.

The differences between the Territory and the States can be explained partly by examining the Commonwealth Grants Commission assessments. The Commission has identified a number of factors which significantly affect costs. While most of these factors, such as social composition, apply across most government functions and influence the level of total outlays, the scale factor significantly affects those areas where there is a high component of policy and head office functions as reflected in the Other category of Figure 3.15. The effect of the scale factor is sufficient to alter the proportions of expenditure between the main functional components when compared with the States distribution.

In the large service delivery areas of health and education, Territory outlays per capita are higher than for the States. Education, where the services provided are roughly comparable to the States, the proportion of total outlays spent on this function is slightly lower than the States.

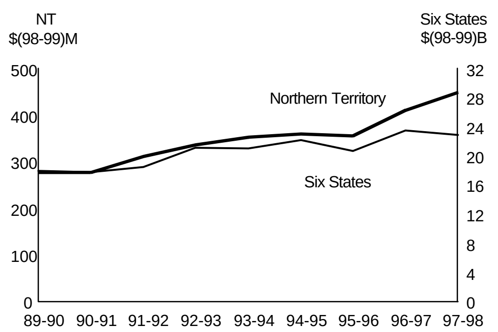
Within the health category, however, the situation is different because in key areas, the services provided in the Territory are not comparable with the States. The almost complete absence of any private medical services outside of the two main centres in the Territory, and the relative health status of the population in those areas, requires significant additional Territory expenditure in this category. However, even these additional resource requirements are not sufficient to offset completely the above average proportion of outlays allocated to the Other category.

Figure 3.16, Figure 3.17, Figure 3.18 and Figure 3.19 show outlays in real terms for selected categories over the years 1989-90 to 1997-98, and indicate that:

- the Territory's and States' spending on education has increased by 62.1% and 27.6% respectively. The Territory increase is consistent with the increase in student numbers over the period;

Figure 3.16

EDUCATION

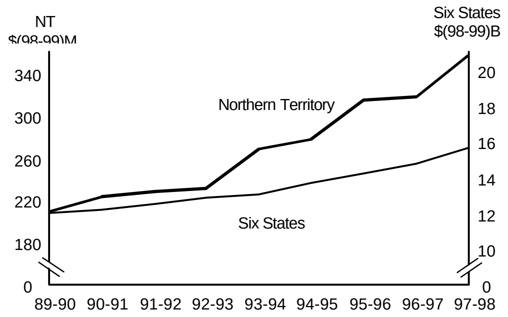


Source: *Government Financial Estimates*, ABS Cat. No.5501.0.

- health spending in the Territory has increased 70.3% over the period due to increased demand and expanded services to Aboriginal people, whereas health expenditure by the States has risen only 29.7% over the same period;

Figure 3.17

HEALTH

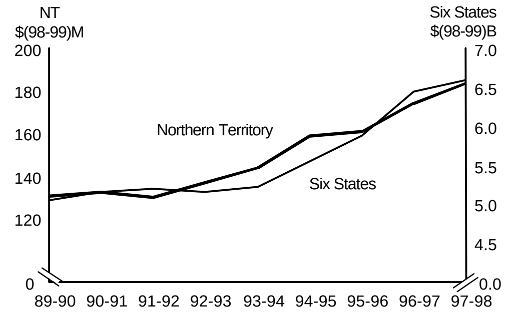


Source: *Government Financial Estimates*, ABS Cat. No.5501.0.

- Territory spending on public order and safety has increased 40.7% compared with 30.7% by the States; and

Figure 3.18

PUBLIC ORDER AND SAFETY

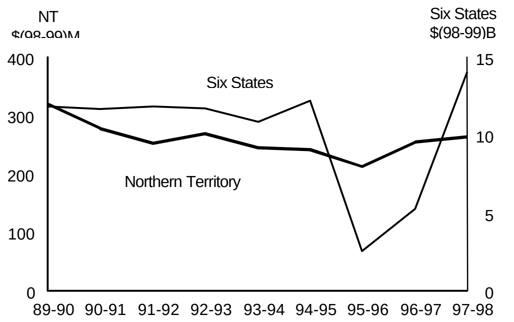


Source: *Government Financial Estimates*, ABS Cat. No.5501.0.

- spending on transport and industry has fallen 17.8% in the Territory and increased 18.4% in the States (the States' average in this area has been affected by the sale of public utilities by some states).

Figure 3.19

TRANSPORT AND INDUSTRY



Source: *Government Financial Estimates*, ABS Cat. No.5501.0.

Note: The sharp decline in 1995-96 outlays for the six states reflects asset sales, predominantly by Victoria's sales which were in the order of $10B.

APPENDIX

ANOMALIES IN THE DATA

The information in this chapter is sourced from the ABS Government Financial Estimates publication, released annually in November.

However, the Territory has some reservations over the accuracy of the data in respect of the new multi-jurisdictional sector and the treatment of a significant source of revenue.

Up until the latest publication, university data was included as part of States and Territories outlays. However, in 1997 the ABS reclassified universities to a new multi-jurisdictional sector. The latest ABS publication excludes university data from 1992-93 from individual State, Territory and Local Governments data.

As a result, in the 1997 ABS publication, adjustments have been made to States and Territories expenditure by:

- a reduction in total State and Territory expenditure by moving universities into the multi-jurisdictional sector; and
- a reduction in Commonwealth grants to States and Territories for grants to universities.

By comparing the 1997 and 1996 publication it is possible to identify the adjustments due to the changed treatment of universities.

Figure 3.20 details the changes to expenditure and Commonwealth grants from the transfer of the university data to the multi-jurisdictional sector.

Figure 3.20

ADJUSTMENTS TO STATE AND TERRITORY DATA

	Expenditure		Commonwealth Grants	
	NT	Six States	NT	Six States
	$M	$M	$M	$M
1992-93	-20.0	-2 705	-27.8	-1 733
1993-94	-38.7	-3 505	-32.0	-3 504
1994-95	-51.7	-3 880	-31.1	-3 807
1995-96	-52.5	-3 324	-32.8	-4 102
1996-97	-49.0	-5 917	-34.5	-3 808

Source: *Government Financial Estimates* 1996--97 and 1997-98, ABS Cat. No 5501.0,

The reduction in State expenditure from 1992-93 to 1996-97 varies from $2.7B to almost $6B. It does not seem plausible that expenditure for the States university sector would almost double in five years as the publication seems to suggest.

Similarly, the movement between years is questionable. The States expenditure in 1995-96 fell from $3.9B to $3.3B. However, in the same year, the adjustment for grants to universities fell $4.1B. If these adjustments are accepted as accurate, then it appears that in 1995–96, $800M more was received for universities in Commonwealth grants than was recorded as the expenditure on universities.

In 1992-93, the difference in Commonwealth grants between the two publications differ by $1.7B but for the following years, this increases from $3.5B to $4.1B which seems to suggest further anomalies in the data. The Territory has been attempting to validate these adjustments from other sources although more work is required.

The ABS data for the Territory in respect of universities contains errors in the treatment of transactions and backcasting. Current grants made to Northern Territory University from the Northern Territory Education and Training Authority had not been backcast beyond 1996-97. The ABS has been advised of the revision required for future publications.

The apparent inaccuracies in the ABS publication warrant closer attention and the Territory encourages the ABS to reconsider the way in which university data is backcast.

The other anomaly in the data is the treatment by the ABS of the Commonwealth revenue replacement payments which have been established following the High Court decision to render State and Territory business franchise fees invalid.

Even though States and Territories no longer have the power to levy this tax and the Commonwealth has extended its excise and wholesales tax arrangements to recover the lost revenue, the ABS has decided to treat these payments from the Commonwealth as State and Territory own-source revenue.

In the Territory's view, the ABS data published in 1997 is flawed as a result of these anomalies. Accordingly, the following analysis is based on adjusted data which does not remove university expenditure into the multi-jurisdictional sector and where Commonwealth revenue replacement payments are not treated as State and Territory own-source revenue. The scope is Uniform Presentation Framework as outlined in Chapter 10.

DEFINITIONS AND ASSUMPTIONS

Figures for the Territory 1997-98 Budget outcome and 1998-99 estimates are taken from latest available data under the Uniform Presentation Framework.

All data are expressed in 1998-99 dollars, calculated using the gross non-farm price deflator from the ABS for years up to 1996-97 and a derived deflator using the parameters in the *National Fiscal Outlook 1998* for 1997 and 1998. All data for 1997-98 and 1998-99 are estimates.

Other adjustments have been made to the ABS format to conform to the Territory's preferred presentation, as outlined in Chapter 10. Policy lending has been treated as financing transactions, rather than as part of capital expenditure. (However, , Figure 3.17 and Figure 3.18 showing Government Purpose Classifications are based on the usual ABS concept of outlays.)

For similar reasons, discussion of Commonwealth assistance in this chapter dealt with Commonwealth grants only. This is because the remaining component of net Commonwealth payments and net advances received, are included as part of the total financing requirement of the Territory. Movements in the level of net advances are integral to the assessment of changes in debt for each jurisdiction.

Chapter 4

NATIONAL TAX ISSUES

During 1997 two tax issues emerged which had significant implications for the Territory.

The first of these was the High Court decision which found that New South Wales tobacco franchise fees were invalid under section 90 of the Australian Constitution. This decision cast doubt on the validity of all franchise fees levied by the States and Territories.

In order to maintain State and Territory revenues, the Commonwealth used its legislation to apply a State surcharge to the affected products, returning the revenue raised to the States and Territories.

The second issue concerned national tax reform. The States and Territories had initiated a process to review their own taxation arrangements with a view to improving the efficiency and operation of these taxes. In late 1997, the Prime Minister clearly placed national tax reform on the Commonwealth Government's agenda.

The Commonwealth announcement provided the opportunity for a comprehensive review of taxation arrangements at both levels of government, and specifically recognised the need to accommodate improved Commonwealth-State financial relations within that reform process.

THE HIGH COURT DECISION

On 5 August 1997, the High Court found that New South Wales tobacco franchise fees were invalid under section 90 of the Australian Constitution. While the decision only concerned New South Wales tobacco franchise fees, it created significant doubt as to the constitutional validity of business franchise fees on tobacco, fuel and liquor for all States and Territories. Consequently, the States and Territories determined that they should cease collecting all business franchise fees.

As a result of this decision, States and Territories faced an annual revenue shortfall in excess of $5B ($102M for the Northern Territory, including the liquor levy). There was also the possibility that refund claims for fees paid in the past could be made against the States and Territories as a result of the decision.

In order to protect the financial position of the States and Territories, the Commonwealth and States and Territories, agreed to implement a safety net package utilising the Commonwealth's tax powers to collect revenue previously raised by the States and Territories and introducing Commonwealth windfall gains tax legislation to protect the States and Territories from refund claims for previously paid business franchise fees.

Under the safety net arrangements, the Commonwealth increased the rates of excise (for petroleum and tobacco) and wholesale sales tax (for liquor) sufficiently to raise the equivalent amount of revenue previously raised by the States and Territories business franchise fees. The additional revenue collected by the Commonwealth is returned to the States and Territories as revenue replacement payments, and distributed between the States and Territories based on the Commonwealth Grants Commission's relativities for each product.

At the time of negotiating the safety net arrangements, all jurisdictions agreed that the effectiveness and ongoing appropriateness of the arrangements would be reviewed within six months.

States and Territories have, or will, repeal the relevant sections of their business franchise fee Acts, with effect from the dates at which the increases in Commonwealth excise and wholesale sales tax were imposed, on each of the affected products. Steps are currently being taken to repeal the relevant sections of the Northern Territory's *Business Franchise Act*.

HOW THE SAFETY NET WORKS

Commonwealth tax rates on liquor, tobacco and petroleum, the same products as previously covered by business franchise fees, have been increased with effect from 6 August 1997 (Figure 4.1).

Figure 4.1

COMMONWEALTH TAX RATES

Product	Tax base	Surcharge
Petroleum	Excise/ customs	8.1 cents per litre
Tobacco	Excise/ customs	$2.65/kg plus 50.32% of final wholesale price[(a)]
Liquor	Wholesale sales tax	15% age points

(a) Apart from this 'hybrid' measure, companies may instead elect to pay excise and customs duty at the rate of $147.90/kg (where there are less than 1 200 cigarettes per kg) or $265.73/kg (where there are more than 1 200 cigarettes per kg).

The Commonwealth only retains sufficient revenue from the safety net to meet its administrative costs. All remaining revenue is returned to the States and Territories.

As the Constitution requires the Commonwealth to apply its taxes uniformly across Australia, the increases in excise and sales tax had to be the same in each State or Territory despite the fact that varying rates had applied between jurisdictions under the business franchise fee regime. One consequence of this limitation was that in some jurisdictions the uniform increases were higher than particular franchise fees they were replacing. This was necessary to avoid a loss of revenue for the jurisdiction with the highest rate of tax.

In order to minimise as far as possible any price effects of the changed arrangement, the States and Territories undertook to return any excess revenues (above that which would have previously been raised) to taxpayers.

Under this arrangement, priority was given to ensuring that petroleum, users (including off-road diesel users who previously qualified for rebates or exemptions from petroleum franchise fees) were not disadvantaged as a result of implementing the safety net. A consequence of this has been that for tobacco and, to a lesser extent liquor, some minor price increases have been unavoidable in some jurisdictions.

The Australian Competition and Consumer Commission will monitor the situation to ensure that no unwarranted price effects occur.

A windfall gains tax of 100% has been introduced by the Commonwealth, to protect State and Territory budgets against refund claims on past business franchise fee payments. This legislation seeks to ensure that the windfall gains tax does not give rise to double taxation.

Excise and customs rates are generally varied twice each year to account for movement in the Consumer Price Index (CPI). These variations usually occur each February and August. The CPI movement will also apply to the State surcharge component of the excise and customs rates on petroleum and tobacco.

HOW THE ARRANGEMENTS WORK IN THE NORTHERN TERRITORY

The Territory Government returns excess revenues collected by providing subsidies on petroleum products, and some liquor products. Subsidy arrangements have been established that involve the least possible inconvenience to Territory consumers.

Petroleum Products

Under the former business franchise fee regime, a fee of 7 cents per litre applied in the Territory on petroleum products purchased for retail sale in the Territory. Given that the State surcharge component was 8.1 cents per litre, subsidy arrangements have been implemented to provide a general subsidy of 1.1 cents per litre to wholesalers selling petroleum products in the Territory. In addition, consumers of off-road diesel continue to be eligible for a further direct subsidy of 2 cents per litre to mirror the former off-road diesel rebate.

As the subsidy arrangements effectively remove any impact from the higher surcharge, there is no reason why petrol prices to the majority of consumers should have been affected by the changed taxation arrangements.

Liquor

The increase in the Commonwealth sales tax rate on alcoholic beverages was not sufficient to replace the loss of the Territory licence fee and the liquor levy. For this reason, no subsidies are provided in respect of full strength liquor products. However, full strength liquor prices in the Territory should have fallen as a result of the lower overall tax rate applying to these products.

The impact of the new arrangements varied between products depending on the level of the previous tax rate. For example, the changed tax arrangements should have reduced full strength beer prices by 5%, whereas cask wine prices should have fallen by more than 20%.

Subsidies are provided by the Territory Government to licensed wholesalers to continue the previous low tax status of low strength alcohol so that low alcohol prices remain materially unaffected and below the price of full strength products.

In addition to the above general arrangements, further subsidies have been provided by the Territory Government to roadside inns and clubs on full strength and low strength alcohol products to restore, as far as feasible, the advantageous position they enjoyed due to their eligibility for concessional fee rates under the business franchise fee regime. The special subsidy will be restricted to roadside inns, which are not connected to mains power.

While the new tax rates do not recover sufficient revenue to replace the Territory's liquor levy, the States have agreed to compensate the Territory for most of the shortfall. This meant that the alcohol-related programs previously funded via the liquor levy, such as the Living with Alcohol program, are able to be maintained.

Tobacco

Following consultation with the tobacco industry, a surcharge was applied at a level which did not require subsidies to be returned to the industry by the States and Territories. Fundamentally this was possible because the franchise fee rate previously applying to tobacco was generally uniform amongst the States and Territories.

However, there were differences between the base used to calculate business franchise fees (the value of the product) and the base used by the Commonwealth in applying excise (the weight of product). Following industry representations concerning the impact this change may have had on different manufacturers, it was agreed in September 1997 to modify the surcharge arrangements to enable a hybrid system (part weight based, part value based) to be adopted.

As a consequence of the levels at which the replacement tax rates for the different products were set, the surcharge on tobacco is designed to raise additional revenues to fund shortfalls faced by some jurisdictions on petroleum or liquor. The additional revenues equate to an increase of approximately 5% in the overall tax take (or about 2 to 3% increase in prices).

SIX MONTH REVIEW

At the time of negotiating the safety net arrangements, all jurisdictions agreed that the effectiveness and ongoing appropriateness of the new arrangements would be reviewed within six months. While the review is yet to be finalised and recommendations considered by governments, there are two observations that can be made:

- based on collections to date, it appears that the safety net surcharge rates for petroleum, tobacco and liquor are set at appropriate levels to meet estimated ongoing revenue requirements (although some uncertainty remains because of seasonal patterns); and
- all States and Territories will suffer significant revenue shortfalls in 1997-98 due to the transition from the business franchise fee regime to the new arrangements.

REVENUE SHORTFALL IN 1997-98

All jurisdictions (including the Northern Territory) are expected to suffer a revenue shortfall in 1997-98 associated with the changed tax arrangements. The Territory's estimated shortfall for 1997-98 is $10M. This shortfall can be primarily attributed to:

- an initial tax-free period in the transition from the business franchise fee regime to the safety net arrangements. During this period franchise fees were imposed at the industry level but never remitted to governments. The losses in this period were also exacerbated by greater than normal stock clearances by tobacco companies; and
- the Territory receiving an inadequate share of fuel revenues under the safety net arrangements. The safety net revenues collected by the Commonwealth are distributed in accordance with set shares of revenue capacity determined by the Commonwealth Grants Commission, but the fuel subsidy schemes entered into by each jurisdiction provide subsidies to the petrol companies based on the actual sales within each jurisdiction.

  Unfortunately, the notional sales ascribed to the Territory by these set shares have been less than the actual sales by the fuel companies. This has occurred because some sales in the Territory were not previously captured by the Grants Commission. In addition, the Territory had an above average effective tax rate for petroleum products prior to 5 August 1997. However, the Grants Commission relativities used to distribute the revenue now collected by the Commonwealth are based on an average tax rate across jurisdictions.

  The net result of both these effects has been that the Territory has not received revenue, or has received less revenue than it would have previously collected, for all fuel sales made in the Territory. While the Territory has received less revenue, it has had to provide subsidies based on the level of actual sales, thus compounding this effect.

As part of the Six Month Review, the Territory is seeking a revision to the distribution arrangements so that the distribution of fuel revenues accords more closely with the actual economic activity in each jurisdiction (which was the basis for the former business franchise fee regime).

LOSS OF POLICY FLEXIBILITY

Under the new taxation arrangements, States and Territories rely on a Commonwealth tax base for the source of the replacement revenues. As a consequence of this change, the policy control and flexibility for such matters as the breadth of the tax base (including concessions and exemptions) the tax rate, the timing of collections and administration of the tax (including compliance activity) rest with the Commonwealth. For example, to change the rate of the State surcharge now requires the unanimous agreement of all the States and Territories, as well as Commonwealth agreement and legislative action. Under the previous business franchise fee regime, that policy control and flexibility rested with each State and Territory.

The major avenue for policy flexibility for States and Territories now rests with the design and administration of the subsidy schemes. In this regard, States and Territories can set the subsidy rate, the conditions for eligibility and the payment terms.

NATIONAL TAX REFORM

At the March 1997 Leaders' Forum meeting, State and Territory Leaders noted their concern regarding the national tax system, but acknowledged that their ability to undertake tax reform alone was limited by the inequitable allocation of tax powers between the Commonwealth and the States. Despite this limitation, and in the absence of national tax reform, Leaders resolved to review those taxes under their control, particularly financial taxes, in order to improve the efficiency and operation of those taxes where ever possible.

In August 1997, the Prime Minister made it clear that national taxation reform was on the national agenda when he announced the establishment of a task force to advise on taxation reform options that satisfied the following criteria:

- there should be no increase in the overall tax burden;
- any new taxation system should involve major reductions in personal income tax with special regard for the taxation treatment of families;
- consideration should be given to a broad based, indirect tax to replace some or all of the existing indirect taxes;
- there should be appropriate compensation for those deserving of special consideration; and
- reform of Commonwealth-State financial relations must be addressed.

The Federal Treasurer announced the establishment of a Backbench Taskforce to consider tax reform on 23 October 1997. State and Territory leaders considered tax reform in more detail at a Leaders Forum meeting on 31 October 1997. This was followed by a Special Premiers' Conference on tax reform on 6 November 1997.

At the Leaders' Forum meeting, the States and Territories agreed a number of principles to guide tax reform, including:

- there must be no increase in the overall tax burden;
- a new tax system must incorporate a reduction in personal income tax, to restore the incentives to work, save and invest;
- the tax burden on exports and business inputs must be reduced to boost investment, jobs and our international competitiveness;

- the States and Territories must have access to broad-based growth taxes to replace undesirable, ineffective, narrowly based taxes;
- the Commonwealth-State financial relationship must be reformed to reduce vertical fiscal imbalance and replace tied grants with untied funding; and
- that there be long term certainty and consistency in the taxation system.

These principles are consistent with those announced by the Prime Minister but reflect the additional concerns of the States and Territories regarding meaningful reductions in vertical fiscal imbalance and the associated requirement for access to a replacement tax base capable of providing certainty and growth into the future (discussed in more detail later in this chapter).

More recently there has been considerable debate in the media presenting different views on the possible nature of tax reform and the range of options available.

For the States and Territories, there are two broad issues concerning national tax reform. The first concerns the appropriateness of our existing taxation arrangements, both at the Federal and State level. The second relates to the financial relationship between the Commonwealth and the States.

While the first of these has gained much attention in the media and elsewhere, particularly the possible introduction of a broad based consumption tax, the second is of no less importance if a reformed tax system is to deliver to the people the services they require.

TAX CRITERIA

There are two key criteria that can be used to assess the worth of particular taxes. One is efficiency; the other is equity.

An efficient tax is one that delivers the desired level of revenue at least cost to government and tax payers and (importantly) without introducing artificial distortions into the economic decisions of consumers and investors.

An equitable tax is one that recognises the capacity of individuals to pay while treating people in similar circumstances equally.

Some taxes may not score highly against these two core criteria but nevertheless be highly desirable from the community’s point of view. For example, punitive taxes on tobacco and alcohol would generally not be highly equitable (since they are levied at high rates regardless of the consumer’s capacity to pay). However, the community as a whole may see these taxes as desirable due to the attendant social costs of consumption.

Despite these exceptions, efficiency and equity are useful criteria against which to assess individual taxes and the tax system as a whole.

TAX OPTIONS

Australia has a heavy reliance on income tax, with high marginal tax rates and growing numbers of taxpayers falling into higher marginal tax brackets. This creates a disincentive to work harder and increase earnings. The income tax system is also complex for both the Government to administer and for taxpayer compliance. Much of this complexity results from the very nature of the system itself and the heavy reliance placed on income tax to raise revenue, both of which encourage (nationally) unproductive avoidance effort.

While income tax is fairly progressive (those who can pay more do pay more) and therefore a reasonably equitable tax, it is not particularly efficient due to the complex nature of the tax and the high costs associated with administration and compliance.

More importantly, as only income is taxed, it discriminates against saving and in favour of consumption (since returns on saving are taxed but consumption is not). The low level of domestic savings has been identified in many studies as a particular concern for the nation. The consequence of a reduced pool of national savings is that greater reliance is placed on overseas financing (the savings of foreigners) to fund much investment in Australia.

While there will always be debate about whether this outcome is a critical economic issue, there is intuitive logic in the notion that reduced exposure to foreign economic influences should enhance national economic stability.

The most obvious step forward to address many of these shortcomings (and the one gaining most attention) would be the introduction of a broad based consumption tax.

A broad based consumption tax would rate very highly on efficiency grounds. Consumption taxes have relatively low administration costs (since they are difficult to avoid) and very low compliance costs.

On equity grounds the picture is less clear. To some extent the equity of a consumption tax would depend on what goods and services were excluded from the base. In this vein there has been much said about the merits of excluding food, health and education from the base. However, there is a clear trade-off in that the more items which are excluded from the base, the higher the consumption tax rate would have to be to raise the same amount of revenue.

This trade-off was specifically recognised in the submission from the Australian Food Council to the Federal Government Members' Taskforce on Taxation. In its submission the Food Council noted that removing food from a consumption tax base would have a positive effect on the price of food products but this would be offset to a significant degree by the higher rate that would have to be applied to remaining items. Thus, while such a move would appear on the face of it to advantage low income groups particularly, the reality was likely to be that this advantage was relatively small. At the same time, excluding some goods or services would significantly increase the administrative costs and hence reduce the overall efficiency of the system.

Moreover, the tax system is not necessarily the best means to address social inequities. While it would be hoped that a tax system would have strong equity characteristics, it is not necessary that the tax system address other social problems. At best an equitable tax system will not add to underlying social inequities. As identified by the Prime Minister, the tax reform process will also need to consider 'appropriate compensation, for those deserving of special consideration'. However, these issues are probably best addressed through the social welfare system (that is what it is designed for after all) rather than by tinkering with the tax system.

Introducing a broad based consumption tax would provide the means to reduce the reliance on income tax and more fairly share the tax burden between income and consumption. As savings are not taxed under a consumption tax, this move would also create a greater incentive to save. Since services are captured under a consumption tax, the tax burden would also be more evenly distributed between the goods producing sectors of the economy, which are subject to wholesale sales tax, and the rapidly growing services sector, which is largely outside the wholesale sales tax net.

There are other equally significant benefits that would come with the introduction of a broad based consumption tax. While the income tax system has some positive features, the same cannot be said for most indirect taxes. There are numerous inefficient indirect taxes at both the Commonwealth and State level that distort the everyday decisions of consumers and investors, and hinder the performance of industries, particularly export industries.

Indirect taxes are generally levied on narrow bases, at different rates on individual products, or a combination of both.

The problem that this creates is a problem of choice and decision making. Ideally, the tax regime should not influence decisions that are made. The economic outcomes in a world without taxes and the outcomes with taxes would be exactly the same.

While no tax system is likely to achieve this perfect outcome, indirect taxes applied at both the Commonwealth and State level create significant distortions in the economic decision making process. Indirect taxes (such as wholesale sales tax and financial transaction taxes) that are levied on narrow bases will influence decisions on the use of those items taxed, relative to those items that are untaxed. Taxes levied at different rates on certain products will influence the use of those products which are lightly taxed relative to those more highly taxed.

As a consequence, resources are likely to be misallocated across the economy in response to the distorted price signals being transmitted to consumers and investors. These effects will be felt differently by individuals and businesses within the community depending on their exposure to these various taxes.

At the Commonwealth level, wholesale sales tax is applied to a narrow range of goods and at different rates within that range. For the average consumer there is no way of knowing what amount of tax (if any) is included in the purchase price of the goods they buy. There are eight rates of wholesale sales tax (0%, 12%, 22%, 26%, 32%, 37%, 41% and 45%) and there is no apparent consistency in the way these are applied. For example, milk is not taxed but flavoured milk is, confectionery is taxed but caviar is not, and there are numerous other examples.

Introduction of a broad based consumption tax provides the opportunity to dispose of some of our least efficient indirect taxes (like wholesale sales tax) and raise the required revenue instead through a more efficient broadly based tax levied at a uniform rate.

In fact, given the stated objective of no net increase in the overall tax burden, it is unavoidable that some existing taxes must be reduced or removed if a consumption tax is to be introduced.

However, tax reform should not be confined to the Commonwealth tax arena. The States and Territories administer some of the most inefficient taxes. If tax reform is to produce a better national tax system it is essential that the least efficient State and Territory taxes be offered up in favour of a more efficient total tax regime.

In the State and Territory area, financial taxes on bank transactions and motor vehicle stamp duties are primary candidates for replacement through a broad based consumption tax. Both are levied on extremely narrow bases and have no regard for the capacity to pay.

Moreover, financial taxes are applied to a tax base that, in this age of modern communication, is potentially highly mobile. The banking system is a global system. It is no longer necessary for customers to be able to walk down to the local bank branch in order to access banking facilities. Increasingly all banking facilities can be accessed from the home via the phone or the Internet, and it doesn’t matter whether the bank is in the next town, another state or country.

Transaction based taxes like the Financial Institutions Duty (FID) and Debits tax will not provide a stable revenue source into the future.

As discussed at the start of this chapter, the High Court decision invalidating New South Wales tobacco franchise fees forced all States and Territories to cease collecting business franchise fees due to the constitutional doubt created by that decision. In response the States, Territories and the Commonwealth have instituted a complicated replacement tax arrangement. While this has effectively protected the States and Territories revenue, the replacement arrangements are less than desirable. National tax reform provides the opportunity to do away with these complicated arrangements in favour of a more efficient taxing regime.

There has also been much speculation as to whether pay-roll tax should also be abolished or replaced. Unfortunately pay-roll tax is a much maligned tax. In general this stems more from the way it is levied than any inherent shortcomings in the tax itself.

While pay-roll tax is often characterised as a tax on employment, it is in reality no more a tax on employment than income tax. Both raise the costs of employing labour and to the extent that if there is a choice between employing capital or labour, pay-roll tax will favour the employment of capital. However, other aspects of the tax regime are designed to tax capital investment or the returns to capital (for example, capital gains tax). To the extent that these impact on the cost of capital (as opposed to labour) the net effect overall may be balanced.

While this increase in labour cost is obvious for pay-roll tax, this is less so for income tax. In the case of income tax, it will increase the amount that needs to be paid to an individual in order to leave them with a given disposable income. Conversely, if there were no income tax, employees could be paid less and be no worse off.

If pay-roll tax were applied without exception, it would apply to all labour regardless of the industry in which it was employed, the size of the firm, or the particular skills of the workforce. In this respect it is potentially a very broad based tax and as a consequence, like income tax, it would be a relatively efficient tax.

However, as both income tax and pay-roll tax add to the cost of employing labour, there is a valid argument that if Australia's exports are to be more competitive, these 'tax costs' need to be reduced. This could be achieved by moving more of the tax burden to a broad based consumption tax as no tax would be paid on goods or services that are exported and reducing the costs of employing labour by reducing income tax rates.

At the end of the day, the future of pay-roll tax is more likely to be determined by the impact replacing it would have on the rate of an alternate tax (such as a consumption tax). Given that the least desirable taxes should be replaced first, including pay-roll tax, may increase the required consumption tax rate beyond an acceptable level.

Figure 4.2 illustrates some of the trade-offs that need to be recognised. It can be seen that to replace Commonwealth wholesale sales tax, plus State and Territory financial taxes and motor vehicle stamp duties would require a broad based consumption tax rate of between 7.1% and 10.2% depending on the consumption tax base. Including pay-roll tax would lift these rates to between 10.1% and 14.5%, again depending on the consumption tax base.

Figure 4.2

CONSUMPTION TAX RATES REQUIRED TO OFFSET EXISTING INDIRECT TAXES

Tax	Revenue Raised	Consumption Tax Rate		
		Broad Base[(a)]	Medium Base[(b)]	Narrow Base[(c)]
	$B	%	%	%
State and Territory Taxes				
Financial Taxes				
FID and debits	2.06	0.7	0.8	1.0
Business stamp duties	2.06	0.7	0.8	1.1
Motor vehicle stamp duties	2.21	0.4	0.4	0.5
Pay-roll tax	8.33	3.0	3.4	4.3
Stamp duty on insurance	1.08	0.4	0.4	0.5
Stamp duty on residential conveyance	2.26	0.8	0.9	1.2
Motor vehicle registration fees	2.19	0.8	0.9	1.1
Gambling taxes	3.61	1.3	1.5	1.8
Land tax	1.77	0.6	0.7	0.9
Commonwealth Tax				
Wholesale sales tax	14.17	5.3	6.0	7.6

(a) Private Final Consumption Expenditure less expenditure on housing and financial services (assumed input taxed).

(b) As for (a) less expenditure on education and health.

(c) As for (a) less expenditure on food, education and health.

It is all very well to identify those State and Territory taxes which are undesirable due to their efficiency or equity costs. However, the States and Territories still require the revenue raised by these taxes in order to provide the essential services that the population demands of them. If these taxes are to be removed (as they should be) then alternative arrangements need to be made to provide the States and Territories with access to replacement tax bases.

COMMONWEALTH/STATE/ TERRITORY FINANCIAL RELATIONS

Commonwealth/State/Territory financial relations are at a low ebb. The States and Territories are able to raise significantly less revenue than they require to provide essential services. As a consequence they rely heavily on the largess of the Commonwealth to provide the balance of their revenue requirements.

At present the Commonwealth raises 78% of all government revenue but is directly responsible for only 58% of government expenditure. The High Court decision on business franchise fees meant that States and Territories now only have control over revenues sufficient to cover around 54% of their expenditure responsibilities.

This imbalance between revenue raising capacity and expenditure responsibilities (technically known as vertical fiscal imbalance) inhibits, for various reasons, the ability of State and Territory Governments to respond to the needs and wishes of the communities they serve. It also reduces the accountability of State and Territory Governments for the use of resources at their disposal since the Commonwealth often uses its control of the national purse to impose its priorities on the States.

When it comes to distributing the nation’s resources, the Commonwealth Government is in a classic position of conflict of interest. It has a responsibility to distribute tax revenues to the States and Territories, but it also has its own expenditure responsibilities. It should come as no surprise that when the hard decisions have had to be taken on fiscal restraint, it is payments to the States and Territories that have received the largest cuts, or lowest increases.

The process of reducing the States and Territories share of the nation’s resources has been slow but relentless. Payments to the States and Territories have declined from 32% of Commonwealth revenue in 1984-85 to 21% today.

The States and Territories have sought to compensate for the loss of Commonwealth revenue by increasing their own revenue raising efforts. However, as their taxing powers are limited this has meant that they have targeted less efficient and less equitable taxes than would be the case if they had access to broader based national tax bases.

While the States and Territories could be compensated for vacating (abolishing) their least efficient taxes through a guaranteed share of revenue raised by the consumption tax, an alternative, and more appropriate, approach would be for the States and Territories to gain access to the national income tax base.

There are two advantages of this approach. First, on the grounds of constitutional capacity alone, it makes sense that the States and Territories should gain access to the income tax base rather than any consumption tax base. The States have always had the constitutional ability to levy income taxes. Secondly, and also tied to this first point because that capacity is recognised in the constitution, it would be possible for States and Territories to have greater control in relation to income taxes. For example, a State income tax (however applied) could be levied at differential rates between the States and Territories. This is in stark contrast to the situation that has developed in relation to section 90 safety net arrangements where the States and Territories have had to enter into complicated subsidy arrangements in order to maintain tax outcomes in each jurisdiction, due to the Commonwealth's inability to levy differential taxes between jurisdictions.

This then becomes a two step process. Firstly, the States and Territories vacate their least efficient taxes in support of a national broad based consumption tax. The rate of that tax would be set to replace (at least) wholesale sales tax at the Commonwealth level and foregone State and Territory taxes. Revenue raised would be retained by the Commonwealth.

The second step would be to provide the States and Territories with access to the national personal income tax base. The Commonwealth would reduce its take from national income tax to reflect its new revenue from a broad based consumption tax, thus providing room for the States and Territories to levy an income tax surcharge.

While this seems somewhat complicated, in practice it would be relatively straight forward and, apart from some effect on prices due to the changed tax mix, would be seamless for taxpayers. Price effects would vary considerably between individual products depending on the relative tax level applying before and after the change. This would not only be influenced by tax variations at the final product level, but also tax changes on inputs.

As part of this changeover, the States and Territories could receive a greater share of income tax revenues directly, via the State/Territory surcharge, than the value of the revenue streams they surrender. This increased revenue received directly would be entirely offset by reduced Commonwealth grants, and hence reduced Commonwealth taxes. In this way, the degree of vertical fiscal imbalance could be significantly reduced, providing the States and Territories with greater certainty regarding their revenues and also greater accountability regarding their expenditures.

As a rough estimate, a State income tax rate of 8.6% would be sufficient to provide the States and Territories with 'compensation' for removing financial taxes and business stamp duties and stamp duties on motor vehicle transfers, plus provide for the replacement of business franchise fee revenue and deliver an additional $12B reduction in the level of vertical fiscal imbalance.

Chapter 5

INTERGOVERNMENTAL FINANCIAL RELATIONS

Relations between the Commonwealth and the States and Territories are characterised by vertical fiscal imbalance. The Commonwealth raises more than three quarters of the total revenue collected by the Commonwealth and all State and Territory governments but requires only 58% for its own services, whereas the States and Territories rely on funding from the Commonwealth to provide around 46% of their services.

Over the past decade the Commonwealth increased expenditure on its own functions at the expense of grants to the States. Hence State expenditure on core functions was restricted by a decrease in the share of national resources passed on by the Commonwealth. This forced the States to increase their own revenue effort to maintain services and as a result, vertical fiscal imbalance was reduced. However, with the High Court decision in August 1997 ruling business franchise fees invalid, the States' and Territories' tax base has narrowed. Vertical fiscal imbalance has increased as a result.

While the demand for services at all levels of government has increased significantly in the last two decades, there is no strong evidence to suggest that Commonwealth responsibilities have grown more rapidly than those of the States and Territories. Thus the Commonwealth's decision to restrict general purpose grants to the States and Territories in favour of its own purpose expenditure and specific purpose grants cannot be justified.

Major reform is needed to address these problems to ensure that Australians receive an equitable share of the nation's resources through the level of government which has the constitutional responsibility for service provision. One means of achieving this aim is to establish an expert body to recommend the appropriate allocation of national revenue among the tiers of government.

VERTICAL FISCAL IMBALANCE

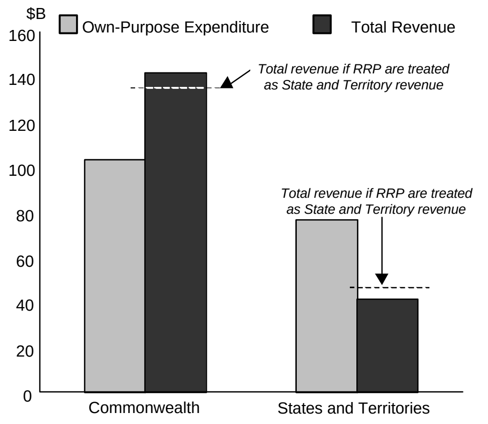
Vertical fiscal imbalance is a defining feature in intergovernmental relations in Australia. Because of its dominance of the financial arrangements of the States, and particularly the Northern Territory, it is referred to regularly throughout this Budget Paper.

Vertical fiscal imbalance occurs where the national government (Commonwealth) raises more revenue than it needs for its own purposes and the provincial governments (States and Territories) raise less than their responsibilities require. The assumption by the Commonwealth Government of income tax powers from the States in 1942 under its emergency Wartime powers compounded the level of vertical fiscal imbalance in Australia significantly.

More recently another constitutional change has disturbed the level of vertical fiscal imbalance. In August 1997, the High Court determined that business franchise fees levied by States and Territories were invalid and as a result, State and Territory own source revenue was reduced by some $5B. Because of the significance of the revenue loss, the Commonwealth agreed that it would extend its own wholesale sales tax and excise duties to recover revenue roughly equivalent to the amount lost by the States and Territories. This has been returned to the States and Territories by the Commonwealth in the form of revenue replacement payments.

Figure 5.1

VERTICAL FISCAL IMBALANCE 1997-98



Note: Revenue replacement payments (RRP) are treated as a Commonwealth grant.

Figure 5.1 shows the level of vertical fiscal imbalance in Australia and extent to which it has worsened as a result of the High Court's decision.

In broad terms, the Commonwealth now raises 78% of the combined revenue collected by the Commonwealth and States and Territories but only accounts for 58% of combined own-purpose expenditure. The States and Territories rely on transfer payments from the Commonwealth to fund some 46% of their own-purpose expenditure. This contrasts with the position before the High Court's decision where the Commonwealth raised 75% of total revenue and the States raised 25%.

EFFECT OF COMMONWEALTH POLICY ON VERTICAL FISCAL IMBALANCE

While the High Court's decision on business franchise fees has had a significant effect on the level of vertical fiscal imbalance, of less obvious but equal importance has been the effect of Commonwealth policy on revenue raising and sharing which also affected vertical fiscal imbalance.

An analysis of own-purpose expenditure provides a meaningful method of assessing the extent to which expenditure priorities between levels of government have changed.

Own-purpose expenditure refers to expenditure on the functions for which the level of government has functional responsibility. Commonwealth grants to the States and Territories for State-type functions are therefore classified as State expenditure not Commonwealth expenditure.

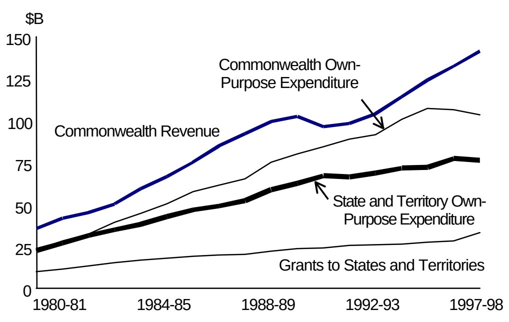
Figure 5.2 dramatically illustrates how the Commonwealth has used its dominant position to increase its control over a greater share of resources. In particular:

- in 1980-81, Commonwealth expenditure on its own functions was $23B, $1B higher than State expenditure. Since then Commonwealth expenditure has grown to $104B, $27B higher than State and Territory expenditure; and
- since 1980-81 revenue raised by the Commonwealth has increased from $36B to $142B, up by $106B. However, Commonwealth grants to the States and Territories have only increased by $23B to $33B.

Thus while States have increased their revenue collections, this has been insufficient to offset the declining level of Commonwealth grants. As a result, expenditure on State-type functions is now a lower proportion of total public sector expenditure.

Figure 5.2

REVENUE, OWN-PURPOSE EXPENDITURE AND GRANTS



Source: *Government Financial Estimates*, ABS Cat No 5501.0; and Northern Territory Treasury.

The retention by the Commonwealth of a greater share of nationally raised revenue has meant that the States and Territories have had to increase their own source revenue effort more than the Commonwealth. This has reduced vertical fiscal imbalance to a significant degree over time but because it has happened gradually it has not been given a great deal of prominence. The High Court's decision has simply returned vertical fiscal imbalance to the level it was at in the early eighties.

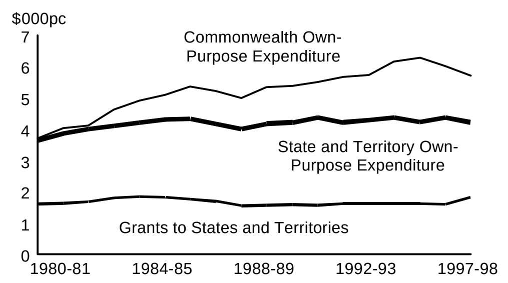
A similar picture is gained when the information is looked at on a real per capita basis (Figure 5.3). Real per capita own-purpose expenditure by the States and Territories has been constant over the past ten years. However, real per capita own-purpose expenditure by the Commonwealth has risen by around 54%. Grants per capita to the States and Territories have increased in 1997-98. However, this is a result of the on-passing of revenue replacement payments to the States and Territories.

SPECIFIC PURPOSE GRANTS

Not only have the resources available to the States and Territories decreased relative to those available to the Commonwealth, but the type of funds provided to the States and Territories has also shifted from general purpose, which are able to be used at the States' and Territorys' discretion, to being specific purpose and subject to significant levels of Commonwealth control. Around 39% of Commonwealth payments to States and Territories are now received in the form of specific purpose grants.

Figure 5.3

OWN-PURPOSE EXPENDITURE AND GRANTS REAL PER CAPITA BASIS



Source: *Government Financial Estimates*, ABS Cat. No. 5501.0; and Northern Territory Treasury.

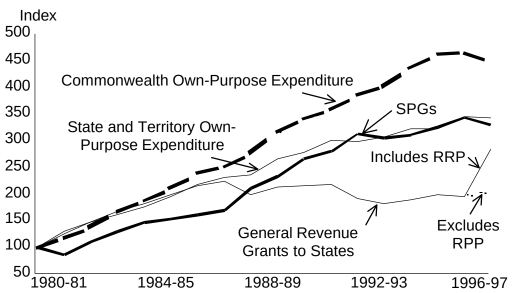
Figure 5.2 and Figure 5.3 treat spending funded through specific purpose grants as own-purpose expenditure of the States and Territories as they are for services which are the constitutional and administrative responsibility of the States and Territories.

However, the Commonwealth has at times disputed this view and argues that specific purpose grants should be regarded as its own-purpose expenditure.

While the Territory does not accept this view, it is true that the level of discretion available to States and Territories has been significantly diminished as a result of the increase in specific purpose grants. Thus the inclusion of specific purpose grants as Commonwealth own-purpose expenditure demonstrates clearly the extent to which the Commonwealth has been able to increase its control over policy on expenditures of all levels of government.

Figure 5.4

OWN-PURPOSE EXPENDITURE AND GRANTS



Source: *Government Financial Estimates*, ABS Cat. No. 5501.0; and Northern Territory Treasury.

Figure 5.4 shows the relative change in Commonwealth and States and Territories own-purpose expenditure when specific purpose grants are treated as part of Commonwealth own-purpose expenditure. In part, the increase in Commonwealth expenditure relative to that of the States and Territories can be attributed to the difference in growth between specific purpose and general purpose grants.

The shift from general purpose grants to tied funding since the late 1980s can also be clearly seen. The increase in general revenue grants in the last year is a result of the inclusion of the revenue replacement payments as Commonwealth grants.

CHANGE IN COMMONWEALTH RESPONSIBILITIES

The demands on all governments for increases in the standards and range of services in the last two decades have been significant. At the same time pressure for greater efficiency in the delivery of government services has grown.

It is reasonable to examine whether the growth in Commonwealth own purpose expenditure or its retention of a greater proportion of nationally raised revenue can be explained by increases in the Commonwealth's responsibilities compared to the States.

An analysis of Commonwealth spending since 1980 shows that current expenditure has increased almost five times compared to four times in the States.

The bulk of the increase in Commonwealth expenditure has been in the areas of general public services, health and social security, and welfare payments.

The Australian Bureau Statistics (ABS) classification of general public services includes expenditure on items such as legislative and executive affairs, financial and fiscal affairs and general economic services. It is likely that increased spending in this area by the Commonwealth would be driven by policy rather than a need for additional services.

Commonwealth current expenditure on health has increased from 11% of outlays in 1980 to 15%. However, at the same time State and Territory spending on health has risen from 19% of expenditure to 21%. This shows that the States and Territories are as affected by increasing demand for health services as the Commonwealth which would be expected given that primary responsibility for healthcare rests with the States and Territories. Consequently a position that increasing demand for health services justifies greater retention of revenue by the Commonwealth rather than an equitable distribution to the States and Territories cannot be supported.

Analysis further shows that while demand has grown in all areas of health, the largest growth in Commonwealth expenditure has occurred in the limited areas for which it has chosen to have responsibility such as medical and pharmaceuticals benefits. Grants to States and Territories for their health responsibilities (hospitals and community care) have not increased to the same degree. As a result States and Territories have had to increase their own spending on health.

The third area of growth in Commonwealth outlays is expenditure on social security and welfare. It is acknowledged that increases in the proportion of aged persons and unemployed since 1980 may partially explain a need for increased Commonwealth expenditure. However, analysis of the ABS data shows that Commonwealth spending in this area has increased six times compared to an increase of eight times in the States. In fact, as a share of State expenditure, social security and welfare spending has doubled compared to an increase from 30% to 36% of expenditure for the Commonwealth.

There are also other areas such as public order and safety and education where increases in Commonwealth expenditure have exceeded those of the States and Territories even though they are primarily State responsibilities.

In summary, it appears that a significant proportion of the increases in Commonwealth own-purpose expenditure are driven by policy choice and increased interference in State responsibility rather than by population growth, inflation or changes in Australia’s demographic composition. Unfortunately these increases have occurred at the expense of general revenue assistance to the States and Territories.

SOLUTIONS

Vertical fiscal imbalance is not, of itself, a problem if the Commonwealth Government distributes to States an equitable share of nationally raised revenue. However, over time, the Commonwealth has used its dominant tax raising position to:

- increase expenditure on its own functions; and
- through the growth in specific purpose grants, expand its influence into areas that have been the preserve of the States and Territories.

The Commonwealth has been able to do this because its tax revenue has increased significantly through economic growth and fiscal drag but it has kept payments to the States and Territories commensurate with population growth and inflation only.

As a result, States and Territories have had to rely to a greater degree on their relatively inefficient and narrow tax bases in order to maintain a sufficient level of revenue. Greater reliance on State and Territory tax bases has had more detrimental economic consequences than if the revenue had been raised by the Commonwealth and shared equitably with the States and Territories.

A number of solutions have been proposed to ensure that the Commonwealth does not exploit its position at the expense of the States and Territories. These include:

- a transfer of tax powers from the Commonwealth;
- providing tiers of government with a fixed percentage of tax revenues; and
- continuing with a real per capita growth commitment to the financial assistance grants pool.

At present, tax reform appears to provide the most promising solution to overcoming the problems which result from the current arrangements.

An alternative solution to the problem created by vertical fiscal imbalance is the establishment of an expert body to advise on the distribution of national resources between the two tiers of government. Such a body would improve accountability, provide expert independent advice on the allocation of national resources, and provide increased data on which to base long term decisions about future revenue requirements and standards of service. This would not remove the need for the continuation of horizontal fiscal equalisation to determine grants allocation between the States and Territories.

Currently State and Territory Budgets are being caught between two opposing pressures. On one side they are experiencing increasing demand for the services they provide (especially health) and the need to maintain fiscal integrity. On the other side they face decreasing real per capita funding from the Commonwealth.

While the Commonwealth has a legitimate national role in setting appropriate broad minimum standards and priorities, it is also important to recognise the importance of State and Territory Governments in being able to provide services at a level that best addresses the needs of the population. These two factors should be considered in advancing reform that will benefit all Australians in terms of a more equitable distribution of the nation’s resources through the level of government which has the constitutional responsibility to do so and which will provide the most efficient outcome.

DATA APPENDIX

The data in this chapter has been prepared on a total public sector basis for both the Commonwealth and the combined States and Territories. Where possible, data from Government Finance Estimates ABS Cat. No. 5501.0 has been used. Some 1997-98 data is based on estimates from the *1998 National Fiscal Outlook.*

The charts in this chapter all show own-purpose expenditure. To derive own-purpose expenditures the effects of transfers between the Commonwealth and States and Territories have been removed. Payments through the States and Territories have been retained within Commonwealth outlays as they reflect Commonwealth, rather than State, expenditure priorities. Specific purpose grants to the States have been included as States own-purpose outlays in Figure 5.2 and Figure 5.3 and Commonwealth own-purpose outlays in Figure 5.4.

Figure 5.3 shows real per capita figures. The values presented are in constant 1998-99 prices and calculated using the non-farm GDP implicit price deflator from ABS Cat. No. 5206.0 and the *1998 National Fiscal Outlook.* Population figures were as at 31 December each year and from ABS Cat. No. 3101.0.

Chapter 6

1998 PREMIERS' CONFERENCE

The annual Premiers' Conference is the forum in which the Commonwealth, States and Territories agree to the distribution of financial assistance grants and other Commonwealth general revenue payments. It is the formal mechanism for the equitable distribution of revenue raised by the Commonwealth on behalf of the nation. The redistribution of national revenue is necessary due to the degree of vertical fiscal imbalance that exists in Australia.

Commonwealth grants represent about 80% of total Northern Territory budgetary resources. Thus the outcome of the Premiers' Conference has a direct bearing on the level of services provided in the Territory.

The 1998 Premiers' Conference was adjourned shortly after convening as the Commonwealth refused to negotiate on the level of base funding under the Australian Health Care Agreement. No formal agreements were reached. However, the Commonwealth stated that the proposals outlined in the Offer Document will be the basis for Commonwealth grants to the States and Territories.

Estimates of Commonwealth grants presented in the body of this chapter are current as at April 1998 and are based on the Commonwealth's Offer Document. Detailed estimates of specific purpose grants were not provided and will not be available until after the Commonwealth Budget is delivered.

PREMIERS' CONFERENCE AGENDA

The build up to the 1998 Premiers' Conference was somewhat different to other years, with major issues not usually the subject of detailed discussions at Premiers' Conferences featuring prominently on the agenda. Significant agenda items were tax reform and future health funding arrangements. State and Territory governments considered adequate discussion of these items essential.

Items of no less significance, but matters usually considered by Premiers' Conference, were the various components of general revenue grants and the National Fiscal Outlook. Even in this area a number of contentious issues required resolution. These included:

- the means by which the financial assistance grants pool would be distributed – there was a choice between two sets of relativities;
- the interaction between the choice of relativities and the arrangements for health care funding;
- adequate arrangements for the size and distribution of revenue replacement payments established as a result of the High Court's decision to invalidate business franchise fees; and
- the implication of the National Fiscal Outlook on the need for States and Territories to pay the last tranche of their fiscal contribution, to reduce the Commonwealth's budget deficit.

The Prime Minister had also nominated gun control for discussion.

States and Territories were sufficiently concerned about the existing and growing pressure on health, particularly hospital services, to seek to have health funding arrangements discussed as the first main item on the Agenda. A commitment was sought from the Commonwealth for additional health care funding because of the shortfall in the offer provided previously to Health Ministers, and the inadequate provisions for growth.

States and Territories estimate the shortfall in base health care funding to be in the order of $1.1B. The Commonwealth did not discuss the shortfall and it indicated categorically that the offer, with respect to health funding, was not negotiable. At that point Premiers and Chief Ministers adjourned the Conference. None of the other important matters were discussed.

The Prime Minister has since indicated that the financial arrangements would be as outlined in the Offer Document. and the health funding proposals would be as provided to Health Ministers.

THE OFFER DOCUMENT

The 1998 Offer Document outlined the level of financial assistance and general revenue grants, the level of National Competition Policy payments, and the States fiscal contribution to the Commonwealth Deficit Reduction Program.

Even though they comprise a significant proportion of Commonwealth funding to States and Territories, specific purpose grant details were not provided. Indicative estimates were again based on the Commonwealth's updated forward estimates, and cannot be taken as firm commitments.

The following analysis is on the basis of the Offer Document as presented. At this stage there is no indication that the proposals it contains will vary. The data in this chapter may differ from data which appears in *Budget Paper No. 2,* which as far as possible has been updated according to the most recent advice from the Commonwealth.

GENERAL REVENUE ASSISTANCE

The key features of the 1998 Offer Document with regard to general revenue assistance are:

- the Commonwealth will extend the three year rolling guarantee for increases in the financial assistance grants pool in real per capita terms until 2000-01. The per capita element being dependent on compliance with National Competition Policy reforms;
- the Commonwealth has presumed that the State Fiscal Contribution will continue to be paid; and
- as part of the new arrangements for health care funding, equalisation relativities are used to distribute financial assistance grants; Medicare guarantee payments to New South Wales and Victoria will no longer be provided; and the level of funds quarantined from the equalisation process will fall from $883M to $50M.

Figure 6.1 is drawn from the Offer Document, and provides a comparison of general revenue assistance to States and Territories in 1997-98 and 1998-99.

The Commonwealth has argued that the Offer represented an increase in general revenue assistance to States and Territories of 4.8% which was said to be extremely generous in a low inflationary environment and higher than the increase in the Commonwealth's own purpose outlays.

However, this is a fallacious argument. There is an increase of 4.8% in net payments after the fiscal contribution payment has been taken into account. However, the fiscal contribution in 1998-99 is only half that paid in 1997-98, and the smaller reduction gives rise to an apparent increase in that payment. As the fiscal contribution is actually the States and Territories own money, it is unreasonable for the Commonwealth to claim a reduction to it is equivalent to an increase in Commonwealth payments. This is discussed later in this chapter.

When the effect of the fiscal contribution is removed the increase in Commonwealth payments is significantly lower at 2.7% (as shown in Figure 6.1).

Figure 6.1

GENERAL REVENUE ASSISTANCE TO STATES AND TERRITORIES, 1997-98 AND 1998-99

	Financial Assistance Grants	Special Revenue Assistance	National Competition Payments	Gross General Revenue Assistance	Change from Previous Year		Fiscal Contribution	Net of Fiscal Contribution	Change Net of Fiscal Contribution
	$M	$M	$M	$M	$M	%	$M	$M	%
1997-98									
NSW	4 555.1	190.2	72.2	4 817.5	144	3.1	216.6	4 600.9	3.1
VIC	3 351.5	242.3	53	3 646.8	93.7	2.6	159	3 487.8	2.6
QLD	3 090.6		39.3	3 129.9	76.8	2.5	117.9	3012	2.5
WA	1 566.4		20.7	1 587.1	8.3	0.5	62.2	1 524.9	0.4
SA	1 551.9		17	1 568.9	33.5	2.2	50.9	1518	2.2
TAS	680.6		5.4	686	6.2	0.9	8.1	677.9	2.1
ACT	236.7	34.5	3.5	274.7	- 4.7	-1.7	5.3	269.4	0.2
NT	969.5		2.2	971.7	26.4	2.8	6.5	965.2	2.8
Total	**16 002.3**	**467**	**213.3**	**16 682.6**	**384.2**	**2.4**	**626.5**	**16 056.1**	**2.4**
1998-99									
NSW	4 767.9		73.6	4 841.5	24	0.5	101.5	4740	3.0
VIC	3 548.1		54	3 602.1	- 44.7	-1.2	74.4	3 527.7	1.1
QLD	3 224.5		40.3	3 264.8	134.9	4.3	55.6	3 209.2	6.5
WA	1 617.1		21.3	1 638.4	51.3	3.2	29.3	1 609.1	5.5
SA	1 678.9		17.2	1 696.1	127.2	8.1	23.7	1 672.4	10.2
TAS	738		5.4	743.4	57.4	8.4	15.6	727.8	7.4
ACT	281.8	25	3.6	310.4	35.7	13.0	10.2	300.2	11.4
NT	1 033.9		2.2	1 036.1	64.4	6.6	3.1	1033	7.0
Total	**16 890.2**	**25**	**217.6**	**17 132.8**	**450.2**	**2.7**	**313.4**	**16 819.4**	**4.8**

Source: Commonwealth Offer to the States and Territories 1998.

FINANCIAL ASSISTANCE GRANTS

The Territory's financial assistance grants share is estimated to increase by $64M in 1998-99. The share of the financial assistance grants pool is calculated by applying the per capita relativities for each State and Territory arising from the Commonwealth Grants Commission's (CGC) Report on General Revenue Grant Relativities 1998 Update, weighted by estimates of each State and Territory population as at December 1998.

The $64M increase in the Territory's share of the financial assistance grants pool is due to:

- the real per capita growth in the Pool (+$26M);
- the increase in the Pool which results from the re-incorporation of the Pool funded Medicare guarantee payments to New South Wales and Victoria (+$18M);
- a higher rate of population growth relative to the Australian average, resulting in a greater share of the financial assistance grants pool (+$9M); and
- an increase in the Territory's underlying assessed need for assistance (+$11M).

Changes to financial assistance grants caused as a result of proposed new health care funding are:

- the escalation of the hospital funding grants component (+$11M);
- the addition of further unquarantined hospital funding grants (+19M); and
- the distribution of the Pool based on equalisation relativities rather than Medicare adjusted relativities (-$30M).

Figure 6.2 summarises these influences.

Figure 6.2

EXPLANATION OF INCREASE IN TERRITORY'S SHARE OF FINANCIAL ASSISTANCE GRANTS POOL 1998-99

Influence	Effect $M
Real Per Capita Escalation of FAG Pool	+26
Re-absorption of Medicare Guarantee Payments into FAG Pool	+18
Equals: Effect of changed Pool	***+44***
Northern Territory Population Growth relative to National Increase	+9
Underlying Growth in Territory Needs	+11
Equals: Effect of Territory data	***+20***
Escalation of HFG Component	+11
Additional Unquarantined Funds	+19
Move from Medicare Adjusted to Equalisation Relativities	-30
Equals: Effect of Changed Health care arrangements	***0***
Total Change in Territory's share	**64**

FAGs: Financial Assistance Grants.

HFGs: Hospital Funding Grants.

Because of the inter-relationship with health funding, the distribution of financial assistance grants cannot be considered in isolation from the health arrangements. The combined effect of financial assistance grants and health funding arrangements are discussed later in this chapter.

SPECIAL REVENUE ASSISTANCE

Special Revenue Assistance of $25M will continue to be paid to the Australian Capital Territory in 1998-99. This payment relates to transitional allowances agreed at the time of Self-Government.

NATIONAL COMPETITION POLICY PAYMENTS

National Competition Payments (NCP) are made in accordance with the agreements entered into between the States, Territories and the Commonwealth in 1995.

Most of the benefits of competition reform carried out by the States and Territories accrue to the Commonwealth (in the form of additional taxation revenue). As such, the Commonwealth distributes dividends to States and Territories as a means of sharing the benefits of reform. Dividends are paid on a per capita basis.

The Commonwealth agreed to increase the Pool of Financial assistance grants equivalent to the increase in population, and in addition to pay the States and Territories an additional competitive payment dividend. A total of $217.6M, distributed on a per capita basis will be provided in 1998-99.

The Territory is expected to receive an NCP dividend of $2.2M in 1998-99.

STATE FISCAL CONTRIBUTION

At the 1996 Premiers' Conference it was agreed that States and Territories would contribute to the Commonwealth's deficit reduction strategy, in return for the Commonwealth abandoning a proposed application of Sales Tax to State government activity.

Initially the States agreed to contribute $619M in 1996-97, $640M in 1997-98, and $300M in 1998-99, subject to yearly review. The amounts were determined with reference to expected real per capita growth in the financial assistance grants pool, and allocated between States on a per capita basis. Effectively the States accepted a reduction in real terms of payments from the Commonwealth to assist the Commonwealth to reduce its debt burden.

States are able to determine the method by which their contribution to the Commonwealth deficit reduction strategy is made through either reduced financial assistance grants or specific purpose grants.

These payments were originally to be reviewed annually at the Premiers' Conference. The Commonwealth would not agree to a review in 1997 and has not agreed to do so this year. However, the change in the fiscal position of the Commonwealth compared with the States and Territories makes a review essential.

The National Fiscal Outlook shows that the Commonwealth is forecasting its underlying fiscal position to improve from a deficit of $2.8B in 1997-98, to a surplus of $2.5B in 1998-99. This is in contrast to a projected deficit of $7.3B in 1997-98 and $3.3B in 1998-99, when the fiscal contributions were first agreed in 1996. Given this huge improvement in the Commonwealth's fiscal position there can be no justification for the continuation of the agreement on the current terms.

HEALTH CARE FUNDING

The Medicare agreement is due to expire on 30 June 1998. The renegotiation of the replacement Australian Health Care Agreement was the key issue at the Premiers' Conference.

COMMONWEALTH HEALTH OFFER

The latest Commonwealth offer includes only a small increase in funding of $300M in the first year (1998-99), increasing to $600M in the last year of the agreement (2002-03). This falls short of the States and Territories estimate of $1.1B, which is required to be added to the base funding arrangements in 1998-99. The Commonwealth has also proposed some changes to funding for veterans health care, which would involve additional funding or savings (through reduced demand) to States and Territories in the order of $150M per year.

While the issue of funding has not yet been finalised, the structure of the new agreement appears to have been accepted. The new agreement will consist predominantly of funding for admitted patients with components for non-admitted patients, palliative care, mental health, quality improvements and system restructuring. The existing bonus pools and identified funding for AIDS has ceased.

The agreement will also propose to contain automatic increases in funding if private health insurance coverage declines.

INTERACTION OF GENERAL REVENUE AND HEALTH FUNDING

Health care funding is predominantly constituted of quarantined and unquarantined hospital funding grants. Unquarantined hospital funding grants are included with financial assistance grants for distribution by the CGC's relativities. Quarantined hospital funding grants are subject to different distribution arrangements.

Because of the link between hospital funding grants and financial assistance grants the health agreements have a significant impact on the level of financial assistance grants paid to each jurisdiction as well as the overall level of combined health and general revenue grants.

In addition to the changes to financial assistance grants (Figure 6.1), as a result of the new health arrangements there are complementary effects on the distribution of hospital funding grants. An additional $19M is to be provided in unquarantined hospital funding grants which is offset by a reduction in quarantined funds of $58M. The net effect on hospital funding grants is a significant reduction of $39M. Like the Territory, a number of jurisdictions experience significant variations in the share of hospital funding grants.

To avoid an inequitable outcome, the Commonwealth has proposed a set of adjustments for 1998-1999 so that each jurisdiction is compensated for the move to equalisation relativities and receives the same increase in health related funds over 1997-98. This is achieved through a special adjustments module in 1998-99. The adjustment module results in an additional $19M for the Territory.

The changes in hospital funding grants and the adjustments module are shown in Figure 6.3. In subsequent years no further adjustment should be required, as the CGC relativities will be compatible with the new health care arrangements.

Estimates in the Offer document based on the latest health offer forecast grants to the Territory of $77.3M, including the adjustment, in 1998-99 compared to $87.2M received in 1997-98. This decline needs to be considered in conjunction with the increase in financial assistance grants. Figure 6.3 shows the components of the health offer.

Figure 6.3

GENERAL REVENUE ASSISTANCE AND HEALTH CARE GRANTS TO THE STATES AND TERRITORIES 1997-98 AND 1998-99

	1997-98				1998-99						
	General Revenue Assistance	Unquarantined	Quarantined	Total	General Revenue Assistance	Unquarantined	Quarantined	Adjustment Module	Total	Change	
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	%
NSW	4 817.5	1 410.9	177.4	6405.8	4 841.5	1776.6	16.6	-17.5	6617.2	211.4	3.3
Vic	3 646.8	1 027.4	81.9	4756.1	3 602.1	1264.6	12.1	1	4879.8	123.7	2.6
Qld	3 129.9	743.8	191.1	4064.8	3 264.8	948.3	9.2	-24	4198.3	133.5	3.3
WA	1 587.1	376.8	163	2126.9	1 638.4	498.9	4.8	39.5	2181.6	54.7	2.6
SA	1 568.9	350.7	151.3	2070.9	1 696.1	451.7	3.9	-6	2145.7	74.8	3.6
Tas	686	107.1	41.1	834.2	743.4	116.5	1.2	1	862.1	27.9	3.3
ACT	274.7	57.5	17.5	349.7	310.4	63.5	1	-13	361.9	12.2	3.5
NT	971.7	27.8	59.4	1058.9	1 036.1	57.3	1	19	1113.4	54.5	5.1
Total	**16 682.6**	**4 102**	**882.7**	**21667.3**	**17132.8**	**5177.4**	**49.8**	**0**	**22360**	**692.7**	**3.2**

Source: Commonwealth Offer to the States and Territories 1998.

SPECIFIC PURPOSE GRANTS

The 1998 Offer Document foreshadowed little change in the total of specific purpose grants to States and Territories; however there are significant variations by jurisdiction. It is acknowledged that these figures are based on Commonwealth forward estimates and hence are likely to be influenced by Commonwealth policy decisions and new initiatives before its budget.

On the basis of the Offer Document, specific purpose grants to the Territory are expected to decrease from $286.2M in 1997-98 to $263.8M in 1998-99, or by 7.8%. This is a significant reduction which will affect the Territory's capacity to continue to provide services funded by these arrangements.

Full details will not be available until the Commonwealth Budget is brought down. However, most of this reduction is caused by changes in the treatment of health care funding. Debt redemption assistance is also expected to reduce significantly in 1998-99.

Figure 6.4 provides estimates of specific purpose payments *to* and *through* jurisdictions. Specific purpose grants made to the States allow for a level of discretion over the expenditure. Grants made through the jurisdiction are non-discretionary and the Territory's role is as an agent for the Commonwealth.

Specific purpose grants provided *through* the Territory are estimated to increase by 32%, from $40M in 1997-98 to $52.7M in 1998-99, whilst the level of specific purpose grants *to* the Territory is set to be significantly reduced. On this basis, the level of funding provided to the Territory Government will be reduced in favour of local government or non-government organisations.

As with all other jurisdictions the Territory remains dissatisfied with the imposition of Commonwealth priorities through an increasing reliance on specific purpose rather than general purpose funding. Furthermore, specific purpose grant arrangements can be extremely complex. The administrative burden, duplication, overlap and intrusion into State and Territory areas of responsibility means that this area of funding should be reformed urgently.

Figure 6.4

SPECIFIC PURPOSE GRANTS TO AND THROUGH THE STATES AND TERRITORIES 1998-99

	To States	Through States(a)	Total	Change in Total Payments		Change in Payments to States and Territories	
	$M	$M	$M	$M	%	$M	%
NSW	3 619.3	1 261.7	4 880.9	133.2	2.8	72.6	2.0
VIC	2 476.7	1 022.5	3 499.1	173.3	5.2	132.5	5.7
QLD	1 955.2	687.7	2 642.8	-6.3	-0.2	-41.9	-2.1
WA	1 287.4	403.1	1 690.4	20.1	1.2	-5.7	-0.4
SA	997.6	273.4	1 270.9	-89.4	-6.6	-102.7	-9.3
TAS	308.9	103.5	412.4	-45.4	-9.9	-50.4	-14.0
ACT	159.2	82.2	241.3	-23.2	-8.8	-26.9	-14.5
NT	211.1	52.7	263.8	-22.4	-7.8	-35.1	-14.3
Total	**11 015.3.6**	**3 886.4**	**1 4901.7**	**140.1**	**0.9**	**-57.6**	**-0.5**

Source: Commonwealth Offer to the States and Territories 1998.

Note: (a) Includes Specific Purpose Grants to Local Government.

The need for reform is highlighted by the number of specific purpose grants currently requiring renegotiation, and those that are simply not acceptable to the States. These include:

- The Commonwealth State Housing agreement;
- The Australian Health Care Agreement;
- The Australian Land Transport Development Program; and
- The Home and Community Care program.

Together these programs distribute around 50% of all specific purpose payments to the States and Territories.

TOTAL COMMONWEALTH PAYMENTS

Total Commonwealth payments to the Territory are expected to be $1 296.8M in 1998-99, a nominal increase of 3.6% from 1997-98. Figure 6.5 details the change in Commonwealth Assistance provided to the States and Territories.

Whilst the Commonwealth is maintaining financial assistance grants, National Competition payments, and Special Revenue Assistance in real terms, known specific purpose grants continue to reduce in real terms, by over 1% in 1998-99.

Excluding the effect of the Fiscal Contribution, the Territory is expected to receive the second largest increase in general revenue assistance, at 6.2%. This is primarily due to higher population growth in the Territory relative to national population growth, and an increase in the financial assistance grants pool due to the real per capita escalation and cessation of the Pool funded Medicare guarantees.

This 6.2% increase in general revenue assistance is substantially offset by the 7.8% reduction in specific purpose grants paid to and through the Territory. Together these result in an increase in Commonwealth grants to the Territory of 3.3%.

As can be seen in Figure 6.5, total Commonwealth assistance (that is, general revenue assistance and specific purpose grants) has increased by 1.9%.

Figure 6.5

TOTAL REVENUE ASSISTANCE TO THE STATES AND TERRITORIES(a)

	Financial Assistance Grants	Special Revenue Assistance	Competition Payments	General Revenue Assistance	Unquarantined Health Care Grants	Quarantined Health Care Grants	Adjustments Module	Other SPPs	Total Net Payments to States and Territories	% Increase over 1997-98
1997-98										
NSW	4 555.1	190.2	72.2	4 817.5	1 410.9	177.4		3 159.4	9 565.2	
VIC	3 351.5	242.3	53.0	3 646.8	1 027.4	81.9		2 216.4	6 972.5	
QLD	3 090.6	0.0	39.3	3 129.9	743.8	191.1		1 714.1	5 778.9	
WA	1 566.4	0.0	20.7	1 587.1	376.8	163.0		1 130.6	3 257.5	
SA	1 551.9	0.0	17.0	1 568.9	350.7	151.3		858.2	2 929.1	
TAS	680.6	0.0	5.4	686.0	107.1	41.1		309.5	1 143.7	
ACT	236.7	34.5	3.5	274.7	57.5	17.5		189.5	539.2	
NT	969.5	0.0	2.2	971.7	27.8	59.4		199.0	1 257.9	
Total	**16 002.3**	**467.0**	**213.3**	**16 682.6**	**4 102.0**	**882.8**		**9776.7**	**31 444**	
1998-99										
NSW	4 767.9	0.0	73.6	4 841.5	1 776.6	16.6	- 17.5	3 105.3	9 722.5	1.6%
VIC	3 548.1	0.0	54.0	3 602.1	1 264.6	12.1	1.0	2 221.5	7 101.3	1.8%
QLD	3 224.5	0.0	40.3	3 264.8	948.3	9.2	- 24.0	1 709.4	5 907.7	2.2%
WA	1 617.1	0.0	21.3	1 638.4	498.9	4.8	39.5	1 147.3	3 328.9	2.2%
SA	1 678.9	0.0	17.2	1 696.1	451.7	3.9	- 6.0	821.4	2 967.1	1.3%
TAS	738.0	0.0	5.4	743.4	116.5	1.2	1.0	293.7	1 155.8	1.1%
ACT	281.8	25.0	3.6	310.4	63.5	1.0	- 13.0	189.9	551.8	2.3%
NT	1 033.9	0.0	2.2	1 036.1	57.3	1.0	19.0	186.5	1 299.9	3.3%
Total	**16 890.2**	**25.0**	**217.6**	**17 132.8**	**5 177.4**	**50.0**	**0.0**	**9675**	**3 2035**	**1.9%**

Source: 1998 Premiers Conference Offer Document.

Note: (a) Excludes Fiscal Contribution, and Other Payments and Repayments as listed in the 1998 Premiers' Conference Offer Document.

APPENDIX 1

COMMONWEALTH GRANTS COMMISSION 1998 UPDATE

Every year, the CGC updates the per capita relativities used by the Premiers' Conference in distributing General Revenue Grants, and hospital funding between the States and Territories. This year, the information was published in the CGC's *Report on General Revenue Grant Relativities 1998 Update.* Relativities are updated to reflect:

- data updates and revisions, such as the replacement of some expenditure estimates with Australian Bureau of Statistics data; and
- moving the five year review period forward (upon which the relativities are calculated) to include 1996-97 data and remove 1991-92 data.

For 1998, the Commission was asked to calculate two sets of relativities.

- *Medicare-adjusted* relativities that are comparable with those used since the 1993 Medicare Agreement; and
- *equalisation* relativities in which health assessments and the treatment of previously quarantined health payments are based on the equalisation principle.

The choice of relativities is related to the likely adoption during 1998 of the new Australian Health Care Agreement.

The Commission's recommendations are critical in determining the Territory's share of the financial assistance grants pool for 1998-99.

MEDICARE-ADJUSTED RELATIVITIES

The Medicare-adjusted relativities reflect the arrangements which have been in place since 1993 when the Commonwealth directed the Commission with respect to its assessment of hospital and some health expenditures (and revenues) and separated certain Medicare-related funds from the combined financial assistance grants and hospital funding grants pool, quarantining their distribution from the CGC relativities process.

The Territory has benefited more than other jurisdictions (on a per capita basis) from the quarantined Medicare-related funds because the distribution is based largely on the proportion of public patients in public hospitals, which is high, in the Territory's case.

The *1998 Update* assesses the Territory's Medicare-adjusted relativity at 4.95012, an increase from the current year's 4.89353. In dollar terms, this would mean an additional $12.2M for the Territory if the current Medicare arrangements carried over to 1998-99.

EQUALISATION RELATIVITIES

The equalisation relativities reflect the inclusion of factors in the Commission's assessment which have been excluded by virtue of provisions of the Medicare Agreement since 1993. The combined effect of the loss of the favourable distribution of the quarantined funds and inclusion of these factors is not to the Territory's advantage.

The report assesses the Territory's relativity on an equalisation basis for 1998-99 as 4.81869. Figure 6.6 shows the effect of each of the relativities if applied to the 1997-98

Pool. In reality, funding received in 1998-99 would be higher than that shown due to escalation of the Pool for population growth and price increases.

Figure 6.6

COMPARISON OF DISTRIBUTIONS UNDER DIFFERENT HEALTH ARRANGEMENTS

	(a) 1997-98	(b) 1998-99 Medicare-adjusted	(c) 1998-99 Equalisation
	$M	$M	$M
FAGs + HFGs	979.0	991.2	1 016.5
Other Medicare	57.9	57.9	0
Total	**1 036.9**	**1 049.1**	**1 016.5**

Note that the:

- difference between 1997 and 1998 Medicare-adjusted relativities (b) – (a) would result in a $12.2M increase in 1998-99 over 1997-98;
- difference between 1997 Medicare-adjusted relativities and 1998 equalisation relativities (c) – (a) would result in a $20.4M decrease in 1998-99 over 1997-98; and
- difference between 1998 equalisation relativities and 1998 Medicare-adjusted relativities (c) – (b) will result in $32.6M less in 1998-99 under new arrangements than if existing arrangements continued.

COMPOSITION OF CHANGE IN THE DISTRIBUTION

The main areas contributing to the change in the implied distribution are the result of changes in the following categories:

- Police (+$9.1M) - largely from an increase in standard expenditure and revisions to the age-sex population data. The Territory has high disability factors in this category;
- Superannuation (+$4.3M) - reflects an increase in the standard due to the substitution of 1996-97 data for 1991-92;
- Debt Charges (+$6.9M) - results from data changes in other assessment categories that flow through to the debt charges assessment;
- Community Health Services (+$2.3M) - reflects an increase in the standard caused by revisions to financial data by New South Wales; and
- Corrective Services (+$3.1M) - reflects an increase in the standard due to the substitution of 1996-97 data for 1991-92 data.

Significant offsetting categories are:

- General Revenue Grants (-$22.6M) - reflects an increase in the standard budget surplus, largely due to increases in own-source taxation, and contributions from trading enterprises across all States. The CGC's model applies the same surplus to all States and Territories, which has the effect of reducing grants to jurisdictions with greater needs. If the surplus had declined or become a deficit, the Territory would have experienced an increase in grants; and
- Business Franchise Fees - Tobacco (-$2.3M) - a large increase in the Territory's assessed revenue capacity due to the substitution of 1996-97 data for 1991-92 data.

1999 MAJOR REVIEW

The CGC generally reviews the methodology used in determining relativities every five years. The Commission is set to report on the next review in February 1999.

As part of the five-yearly review the Commission examines the overall structure of the assessment process, the composition of existing assessment categories, and methods used in calculating relevant disability factors.

A number of vexing issues have already arisen as part of the 1999 review. These include:

- the possible inclusion of capital transactions in the Commission's assessment;
- the possible removal of the standard budget result term;
- the introduction of accrual accounting;
- the treatment of revenue replacement grants as a result of the section 90 ruling; and
- the possible inclusion of higher education as part of the CGC's assessment.

The Commonwealth actively consults with the States and Territories concerning both the annual review of relativities and the five-yearly review of the methodology.

Chapter 7

GOVERNMENT BUSINESS DIVISION REFORMS

Since 1995, the Northern Territory Government has been implementing a set of policies designed to ensure the efficient operation and management of its Government Business Divisions (GBDs).

Significant progress has been made regarding the costing and pricing activities of GBDs, and in enhancing competitive neutrality by removing some key advantages and disadvantages previously available to GBDs because of their government ownership.

However, some essential policies are still under development or evolving, and additional policy initiatives might also be necessary once commercialisation is fully operative in those instances where efficiency gains prove intractable.

This chapter briefly overviews reforms to date, identifies policy processes which are still to be implemented in full, and examines the key additional policy options available to the Government once commercialisation is in place.

REFORMS TO DATE

For some time, the Territory Government along with all Australian jurisdictions has been striving to improve the efficiency of the business enterprises which it owns and operates. The Territory's GBDs are listed in Appendix 1 to this chapter.

Currently, GBD reform in the Territory involves a set of administrative reforms and competitive neutrality measures, aimed primarily at achieving *commercialisation* of the Territory's GBDs.

OBJECTIVES OF REFORM

Since late 1995, GBD reform in the Territory has been guided by a set of Cabinet approved principles for the operation of GBDs. In essence, the principles involve GBDs:

- operating under a charter of operations approved by Cabinet, setting out a GBD's operational objectives and strategies;
- recovering full costs from users of commercial services;
- establishing and operating under commercially-oriented management structures; and
- pursuing cost efficiency in the provision of services.

The goals of the GBD reform process are two-fold. The first is to improve efficiency in the allocation of resources. *Allocative efficiency* involves the degree to which there is an optimal apportionment of a given level of resources between alternative uses. Allocative inefficiency sees relatively inefficient enterprises prosper, diverting resources from more efficient competitors or more highly-valued end uses, whether inside or outside the public sector.

The second goal of GBD reform is to drive dynamic efficiency gains. *Dynamic efficiency* involves the degree to which the minimum level of inputs is being used to produce a given level of a particular output. Dynamic inefficiency sees higher costs of government services to domestic consumers and higher costs of government-provided inputs for Territory businesses (therefore hampering the ability of Territory business to compete in domestic and overseas markets).

The pursuit of GBD reform in the Territory is based upon the judgment that significant allocative and dynamic efficiencies are available in the GBD sector.

INSTRUMENTS OF REFORM

Also underpinning the Government's GBD reform process is the view that such inefficiencies can be significantly reduced by policy adjustments on the part of the Government. In particular, the emphasis is upon market-based means of facilitating efficiency improvements.

Over the last two years, considerable work has been undertaken by both the GBDs and Northern Territory Treasury to this end. To date, most emphasis has been placed on:

- the full attribution of costs to GBDs, with all GBDs now required to pay the full costs of employing staff, all corporate overheads such as the cost of leasing premises, auditing and legal costs, and all corporate taxes, fees and fines;
- the development of prices which properly reflect those costs, involving the movement toward a two-part pricing structure based upon a reasonable apportionment of fixed and variable costs;
- the identification and budget funding of the Community Service Obligations (CSOs) provided by GBDs; and
- the development of management systems and structures suited to a commercial environment, and which provide GBDs with a degree of flexibility and autonomy in their decision making so they can be more responsive to their commercial environment.

Altogether, these reforms see greater utilisation of the pricing mechanism to allocate resources between alternative uses. By fostering competitive neutrality, the amount of resources controlled by GBDs will increasingly be determined by their relative efficiency rather than any special advantages they enjoy (or special disadvantages they suffer) by virtue of their ownership.

ASSESSMENT

Reforms implemented to date have achieved a great deal in improving the efficiency with which resources are allocated, both within government and across the economy as a whole.

With time, improvements in efficiency will be able to be clearly assessed through movements in GBD performance measures and by benchmarking these to comparable enterprises elsewhere. Since for most GBDs this process is only in its first year, meaningful comparisons across time are not yet available. As this data accumulates, performance results will be presented in subsequent years on GBD performance results. Appendix 2 of this chapter details financial performance measures against which GBDs will be reporting.

Despite the current lack of useful data for measurement purposes, it is clear that the reform process to date has already achieved considerable progress in focussing the attention of GBDs on key business objectives. The costing and pricing activities, in particular, have provided GBDs with a much greater insight into their business operations and provided much more detailed information on the cost of service provision.

Similarly, as agencies now control the funding previously provided direct to GBDs, they are more aware of the cost of consuming GBD services and the alternate competing resource requirement they face. This has led agencies to give greater consideration to their level of use.

Some of the administrative and process changes required to implement the Government's GBD principles involve the resolution of complex issues or can only be progressed sequentially (that is, it is only possible to address some issues once pre-requisite changes have been bedded down and experience gained with them).

As a result, some significant policy issues continue to require work over 1998-99 and future years. Notable among the policy issues to be addressed over the coming year are:

- the pricing of individual CSOs, now that aggregate arrangements for funding of approved CSOs are in place;
- the determination of appropriate rates of return on equity and an associated dividend policy, now that certain fundamental aspects of costing and pricing have been implemented; and
- the evaluation of GBD performance, now that GBDs have begun reporting their performance against an initial set of financial and non-financial performance indicators.

The remainder of this chapter considers how some of these additional policy issues might develop, before canvassing whether further extensions might be required to the Government's commercialisation program were some efficiencies to prove elusive.

FURTHER REFINEMENTS

While many of the reform elements are in place, some are still under development or not yet fully implemented. Further progress is necessary on these fronts if commercialisation is to achieve its full impact. Once fully implemented, these reforms are likely to achieve the goals of commercialisation in most GBDs.

COMMUNITY SERVICE OBLIGATIONS

CSOs arise where the Government specifically requires a GBD to carry out activities relating to outputs or inputs which the GBD would not elect to do on a commercial basis - or would only undertake commercially at higher prices or lower standards - and which the Government does not require non-government businesses to undertake.

While these obligations may be legitimate goals of Government, the Government's GBD principles recognise that inappropriate treatment can impair the commercial focus of the GBD concerned. Unless CSOs are delivered by GBDs pursuant to a commercially negotiated and budget funded contractual arrangement, *and* are priced accordingly, there may be insufficient incentives to encourage efficiencies in the delivery of CSOs. Moreover, from the Government's perspective as purchaser, without budget funding the appropriateness of CSO programs may not be routinely assessed against the full cost of delivering the program.

With a view to ensuring that the cost of providing approved CSOs is minimised and the GBD has an incentive to perform these services in an efficient manner, the Government's GBD Guidelines provide for:

- each GBD to report information on identified CSOs;
- each CSO being valued on an avoidable cost basis according to the GBD's adopted pricing structure; and
- funding for approved CSOs being provided from the Budget, with the amount being provided determined annually in the budget context.

To date, progress has been made in moving to the direct funding of CSOs. In 1998-99, the Budget provides for $62.8M in funding of CSOs provided by the Territory's GBDs.

Under consideration for implementation in time for next year's Budget are extensions to the CSO arrangements involving:

- full implementation of a purchaser / provider framework with particular emphasis on the negotiation of an agreed *unit price* for each CSO activity, to further improve the incentives available for the GBD-provider to pursue efficiencies; and
- annual review of the amounts of each CSO being purchased in the Budget context.

Incentives for GBDs to pursue cost efficiencies will be strengthened by the Government meeting a set price *per CSO unit* instead of funding total costs. Where any reduction in total costs results in a corresponding reduction in the CSO payment, the opportunity to capitalise on efficiency gains is reduced.

This effect has also been exacerbated by the practice to date of ensuring budget neutrality when increasing transfers from the budget by equivalent increases in dividends payments from the GBD. While there are good reasons to introduce financial changes affecting the GBD's net contribution to the Budget in a budget neutral way in the initial years of operation, the pursuit of budget neutrality in subsequent years may dampen incentives for improving the efficiency of CSO delivery.

By striking a unit price, and the GBD only receiving funding based on that unit price, any efficiencies achieved by better management of resources by the GBD will be seen to improve the GBD's financial performance, and any inefficiencies or poor management will adversely impact upon business earnings.

Finally, as agencies responsible for purchasing the CSOs recognise that the CSOs effectively involve budgetary expenditures, there will be increased focus in government on obtaining value for money in respect of each CSO. Also there may be an increased focus in creating market pressures for the efficient provision of CSOs through regular reviews, effective contract management and competitive tendering as appropriate.

DIVIDENDS

The Government's GBD Guidelines require prices for GBD services to include provision for a rate of return on equity and taxation equivalents where the GBD is deemed to be in competition, directly or indirectly, with the private sector.

Reflecting the complexity of the issues involved, the pricing methodologies implemented to date by GBDs have not yet required inclusion of a component for a return on equity (profit). This issue will be considered over 1998-99 for inclusion into prices in future years.

One key objective of the reform process is to engender a more commercial focus in GBDs both within management and staff. Central to that commercial focus is close attention to the bottom line. If there is no allowance for GBDs to earn a return, or profit, on their activities there will be no profit focus.

Similarly, if meaningful comparisons are to be made between Territory GBDs and similar enterprises elsewhere, particularly where those comparisons are to private sector organisations, a profit element will generally be included in costs and returns on equity would form a key financial measure.

Determining appropriate rates of return will be relatively straightforward in the case of GBDs operating in competitive market segments (such as fleet management), but more difficult in those areas where competition is constrained (such as electricity and water). It must also be recognised that in such cases, setting a rate of return will impact on CSO payments, as well as consumers prices (to the extent that these are allowed to vary).

GBDs must also plan to earn a suitable return on equity if they are to ensure that the capital invested by the Government in the business is utilised appropriately. Capital productivity has traditionally been an area of poor performance with the government business sector, with improvements a particular goal of commercialisation.

Likewise, the actual amount paid as annual dividends should reflect the degree of success achieved in earning a return on equity (that is profit). Only as ongoing dividends are increasingly set according to commercial principles are GBDs more likely to treat the Government's equity contribution and retained earnings as 'shareholder capital', and will management recognise that it is the maintenance and enhancement of the value of such capital for which they must be held accountable.

Over the next year, attention in this area will be focussed on deriving:

- a *medium term* target rate of return on equity for each GBD, indicating the return on the Government's investment sought in the context of explicit funding of CSOs and a commercial debt/equity structure;
- an indicative dividend payout ratio (as a proportion of profit) for each GBD, to act as a starting point for dividend negotiations; and
- a dividend regime where annual dividends are driven primarily by the need to maintain a suitable capital structure.

Target rates of return on equity are likely to be set equal to the long-term government bond rate (representing the risk free rate) plus a risk premium unique to each GBD. Final target rates for a particular GBD will need to be established on a case-by-case basis through consultation and financial analysis - mainly because risk profiles are likely to differ and there may be differences in the extent to which all CSOs are explicitly funded. CSOs restraining GBDs from recovering the full cost of resources may be funded, in whole or in part, through a reduction in the rate of return otherwise required.

Government's usually prefer returns in the form of high dividends rather than capital gains and, if this were the case in the Territory, the indicative dividend payout ratios to be set for individual GBDs would typically be higher than private sector averages.

By basing dividend payments ultimately on capital structure considerations (that is, the target debt to equity ratio), GBDs would only retain the cash resources necessary to achieve the targeted equity levels (and no more) and to fund their approved capital expenditure program. Under such a regime, once future capital expenditure is agreed, the level of dividends would be driven by the profitability of the GBD, the need to keep the target debt to equity ratio, and measures driving that target such as interest cover, in the desired range. Having set the capital structure and approved a future level of capital expenditure, the level of dividends is a residual, with negotiations on the dividend payout in a particular year, in effect, being a negotiation on the future level of capital expenditure by the GBD.

MONITORING AND BENCHMARKING PERFORMANCE

The Government's Guidelines call for GBDs to monitor their performance with respect to core services and to periodically report the results of such monitoring.

Over the past year, initial performance indicators (both financial and non-financial) have been established by each GBD. For the first time, a range of such indicators has been reported in the annual reports of all the GBDs (except the International Project Management Unit which is involved in a thorough business review, the results of which will be used to develop performance measures).

Focus to date has been on enabling the GBDs to develop their reporting systems. With the basis of these systems now in place, it is appropriate to:

- progress the reporting arrangements to improve consistency between GBDs in the selection and measurement of the performance indicators being reported; and
- develop external benchmarks to assist in evaluating these performance indicators.

Progress is expected to be made in both respects over the coming year. As this is done, it will also be possible to embark on developing processes aimed at independently assessing each GBD's performance for Cabinet.

POSSIBLE ADDITIONAL MEASURES

Once the commercialisation reforms described above are in place and management culture in the Territory's GBDs is well on the way to becoming more commercial, consideration may also need to be given to further policy initiatives in order to achieve all the dynamic efficiencies that may be available in some of the larger GBDs.

With commercialisation in place, options going forward revolve around the 'corporatisation' of government businesses.

The National Competition Policy Agreement states that, where appropriate, participant jurisdictions like the Territory will adopt a 'corporatisation' model for government business enterprises. To date, the approach of the Territory has been to corporatise (as distinct to privatise) only the larger enterprises, that is the Territory Insurance Office, Power and Water Authority, and the Darwin Port Authority. These corporatised GBDs have a separate legal identity achieved via legislation.

In addition to incorporation under special Acts or corporations law, the corporatisation model favoured in other jurisdictions involves adopting private sector *corporate governance* arrangements, which see management of government businesses being given substantial decision-making discretion in exchange for strengthened performance monitoring and strategic shareholder oversight.

The remainder of this chapter looks at what would be involved if full corporatisation were to be contemplated for a GBD once commercialisation was in place, and what factors may determine whether such an approach is appropriate in the Territory context. In doing so, the considerations that would need to be weighed up when deciding whether to fully corporatise a GBD are identified. It is one thing to be certain that inefficiencies remain: it is quite another to be sure that the costs of correcting such inefficiencies do not exceed (or consume) the benefits to be had.

NATURE OF CORPORATISATION

'Corporatisation' is a form of corporate governance which is a step closer to that typically seen in large private sector businesses than under 'commercialisation'. In particular, full corporatisation involves granting operational autonomy to management beyond that already available under commercialisation *matched with* effective accountability for exercise of that discretion, all aimed at maximising the return on the owner's investment in the organisation.

At its most extreme, corporatisation is similar to the privatising of management (on a fee for service basis) rather than of ownership, with the importation of private sector corporate governance arrangements into the public sector.

From experience in other jurisdictions in Australia, key policy elements required for effective corporatisation would be:

- Ministers taking on more of an owner-shareholder role, with shareholder-Ministers exercising strategic control consistent with their accountability to Parliament and the public, but leaving boards and management to develop business strategies and to handle day-to-day operational policies;
- a Board of Directors being established which is commercially focussed rather than representative, and accountable to the shareholder-Minister for the overall performance of the GBD, with such Boards charged with ensuring that the GBD's activities are managed in the best interests of the Government as sole shareholder;
- GBD management being granted full operational autonomy with respect to making key restructuring decisions, introducing commercial-like work practices and conditions of employment and determining the ongoing asset acquisition and disposals program to maintain existing operational capacity; and
- the Government as owner establishing:
  - a performance contract with the GBD, involving owner-determined targets regarding a GBD's rates of return on equity and capital/assets, capital structure and dividend payments and owner-determined rules regarding core (approved) activities, borrowings, information disclosure and the scope for future equity injections;
  - a performance monitoring capability within Government independent of the GBDs, involving clear reporting and information requirements of GBDs; and
  - graduated rewards (and sanctions) for good (and poor) performance.

Such governance changes could only be contemplated in the Territory context once all aspects of commercialisation were in place and the GBDs in question were displaying an appropriate commercial culture.

The main governance extensions from commercialisation to fully corporatise selected GBDs would involve:

- devolution of operational authority to GBD boards and management;
- extending the charter of operations into something closer to a 'statement of corporate intent', including by setting financial targets from the Government's perspective (shareholder); and
- introducing graduated rewards and sanctions, in addition to remuneration arrangements, thereby moving to effective *ex post* accountability of boards and management for their performance.

ECONOMIC BENEFITS OF CORPORATISATION

While commercialisation will ensure that GBDs are charging cost-reflective prices, it is possible that these costs may continue to exceed those of privately-operated businesses because the governance arrangements facing GBD management result in incentives to produce efficiently which do not match those facing private sector management.

Some of the governance arrangements facing private sector management but which do not form part of commercialisation of the Territory's GBDs are:

- effective performance contracting between the owners and management;
- strong sanctions for management for worse-than-expected performance, and sufficient rewards for better than expected performance; and
- the Government, as owner, deliberately staying out of operational decisions, to ensure that management is fully accountable for resulting performance.

The absence of the incentives that go with these governance arrangements may result in some GBDs' cost structures (and so prices charged) being higher than those possible under a more corporate-like governance regime.

The rationale for eventually granting discretion to management beyond that already available under the Government's commercialisation guidelines is that it may be essential if all economies are to be identified and management's accountability for business performance is to be strengthened.

ECONOMIC COSTS OF CORPORATISATION

Management autonomy cannot be unfettered and owners must be sufficiently informed to hold management fully accountable for GBD performance. Where these conditions have not been met in the private sector, more often than not the result has been the destruction rather than creation of shareholder value.

In fact, the discretion allowed management - necessary to reap greater economies and strengthen accountability - gives rise to potential *agency costs*. These costs are associated with the scope available to boards and management to pursue business objectives that are not in the interests of the Government as shareholder. Such divergence of interest may result from the risk preferences and time horizons of GBD management being different from those of the Government as shareholder. Such problems increase the greater the degree of formal separation of government from the operations of its business enterprises, and are magnified where the enterprise in question has the capacity to generate large operating cash flows.

Corporatisation therefore also involves certain costs associated with the monitoring and incentive mechanisms necessary to deal with such agency problems. The main costs are associated with:

- contracting desired performance levels with management;
- providing incentive arrangements which reward good performance and penalise poor performance; and
- monitoring actual performance against targeted levels.

The remainder of this section looks at these costs in the Territory context. Whether full corporatisation could eventually be contemplated in the Territory once commercialisation has been implemented in full depends upon an assessment of the size of these costs relative to the potential benefits described earlier in the form of increased shareholder value.

PERFORMANCE CONTRACTING

To become a performance contract which a GBD's board and management would have with shareholder Ministers, a GBD's charter of operations would need to be extended to include a small number of carefully designed (financial and non-financial) performance *targets***,** focussed on the maintenance and enhancement of 'shareholder value' in particular. Such performance targets would need to be established by the Government rather than the GBDs themselves, and would involve consideration of the riskiness of the business.

Clearly, such arrangements would only be effective where commercially sophisticated boards were in place, and there was a capacity within government to set (and monitor) meaningful performance targets.

REWARDS AND SANCTIONS

Clear incentives would need to be in place to make any performance contracts work. Otherwise, in the case of GBDs, there would be no convincing process or incentive framework to ensure that pressure was applied to reduce costs.

While appropriate remuneration arrangements may need to play a role (including bonuses for better-than-targeted performance) perhaps of more importance would be:

- public performance reporting arrangements which impact upon the reputations of boards and management; and
- graduated sanctions for below-par performance which take effect prior to circumstances warranting dismissal of the board or management, perhaps involving (as performance departs increasingly from targeted levels) increased reporting requirements and / or reduced managerial autonomy and increased shareholder-imposed administrative controls.

Unless appropriate rewards and sanctions are in place, experience from other jurisdictions is that boards and management will not be held accountable for their performance and incentives for the pursuit of efficiency, gains will be inadequate. Clearly, such arrangements have their own costs and carry certain risks for the Government.

ACCOUNTABILITY MECHANISMS

Finally, only through effective accountability monitoring of a GBD's performance would shareholder-Ministers be able to ensure that such performance was in line with previously agreed objectives. Monitoring also provides early warnings regarding any emerging problems.

To be effective, such monitoring would need to be independent of the GBDs in question. As shareholder-Ministers do not have time themselves to monitor performance, this role would have to be assigned to monitoring units within government. The tasks facing such units are the evaluation of business performance and its expected future earnings, and the risks being undertaken by the business.

Such monitoring units would need to be staffed with people with the commercial and capital market skills necessary or the industry specific knowledge required to monitor the Government's investments in its business enterprises.

CONCLUSION

Corporatisation is basically an extension of commercialisation, involving granting a greater degree of autonomy to GBD management and a retreat by the Government to a strategic shareholder role.

While there may be important gains to be had from effective corporatisation in the form of improved dynamic efficiency and a better return on government capital tied up in the GBDs concerned, moving beyond commercialisation to full corporatisation clearly also has major costs and risks for government.

Dynamic efficiency is most likely to be improved by greater managerial autonomy coupled with strategic ownership oversight and the associated costs and risks might be manageable in circumstances where:

- management has commercial experience or potential;
- the governing board is commercially focused;
- performance benchmarks are readily available;
- performance contracting and monitoring skills are present within government; and
- appropriate rewards and sanctions are available.

These conditions are only likely to be met with regard to the larger GBDs, and then only after progress has been made on the commercialisation front, *and* a convincing case is made that some important inefficiencies remain.

These conditions are unlikely to be met for smaller GBDs or GBDs not in competition with, or supplying goods or inputs to, the private sector. Unless such conditions are met, corporatisation is unlikely to be an appropriate step for the Territory Government to consider.

APPENDIX 1

NORTHERN TERRITORY GOVERNMENT BUSINESS DIVISIONS

GBD	Host agency[(a)]	external/ internal[(b)]
Darwin Port Authority	Department of Transport and Works	external
Construction Agency	Department of Transport and Works	internal
NT Fleet	Department of Transport and Works	internal
Government Printing Office	Department of Transport and Works	internal
Department of Communications and Advanced Technology: Commercial Services	Department of Communications and Advanced Technology	internal
Darwin Bus Service	Department of Transport and Works	external
Wildlife Parks	Parks and Wildlife Commission of the Northern Territory	external
International Project Management Unit	Department of Asian Relations, Trade and Industry	external
TAB	Racing and Gaming Authority	external
Power and Water Authority	Northern Territory Treasury	external
Northern Territory Housing Commission	Department of Housing and Local Government	external

Note: Host agencies act as owner on behalf of the Northern Territory Government, and are the Agency responsible for a GBD in the first instance.
External GBDs supply market-like goods and services to the private sector, whereas internal GBDs supply their goods and services at this stage solely to other arms of government.

APPENDIX 2

GBD PERFORMANCE MEASURES

As part of the performance monitoring process, GBDs are required to report annually against a number of set financial performance measures (where these are meaningful). These financial performance measures are detailed below. They have been adapted from the financial performance measures developed by the Steering Committee on National Performance Monitoring.

1. RETURN ON ASSETS

$$\frac{\text{Earning Before Interest and Income Tax (Equivalents) but after Abnormals (EBIT)}}{\text{Average Total Assets}}$$

This measure determines the relative efficiency of a GBD's utilisation of its assets to generate income. It provides an indication of profitability and efficiency which would be relevant in a competitive environment where return has to be maximised for a given capital base.

There is some merit in the argument that this measure is of limited value to GBDs who do not operate in fully competitive markets since their focus is on cost recovery rather than profit maximisation. However, this position may change over time, and time-series data will be useful to assess the impact on profitability of opening markets to competition.

2. RETURN ON OPERATING ASSETS

$$\frac{\text{EBIT less Investment Income*}}{\text{Average Total Assets less Average Financial Assets}}$$

*Investment Income is income received and receivable on financial assets (for example, interest, dividends, etc).

This specifically measures the profitability and efficiency of the core activities by excluding investment activities.

3. OPERATING SALES MARGIN

$$\frac{\text{DEBIT less Investment Income}}{\text{Total Revenue (including CSOs) less Investment Revenue}}$$

This ratio measures the efficiency of GBDs by calculating the portion of revenue that is converted into profit. Over time, it provides a measure of a GBD's ability to minimise expenses.

4. RETURN ON EQUITY

$$\frac{\text{Operating Profit After Income Tax*}}{\text{Average Total Equity}^{\#}}$$

*Operating profit after income tax is total revenues less total expenses (including interest and abnormal items) less income tax. Extraordinary items are not included.

#Total equity is total assets less total liabilities and therefore includes capital, reserves and retained earnings.

This ratio measures the return that the owners of the GBD (Government) receive from their investment.

5. DIVIDEND TO EQUITY RATIO

$$\frac{\text{Dividends Paid or Provided For}}{\text{Average Total Equity}}$$

As an alternative to Return on Equity, this measures the return that is actually paid to the owners.

6. DIVIDEND PAYOUT RATIO

$$\frac{\text{Dividends Paid or Provided For}}{\text{Operating Profit After Tax}}$$

This measures the proportion of profit that is paid to the owners. While in the private sector, investors and creditors often use this as an indication of management intentions for the future of a firm, from Government's perspective this measure will be used more to ensure an efficient use of capital resources.

7. DEBT TO EQUITY

$$\frac{\text{Debt*}}{\text{Total Equity}}$$

*Debt is all repayable borrowings (both interest bearing and non-interest bearing), non-repayable interest bearing borrowings, redeemable preference shares and finance leases. Excludes creditors and provisions. Offsetting assets (such as contributions to sinking funds) should not be deducted.

This indicator is used to assess the stability of a GBD's capital structure and its medium to long term solvency.

8. TOTAL LIABILITIES TO EQUITY

$$\frac{\text{Total Liabilities*}}{\text{Total Equity}}$$

*Total liabilities includes debt, provisions and creditors.

This measure is used to indicate the stability and sustainability of a GBD's capital structure. The ratio compares the level of total debt financing as a proportion of total equity financing.

9. CURRENT RATIO

$$\frac{\text{Current Asset*}}{\text{Current Liabilities*}}$$

*Current assets and liabilities are those which are expected to be converted into cash (or are due to be paid in the case of liabilities) within the next twelve months.

Measures the short term solvency of a GBD by comparing the liabilities that may be required to be settled at any time to the current assets available to be liquefied to meet them. This enables an assessment of the sufficiency of a GBD's working capital.

10. INTEREST COVERAGE

$$\frac{\text{EBIT}}{\text{Gross Interest Expense}}$$

Interest payments on debt are a hurdle that a GBD has to overcome each year. Interest coverage measures how well placed a GBD is to meet its commitments by determining how many times over it earns its interest repayments.

11. COST RECOVERY RATIO

$$\frac{\text{Revenue from Operations*}}{\text{Expenses from Operations*}}$$

*Revenue or expenses from operations are total amounts less abnormal items and those amounts associated with investing activities.

Measures the performance of the core activities of a GBD by determining the excess of its revenues over the expenses incurred to generate them. The core activities are the foundation of a GBD's performance and so give an indication of the medium term viability of a GBD.

12. OPERATION PERFORMANCE

$$\frac{\text{Revenue from Operations less Expenses from Operations}}{\text{Average Total Assets less average Financial Assets}}$$

Measures the performance of a GBD by its efficiency in extracting profit from its operating assets. For those GBDs not in a fully competitive environment cost recovery, rather than profit maximisation, is the key objective. As such this measure will be of little significance initially. However, like other profitability measures, there is some use in calculating the indicator in order to obtain time-series data.

NON-FINANCIAL MEASURES

In addition to the above financial performance measures, GBDs are required to develop non-financial performance measures. These are used to monitor areas such as:

- standard of service;
- customer satisfaction;
- employee relations; and
- level of service.

Chapter 8

PRIVATISATION AND OUTSOURCING

The transfer of government assets and functions to the private sector has been a significant focus of Governments at all levels in Australia over the last decade. The contracting out of government activities has been under way for some time, and assets sales are set to continue with some States announcing major initiatives to prepare government businesses for sale in 1998.

This chapter considers the nature and promise of privatisation and outsourcing in a Northern Territory context.

The two options of privatisation and outsourcing are distinguished, and general reasons for growing interest in privatising in other jurisdictions are explored. For both privatisation and outsourcing, the respective economic benefits and costs are canvassed, and the circumstances required for maximum net benefit and minimising risk are suggested.

Given the small, dispersed and isolated nature of Territory markets, and the skill-intensive nature of contracting and monitoring, the scope for privatisation and outsourcing in the Territory can only be determined on a case-by-case basis. They clearly have a role to play in some circumstances, as evidenced by a range of privatisation and outsourcing experiences in the Territory since Self-Government.

DEVELOPMENTS IN GOVERNMENT OWNERSHIP

Crucial to an appreciation of privatisation or outsourcing options is an understanding of why governments took on the operation of the business or activity in the first place. The usual explanation is that government provision is needed because reliance on private provision would result in the goods and services in question being under-provided or too highly priced.

Such 'market failure' is particularly apparent with infrastructure, and may take many forms:

- some facilities and networks may be natural monopolies and could give rise to monopoly pricing if privately owned;
- some facilities are indivisible and must be built to a minimum feasible size, and typically have a high level of user benefit which cannot be captured as income;
- some facilities are characterised by high external benefits and costs, such that those who benefit may not pay and those who suffer the costs may not be compensated; and
- some facilities may be public goods for which it is not feasible to identify and charge all users.

In these circumstances, the longstanding view has been that efficient pricing and supply practices can be more easily affected through government ownership or provision than by regulating a private monopoly or by subsidising (or arranging supply by) a private provider. Government businesses have been considered to be more likely to act in the 'public interest' by restraining prices and ensuring sufficient supply. Any information required on market conditions would also be more readily provided by a government-owned business.

From experience elsewhere in Australia and overseas, many different influences are contributing to the increased support for privatising government businesses or functions. These include:

- rejection of previously-held notions that government ownership of certain businesses or activities is an appropriate or effective intervention in the market place;

- a philosophical view that small government is better than large government;

- the argument that private sector provision is more efficient (and less costly) than government provision;

- growing acceptance that the community's interests can be better handled by government being the business regulator and/or through contracted community service provision - and that an ownership role gives rise to a conflict of interest in this regard;

- increased concentration on core business apparent in both the private and public sectors which has led to the divestment of non-core functions to specialist providers;

- a favourable market environment currently for asset/business sales; and

- recognition that it is governments and not the private sector which are increasingly faced with capital constraints, requiring private participation and funding to meet growing infrastructure needs previously only possible by government provision and funding.

The fundamental issue in privatisation is whether the benefits which governments and the community derive from government ownership or direct service provision can be achieved more effectively via other means.

The factors which gave rise to government ownership or participation in the past may no longer be as relevant in present circumstances.

The key changes which have been most apparent over the last decade have been:

- a considerable improvement in governments' capacity to regulate private providers, with the strengthening of economic regulation competencies within government as a result of (for example) the national competition agenda, and a growing capacity to negotiate and manage purchaser contracts; and

- the much increased willingness of private sector providers with financial and operational capacity to provide infrastructure and publicly-funded services, and the growth and increased competitiveness of associated markets.

Governments have only really been prepared to contemplate various forms of privatisation as they have become increasingly satisfied that their interests and those of the community are capable of being better served by alternative policy approaches (such as by regulation, identification of cross subsidies, explicit Community Service Obligations (CSOs) and the like).

OPTIONS

There is a wide range of processes through which activities, assets or functions can in effect be transferred from government to the private sector. These range:

- *from* the privatising of management (rather than ownership) of government businesses and activities, either via 'corporatisation' or the tendering out of management itself for a fixed period, and allowing the government business to operate like a private firm for the duration of such an arrangement, even though the assets and liabilities remain with government;

- *to* the privatising of the ownership of businesses as a whole or of individual assets, usually termed 'privatisation' or asset sales; and

- *to* the privatising of the provision of certain goods or services to or on behalf of government, via various outsourcing or contracting-out arrangements.

This chapter focuses on the privatisation and outsourcing options. Corporatisation is dealt with in Chapter 7.

PRIVATISATION

Privatisation involves government switching focus from being an owner/shareholder to being a regulator and purchaser. Privatisation is most evident in situations where the goods and services being produced are essentially 'private goods' (and substantially paid for by end-use customers). In these circumstances, the business and assets in question themselves have an inherent value to the private sector. Privatisation involves selling a government business to the private sector. It can be complete or partial. Depending upon the extent of competition in the relevant market, policy frameworks can be established by government at the same time to ensure that the community shares in any resulting efficiency gains or that any costs to the community are minimised.

BENEFITS OF PRIVATISATION

Currently, the greatest attraction in privatisation is the impetus it gives to the pursuit of *dynamic efficiencies*. Dynamic efficiency involves the degree to which the minimum level of inputs is being used to produce a given level of a particular output. This requires the assets or business in question being put in the hands of owners with enough of a stake to benefit from improved performance (or to suffer from a deterioration) and with the power to achieve results.

The scope for dynamic efficiency gains as a result of privatisation therefore depends upon the nature of the new private sector owners, such as:

- Ownership dispersed over a large number of individual shareholders may not result in efficiency levels much different than those under government ownership, because strategic shareholder oversight of management is not possible. However, it may speed a business' responsiveness to meet changing market circumstances;

- Institutional investors (such as life insurance companies or superannuation funds) could have positive supervisory effects on management to the extent that they tend to watch dividends more closely than either government or individual shareholders and sell shares if earnings stagnate or fall. Institutional investors are unlikely, however, to bring any trade-specific skills to the oversight of management; and

- A controlling shareholding by a strategic (that is, trade) investor would put skilled owner-investors in charge of the business. Compared with governments as owners, strategic (trade) owners may have a greater capacity to identify and exploit remaining efficiencies and to manage and digest risks.

Privatisation also has the attraction that it can basically eliminate the administrative and monitoring burdens on the government of having to oversight the risks and returns of the businesses in question. The government can then concentrate on activities more suited or appropriate to government ownership.

A final benefit of privatisation is the budgetary gains possible from any privatisation, and the associated additional financial flexibility that results. Such gains depend upon whether investors are prepared to pay a premium for the control of the government business (that is, an amount in excess of the value of the assets under continuing government ownership).

Such a premium is only likely in situations where, in the view of investors, opportunities exist to drive capital and operating costs lower, make better investment decisions and improve utilisation of existing assets. A premium would only in fact exist if the government was unsure that it could capture any efficiency gains over time itself - via an improved dividend stream following a concerted commercialisation or corporatisation process - were the business to remain under government ownership.

Any budgetary benefits will be greatest when market conditions are favourable. Although conditions vary from time to time, and in relation to particular lines of business, present market conditions for government asset sales are clearly favourable. Australia is experiencing a low inflationary, low interest rate market. Investors are keen to diversify their assets into businesses which will provide opportunity for higher returns. (Differences in asset sale prices can be explained through varying investor return profiles. An investor may be prepared to pay $100M for a $10M per year income stream - for a return of 10% - at higher than present interest rates. For a 15% return, $67M may be paid to acquire the same income stream).

COSTS OF PRIVATISATION

While there might be considerable scope for efficiencies and financial benefits from privatisation, the costs to achieve privatisation can be sizeable. The main costs involve:

- payments to external advisers who contribute legal, financial, accounting and project management skills, which can typically involve up to 1% of any sale proceeds;
- the costs of regulating a private monopoly where competition might be wasteful;
- the costs of contracting the continuing supply of CSOs from a privatised provider; and
- any preparations necessary to improve the financial structure and economic performance of the government business in advance of sale and its effective regulation.

The advisory costs are self-explanatory. The remainder of this section looks at the less obvious regulatory, CSO and preparation costs associated with privatisation.

Regulatory costs

Where a monopoly or market-dominant business is privatised, it is incumbent upon government to ensure that the market power transferred to private owners is not used to the detriment of consumers. This requires establishment of a price and conduct regulation regime to apply to the privatised enterprise.

In the absence of effective competition, whether any efficiencies achieved by private ownership are shared with consumers depends upon the price paths allowed and so the value of 'X' under any CPI-X price cap arrangements.

While regulatory costs are undoubtedly involved, whether they are so prohibitive as to rule out privatisation reflects on the capacity of government to undertake a core function. Operating regulatory mechanisms (that is, correcting genuine instances of market failure) is where governments should have a comparative advantage.

CSO Costs

Where required community services are unlikely to be provided at all or in insufficient quantities by a privatised business on commercial grounds, governments are obliged to contract for their delivery with the privatised supplier. This requires purchase contracts covering price/quantity/quality of individual CSOs. These contracts would be similar to the purchase agreements necessary were the business to remain under government ownership, and the prices involved should not be higher than with a commercialised government business.

What would be different under privatisation, however, is that the government would not be able to make changes to the quantity or quality of the goods or services in question as easily as it can when it owns the provider. This flexibility is lost when the CSO is privately owned and supply is governed by a written (and legally enforceable) contract.

The counterside to loss of flexibility however, may be that reduced flexibility represents greater certainty for the provider, and that this provides the basis for a lower cost structure and thus lower prices charged for the goods or services.

Whether such costs would be large depends upon the ability of government to write and supervise contracts in ways that do not come at the expense of the service or its consumers. Governments are only slowly expanding the purchaser (and contract negotiation and management) skills necessary to ensure that CSOs are provided satisfactorily by private providers.

Preparation costs

Privatisation might not be immediately possible or desirable, as some restructuring and preparation of the government business in question might be warranted prior to sale. This is particularly the case where:

- the sale price might otherwise be adversely affected because potential investors are uncertain or sceptical about the value of the business; there are complex pre-existing contractual obligations; the business has excessive debt levels or possesses significant contingent liabilities; or it has an over-manning problem; and
- effective regulation might be difficult without some restructuring because of the lack of transparency and the mixing of monopoly and contestable elements due to excessive horizontal or vertical integration in the existing business structure.

ASSESSMENT

Provided effective regulatory and CSO regimes can be put in place to achieve broad social and economic objectives, a strong case may exist for privatising a government business where the private sector can do an equal or possibly better job in running the business commercially - irrespective of whether the government business is a monopolist or not.

Only where government is not confident in its capacity to regulate the prices charged by - or to contract service delivery with -

privately-owned businesses might the costs of privatisation tend to offset any potential dynamic efficiency benefits.

Dynamic efficiency is most likely to be improved by privatisation coupled with regulation - and the associated costs and risks might be manageable - in circumstances where:

- the business is relatively transparent and does not display excessive degrees of vertical or horizontal integration;
- pricing rules are established or easily devised;
- regulatory skills are available in government;
- effective CSO valuation and funding arrangements are in place; and
- minimal financial and organisational preparations are necessary to attract sufficient investor interest.

Where these conditions are not met, privatisation is likely to hold considerable risks for the government and the community. Any net benefits available might be captured in their entirety by private participants to such transactions while all the associated risks could remain with government.

OUTSOURCING

Outsourcing involves government switching focus from being a producer or provider of the goods or services in question to being a purchaser of those goods or services. Outsourcing is most evident where the immediate purchasers are largely within the public sector (whether the goods or services are an intermediate input into government or a ‘social good’ being purchased using taxpayer funds for supply to the community). In these circumstances, it is the function or right to supply which would be of value to the private sector, with the assets or businesses involved in in-house provision usually having little value in their own right.

Outsourcing is the transfer of a function previously performed in-house to an outside provider. Normally outsourcing involves selecting a preferred provider of goods and services from a range of bidders by seeking offers and evaluating these against selection criteria. The discussion here does not consider agencies using the services of other agencies within government which also has benefits.

Governments of many countries are embracing the benefits of outsourcing and the Australian States are adopting outsourcing in more facets of their operations.

Government Business Divisions (GBDs) in the Territory are bound to analyse the prospect of outsourcing as a means to reduce costs. However, the opportunity to reduce service provision costs is not limited to GBDs, and can be applied to other areas of government. Experience in other jurisdictions indicates that outsourcing can occur across a wide range of government services.

BENEFITS OF OUTSOURCING

The main benefit of outsourcing is that it can result in *cost-savings* in the provision of government services. It provides the opportunity to access the provision of services more cost effectively from service providers who specialise in a particular service. Alternatively, outsourcing may achieve least cost service provision via the introduction of competition.

A second benefit particularly relevant in the Territory context is that outsourcing can promote economic development by fostering private sector activity and employment. This benefit may be maximised provided the private sector suppliers are based or have a substantial presence in the Territory.

A final benefit of outsourcing is that it results in a clearer view within government of the activities being undertaken and whether current activities are effective in meeting underlying policy goals.

COSTS OF OUTSOURCING

Outsourcing is not a cost-less exercise. A range of requirements must be in place to ensure that the potential benefits of outsourcing are initially realised and that they are maintained in the long term. Putting these requirements in place comes at a cost, which must be balanced against the benefits. These costs can be either financial or economic in nature.

Only when the net present value of any benefits outweighs that of any costs will there be a business case to undertake a program of outsourcing.

Contracting costs

Essential to any outsourcing is the contract between the purchasing agency in government and the private sector provider of the goods and services in question. Whereas with a government provider arrangements can be developed over time as issues arise, when a private provider is involved, all the detail has to be decided before the contract is let.

The contract must clearly state the responsibilities of each party, what information must be shared between parties and establish the mechanisms for redress when substandard performance is identified.

The contract must also clearly specify what services are to be performed, how they are to be performed, the minimum quality of the service and how they are to be measured. Incorrect or inadequate contract specification may lead to unforeseen and unacceptable reductions in service quality or to excessive cost to Government in terms of the quality of the service delivered. An important aspect of specification relates to ensuring there is no unacceptable reduction in the quality of the service.

Contestability Costs

The success of outsourcing in achieving the least cost provision of services is also dependent upon active competition. It is necessary to bundle activities to make packages of adequate size and duration which will attract bidders for service provision.

When the activities are unique to government or there are a limited number of providers, a market may need to be developed if outsourcing is to be undertaken.

Monitoring Costs

Once an outsourcing contract is awarded, the outsourced service needs to be monitored and the contract terms enforced.

Monitoring is necessary to ensure the contractor meets the contractual performance. Ongoing monitoring assists in the identification of difficulties or differences in expectations so that corrective action can be taken. Monitoring can include performance indicators, regular contractor reports on outcomes, customer surveys and direct inspections.

The contract must allow the government to warn the contractor if performance levels are not satisfactory and improvements are necessary. There should be scope for penalties and for the government to rescind any contract for failure to meet contracted obligations and outcomes.

ASSESSMENT

Provided effective contracting, monitoring and market arrangements are in place, a case may exist for outsourcing an increasing number of Government activities.

Where private markets or providers do not yet exist or contracting and monitoring difficulties can be anticipated might the costs of outsourcing tend to offset any cost-saving benefits.

Cost savings are most likely to be achieved by outsourcing - and the associated costs and risks might be manageable - in circumstances where:

- contract negotiation and writing skills exist with government;
- the services in question are well defined and their desired qualities are capable of measurement;
- there are a number of locally-based service providers in the position to bid in a competitive tender process; and
- monitoring and enforcement skills exist within Government.

Where these conditions are not met, outsourcing is likely to hold considerable risks for the Government and the community, and the net benefits available might be captured in their entirety by private participants to such transactions.

Some Territory-specific issues may mitigate against the use of comprehensive outsourcing such as has occurred in other jurisdictions. These include:

- the small size of the Territory economy - the lack of potential suppliers will limit the extent to which competition can be used as a tool to drive efficiency; and
- the small size of the public sector means that central support of the process may not be available to the same degree as in larger jurisdictions, and that necessary skills in tendering processes, costing issues, contract administration and performance monitoring might be in shorter supply.

CONCLUSION

The Territory is in a unique position compared to the States, implying that the appetite for privatisation and outsourcing seen in the States may not necessarily be appropriate to the Territory.

In particular, the relatively small and geographically dispersed nature of the Territory’s markets - and their geographic isolation - means that the scope for competition is less in the Territory than in the States, increasing the monitoring and regulation costs to be expected.

For these reasons, it is unclear how far privatisation and outsourcing can be taken in the Territory environment.

Nevertheless, the Territory has had its share of experience with privatisation and outsourcing, suggesting that these policy responses can be relevant in particular circumstances.

One of the Territory’s first experiences with privatisation was in 1982 with the sale of the Mt Wells Mining Battery. Further examples of outsourcing and privatisation have included the sale of the Government Mining Laboratory in 1984; the contracting out of road construction commenced soon after Self-Government; the private provision of gas pipelines in 1983 and 1986 to supply fuel for the Territory’s major power stations; and the Northern Territory Power transmission line in 1988 which is privately operated and the establishment of the Pine Creek Power Station run by an Independent Power Producer in 1990. In addition, stage one of the Ayers Rock Resort sale was completed in 1993 and the second and final stage in 1997.

Outsourcing is used by the Auditor General's Office, Strategic and Audit Services (Department of the Chief Minister) and more recently by the Attorney General's Department. Financial and performance management system audits of Government agencies are outsourced to local accounting firms and overseen by staff of the Auditor-General's Office. Strategic and Audit Services calls for tenders from both local and interstate accounting firms as the need arises for the performance of internal audits and other strategic based projects. Most of the litigation and commercial legal services for the Territory Government is soon to be provided by local private sector legal practitioners and overseen by staff of the Northern Territory Attorney-General's Department.

In relation to potential privatisations, the Government has established an Asset Sales Team to advise on the potential for the sale of assets and to manage any sale processes should they eventuate. Recently the Territory Government reassessed the holding of land located at the Trade Development Zone, Berrimah. The land not required for Zone purposes will now be sold by the Department of Lands, Planning and Environment.

Hence, in the Territory as elsewhere, an examination of the potential benefits of privatisation and outsourcing is a necessary component of efficient Government.

APPENDIX 1

AUSTRALIAN PRIVATISATION AND OUTSOURCING EXPERIENCES

While the Territory is in a unique market environment in comparison to the other States - so that it is not always possible or desirable for the Territory to follow in the same direction as the other States - there are a number of Australian privatisation and outsourcing experiences which have the potential to be relevant to the Territory.

The Electricity Industry

Victoria commenced a significant overhaul of its electricity industry in 1993 and is clearly the State most advanced in terms of electricity reform. The privatisation of the distribution, generators and transmission assets commenced in 1995.

Tasmania and South Australia have both announced their intentions to sell their electricity assets.

Gas

GASCOR in Victoria has contracted out appliance and mains repairs and maintenance since 1995 and the Gas and Fuel Corporation of Victoria contracted out support services in 1994.

Queensland privatised its State Gas Pipelines in 1996 and South Australia privatised its Oil and Gas Corporation in 1993.

Communications

In 1997, the Australian Customs Service announced its intention to outsource the full range of its information technology requirements to EDS Australia for five years. The South Australian Government also uses EDS Australia for all of its data processing activities.

Printing Offices

South Australia and Western Australia have sold their Government printing offices to the private sector.

Motor Vehicle Fleets

All State Governments and the Australian Capital Territory Government have entered into or are presently negotiating the sale and leaseback of their light vehicle fleets. As a consequence the private sector will own the light vehicle fleets.

The Western Australian, Victorian and Commonwealth Governments have all engaged private sector fleet managers to run their motor vehicle fleets. Other States are investigating the fleet management outsourcing option.

Totalisator Administration Boards (TABs)

The Victorian Government privatised its TAB in 1994 by way of a public float. The New South Wales Government announced the impending privatisation of its TAB in 1997. Both the Queensland and South Australian Governments are looking at options in relation to the future of their TABs.

Insurance

The New South Wales, Western Australian and South Australian government insurance offices were privatised in 1993, 1995 and 1996 respectively.

Prisons/Correctional Centres

Outsourcing is being used for some prison management in New South Wales, Victoria and Queensland. Certain prisons have also been constructed by the private sector.

APPENDIX 2

CASE STUDY AYERS ROCK RESORT

The benefits of privatisation which can accrue to the Territory can be explained through the use of a case study of the Ayers Rock Resort. The Ayers Rock Resort was established in the early 1980s by the Ayers Rock Resort Company Ltd (previously called the Yulara Development Company Ltd and then owned by the Territory). From 1992, the Territory's interest was held by the Ayers Rock Resort Corporation, through shares in the Company. In December 1993, the Corporation, on behalf of the Territory, sold 40% of the Company's shares to institutional investors (The Advent Group). In 1996, the Company purchased the Alice Springs Resort.

In April 1997, the Government and the Advent Group decided to investigate selling the Resort. They then appointed Deutsche Morgan Grenfell (DMG) as financial advisers. In August, in line with DMG advice, they resolved to sell.

In order to achieve the optimal result and to remove unnecessary uncertainty, agreements were reached for the provision of power, water and sewerage services; most Government owned housing in the Resort was sold to the Resort company; and the local Aboriginal community was offered and accepted an interest in the Resort. As well, the company and the shareholders prepared the properties for sale. This included preparation of an Information Memorandum which was provided to prospective purchasers, plus a draft Prospectus to use if a public float seemed likely to yield a better return to shareholders.

The legislation that provided for the Ayers Rock Resort Corporation required amendment to permit the Corporation to dispose of its interests in the Ayers Rock Resort.

The *Ayers Rock Resort (Sale) Act* was therefore introduced and passed by the Legislative Assembly in November 1997. Following negotiations with several potential purchasers, the General Property Trust (a member of the Lend Lease Group) entered into a conditional purchase arrangement in October 1997. When the Act became law, the sale was completed on 2 December 1997. The sale included an interest in the Trust for the local Aboriginal people.

The sale price represented a multiple of roughly twenty times earnings. After repayment of the company's debts and taxes, the proceeds of sale will be paid to the Company's shareholders. Inclusive of the value of Government housing included in the sale plus stamp duty, the Government will receive around $130M.

These funds will be available for investment in other profitable ventures of benefit to the Territory.

Chapter 9

ALTERNATIVE BUDGET PRESENTATIONS

When preparing Budget material, the needs of multiple users, including those of the Legislative Assembly, the Northern Territory Government, individual Government agencies, the media and the community must be considered. Statutory and national reporting frameworks are also observed.

The various presentations in this chapter are based on the two scopes: the Northern Territory Budget Sector and the nationally agreed Uniform Presentation Framework (UPF). Budget scope includes the traditional gross presentation as well as the net or economic transactions framework. Whereas uniform presentation uses the economic transactions framework only, there are differences in the treatment of certain items in the economic transactions framework presentations for each scope.

SCOPE OF FINANCIAL DATA

The Northern Territory Budget Papers include two different scopes for the recording and classification of financial data. The Northern Territory Budget Sector which includes outlays and receipts traditionally included in the Territory's budget, and the UPF.

The Northern Territory Budget Sector coverage is used in *Budget Papers Nos. 1, 2* and *4* and has traditionally included the transactions which form the Public Account as determined by the *Financial Management Act*, and the Northern Territory University.

Since 1988-89, in addition to the Budget Sector the Northern Territory Budget Papers have presented budget information in a form consistent with the system of Government Finance Statistics promulgated by the Australian Bureau of Statistics (ABS). It was decided at the 1991 Premiers' Conference that all jurisdictions should include this information in their Budget Papers. In March 1997 a revised UPF was agreed by the Loan Council to be implemented from 1998-99.

The UPF involves publishing data in economic transactions format for three sectors: General Government; Public Trading Enterprises (PTEs) and aggregates for the non-financial public sector. It also requires, from 1998-99, the publication of forward estimates of the General Government sectors of all jurisdictions and expected debt figures and the Loan Council Allocation for the financial year drawing to a close, and the forthcoming budget year.

From 1998-99, the ABS will commence publishing data on Public Financial Enterprises (PFEs) for actual rather than budget estimates. This enhancement is also to be included in UPF reporting but not before the ABS has done so.

As for all jurisdictions, the coverage of entities for the Territory under UPF is broader than what is included in the Territory's Budget Sector.

The adjustments that need to be made to Budget scope data to get to UPF at present are:

- Northern Territory University is classified as a multi-jurisdictional agency, reflecting the shared responsibility between the Commonwealth and the States-Territories for Universities;

- the Ayers Rock Resort Company Limited, Ayers Rock Resort Corporation and the Conditions of Service Trust are brought within the scope;
- all business divisions are treated as trading enterprises in Budget scope. UPF treats only those agencies that trade in the market place, such as Power and Water Authority, as trading enterprises whereas other agencies such as the Department of Communications and Advanced Technology: Commercial Services and NT Fleet that trade within Government are treated as General Government; and
- the lending component of housing is treated as a PFE and is out of scope.
- These differences will change again when the PFE sector is incorporated into the UPF presentation during 1998-99.

NORTHERN TERRITORY BUDGET SCOPE

Northern Territory Budget Sector data is presented in both the conventional manner where all transactions of agencies are identified and recorded ('gross' presentation); and according to the economic transactions framework as promulgated by the ABS.

Figure 10.1 presents the conventional Budget summary according to outlays by category of cost, receipts by source, and use of balances. The first two columns of data are for the Budget Sector, including the Northern Territory University. The third column is the Public Account and excludes the University.

The economic transactions presentation is a consolidated presentation of Budget Sector transactions, and identifies the net impact of the operations of the Territory Budget on the private sector. It is often called the 'net' presentation.

Figure 10.2 provides the Territory budget sector 1997-98 Budget estimated outcome and the 1998-99 Budget estimates in an economic transactions format.

The main adjustments to the gross presentation to produce the net presentation are:

- expenditures are disaggregated into current and capital;
- transfers within the budget sector are removed from both expenditure and receipts;
- charges and recoveries and second hand asset sales are netted off against expenditures so that only the net impact on the Budget is shown; and
- borrowings and net advances are treated as financial transactions.

In both the Territory's budget sector presentations, and those shown under the UPF arrangements, the Territory treats Commonwealth sourced revenue replacement payments as Commonwealth revenue. The ABS has decided to treat these payments as State and Territory taxes. However, even though the revenue replacement arrangements were instituted by the Commonwealth at the request of States and Territories to replace the loss of Business Franchise Fees arising from the High Court decision of August 1997, the decisions about the rate, incidence, and collection procedures have now legally passed from the States and Territories to the Commonwealth. In the Territory's view the ABS decision to classify these transfers as State and Territory own-source revenue does not reflect the real situation and is not appropriate.

Figure 10.1

NORTHERN TERRITORY BUDGET SECTOR - GROSS OUTLAYS AND RECEIPTS

	Budget Sector		Public Account
	1997-98 Estimate	1998-99 Budget	1998-99 Budget
	$M	$M	$M
OUTLAYS BY ACCOUNT	**2,946**	**2,846**	**2,781**
General Agency Operating Accounts	2,257	2,174	2,109
Business Division Operating Accounts	689	672	672
OUTLAYS BY CATEGORY OF COST	**2,946**	**2,846**	**2,780**
Personnel Costs	895	900	858
Operational Costs	875	871	853
Capital Expenditure	329	253	248
Grants and Subsidies	423	499	498
Interest	253	248	248
Advances	160	60	59
Advance to the Treasurer	11	16	16
RECEIPTS BY ACCOUNT	***2,740***	***2,837***	***2,765***
Consolidated Revenue Account	*1,444*	*1,605*	1,605
General Agency Operating Accounts	*631*	*576*	504
Business Division Operating Accounts	*666*	*656*	656
Provisions	*0*	*1*	1
RECEIPTS BY SOURCE	***2,740***	***2,837***	***2,765***
Taxes Fees and Fines	*228*	*224*	*224*
Charges	*549*	*565*	*559*
Miscellaneous Receipts	*37*	*38*	*35*
Sale of Land	*11*	*10*	*10*
Capital Receipts	*81*	*153*	*153*
Property Income	*31*	*28*	*28*
Interest Received	*30*	*35*	*35*
Advances Received	*41*	*38*	*39*
General Purpose Commonwealth Grants	*1,015*	*1,058*	*1,058*
Commonwealth Revenue Replacement Payments	*88*	*104*	*104*
Other Commonwealth Grants	*322*	*309*	*274*
Territory Borrowing	*36*	*-3*	*-3*
Intrasector Receipts	*271*	*277*	*248*
Provisions	*0*	*1*	*1*
USE OF BALANCE (a)	**205**	**9**	**15**
Consolidated Revenue Account	104	1	*0*
General Agency Operating Accounts	78	-7	*0*
Business Division Operating Accounts	23	16	*15*
(a) OPENING BALANCE	**388**	**183**	**181**
Consolidated Revenue Account	117	13	*13*
General Agency Operating Accounts	142	64	*63*
Business Division Operating Accounts	129	105	*105*
less CLOSING BALANCE	**183**	**174**	**166**
Consolidated Revenue Account	13	13	*13*
General Agency Operating Accounts	64	71	*63*
Business Division Operating Accounts	105	90	*90*

Figure 10.2

NORTHERN TERRITORY BUDGET SECTOR
ECONOMIC TRANSACTIONS

	Budget Sector		Public Account
	1997-98 Estimate	1998-99 Budget	1998-99 Budget
	$M	$M	$M
CURRENT EXPENDITURE	**1,619**	**1,602**	**1,580**
Final Consumption Expenditure	1,200	1,197	1,152
Current Grants and Subsidies	234	228	251
Interest Paid	184	177	177
CAPITAL EXPENDITURE	**306**	**245**	**243**
New Fixed Assets	288	235	231
Capital Grants	62	149	151
Other Net Expenditure	-44	-139	-139
less			
TERRITORY REVENUE	***354***	***363***	***366***
Taxes Fees and Fines	*228*	*224*	*227*
Property Income	*31*	*28*	*28*
Interest Received	*29*	*35*	*35*
Unsubsidised Surplus of Business Divisions	*65*	*76*	*76*
COMMONWEALTH GRANTS	***1,425***	***1,472***	***1,437***
General Purpose Grants	*1,015*	*1,058*	*1,058*
Revenue Replacement Payments	*88*	*104*	*104*
Other Grants	*322*	*309*	*274*
equals			
INCREASE IN TERRITORY DEBT	**-69**	**-10**	**-10**
Net Territory Borrowing	-28	-2	-2
Commonwealth Advances	-41	-8	-8
DECREASE IN FINANCIAL ASSETS	**215**	**22**	**30**
Net Territory Advances Repaid	9	13	14
Use of Balances	205	9	16
INCREASE IN PROVISIONS	**0**	**1**	**1**

The Territory's preferred budgetary presentation in economic transactions format differs in several respects from the standard Government Finance Statistics format adopted by the ABS. A key difference is that the Territory presents information in a form which allows ready identification of the change in the Territory's gross and net debt, which are important budget policy measures.

The ABS (and the Commonwealth) use 'the deficit adjusted for net advances' as one of the key aggregates for analysis. The difference between the Territory's focus on gross and net debt and the ABS focus on 'the deficit adjusted for net advances' is the treatment of equity. In the Territory's preferred presentation, equity is netted off against outlays whereas the ABS includes equity transactions in the deficit adjusted for net advances. Both measures are valid and the difference in emphasis is a function of the different responsibilities of the two levels of Government.

At the Commonwealth and national level, the deficit adjusted for net advances identifies the total call on financial markets to purchase government debt or take up equity in privatised government entities. This call in turn indirectly relates to the impact of government activity on the current account deficit. However, the Territory is more concerned with its Budget position.

Given that the Territory comprises only 2% of total Australian output, measuring the effect on the national current account of Territory Government activity has little direct relevance. Hence the Territory has maintained its focus on net debt which is a measure of more relevance to its own Budget circumstances and is a concept more readily understood by interested parties.

UNIFORM PRESENTATION FRAMEWORK

The Northern Territory Budget Sector and the UPF both use the economics transactions framework form of presentation. However, moving from Budget Sector economic transactions framework to UPF, requires some regrouping of outlays and receipts. Some transactions are treated differently, namely:

- grants paid by the Department of Education to school councils are treated as grants by the Territory, whereas under UPF, current grants are classified as final consumption expenditure and capital grants are treated as new fixed assets;
- the distribution of funds from TAB is treated as an intrasector transaction in the Territory Budget, whilst it is treated under UPF as operational expenditure by a PTE and an indirect tax received by General Government;
- stamp duties paid by the Northern Territory Housing Commission are treated as an intrasector transaction in the Territory Budget, whilst under UPF are treated as operational expenditure by a PTE and an indirect tax received by General Government;
- payments for Mortgage Assistance Scheme Adjustments and the Building Apprenticeship Scheme are treated as grants in the Budget, but operational expenditure under UPF;
- net advances paid are treated as financing transactions by the Territory whilst UPF treats these as capital expenditure;
- sales of second hand assets are included under other net capital expenditure by the Territory, but under UPF are netted off against new fixed assets to give gross capital expenditure;
- equity sales are included in other net capital expenditure by the Territory whilst UPF includes them in net advances paid; and
- Community Service Obligations paid to PTEs are treated as an intrasector payment in the Territory Budget and netted off against the dividends paid by PTEs under other income; whilst they are treated under UPF as a subsidy paid to PTEs by General Government, and included in the net operating surplus of PTEs and in property income as dividends received.

Figure 10.3 compares the Territory Budget and UPF data for 1998-99, using the Territory's preferred presentation format, that is, with advances paid treated as part of financing transactions. This presentation allows for the differences in scope and treatment of different transactions to be identified.

FUTURE DIRECTIONS IN REPORTING

From February 1999, in accordance with UPF requirements, the Territory will commence publishing a Mid Year Financial Report, which includes the expected budget outcome and a revised Loan Council Allocation for 1998-99, and revised forward estimates for the General Government sector.

Much has been achieved collectively during the past decade through presenting data in standard formats and classifications in a range of publications. This has allowed comparisons to be made across jurisdictions and over time. The Territory has actively supported these moves. Further developments as a result of changed accounting methods and sectoral classification will affect the comparability of data over time.

Almost all jurisdictions have moved, or are moving to, some form of accrual reporting for all agencies. In response to this, the ABS is to publish government finance data on an accruals basis with respect to the 1997-98 outcomes and 1998-99 Budget estimates. This means a break in series which may in part be overcome by backcasting of data. However a degree of estimation is required which threatens the data integrity.

For those jurisdictions which have already moved their Government reporting systems to an accruals basis, such as the Australian Capital Territory and New South Wales, some estimation is now used to incorporate their data into the largely cash-based system of government finance statistics. From the end of 1997-98, the Territory's largely cash-based data will need to be adjusted to fit the full accruals-based reporting formats of the ABS and UPF. Work is progressing to ensure this can occur.

Further, the ABS has reclassified some agencies from the treatment accorded them until 1996-97:

- universities are now classified to a separate multi-jurisdictional sector, and are excluded from the statistics of individual jurisdictions. While conceptually this is not of particular concern, the backcasting of data by the ABS for this change produces some serious anomalies. The backcasting has only been effected to 1992-93, making longer-term analysis difficult. For those years where backcasting has occurred, the amount of adjustment in some jurisdictions seems to be much larger than is warranted; and
- central borrowing authorities (such as Northern Territory Treasury Corporation) are to be excluded from the non-financial public sector from 1998-99, and included in the PFE sector. Again there are backcasting problems. However, there is also the difficult issue of identifying the amount of assets and liabilities of each central borrowing authority that ought properly be attributed to the General Government sector in each jurisdiction.

The Northern Territory encourages the ABS to resolve these issues to ensure that the value and integrity of its data to governments, analysts and the Commonwealth Grants Commission is not compromised.

Figure 10.3

NORTHERN TERRITORY PUBLIC SECTOR
ECONOMIC TRANSACTIONS

	1998-99		
		Uniform Presentation	
	Territory Budget Sector	Non-Financial Public Sector	Variation
	$M	$M	$M
CURRENT EXPENDITURE	**1 602**	**1 605**	**3**
Final Consumption Expenditure	1 197	1 171	- 26
Current Grants and Subsidies	228	257	29
Interest Paid	177	177	0
CAPITAL EXPENDITURE	**245**	**238**	**- 7**
New Fixed Assets	235	232	- 3
Capital Grants	149	148	- 1
Other Net Expenditure	- 139	- 142	- 3
less			
TERRITORY REVENUE	***363***	***341***	***- 22***
Taxes Fees and Fines	*224*	*234*	*10*
Property Income	*28*	*28*	*0*
Interest Received	*35*	*52*	*17*
Unsubsidised Surplus of Business Divisions (a)	*76*	*27*	*- 49*
COMMONWEALTH GRANTS	***1 472***	***1 436***	***- 36***
General Purpose Grants	*1 058*	*1 058*	*0*
Revenue Replacement Payments	*104*	*104*	
Other Grants	*309*	*274*	*- 35*
equals			
INCREASE IN TERRITORY DEBT	**- 10**	**- 8**	**2**
Net Territory Borrowing	- 2	0	2
Commonwealth Advances	- 8	- 8	0
DECREASE IN FINANCIAL ASSETS	**22**	**22**	**0**
Net Territory Advances Repaid	13	0	- 13
Use of Balances	9	22	13
INCREASE IN PROVISIONS	**1**	**52**	**51**

Unsubsidised surplus in Territory Budget; subsidised surplus in UPF.

UNIFORM PRESENTATION FRAMEWORK REPORTING REQUIREMENTS

Under the UPF jurisdictions have agreed to adopt, progressively, a number of additional requirements. These include:

- summary tables for General Government, PTEs and the non-financial public sector in the agreed format for the current and the forthcoming budget year;
- a summary table for taxes, fees and fines for the current and the budget year;
- expenditure by purpose for the current and the budget year;
- forward estimates for three years for the General Government sector; and
- Loan Council allocation for the current and budget year.

The tables which follow fulfil these agreements.

Figure 10.4

UNIFORM PRESENTATION - NORTHERN TERRITORY
TOTAL NON-FINANCIAL PUBLIC SECTOR

	1997-98 Estimate	1998-99 Budget
	$M	$M
CURRENT OUTLAYS	**1 624**	**1 605**
Final Consumption Expenditure	1 181	1 171
Interest Payments	184	177
Current Grants	212	211
Other Current Payments	47	46
CAPITAL OUTLAYS	**299**	**239**
Gross Capital Expenditure	231	188
New Fixed Capital Expenditure	285	232
Expenditure on Secondhand Assets (net)	- 54	- 44
Capital Grants	56	147
Net Advances Paid (a)	9	- 95
Other Capital Outlays	3	- 1
TOTAL OUTLAYS	**1 923**	**1 844**
TOTAL OUTLAYS (excluding net Advances paid)	**1 914**	**1 939**
REVENUE	**1 732**	**1 778**
Taxes, Fees and Fines (a)	238	234
Operating Surplus of PTE's and PFE's	22	27
Interest Received	50	52
Grants Received (b)	1 391	1 437
Other Revenue	31	28
DEFICIT AND FINANCING TRANSACTIONS	**191**	**66**
Net Advances Received	- 41	- 8
Net Domestic and Overseas Borrowings	- 27	0
Increase in Provisions	50	52
Other Financing Transactions	209	22
Less		
Increase in Provisions	50	52
DEFICIT	**141**	**14**
Less		
Net Advances Paid	9	- 95
DEFICIT ADJUSTED FOR NET ADVANCES PAID	**132**	**109**
NET DEBT	**1 444**	**1 455**

(a) Includes revenue replacement payments from the Commonwealth.

(b) Excludes revenue replacement payments from the Commonwealth.

Figure 10.5

UNIFORM PRESENTATION - NORTHERN TERRITORY
GENERAL GOVERNMENT

	1997-98 Estimate	1998-99 Budget
	$M	$M
CURRENT OUTLAYS	**1 623**	**1 604**
Final Consumption Expenditure	1 181	1 171
Interest Payments	184	177
Subsidies Paid to PTE's and PFE's	27	27
Current Grants	184	183
Other Current Payments	47	46
CAPITAL OUTLAYS	**279**	**205**
Gross Capital Expenditure	188	156
New Fixed Capital Expenditure	208	175
Secondhand Assets Sales	- 21	- 20
Capital Grants	57	148
Net Advances Paid	34	- 94
Other Capital Outlays	0	- 5
TOTAL OUTLAYS	**1 902**	**1 809**
TOTAL OUTLAYS (excluding net advances paid)	**1 868**	**1 903**
REVENUE	**1 767**	**1 814**
Taxes, Fees and Fines (a)	238	234
Interest Received	90	98
Grants Received (b)	1 391	1 437
Dividends Received from PTE's and PFE's	17	17
Other Revenue	31	28
DEFICIT AND FINANCING TRANSACTIONS	**135**	**- 5**
Net Advances Received	- 41	- 8
Net Domestic and Overseas Borrowings	- 10	8
Increase in Provisions (net)	0	0
Other Financing Transactions	186	- 5
Less		
Increase in Provisions	0	0
DEFICIT	**135**	**- 5**
Less		
Net Advances Paid	34	- 94
DEFICIT ADJUSTED FOR NET ADVANCES PAID	**101**	**89**
NET DEBT	**919**	**915**

(a) Includes revenue replacement payments from the Commonwealth.

(b) Excludes revenue replacement payments from the Commonwealth.

Figure 10.6

UNIFORM PRESENTATION - NORTHERN TERRITORY PUBLIC TRADING ENTERPRISES

	1997-98 Estimate	1998-99 Budget
	$M	$M
CURRENT OUTLAYS	**62**	**67**
Interest Payments	45	50
Other Current Payments	17	17
CAPITAL OUTLAYS	**20**	**35**
Gross Capital Expenditure	43	33
New Fixed Capital Expenditure	77	57
Expenditure on Secondhand Assets (net)	- 34	- 23
Capital Grants	0	0
Net Advances Paid	- 25	- 2
Other Capital Outlays	2	4
TOTAL OUTLAYS	**82**	**102**
TOTAL OUTLAYS (excluding net Advances paid)	**107**	**104**
REVENUE	**27**	**31**
Net Operating Surplus of PTE's	22	27
Interest Received	5	4
Grants Received	0	0
Other Revenue	0	0
DEFICIT AND FINANCING TRANSACTIONS	**55**	**71**
Net Advances Received	0	0
Net Domestic and Overseas Borrowings	- 18	- 8
Increase in Provisions	50	52
Other Financing Transactions	23	27
Less		
Increase in Provisions	50	52
DEFICIT	**5**	**19**
Less		
Net Advances Paid	- 25	- 2
DEFICIT ADJUSTED FOR NET ADVANCES PAID	**30**	**21**
NET DEBT	**538**	**554**

Figure 10.7

UNIFORM PRESENTATION - NORTHERN TERRITORY
TAXES, FEES AND FINES COLLECTED

	1997-98 Estimate	1998-99 Budget
	$M	$M
TOTAL TAXES, FEES AND FINES	**238**	**234**
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE TAXES	**80**	**87**
TAXES ON PROPERTY	**70**	**62**
Stamp duties on financial and capital transactions	50	42
Financial institutions' transactions taxes	20	20
TAXES ON THE PROVISION OF GOODS AND SERVICES	**35**	**35**
Taxes on gambling	28	28
Taxes on insurance	7	7
TAXES ON USE OF GOODS AND PERFORMANCE OF ACTIVITIES	**47**	**43**
Motor vehicle taxes	31	31
Franchise taxes (a)	3	
Other	13	12
FEES	**4**	**5**
FINES	**2**	**2**

(a) Excludes revenue replacement payments.

Figure 10.8

UNIFORM PRESENTATION - NORTHERN TERRITORY
EXPENDITURE BY GOVERNMENT PURPOSE CLASSIFICATION

	1997-98 Estimate	1998-99 Budget
	$M	$M
TOTAL OUTLAYS	**1,924**	**1,844**
CURRENT EXPENDITURE	**1,625**	**1,605**
General Public Services	206	210
Public Order and Safety	170	172
Education	344	346
Health	325	326
Social Security and Welfare	50	51
Housing and Community Amenities	74	51
Recreation and Culture	74	70
Fuel and Energy	10	10
Agriculture, Forestry, Fishing and Hunting	59	53
Mining and Mineral Resources, Other than Fuels; Manufacturing	16	16
Transport and Communication	78	91
Other Economic Affairs	64	60
Other Purposes	155	149
CAPITAL EXPENDITURE	**299**	**239**
General Public Services	71	45
Public Order and Safety	9	10
Education	39	26
Health	23	13
Social Security and Welfare	0	0
Housing and Community Amenities	36	43
Recreation and Culture	17	15
Fuel and Energy	27	19
Agriculture, Forestry, Fishing and Hunting	8	1
Mining and Mineral Resources, Other than Fuels; Manufacturing	-2	-1
Transport and Communication	61	63
Other Economic Affairs	9	3
Other Purposes	1	2

Figure 10.9

UNIFORM PRESENTATION - NORTHERN TERRITORY
LOAN COUNCIL ALLOCATION

	1997-98 Estimate(a)	1998-99 Budget
	$M	$M
General government sector deficit/surplus (b)	129	- 5
PTE sector net financing requirement	6	19
Non-Financial Public sector deficit/surplus	135	14
Memorandum items	-	-
Loan Council Allocation	135	14

(a) Estimate is based on Uniform Presentation data including Northern Territory University, consistent with the original nomination.

(b) Includes borrowings on behalf of Local Government..

The latest estimate of the Territory's 1997-98 Loan Council Allocation of $135M is $101M above the estimate previously advised to Loan Council. This revision exceeds the upper bound of the tolerance limit of 2% of public sector revenue ($35M). The main causes of the revision reflect the budgetary impact of the Katherine Region Floods ($35M); changed timing of receipts from the sale of Ayers Rock Resort ($30M); and higher health expenditures ($15M).

The 1998-99 Budget time Loan Council Allocation of $14M is slightly lower than the Territory's original nomination of $24M, but within the tolerance limit.

Figure 10.10

UNIFORM PRESENTATION - NORTHERN TERRITORY
GENERAL GOVERNMENT FORWARD ESTIMATES

	1999-2000 Forward Estimate	2000-2001 Forward Estimate	2001-2002 Forward Estimate
	$M	$M	$M
CURRENT OUTLAYS	**1 620**	**1 678**	**1 734**
Final Consumption Expenditure	1 196	1 249	1 298
Interest Payments	176	174	173
Subsidies Paid to PTE's and PFE's	30	30	30
Current Grants	176	183	191
Other Current Payments	42	42	42
CAPITAL OUTLAYS	**196**	**195**	**198**
Gross Capital Expenditure	156	155	156
New Fixed Capital Expenditure	175	174	176
Expenditure on Secondhand Assets (Net)	- 19	- 19	- 19
Capital Grants	46	46	46
Net Advances Paid	1	1	1
Other Capital Outlays	- 7	- 7	- 5
TOTAL OUTLAYS	**1 816**	**1 873**	**1 932**
TOTAL OUTLAYS (excluding net advances paid)	**1 815**	**1 872**	**1 931**
REVENUE	**1 808**	**1 868**	**1 929**
Taxes, Fees and Fines (a)	247	262	264
Interest Received	94	89	87
Grants Received (b)	1 422	1 472	1 533
Dividends Received from PTE's and PFE's	17	17	17
Other Revenue	28	28	28
DEFICIT AND FINANCING TRANSACTIONS	**8**	**5**	**3**
Net Advances Received	- 56	- 53	- 15
Net Domestic and Overseas Borrowings	35	29	30
Increase in Provisions (net)	0	0	0
Other Financing Transactions	29	29	- 12
Less			
Increase in Provisions	0	0	0
DEFICIT	**8**	**5**	**3**
Less			
Net Advances Paid	1	1	1
DEFICIT ADJUSTED FOR NET ADVANCES PAID	**7**	**4**	**2**
NET DEBT	906	915	906

(a) Includes revenue replacement payments from the Commonwealth.

(b) Excludes revenue replacement payments from the Commonwealth.

Chapter 10

TERRITORY OWN-SOURCE REVENUE

The Northern Territory has substantially the same revenue raising powers as the States. However, the revenue raising base that is available to the States and Territories is limited by constitutional and other arrangements.

Thus, while the Territory has limited discretion, like the States, on the range of taxes and charges that can be applied, it has discretion over the rates of taxes and charges.

This chapter analyses the Territory's overall revenue raising capacity and compares the rates of taxes and charges in a number of the more important revenue raising areas in the Territory and the States.

The analysis confirms that the Territory per capita revenue raising capacity, and the rates of taxes and charges applied in the Territory, is similar to that of the States.

INTRODUCTION

All governments raise revenue to pay for the services the public requires. Within the legislative powers of each level of government, the amount of revenue raised depends on the size of the revenue base and the rate of tax or charges imposed. In the past, the Territory's tax base has been constrained by the size and stage of development of the economy and, as a result, the level of taxes and charges paid per capita was lower in the Territory than in the States. However, as the Territory economy has grown, this disadvantage has diminished and the Territory's overall revenue collections per capita are broadly comparable with the average of the States.

One element of the Territory's fiscal strategy is that the Territory's revenue raising effort should be broadly comparable to that of the States.

The Territory has substantially the same revenue raising powers as the States. However, the range of taxes and charges that can be applied by States and Territories is constrained by constitutional provisions and legislative arrangements. As a result, the revenue regime available is limited. Furthermore, a number of the taxes available to the States and Territories are, in many respects, inefficient because they are narrowly based and can affect resource allocation decisions.

Tax reform offers all jurisdictions the opportunity to move to a more efficient means of taxation. It is likely that a number of the inefficient State-type taxes such as financial taxes, will be abolished and replaced with a broad based consumption tax levied by the Commonwealth.

The States and Territories will require a new tax base to replace the revenue foregone; most probably access to the personal income tax base. Thus the structure of the taxes and charges reported in this chapter will change as the tax reform process progresses.

The range of comparative taxes in this year's publication is less than previous years as a result of the High Court decision in August 1997, which removed the States and the Territories ability to impose Business Franchise fees. (Further details on the High Court decision and tax reform are provided in Chapter 4.)

The major categories of own-source revenue for the Territory are taxes, fees and fines, charges, capital receipts, property income, interest income and miscellaneous receipts. These are described in more detail in *Budget Paper No. 2*. Taxes and charges generate the majority of own-source revenue for the Territory.

This chapter analyses the Territory's overall revenue raising capacity and compares rates of taxes and charges in a number of the more important revenue raising areas in the Territory and the States.

REVENUE CAPACITY AND EFFORT

In order to compare the contributions to own-source revenue of various taxation regimes, it is necessary to compare both revenue capacity and revenue raising effort. The capacity to collect revenue from taxes and charges is a function of the size of the revenue base. Revenue effort is a measure of the extent to which a revenue base is used.

The Commonwealth Grants Commission (CGC) assesses both revenue capacity and revenue effort in its assessment of the relative fiscal needs of States and Territories.

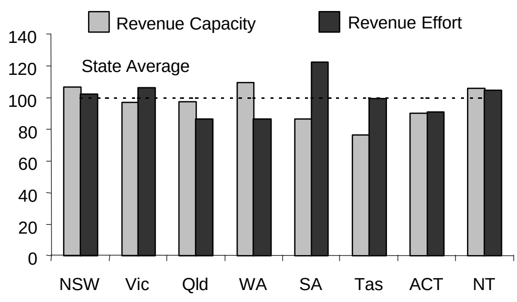
The CGC determines an Australian standard revenue base for each main category of own-source revenue. The revenue capacity of each State and Territory is assessed by comparison of the actual revenue base to the Australian average to determine revenue capacity.

Revenue effort compares actual revenue to the revenue that would have been collected had an average tax rate been applied. Average revenue effort is set at 100%. The measurement of revenue effort may be distorted if the standardised revenue base diverges significantly from the actual revenue base.

Figure 10.1 provides a comparison of taxing capacity and effort in 1996-97.

Figure 10.1

REVENUE CAPACITY AND EFFORT BY JURISDICTION



Source: 1998 Commonwealth Grants Commission Update Report.

The chart highlights both the relative size of the standardised revenue bases and the revenue effort for all jurisdictions. The Territory's revenue capacity and effort is close to 100%; a fact which is often not appreciated by observers of the Territory's finances.

The High Court decision removing the ability of the States and Territories to impose Business Franchise fees, means the figures in Figure 10.1 will change when data for 1997-98 is included in the analysis. Jurisdictions, particularly the Northern Territory, had different capacities to raise revenue from Business Franchise fees and imposed different rates of tax. Hence, the balance between effort and capacity will change from that which existed prior to the High Court decision.

COMPARISONS OF TERRITORY AND STATE RATES OF TAXES AND CHARGES

Since Self-Government the Northern Territory has applied a range of State-like taxes and charges. All jurisdictions choose not to apply particular taxes. The Territory does not impose a Land Tax nor a Fire Services Levy. However, the Territory was the first jurisdiction to impose a Tourism Marketing Duty. New South Wales adopted a similar policy in respect of accommodation in the Sydney Central Business District in 1997.

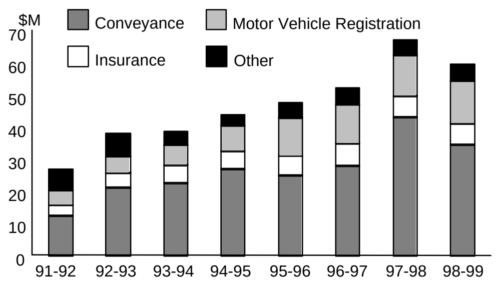
Where State and Territory tax bases are relatively mobile, any attempt to raise Territory taxes and charges significantly above the rates imposed in other jurisdictions can be counterproductive. Hence, the Territory is, to a degree, constrained by the rates at which taxes and charges are levied. The following section provides comparative data on selected taxes and charges.

STAMP DUTY

The main components of Stamp Duty are Conveyance, Insurance and Motor Vehicle Registration duties and these are shown in Figure 10.2. No increases in the rates of stamp duty are included in the 1999 Budget.

Figure 10.2

STAMP DUTY



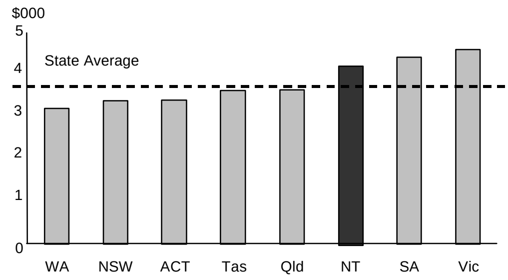
Source: Northern Territory Treasury.

The 1997-98 conveyance receipts shown in Figure 10.2 were abnormally high due to a large one off transaction. If that is discounted then the 1998-99 estimate reflects the trend established in earlier years.

CONVEYANCE DUTY

Figure 10.3

STAMP DUTY PAYABLE ON PURCHASE OF A HOUSE VALUED AT $140 000



Source: State Acts and Budget Papers.

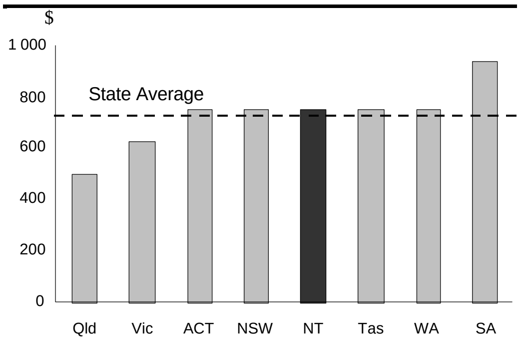
Conveyance Duty remains the most significant component of Stamp Duty in all jurisdictions. Whilst Figure 10.3 shows the Territory duty as relatively high, it should be noted that the Territory does not impose a land tax. The Territory also continues to offer first home buyers relief from duty on the first $80 000 of their purchase.

INSURANCE DUTY

Insurance Duty is imposed on policy premiums. The rate in the Territory is slightly below the average of the States. In 1998-99 it is anticipated that insurance duty will raise $6.6 million in revenue.

Figure 10.4

MOTOR VEHICLE REGISTRATION DUTY



Note: Duty on a new vehicle, valued at $25 000.

MOTOR VEHICLE REGISTRATION DUTY

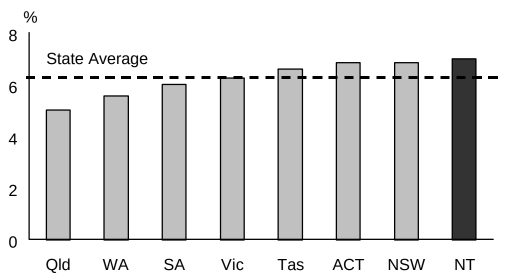
The Territory rate of duty is marginally above the State average as shown in Figure 10.4 but is in line with the Australian Capital Territory, New South Wales, Tasmania and Western Australia. Revenue from this source in 1998-99 is estimated to be $13.5M.

PAY-ROLL TAX

Revenue from pay-roll tax is estimated to be $86.0M in 1998-99 (excluding that raised from the General Government sector) and continues to be the Territory's single most significant revenue source.

Figure 10.5

PAY-ROLL TAX - MAXIMUM RATES



Source: State Acts and Budget Papers.

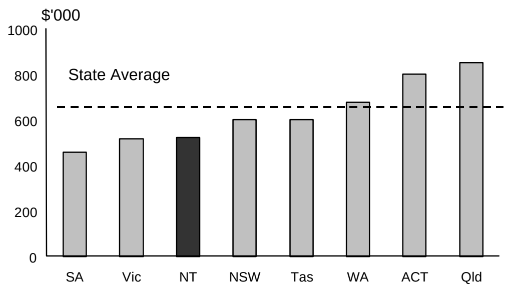
Whilst pay-roll tax is one of the more efficient of the Territory taxes, administrative complexity and associated recovery costs are rising as the number of multi-jurisdictional businesses increase and as new tax minimisation schemes are developed.

The top pay-roll tax rate in the Territory is comparable with the upper levels in the States, while the threshold where tax commences in the Territory is below the State average, as shown in Figure 10.5 and Figure 10.6 respectively.

The difference between the States and the Territory results, to some extent, from differences in the definition of 'wages,' together with differences in rate structures.

Figure 10.6

PAY-ROLL TAX - TAX FREE THRESHOLD



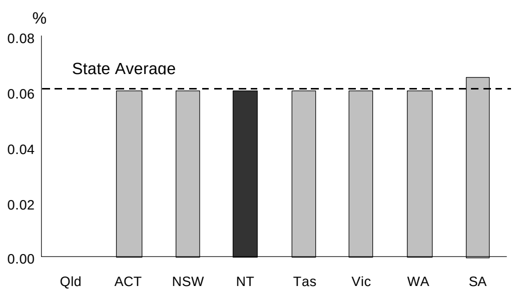
Source: State Acts and Budget Papers.

FINANCIAL TAXES

Financial taxes continue to be put under pressure with development of new products outside the scope of present taxes and through greater globalisation. Developments in electronic technology, (particularly those enabling dutiable banking being centralised in larger States or off-shore) lead to the decreasing significance of jurisdictional borders. This gives rise to increased administrative costs to minimise tax avoidance and to maintain the Territory's revenue base.

Figure 10.7

FINANCIAL INSTITUTIONS DUTY



Source: State Acts and Budget Papers.

The proposal for the replacement of Financial Institutions Duty (FID) with a revised Debits Tax which was announced in 1997 is in abeyance to be considered in the broader national tax reform arena. In the interim, shrinkage of the revenue base and increased avenues for avoidance continue to pose significant threats to revenue for all jurisdictions.

The Territory rate of duty is in line with that imposed by most jurisdictions (Figure 10.7).

DEBITS TAX

Debits Tax is imposed on debits to financial institution cheque accounts. If a proposal for a revised Debits Tax is accepted by all jurisdictions, the tax base would be expanded to generate revenue lost as a consequence of the abolition of FID.

As with FID, Debits Tax will come under scrutiny during the national tax reform debate.

ENERGY RESOURCE CONSUMPTION LEVY

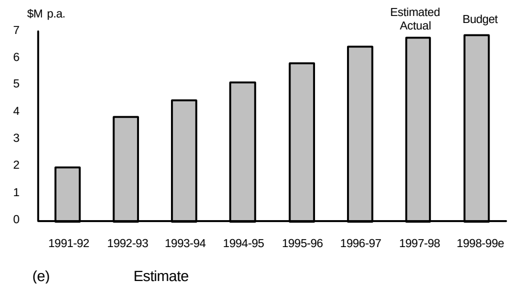
The rate of levy imposed under the *Energy Resource Consumption Levy Act* will be reduced to zero with effect from 1 July 1998 resulting in a reduction in revenue of $0.5M in 1998-99. The previous rate for liable entities was $1 per 1 000 litres consumed and raised $0.5M per annum.

TOURISM MARKETING DUTY

Tourism Marketing Duty is levied at the rate of 5% on the cost of accommodation provided by commercial establishments. The Territory and New South Wales are presently the only jurisdictions to impose this form of duty. All Territory proceeds are paid to the Northern Territory Tourist Commission to finance tourism promotion activities. The trend in Tourism Marketing Duty from 1991-92 is shown in Figure 10.8.

Figure 10.8

TOURISM MARKETING DUTY



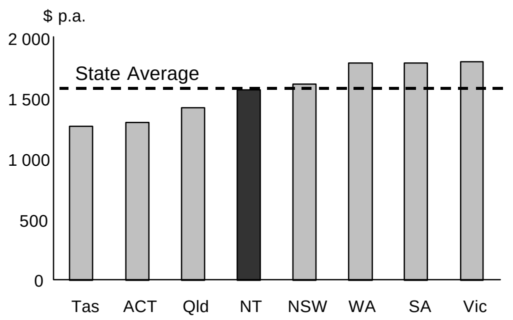
Source: State Acts and Budget Papers.

HOUSEHOLD CHARGES

While comparisons between the Territory and the States are affected to some extent by differing definitions as to what should be considered to be a household charge, Figure 10.9 provides a broadly comparable range of basic household costs faced by households in each State and the Territory.

Figure 10.9

SELECTED HOUSEHOLD CHARGES



Source: Power and Water Authority.

Three of the main components of Household Charges are water, sewerage and electricity charges. The Territory position compares favourably with the larger jurisdictions.

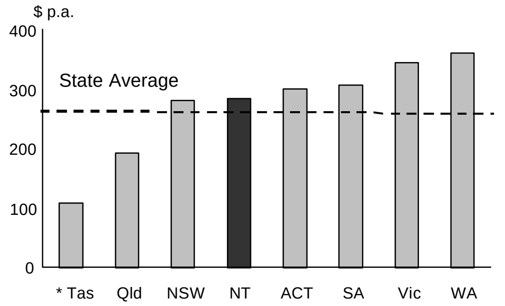
SEWERAGE CHARGES

Sewerage charges (Figure 10.10) are subject to a small increase in the Budget and are now marginally above the average of the

States. The new average domestic charge is $285 per annum, up from $278 per annum. Similar increases have been made to non-domestic charges.

Figure 10.10

SEWERAGE CHARGES FOR AN AVERAGE HOME



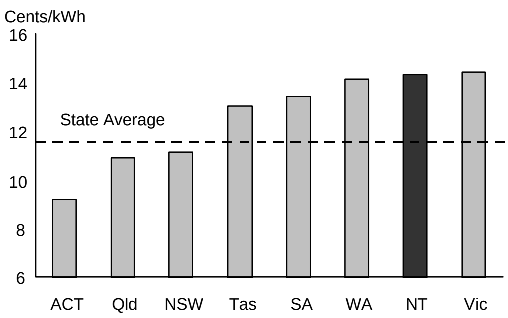
Source: Power and Water Authority.

Note: * Sewerage service is based on Assessed Annual Value property of $7 250.

ELECTRICITY CHARGES

Figure 10.11

ELECTRICITY – TOTAL DOMESTIC CHARGE



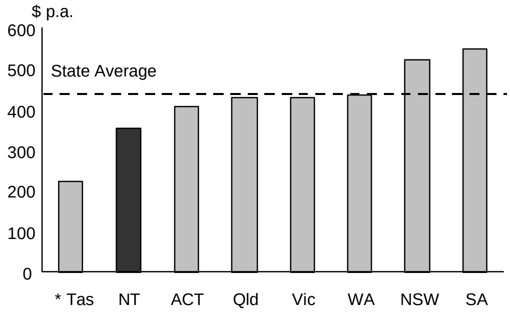
Source: Power and Water Authority.

Total Electricity charges (Figure 10.11 comprised of a fixed daily fee and a tariff per kWh) remain high in the Territory compared with most other States. This reflects the high costs associated with the absence of cheap fuel sources and the lack of economies of scale. The bulk of fuel costs in the Territory are fixed costs associated with financing the Amadeus Basin to Darwin gas pipeline. The domestic standard tariff is now 12.9 cents per kWh compared to the previous tariff of 12.03 cents per kWh. Commercial rates have increased from 15.89 cents per kWh to 16 cents per kWh. As in other jurisdictions, consumers also pay daily fixed charges, which increase the average domestic charge in the Territory to close to 14 cents per kWh.

WATER CHARGES

Figure 10.12

WATER CHARGES FOR AVERAGE HOME BASED ON ANNUAL CONSUMPTION OF 550 KL



Source: Power and Water Authority.

Note: * Water service is based on Assessed Annual Value of property of $7 250.

Whilst water charges (Figure 10.12) have increased in this Budget, Territory charges remain significantly below the States' average and generally do not recover costs. The new domestic water rate is comprised of a fixed daily charge per connection of 25 cents and a per kilolitre charge of 60 cents. The previous charge was 53 cents per kilolitre. Similar increases have been made to commercial charges.

FULL COMPARISON OF TAXES, DUTIES AND FEES BETWEEN TERRITORY AND STATES

A table comparing the Territory taxation rates, duties and fees with those imposed by the States and the Australian Capital Territory follows as an Appendix to this chapter.

Appendix

NT TAX RATES COMPARED WITH STATES

NORTHERN TERRITORY TAX RATES COMPARED WITH STATES

AS AT 22 APRIL 1998

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
CONVEYANCE	$0 to $500 000: Duty is calculated by formula: $D=0.065\ V^2 + 21V$ where D= duty payable $ V = total value/1000 > $500 000: 5.4% on total	$0 to $14 000: 1.25% Next $16 000: 1.5% Next $50 000: 1.75% Next $220 000: 3.5% Next $700 000: 4.5% > $1 000 000: 5.5% on excess	$0 to $20 000: 1.4% Next $80 000: 2.4% Next $660 000: 6.0% > $760 000: 5.5% on total From 1/7/98 $0 to $20 000: 1.4% Next $95 000: 2.4% Next $755 000: 6.0% > $870 000: 5.5% on total	$0 to $20 000: 1.5% Next $30 000: 2.25% Next $50 000: 2.75% Next $150 000: 3.25% Next $250 000: 3.5% >$500 000: 3.75% on excess	$0 to $12 000: 1.0% Next $18 000: 2.0% Next $20 000: 3.0% Next $50 000: 3.5% Next $900 000: 4% > $1 000 000: 4.5% on excess	$0 to $80 000: 1.75% Next $20 000: 2.5% Next $150 000: 3.25% Next $250 000: 4.0% > $500 000: 4.25% on excess	$0 to $1 300: $20 Next $8 700: 1.5% Next $20 000: 2.0% Next $45 000: 2.5% Next $75 000: 3.0% Next $75 000: 3.5% > $225 000: 4.0% on excess	$0 to $14 000: 1.25% or $20 (whichever is the greater) Next $16 000: 1.5% Next $30 000: 2.0% Next $40 000: 2.5% Next $200 000: 3.5% Next $700 000: 4.5% > $1 000 000: 5.5% on excess

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
Home Purchase Assistance	First home First $80 000: Nil. Exempt: Property transfers between spouses, married or de-facto, exempt where consideration is nil	First home Threshold: $155 000 – city $145 000 – country 30% discount on duty for up-front payments in lieu of 5 yearly instalments Exempt: Property transfers between spouses, married or de-facto, exempt	First home $100 000: Nil From 1/7/98 First home $115 000: Nil Exemption phases out at a limit of $150 000. Relief subject to meeting certain eligibility criteria From 1/7/98 Exemption phases out at a limit of $165 000. Relief subject to meeting certain eligibility criteria Exempt: Eligible Pensioner exemption to $70 000. Phasing out at $100 000 From 1/7/98 Exempt: Eligible Pensioner exemption to $100 000. Phasing out at $130 000	First home $80 000: Nil $80 001 to $150 000: 1% less $500 $150 001 to $155 000: 1% less $300 $155 001 to $160 000: 1% less $200 1% on principal place of residence (not first) $250 000 plus scheduled conveyancing duty on the excess	First home $80 000: Nil $80 001 to $130 000: Concession reduces by $42/$1 000 >$130 000: No concession.	Principal residence < $85 000: 1.5% First home buyers whose purchases are < $85 000 (or < $127 500 north of the 26th parallel) can additionally claim a $500 stamp duty concession Exempt: Transfer of property between spouses from single to joint ownership	First home < $120 000: Duty on purchase price can be paid by instalments over 2 years	First home <$116 000: $20 $116 001 to $140 000: Concessional rate $14.23/$100 or part of excess or $20 (which ever greater). >$140 000: No concession.
ORAL CONTRACTS (CLAYTONS)	Documentation now required	Statement now required	Documentation now required	Documentation now required	Conveyance rates	Legislated for section 31B	Statement required	Not applicable
BILLS OF EXCHANGE	Nil	Nil	Nil	Nil	Nil	10c	Nil	Nil
CHEQUE	Nil	Nil	Nil	Nil	10c	10c	Nil	Nil

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
LEASES	50c/$100 total rent $1/$100 of one year's rent if indefinite term Exempt: Principal place of residence (natural persons)	35c/$100 total rent Residential leases exempt Exempt: where rent is less than $3 000 Exempt: Nursing home leases	60c/$100 if definite term $1.20/$100 on one year's rent if indefinite term Exempt: Residential tenancies	35c/$100 of total rental Exempt: Private dwelling-house	$1/$100 or part thereof of yearly rent Exempt: Residential leases	35c/$100 if definite term 70c/$100 yearly rent if indefinite term Exempt: Residential tenancies to $125 per week	Exempt: Residential Commercial: < 12 months: 1% of total rent payable or $5 whichever the greater > 12 months: 1% of equivalent of yearly rental or $5 whichever the greater	50c/$100 total rent or $20 whichever the greater 50c/$100 commercial leases Exempt: Residential
HIRING ARRANGEMENT (RENTAL DUTY)	1.5% or $7 500 whichever is the lesser Threshold $12 000 per annum	0.75% of rental value or $2 whichever is the greater for commercial leasing and commercial hire purchase 1.5% - short term consumer hire and other non-financial rentals $10 000 maximum duty Exempt: First $6 000 for each month	0.75% of rental value (subject to a maximum of $4 000 duty on special rental agreements) payable only on rent in excess of $6 000 per month Commercial hire of $35 000 or more dutiable with major exemptions in farming, machinery, transport vehicles for commercial use	0.43% on total amount of rental over $100 000	1.8% of total value Threshold $24 000 per annum	1.8% of rental value Threshold $25 000 per annum	2% on rent in excess of $4 000 per month External rental agreement $20	0.75% of hiring charges in respect of equipment finance arrangements 1.5% for all other types of hiring arrangements Subject to maximum $10 000 duty for single arrangement Exempt: First $6 000 per month
HIRE PURCHASE (INSTALMENT PURCHASE)	Nil	See Hiring Arrangements Duty	See Hiring Arrangements Duty	$0 to $20: Nil > $20: 0.43%	Nil	Nil	2% of purchase price or $4 000 whichever lesser	See Hiring Arrangements Duty
DUPLICATES/COPIES/ COUNTERPARTS	$5 fixed. If original not stamped copy to be charged as original	$10 or original fee if the original fee was less than $10	Nil	Nil	Nil	$2 or same as original if less than $2	$20 first counterpart $1 each thereafter	Nil

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
LOAN SECURITY AND MORTGAGE DUTY	Nil	$0 to $500: Nil $501 to $16 000: $5 >$16 000: $5 + 40c/$100 on excess Exempt: Refinancing of all loans	$0 to $200: Nil $201 to $10 000: $4 > $10 000: $4 + 80c/$200 or part thereof on excess Exempt: First home If satisfied conditions for exemption under conveyance duty Exempt: Refinancing of all loans	40c/$100 Exempt: Principal place of residence on first $100 000 for first home owners and on the first $70 000 for others	$0 to $4 000: $10 $4 001 to $10 000: $10 + 25c/$100 or part of excess >$10 000: $25 + 35c/$100 on excess	$0 to $35 000: 25c/$100 or part >$35 000: $87.50 + 40c/$100 or part of excess	$0 to $8 000: $20 $8 001 to $10 000: $20 + 25c/$100 or part of excess >$10 000: $25 + 35c/$100 or part of excess	Nil
MORTGAGE TRANSFER	Nil	Nil	Nil	$5	Nil	$10	$20	Nil
MOTOR VEHICLE CERTIFICATES OF REGISTRATION	$3/$100 or part	$3/$100 or part From 30/6/99 $2.50/$100 or part Luxury vehicle From 30/6/99 >$45 000: 5%	New: $0 to $35 000: $5/$200 or part thereof $35 001 to $45 000: $8/$200 or part >$45 000: $10/$200 or part Transfers: $8/$200 or part thereof	$2/$100 or part	$0 to $1 000: $1/$100 (minimum $5) or part $1 001 to $2 000: $10 + $2/$100 or part of excess $2 001 to $3 000: $30 + $3/$100 or part of excess >$3 000: $60 + $4/$100 or part of excess Commercial vehicles and trailers where the trailer is not a heavy vehicle: $60 + $3/$100 or part thereof	$3/$100 or part	Passenger vehicles: $0 to $599: $20 $600 to $34 999: $3/$100 or part $35 000 to $39 999: $1 050 + $11/$100 or part in excess of $35 000 > $40 000: $4/$100 on excess All other vehicles: <$600: $20 >$600: $3/$100 or part	$3/$100 or part

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
LIFE INSURANCE	10c/$100 Sum insured Temporary/term policy: 5% of first years premium	$100 to $2 000: 10c/$200 > $2 000: $1 + 20c/$200 Term/riders: 5% of first years premium Exempt: Annuities	$200 to $2 000: 12c/$200 >$2 000: $1.20 + 24c/$200 Term/riders: 5% of first years premium	$100 to $200: 10c $201 to $2 000: 5c/$100 > $2 000: $1 + 10c/$100 Temporary/term: 5% of first year premium Exempt: Annuities	$1.50/$100 of premiums Annual licence fee	$100 to $2 000: 5c/$100 > $2 000: $1 + 10c/$100 of sum insured Temporary or term: 5% of first years premium Exempt: Annuities	$0 to $2 000: 10c/$200 >$2 000: $1 + 20c/$200 on excess Term insurance: 5% of first years premium Temporary: 2% of premium on policy	$100 to $2 000: 10c/$200 or part >$2 000: $1 + 20c/$200 or part Term insurance: 5% of premium
GENERAL INSURANCE	8% of premium + $5 for third party liability Exempt: Insurance on transport of goods, marine hulls and workers compensation	11.5% of premium 5% special classes: motor vehicle, aviation, disability, income, occupational indemnity Exempt: Commercial marine hulls, premium on goods carried by sea, land or air, premium on property outside NSW	10% of premium Exempt: Commercial marine hulls, workers compensation (with conditions) and premiums on goods carried by sea, land or air	8.5% of premium Workers Compensation, motor vehicle, professional indemnity insurance 5% of net premium Exempt: Hull of vessel and premium on goods carried by sea, land or air	$8/$100 of premium monthly licence Exempt: workers compensation Exempt: Commercial marine hulls and transport of goods by sea, land or air	5% of premiums Workers Compensation: 3% of net premium Exempt: Commercial marine hulls and premium on goods carried by sea, land or air	8% of premiums Exempt: Marine hulls & aircraft used for international trade. Transport of goods in international trade	10% of gross premium Exempt: Premium on goods carried in international trade
ELECTRONIC BANKING	10c per debit transaction	Nil	Nil	Nil	Nil	Nil	Nil	Nil

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
TOURISM MARKETING DUTY	Hotels/Motels etc: 5% maximum 14 nights	Levy on cost of residential accommodation to a maximum of 28 days provided at hotels and similar establishments in the Central Business District of Sydney and North Sydney 1/9/97 - 5% 1/4/98 - 7% 1/9/98 - 10%	Nil	Nil	Nil	Nil	Nil	Nil
PAY-ROLL TAX								
	$0 to $520 000: Nil $520 001 to $1 250 000: 5% (Deduction reduces to nil between $520 000 and $1 300 000) $1 250 001 to $10 000 000: 6% on total >$10 000 000: 7% on total Employer superannuation contributions are taxable where contributions exceed amounts payable under industrial awards or superannuation guarantee scheme	$0 to $600 000: Nil >$600 000: 6.85% From 30/06/99: 6.7% Employer superannuation contributions included in the tax base	$0 to $515 000: Nil >$515 000: 6.25% From 1/7/98 $0 to $515 000: Nil >$515 000: 6% Employer superannuation contributions included in the tax base	$0 to $850 000: Nil > $850 000: 5% (Deduction reduces to nil between $850 000 and $3 400 000) Employer superannuation contributions are taxable where the employee has elected to have the employer make the contribution as part of salary package	$0 to $456 000: Nil > $456 000: 6% Employer superannuation contributions included in the tax base	$0 to $675 000: Nil $675 001 to $2 700 000: 4.87% of excess $2 700 001 to $4 500 000: $98 550 + 6.03% of excess $4 500 000 to $5 625 000: $207 000 + 9.4% of excess >$5 625 000: 5.56% on total Employer superannuation contributions included in the tax base	$0 to $600 000: Nil > $600 000: 6.6% From 1/7/98 6.35% subject to the future sale of the Hydro-Electric Corporation's transmission, distribution and retail businesses Employer superannuation contributions included in the tax base	$0 to $800 000: Nil >$800 000: 6.85% Employer superannuation contributions included in the tax base
	Exempt: Trainees under Australian Traineeship System	Exempt: Trainees under Australian Traineeship System			Exempt: Trainees under Australian Traineeship System			

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
DEEDS	$5	$10	Nil	Nil	$10 or conveyance rates	$5	$20	Nil
DEEDS CREATING TRUST OR DECLARATION OF TRUST	$50	$200 minimum	$200	As for conveyances Appointment of new trustee - $4	$10, unless conveying property which is then conveyance value Declaration of Trust – depending on the effect of the document $10, conveyance rates, or adjudged duly stamped	$5	As for conveyances	Nil
DEBITS TAX >$1 but <$100 $100 but <$500 $500 but <$5 000 $5 000 but <$10 000 $10 000 or more	 15 cents 70 cents $1.50 $3.00 $4.00	 30 cents 70 cents $1.50 $3.00 $4.00	 30 cents 70 cents $1.50 $3.00 $4.00	 30 cents 70 cents $1.50 $3.00 $4.00	 30 cents 70 cents $1.50 $3.00 $4.00	 30 cents 70 cents $1.50 $3.00 $4.00	 15 cents 35 cents 75 cents $1.50 $2.00	 30 cents 70 cents $1.50 $3.00 $4.00
FINANCIAL INSTITUTIONS DUTY Short term dealers rate	0.06% Maximum $1 500 per receipt Exempt: Social Security deposits, charitable and religious organisations 0.005%	0.06% Maximum $1 200 per receipt 0.005%	0.06% Maximum $1 200 per receipt 0.005%	Nil	0.065% including Local Government levy Maximum $1 200 per receipt Exempt: Pension cheques Rebate for FID paid on export revenue 0.005%	0.06% Maximum $1 200 per receipt Exempt: Pension cheques. 0.005%	0.06% Maximum $1 200 per receipt Exempt: Pension cheques 0.005%	0.06% Maximum $1 200 per receipt 0.005%
MINING AGREEMENTS	$50	Under hand $2 Under seal $10	Under Deed: Nil	Duty depends on nature of instrument	Duty depends on nature of instrument; could be exempt as an agreement or conveyance rates	Duty depends on nature of instrument	$20 minimum Duty depends on nature of instrument	Nil

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
FORECLOSURE	As for conveyances	As for conveyances	Nil	As for conveyances	As for conveyances	As for conveyances	Nil	Nil
TRUSTEE APPOINTMENT	$5	$10	Under Deed: Nil	$4	$10 fixed	$5	$20	Nil
POWER OF ATTORNEY for receiving dividend or money -other	$5 $5 $10	Nil	Nil	Nil	Nil	Nil	$20	Nil
SHARE TRANSFERS On Market: Both buyers and seller are liable to duty	15c/$100 or part thereof	15c/$100 or part thereof	Up to $100: 3.5c/$25 or part thereof Over $100: 15c/$100 or part thereof	**Listed Shares** *Brokers:* 15c/$100 or part thereof, of the sale price and the purchase price as the case may be. *Other:* 30c/$100 or part thereof	15c/$100 or part thereof	15c/$100 or part thereof	15c/$100 or part thereof	*Brokers*: Up to 100: 4c/$25 or part thereof. Over $100: 15c/$100 or part thereof
Off Market: The purchaser is liable for duty	**Listed Companies** 30c/$100 or part thereof **Unlisted Companies** 60c/$100 or part thereof	**Listed Companies** 30c/$100 or part thereof **Unlisted Companies** 60c/$100 or part thereof	**Listed Companies** Up to $100: 7c/$25 or part thereof >$100: 30c/$100 or part thereof **Unlisted Companies** Up to $100: 14c/$25 or part thereof. Over $100: 60c/$100 or part thereof	**Listed Shares** *Brokers:* 15c/$100 or part thereof, of the sale price and the purchase price as the case may be *Other:* 30c/$100 or part thereof **Unlisted Shares** *Brokers:* 30c/$100 or part thereof, of the sale price and the purchase price as the case may be *Other:* 60c/$100 or part thereof	**Listed Companies** 30c/$100 or part thereof **Unlisted Companies** 60c/$100 or part thereof	**Listed Trades** 30c/$100 or part thereof **Unlisted Trades** 60c/$100 or part thereof	**Listed Companies** 30c/$100 or part thereof **Unlisted Companies** 60c/$100 or part thereof	*Other:* **Off Market** 30c/$100 or part thereof **Unlisted** 60c/$100 or part thereof (minimum $20)
CHANGE CONTROL OF LAND OWNING CORPS/UNIT TRUSTS	As for Conveyances	As for Conveyances	As for Conveyances	As for Conveyances	Old trustee to new trustee where no change in beneficial ownership: $10. Other circumstances, conveyances rates	As for Conveyances	As for Conveyances	As for Conveyances
CREDIT CARDS	Nil	Nil	Nil	10c per transaction less 10c per account period	Nil	Nil	15c per transaction	Nil

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
LAND TAX	Not imposed	$0 to $159 999: Nil > $159 999: $100 + 1.85% of excess (until 31/12/99) From 01/01/00 1.7%	$0 to $84 999: Nil $85 000 to $199 999: $85 + 0.1% $200 000 to $539 999: $200 + 0.2% $540 000 to $674 999: $880 + 0.5% $675 000 to $809 999: $1 555 + 1.0% $810 000 to $1 079 999: $2 905 + 1.75% $1 080 000 to $1 619 999: $7 630 + 2.75% $1 620 000 to $2 699 999: $22 480 + 3.0% $2 700 000: $54 880 > $2 700 000: $54 880 + 5.0%	$200 000 exemption for all natural persons (otherwise exemption of $100 000 for companies, trustees and absentees). In addition, all land tax payers receive a general 5% rebate. $0 to $3 999: 0.20% $4 000 to $5 999: $8 + 0.36% $6 000 to $9 999: $15.20 + 0.52% $10 000 to $29 999: $36 + 0.70% $30 000 to $49 999: $176 + 0.87% $50 000 to $199 999: $350 + 1.03% $200 000 to $349 999: $1 895 + 1.20% $350 000 to $499 999: $3 695 + 1.37% $500 000 to $649 999: $5 750 + 1.54% $650 000 to $799 999: $8 060 + 1.71% $800 000 to $949 999: $10 625 + 1.89% $950 000 to $1 099 999:	$0 to $50 000: Nil $50 001 to $300 000: 0.35% of excess. $300 001 to $1 000 000: $875 + 1.65% of excess. > $1 000 000: $12 425 + 3.7% of excess	$0 to $10 000: Nil $10 001 to $75 000: $15 + 0.15% $75 001 to $140 000: $112.50 + 0.25% $140 001 to $210 000: $275 + 0.45% $210 001 to $325 000: $590 + 0.8% $325 001 to $700 000: $1 510 + 1.2% $700 001 to $1 100 00: $6 010 + 1.6% > $1 100 000: $12 410 + 2%	$0 to $1 000: Nil $1 001 to $15 000: $25.00 $15 001 to $40 000: $25.00 + 0.75% $40 001 to $68 750: $212.50 + 1% $68 751 to $100 000: $500.00 $100 001 to $125 000: $500.00 + 1.25% $125 001 to $170 000: $812.50 + 1.5% $170 001 to $210000: $1 487.50 + 1.75% $210 001 to $250 000: $2 187.50 + 2% $250 001 to $500 000: $2 987.50 + 2.25% > $500 000: $8 612.50 + 2.5% From 1998/99* $0 to $1 000: Nil $1 001 to $15 000: $25 $15 001 to $100 000: $25 + 0.55% $100 001 to $200 000: $492 + $1.25%	$0 to $100 000: 1% flat $100 001 to $200 000: 1.25% flat. > $200 000: 1.5% flat (Upon unimproved value)

TAX/DUTY FEE	NT	NSW	VIC	QLD	SA	WA	TAS	ACT
LAND TAX (Cont)				\$13 460 + 2.01% \$1 100 000 to \$1 249 999: \$16 475 + 2.23% \$1 250 000 to \$1 299 999: \$19 820 + 2.44% \$1 300 000 to \$1 349 999: \$21 040 + 2.66% \$1 350 000 to \$1 399 999: \$22 370 + 2.87% \$1 400 000 to \$1 449 999: \$23 805 + 3.09% \$1 450 000 to \$1 499 999: \$25 350 + 3.30% > \$1 500 000 : 1.8% Flat			\$200 001 to \$500 000: \$1 742 + 2.25% > \$500 000: \$8 492+2.5% From 1999/2000* \$0 to \$1 000:Nil \$1 001 to \$15 000: \$25 \$15 001 to \$200 000: \$25 + 0.55% \$200 001 to \$500 000: \$1 042 + 2.00% > \$500 000: \$7 042 +2 .5% *subject to the future sale of the Hydro-Electric Corporation's transmission, distribution and retail businesses	
On Residential owner occupied land	Nil	Principal residence Unimproved land value < \$1M: Nil > \$1M: \$100 + 1.85% in excess of \$1M	Exempt: Principal place of residence	Exempt with conditions	Exempt	Exempt	Exempt	Exempt
On land used for primary production	Nil	Exempt	Exempt with conditions	Exempt with conditions	Exempt	Exempt	Exempt	Exempt
CONSUMPTION LEVY FUEL OIL	0 – 10m litres: Nil >10m litres: \$1/1000 litres on total volume. From 1/7/98 0 – 10m litres: Nil >10m litres: zero rate.	Nil	Nil	Nil	Nil	Nil	Nil	Nil