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NORTHERN TERRITORY FISCAL STRATEGY

The Northern Territory announced a single quantitative fiscal target in 1993-94 followed by a more comprehensive set of targets which were first published in 1994-95. The Fiscal Strategy was reviewed and updated for the 1998-99 Budget and has remained unchanged since then.

The benefits from the adoption of a formal fiscal strategy are threefold. It advances transparency and accountability in Territory Government fiscal policy, supports responsible management of the Territory's finances over the longer term, and promotes investor and financial market confidence in the Territory economy.

The Territory Government's current 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; and
- Territory debt servicing as a proportion of 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 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
- assessments against targets should exclude the budgetary impact of major one-off events, such as natural disasters.

The Northern Territory's budget papers include an assessment of budget aggregates against the Fiscal Strategy while the Treasurer's Annual Financial Report provides an analysis of actual performance against the Fiscal Strategy.

THE FISCAL STRATEGY

Element 1: Current expenditure per capita will not increase in real terms.

Figure 1.1 details estimated current expenditure growth for 2001-02. As the table indicates, current expenditure is estimated to decrease in real per capita terms between 2000-01 and 2001-02.

Figure 1.1
ELEMENT 1: ESTIMATED CURRENT EXPENDITURE

	2000-01 Estimate	2001-02 Budget
Current Expenditure ($million) [1]	1 873	1 892
Year on Year Growth (%) [2]	3.3	1.0
Population Growth (%) [3]	1.3	1.7
CPI Growth (%) [3, 4]	3.0	2.5
Combined Population and CPI (%)	4.3	4.2

1. NT Treasury Estimate - Economic Transactions Framework
2. Change in treatment of dividend payments from 2000-01. 1999-00 base year has been adjusted to include dividend payments
3. NT Treasury Estimate
4. Increase in the level of CPI with the GST effects removed

Estimated current expenditure for 2000-01 has increased by 3.3%, 1.0% below the 4.3% combined population and Consumer Price Index (CPI) growth. While this estimate is below the Fiscal Strategy, there were significant increases in personnel expenditure, largely superannuation expenditure. Also, carry-over items from previous budget periods continue to impact on current expenditure levels in 2000-01 and 2001-02.

The main beneficiaries of increased expenditure in 2000-01 were the health, education and energy sectors. Current expenditure also included the effect of flooding in the Territory, which amounted to $4 million.

Current expenditure is estimated to increase by 1.0% in 2001-02, well within the forecast target (combined rate of inflation and population growth) of 4.2%. Health, education and general public services received increases while other sectors maintained a similar level of current funding.

If the Territory's expenditure had stayed constant in real per capita terms, 2001-02 expenditure would have increased to $1 952 million. The Territory is thus within the real per capita growth target by $60 million.

Element 2: Infrastructure will be maintained at levels sufficient to meet the Territory's economic and social needs.

There are no quantitative targets for this element of the strategy as capital expenditure tends to vary in accordance with population growth, infrastructure requirements and the timing of major projects.

Figure 1.2
ELEMENT 2: INFRASTRUCTURE

	2000-01 Estimate	2001-02 Budget
New Fixed Assets ($million) [1]	237	244
Growth (%)	*- 0.8*	*3.0*
Repairs and Maintenance ($million) [2]	161	155
Growth (%)	*9.4*	*- 3.5*
Total	398	399
Growth (%)	*3.1*	*0.4*

1. NT Treasury Estimate - Economic Transactions Framework
2. NT Treasury Estimate - Gross Outlays

Figure 1.2 details estimated new fixed asset expenditure and repairs and maintenance outlays for 2000-01 and 2001-02.

As indicated, new fixed asset expenditure is estimated to increase by 3.0% between 2000-01 and 2001-02. The Territory continues to maintain a high level of new fixed asset expenditure.

One-off items continue to have a significant effect on growth figures. The 1999-00 base year included a $33 million investment in an electricity generator, which accounts for the decline in expenditure for 2000-01. When this expenditure is excluded from the base year, the adjusted growth rate for 2000-01 is 15.0%.

Expenditure on new fixed assets does not include the Territory's contribution to the Alice Springs to Darwin railway. The AustralAsia Railway Corporation is outside the Territory's budget sector and the Territory's contribution to the railway is classified as a capital grant.

Continued high levels of investment in fixed assets are set to continue in future years as government infrastructure necessary to support projects in relation to gas, port facilities and the railway come to fruition.

The level of repairs and maintenance expenditure reflects the need to adequately preserve the Territory's existing capital stock.

Repairs and maintenance in 2001-02 includes some one-off additional expenditures, particularly for housing. This contributes to a lower increase than would otherwise be expected in 2001-02.

Element 3: The Territory's own-source revenue effort will be broadly comparable to the States.

This element of the strategy reinforces the Territory's commitment to making a State-like revenue effort. Figure 1.3 presents estimated Territory and six State own-source revenue collections on a per capita basis. An estimate of six State own-source revenue for 2001-02 is not available at this stage.

Figure 1.3

ELEMENT 3: OWN-SOURCE REVENUE

	1999-00	2000-01	2001-02
Northern Territory ($ per capita)	3 767	3 410	3 401
Six State Average ($ per capita)	3 907	3 818	n.a.

Source: Government Financial Estimates ABS Catalogue No. 5501.0

Note: Treasury estimate for 2001-02 based on percentage increase in cash-based equivalent

As Figure 1.3 illustrates, Territory estimated own-source per capita revenue collections for 2000-01 are broadly consistent with the six State average.

Own-source revenue per capita for the Territory and the States has declined recently for a number of reasons. This includes a reduction in revenue effort and capacity as shown in Figure 1.4, as well as a reduction in the Territory's own-source revenue base. Under the terms of the *Intergovernmental Agreement* on *the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement), certain Territory taxes were abolished in exchange for the provision of GST revenue grants which commenced in 2000-01. These taxes were revenue replacement payments (which the Australian Bureau of Statistics treated as own-source revenue) and Tourism Marketing Duty. As the Territory had relatively high capacity and effort in some of the abolished taxes, this has reduced the level of the Territory's own-source revenue collections relative to other jurisdictions in 2000-01.

However, Territory revenue is expected to be become more comparable with the other jurisdictions from 2001-02, with the elimination of Financial Institutions Duty and stamp duty on quoted marketable securities from State and Territory tax bases. The Territory is less reliant on these revenue sources in comparison with the six States.

In determining the Territory's relative revenue effort, it is also useful to examine Commonwealth Grants Commission data. The Commonwealth Grants Commission assesses each jurisdiction's relative need for Commonwealth financial assistance. Part of this process involves analysing the own-source revenue capacity and effort of each State and Territory.

Revenue capacity represents potential revenue levels if a given State or Territory applied national average tax rates to its available revenue sources. Each jurisdiction's revenue capacity is expressed as a percentage of the Australian average.

Conversely, revenue effort contrasts actual revenue collections with revenue levels implied by each jurisdiction's revenue capacity. In other words, it measures the extent to which tax rates and bases are applied to available revenue sources.

Figure 1.4 details the Territory's revenue capacity and effort, expressed as a percentage of the Australian average from 1998-99 to 1999-00.

Figure 1.4
ELEMENT 3: REVENUE CAPACITY AND EFFORT

	1998-99	1999-00
Revenue Capacity (%)	88	90
Revenue Effort (%)	87	83

Source: Commonwealth Grants Commission 2001 Update

As Figure 1.4 indicates, the Territory's relative own-source revenue capacity and effort are below the Australian average for 1999-00.

The above analysis is a broad measure of own-source revenue as it covers fees, user charges, stamp duties, taxes, interest earnings, mining revenue, non-financial public corporation income and other revenues. A better measure of own-source revenue (if considering taxes on Territorians) used by the Commonwealth Grants Commission is total taxation as shown in Figure 1.5. This measure indicates that the Territory's level of effort in raising taxation revenue was slightly above the Australian average in 1999-00.

Figure 1.5
ELEMENT 3: TOTAL TAXATION REVENUE CAPACITY AND EFFORT

	1998-99	1999-00
Revenue Capacity (%)	81	77
Revenue Effort (%)	93	101

Source: Commonwealth Grants Commission 2001 Update

A wide-ranging comparison of different tax rates and charges for the Territory can be found in Chapter 13 of this Budget Paper. It confirms that, on the whole, Territorians are subject to rates of taxes and charges similar to their interstate counterparts.

Element 4: Debt as a proportion of economic output will continue to decline.

Following a continual decline since the mid 1990s, gross debt has again increased in 2000-01. However, gross debt as a proportion of economic output continues to decline. Figure 1.6 illustrates the estimated decline in gross debt as a proportion of Gross State Product for 2000-01 and 2001-02. Debt as a proportion of Gross State Product has declined from 39.1% in 1995-96 to an estimated 24.6% in 2001-02, representing a 14.5 percentage point decline in debt as a proportion of economic output in five years.

Figure 1.6
ELEMENT 4: GROSS DEBT AS A PROPORTION OF ECONOMIC OUTPUT

	Gross Debt	Gross State Product	Proportion
	($million)	($million)	(%)
2000-01	2 250	8 635	26.1
2001-02	2 297	9 335	24.6

Source: NT Treasury Estimate – in nominal values

This analysis confirms the achievement of this element of the Fiscal Strategy, which is primarily a function of the robust performance of the Territory economy in recent years.

Element 5: Debt servicing as a proportion of total Territory revenue and Commonwealth grants will be broadly comparable to the States.

This element of the strategy is concerned with interest payments as a proportion of total revenue. The Territory's ratio of interest paid to total revenue is estimated to increase slightly from 8.3% in 2000-01 to 8.5% in 2001-02. Figure 1.7 shows interest payments as a proportion of total revenue for the Territory and the six States in 1999-00 and 2000-01.

Six State average interest payments as a proportion of revenue have fallen considerably in recent years. This is a function of the larger States implementing privatisation programs and using the proceeds from asset sales to retire public debt.

Additionally, larger States in particular have been able to minimise debt liabilities by actively encouraging private sector involvement in large-scale public infrastructure projects. While this avoids the need for the government to borrow, the community has the obligation to service private sector capital. Furthermore, most transactions are usually backed by some form of government guarantee.

Figure 1.7
ELEMENT 5: DEBT SERVICING

	2000-01	2001-02
Territory Interest Payments ($million)	188	203
Territory Total Revenue ($million)	2 261	2 391
Territory Ratio (%)	*8.3*	*8.5*
Six State Ratio (%)	*4.3*	*n.a.*

Source: Government Financial Estimates ABS Catalogue No. 5501.0

Note: Treasury Estimate for 2001-02 based on percentage increase in cash-based equivalent

The change from cash to accrual accounting in the formulation of Government Finance Statistics has made this ratio, at least for the time being, less reliable. The accrual presentation has resulted in the grossing of Public Non-Financial Corporation revenues. Under cash accounting, Public Non-Financial Corporation income was recorded as net income (ie revenues less expenses) in jurisdictional financial reports. Under accrual accounting, Public Non-Financial Corporation revenue is recorded as a gross amount. This has benefited the six State ratio in comparison to the Territory, due to the larger relative size and scope of government businesses in the six States. Consequently, the outcomes presented in Figure 1.7 are not strictly comparable. Further consideration of appropriate comparisons under an accrual environment is required.

FISCAL STRATEGY PROVISOS

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

Proviso 1: 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.

Figure 1.8 details estimated total Commonwealth grants to the Territory and to the six States for 2000-01 and 2001-02.

Figure 1.8
PROVISO 1: COMMONWEALTH GRANTS

	2000-01	2001-02
Northern Territory Total ($million)	1 681	1 773
Six State Total ($million)	43 821	47 414
Northern Territory Change (%)	*n.a.*	*5.4*
Six State Change (%)	*n.a.*	*8.2*

Source: Commonwealth Treasury Statement of Estimated Payments

Note: Total grants exclude payments direct to local government

The Intergovernmental Agreement has resulted in significant changes in the nature and composition of Commonwealth grants to States and Territories. These changes are consistent across jurisdictions.

The Intergovernmental Agreement dictates that Commonwealth financial assistance grants and revenue replacement payments to the States and Territories be replaced with GST revenue grants from 2000-01.

Notwithstanding these changes, the comparison in Figure 1.8 indicates that Commonwealth grants to the Territory are estimated to increase by 5.4%, which is significantly different to the estimate for the six States of 8.2%. The six States have increased their share of Commonwealth grants due to an increase of 4.4% in specific purpose payments between 2000-01 and 2001-02, while the Territory will experience a decline of 2.0%.

In 2000-01, the Territory experienced a significant increase in specific purpose payments in comparison to the six States, mainly from the receipt of grants for the Alice Springs to Darwin railway. When these transactions are excluded from the 2000-01 base year, a level of growth similar to the six States emerges. Even so, despite the operation of aggregate guarantee arrangements in the Intergovernmental Agreement, the Territory has been under-equalised relative to the other States in 2000-01.

Proviso 2: The Territory should receive adequate discretion in the application of funds to priorities determined by Territorians.

Commonwealth grants to the States and Territories are provided in two forms, specific purpose and untied. As their titles suggest, State and Territory Governments have discretion in the application of untied grants. Conversely, the provision of specific purpose grants is conditional upon their allocation to pre-determined functions.

The provision of specific purpose payments is considered an imposition of Commonwealth priorities in areas that are, constitutionally, the responsibility of the States and Territories.

Consequently, in order for the Territory Government to maintain the ability to allocate resources in accordance with the needs of Territorians, it is imperative that adequate discretion is afforded the Territory in the allocation of Commonwealth financial assistance.

Figure 1.9 shows the proportion of specific purpose payments to untied grants for the Territory. Specific purpose payments, as a proportion of total grants, are estimated to decrease between 2000-01 and 2001-02.

Figure 1.9

PROVISO 2: SPECIFIC PURPOSE GRANTS AS A PROPORTION OF TOTAL GRANTS

	2000-01	2001-02
Untied Grants ($million)	1 290	1 389
Specific Purpose Payments ($million)	391	384
Total Grants ($million)	1 681	1 773
SPP Proportion of Total (%)	23.3	21.6

Source: Commonwealth Treasury Statement of Estimated Payments

Note: Total grants exclude payments direct to local government

Proviso 3: Assessment against the targets should exclude the budgetary impact of major one-off events, such as natural disasters.

A number of one-off events impacted on the budget as a result of natural disasters. These include the flow-on effects of Cyclone Steve and flooding in Central Australia in February 2000. In February 2001, flooding also devastated the Victoria River District and Gulf country, affecting the communities of Daguragu, Kalkarindji, Pigeon Hole and Borroloola. Expenditure on these natural disasters is estimated to be $19.2 million in 2000-01 and $3.5 million in 2001-02.

RECENT FISCAL DEVELOPMENTS

The higher cost of providing services to a small and highly dispersed population gives the Northern Territory certain fiscal characteristics which set it apart from other Australian jurisdictions. These include a high level of per capita expenditure and a dependence on Commonwealth grants.

Historically, the dependence on Commonwealth grants has made the Territory vulnerable to changes in Commonwealth policy. However, the volatility evidenced by the substantial decrease in Territory revenue experienced in the mid-1980s will be reduced by reforms to intergovernmental financial relations, which took effect from 1 July 2000.

This chapter provides a historical overview of fiscal developments in the Territory since 1983-84, a year when financial arrangements with the Commonwealth stabilised after the transition to Self-Government. Comparisons with the six States are provided by exploring relative changes in fiscal characteristics over time.

The use of a six State comparison in this chapter requires comparable financial data from all State jurisdictions over an eighteen year period. The transition of most jurisdictions from cash to accrual accounting has led to increased incomparability of jurisdictional financial reports. Tasmania and the Northern Territory will be the last jurisdictions to adopt accrual accounting in 2002-03.

Due to differences in the conceptual framework of cash and accrual accounting, Northern Territory cash based reports are not able to be compared with the predominantly accrual based reports of the six States. Analysis is conducted on the basis of continuing the Territory based cash series with the historically dated six State cash series. Territory data is available for the period ending 2001-02, whilst the most recent six State data is 1999-00.

This chapter uses data from the Uniform Presentation Framework scope, which is broader than the budget scope that is used elsewhere in these Budget Papers. Data is not, therefore, comparable with other presentations in the budget.

Further description of the time series developed for this purpose is contained in the appendix to this chapter.

BACKGROUND

The Territory's financial arrangements are comparable with the States'. The comparatively high cost of providing services in the Territory results in higher expenditure per capita when compared with the States. This is funded through a greater share of Commonwealth funding as a result of the fiscal equalisation processes. However, the increased reliance on Commonwealth funding can mean that the Territory is more affected by Commonwealth policy changes regarding funding to the States.

The Territory's own-source revenue is comparable with the States'. Territory debt levels are not dissimilar to the States', but reflect the policy to establish appropriate levels of infrastructure for a growing economy.

EXPENDITURE

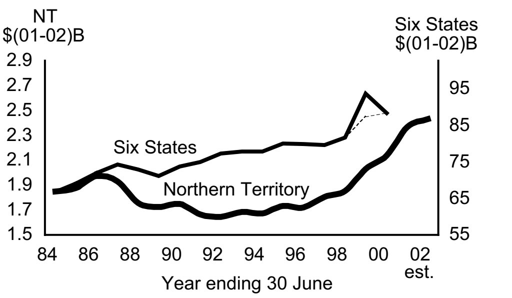
For much of the period between 1983-84 and 1998-99, Territory expenditure has declined in real terms. This decline was significant during the 1980s and was followed by a period of minimal change in the early 1990s. Since 1995-96 expenditure has been increasing, with real expenditure in 2001-02 26.3% higher than in 1983-84.

Territory expenditure rose from 1983-84 to 1985-86, but fell by 16% in real terms between 1985-86 and 1990-91, as a result of reduced spending capacity caused by the reduction in Commonwealth grants. Despite expenditure growth in the Territory since the mid-1990s, growth in the six States' expenditure has substantially exceeded that of the Territory since 1983-84 (Figure 2.1).

A feature of Figure 2.1 is the peak in six State expenditure in 1998-99. This is the result of large up-front superannuation payments made by New South Wales and Victoria in that year, increasing six State expenditure by over $5.8B in nominal terms.

The dotted line forming part of the six State series indicates the level of expenditure, had the superannuation payments not been made.

Figure 2.1
TOTAL EXPENDITURE



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

The reduction in Territory expenditure in the mid-1980s occurred in an environment of rapid population growth. During the period from 1983-84 to 2001-02, population growth in the Territory averaged 2.1% per year, compared with 1.2% for the six States.

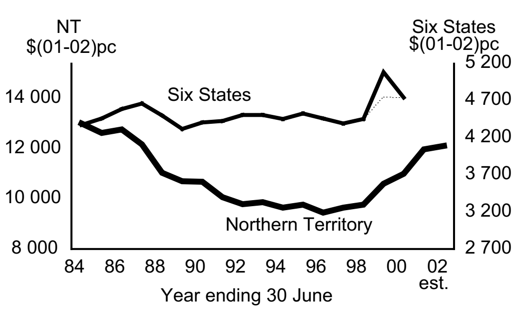
Territory expenditure in the early 1990s changed little in real terms, but from 1995-96 to 1999-00 expenditure growth was high, increasing by 23.6%. This growth was due to the increased demand for services following an extended period of minimal, and often negative, expenditure growth.

The services, which have dominated growth in Territory expenditure, have been health, education, and law and order services, although the trend has been influenced by other one off expenses in each of the years since 1996-97. The Territory's superannuation outlays have also increased significantly over this period which is reflected by the change to fully funding new employee superannuation benefits from 10 August 1999. High growth continued in 2000-01 and to a lesser extent in 2001-02, both due mainly to the impact of the Alice Springs to Darwin railway.

The different rates of population growth in the Territory and the States mean that comparative growth in expenditure should be examined in per capita terms. Figure 2.2 clearly illustrates the per capita decline in Territory expenditure since 1983-84.

From 1995-96 to 1999-00, per capita expenditure grew 15.7% in the Territory compared with 2.2% for the six States.

Figure 2.2
TOTAL EXPENDITURE PER CAPITA



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

Total expenditure consists of capital and current expenditure, and it is useful to examine these components separately. Current expenditure (Figure 2.3) represents the total cost of running government programs, the major component of which is personnel costs. Capital expenditure represents outlays for infrastructure and capital equipment.

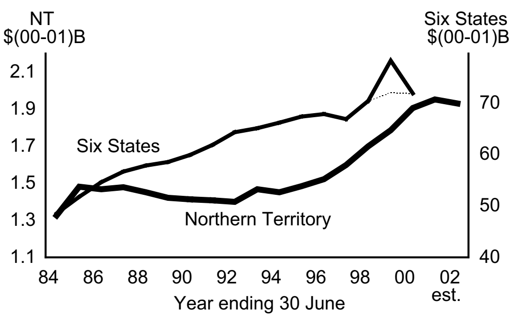
CURRENT EXPENDITURE

Current expenditure typically accounts for approximately 85% of total expenditure in the Territory. This proportion has increased since 1983 owing to reductions in capital expenditure, which was necessarily high in the years following Self-Government as the backlog of infrastructure development was being overcome.

Current expenditure in 1999-00 was 37% higher in real terms than in 1983-84, compared with an increase for the six States of 40%. As illustrated in Figure 2.3, much of the increase for the Territory was after 1995-96. Current expenditure levelled off in 2000-01 and 2001-02.

Between 1983-84 and 1990-91, current expenditure grew only 5% in the Territory compared with 26% in the six States. From 1995-96 to 1999-00, the situation was reversed, Territory current expenditure increased by 25% compared to 6% for the six States.

Figure 2.3
CURRENT EXPENDITURE

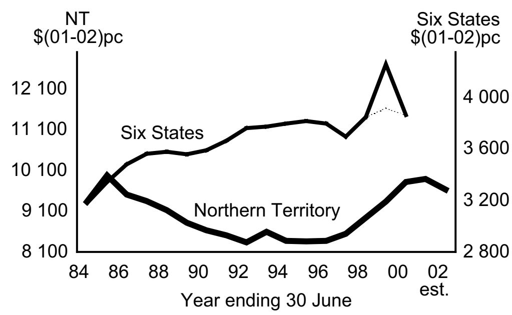


Source: *Government Financial Estimates,* ABS Cat. No. 5501.0; and Northern Territory Treasury

The largest contributors to the increase in current expenditure in 2000-01 are health, education and superannuation. Small increases in several other functions have also contributed. Current expenditure is expected to decline in real terms in 2001-02.

Per capita current expenditure declined steadily in real terms from 1984-85 to 1995-96, beginning a trend of increases in expenditure in 1996-97 after ten years of nearly continuous decline (Figure 2.4). There has been a 15% increase in current expenditure per capita since 1995-96.

Figure 2.4
CURRENT EXPENDITURE PER CAPITA



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

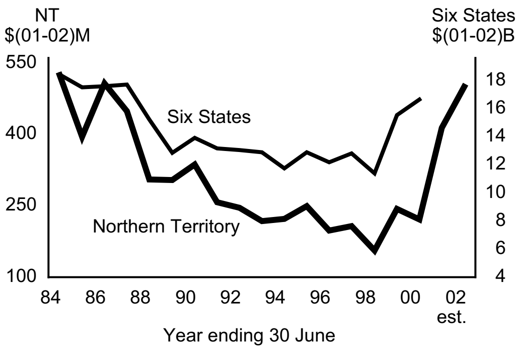
In 1999-00, real per capita current expenditure was the same as in 1983-84. This contrasts markedly with the increase of 14.6% for the six States over the same period.

CAPITAL EXPENDITURE

Fluctuations in capital expenditure are far greater than in current expenditure. This is especially apparent in the Territory (Figure 2.5).

Capital expenditure was high in the years following Self-Government owing to the need to develop the Territory's infrastructure, but levels have reduced in later years, consistent with a lower need for new capital investment. Capital expenditure levels have again returned to high levels, reflecting a return to a period of renewed infrastructure development.

Figure 2.5
CAPITAL EXPENDITURE



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

The average annual capital expenditure between 1983-84 and 1990-91 was $395 million in real terms, including the peak of $542 million, associated with the Channel Island power station, spent in 1983-84, representing a period of high growth. In contrast, between 1990-91 and 1999-00, capital expenditure averaged $222 million per year representing a period of low growth, although capital expenditure in 1997-98 is artificially low due to the receipt of proceeds from the sale of Ayers Rock Resort.

Capital expenditure has again returned to high levels with capital expenditure increasing to $413 million in 2000-01, largely due to the construction of the Alice Springs to Darwin railway. Capital expenditure is forecast to increase to $499 million in 2001-02, again due to the railway.

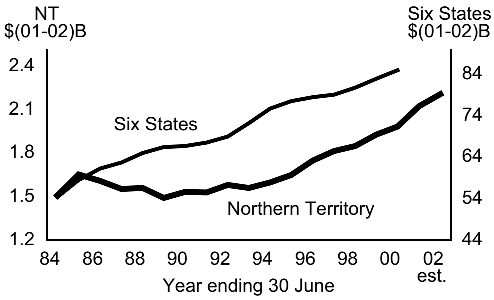
REVENUE

There are two broad categories of revenue available to States and Territories:

- own-source revenue; and
- Commonwealth grants.

Total Territory revenue in 1999-00 was 26% higher in real terms than in 1983-84, compared with an increase of 47% for the six States from 1983-84 to 1999-00. (Figure 2.6). The drop in total revenue during the mid-1980s is the result of a decline in Commonwealth grants to the Territory during that period (Figure 2.8).

Figure 2.6
TOTAL REVENUE



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

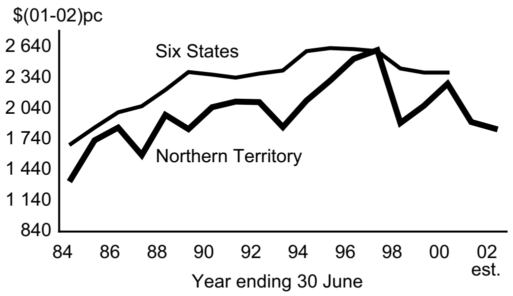
In comparison, the six States have enjoyed stable growth in revenue since 1983, shielded in part from small reductions in Commonwealth grants by their greater levels of own-source revenue. However, Territory revenue has grown strongly since 1993-94.

OWN-SOURCE REVENUE

Between 1983-84 and 1996-97, Territory own-source revenue increased at 1.6 times the rate of the six States. However, a higher than average proportion of Territory own-source revenue was collected through business franchise fees, which the High Court deemed to be unconstitutional in August 1997. The loss of own-source revenue which resulted from this decision was therefore greater for the Territory than for the six States.

Nonetheless, Territory own-source revenue in 2001-02 will be 16.3% higher in real per capita terms than it was in 1983-84.

Figure 2.7
OWN-SOURCE REVENUE PER CAPITA



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

The consistent growth in Territory own-source revenue and the disproportionate effect of the High Court decision are clearly reflected in Figure 2.7. The Territory achieved the same own-source revenue collections per capita as the States in 1996-97. However, the fall following the High Court decision was substantial for all jurisdictions, particularly the Territory.

Following the High Court decision on business franchise fees, the Commonwealth agreed to collect the lost revenue on behalf of the States and distribute it back in the form of revenue replacement payments.

The decline in Territory own-source revenue for 2000-01 and 2001-02 relates to changes in the revenue arrangements which result from national tax reforms, including the abolition of certain Territory own-source revenues. This includes tourism marketing duty and reduced gambling taxes in 2000-01 and the abolition of Financial Institutions Duty and stamp duty on quoted marketable securities in 2001-02. A reduction of similar magnitude is expected for the six States.

This reduction will be offset by an increase in untied Commonwealth grants, comprising GST revenue and additional guarantee payments made as part of the transitional arrangements relating to tax reform.

COMMONWEALTH GRANTS

A substantial proportion of State revenue is received in the form of grants from the Commonwealth. This is the result of vertical fiscal imbalance in the Australian Federation, where the revenue raising capacity of the Commonwealth exceeds its expenditure obligations, and the States have responsibility for providing services which cannot be wholly supported by their revenue base (see Chapter 6, State and Territory Shares of National Tax Revenue).

The Territory incurs greater costs of providing State-like services and the fiscal equalisation arrangements result in the Territory receiving a greater share of Commonwealth grants.

As Figure 2.8 illustrates, the mid-1980s saw a reduction in Commonwealth grants to all jurisdictions, particularly the Territory.

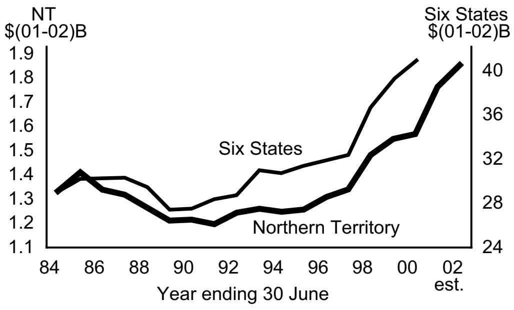
Commonwealth grants to the Territory in 1990-91 were 12% lower in real terms than in 1983-84, with grants falling on average 1.7% per year. Grants to the States reduced by only 3.8% over the entire period.

Since 1990-91, grants to the Territory have grown in real per capita terms. There has been a higher rate of growth in grants to the six States, particularly in 1998-99 and 1999-00.

Figure 2.8 shows that Commonwealth grants to the Territory and the six States have substantially increased since 1997-98. This is due to both the commencement of revenue replacement payments in 1997-98, the reduction in State fiscal contributions to the Commonwealth deficit reduction strategy in 1998-99, and the increase in Commonwealth grants due to tax reform.

Figure 2.8

COMMONWEALTH GRANTS



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

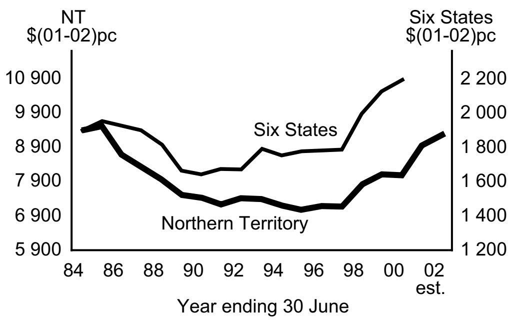
The increase in Commonwealth grants in 2000-01 and 2001-02 for the Territory offsets the decrease in own-source revenue as a result of national tax reform. This will also be reflected in grants to the six States.

The transitional measures agreed as part of tax reform, include guarantee payments from the Commonwealth to ensure that the States and Territories are no worse off under the new arrangements. The guarantee applies to the States and Territories in aggregate for the first two years, and thereafter to each State and Territory individually.

The difficulty in drawing meaningful conclusions with Commonwealth grants is highlighted in 2001-02, where the 'headline' increase in Commonwealth general revenue grants is 10.7%, but the 'underlying' increase is only 5.1%.

Figure 2.9

COMMONWEALTH GRANTS PER CAPITA



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

The combined effects of the Territory's reduction in Commonwealth grants during the 1980s and relatively high population growth are illustrated in Figure 2.9, which compares per capita grants to the Territory and the six States since 1983-84. Also evident is the real per capita fall in Commonwealth grants for the six States, although to a lesser extent than for the Territory.

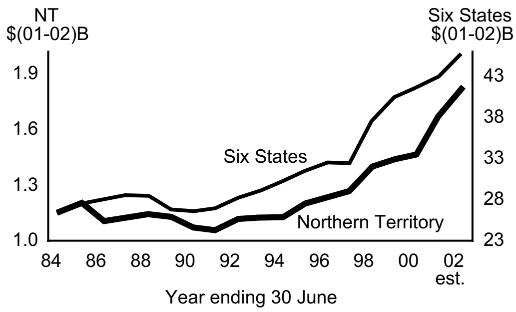
The payment of revenue replacement payments to the States and Territories from 1997-98 results in an increase in Commonwealth grants.

CURRENT GRANTS

The policies underlying the change in Commonwealth grants over time are best understood when Commonwealth grants are separated into current and capital components.

Figure 2.10

COMMONWEALTH GRANTS – CURRENT



Source: Commonwealth Budget Papers

Current grants from the Commonwealth include general purpose grants and specific purpose payments. Figures 2.10 and 2.11 represent current grants from the Commonwealth since 1983-84.

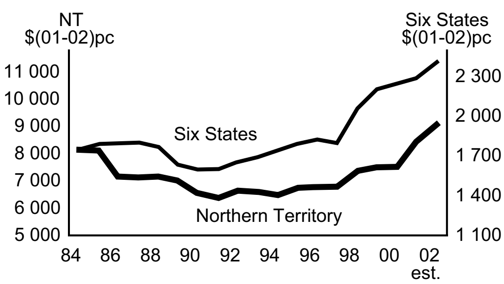
The reduction in Territory current grants in the late eighties is the result of lower levels of the electricity operating subsidy. The Territory also received special revenue assistance of $49.9 million in 1990-91 and $40 million in 1991-92, to offset other reductions in current grants.

Most of the 1990s show the effect of the Commonwealth's policy to maintain financial assistance grants in real per capita terms. The increase in 1997-98 is due to the commencement of revenue replacement payments.

In broad terms, it is possible to see that current grants to the Territory have moved in line with those of the six States, although the disadvantage to the Territory, of greater than average reductions in the 1980s, has continued through to the present.

In per capita terms, however, the decline in Commonwealth grants to the Territory is greater than in the six States. Figure 2.11 illustrates that in per capita terms, current grants to the Territory have not seen a sustained period of increase since 1983, while grants to the six States increased steadily during the 1990s.

Figure 2.11
COMMONWEALTH GRANTS – CURRENT PER CAPITA

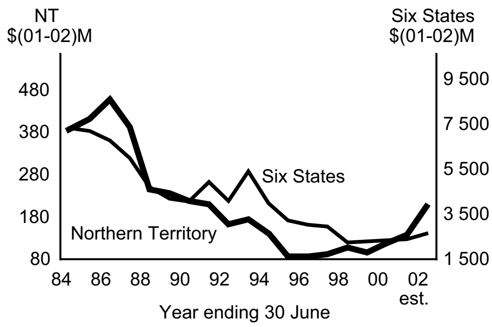


Source: *Commonwealth Budget Papers* and Northern Territory Treasury

CAPITAL PAYMENTS

The greatest reduction in Commonwealth funding to the States has occurred through reductions in capital payments, which include general purpose capital grants and capital specific purpose payments.

Figure 2.12
COMMONWEALTH GRANTS CAPITAL



Source: Commonwealth Budget Papers

Figure 2.12 shows not only the overall reduction in capital grants to States and Territories since 1983-84, but also the fact that the Territory is disadvantaged to a greater extent than the six States by the reductions.

The pattern of capital funding to the Territory diverged widely from that of the six States after 1991-92, when funding under the Commonwealth State Housing Agreement began to be distributed on a per capita basis, rather than a needs basis. Capital grants to the Territory fell rapidly as the new distribution method was phased in over three years. In 1993-94, the Commonwealth ceased all general purpose capital grants to States and Territories, causing a steep reduction in capital grants to all jurisdictions.

The growth in capital grants to the six States in the early 1990s is predominantly the result of a large Commonwealth capital program, Building Better Cities, which favoured larger population centres.

The recent increase in capital grants to the Territory represents the Commonwealth contribution to the Alice Springs to Darwin railway and should be considered as a one-off event. The general level of grants to the States and Territories remains at a low level.

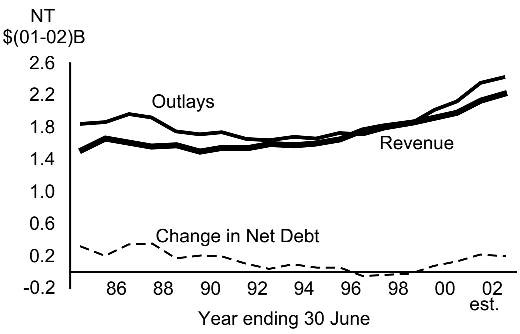
NORTHERN TERRITORY BUDGET

The combined effects of changes in revenue and expenditure over time are illustrated at Figure 2.13, which shows total Territory revenue and expenditure and the corresponding change in net debt.

While expenditure was high during the early years of Self-Government, the Territory has managed to restrain expenditure in line with reducing revenue. Since the early 1990s, expenditure and revenue have been closely matched, resulting in little change in net debt.

Figure 2.13

NORTHERN TERRITORY BUDGET (UNIFORM PRESENTATION SCOPE)



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

Recent growth in expenditure has resulted in increases in net debt from 1998-99. Deficits are forecast to continue from 2000-01 into 2001-02.

GROSS AND NET DEBT

Debt is a necessary source of funding for governments. In recent years, the Territory has raised debt exclusively through the Northern Territory Treasury Corporation, by the issue of inscribed stock and other debt securities to domestic and offshore financial institutions, and to the Australian public.

In the past, debt was also raised through advances from the Commonwealth.

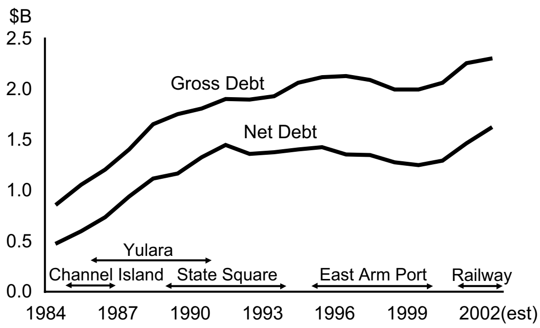
TERRITORY DEBT

Territory gross and net debt rose sharply during the 1980s, as a result of the high expenditure associated with the period following Self-Government and also from the absorption of liabilities previously held by the Commonwealth on the Territory's behalf.

As Figure 2.14 shows, the level of debt has plateaued in the 1990s. Changes in gross and net debt in recent years reflect policy decisions on the balance of assets and liabilities, and the effect of major capital projects.

Figure 2.14

NORTHERN TERRITORY GROSS AND NET DEBT AT 30 JUNE



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

The management of Territory debt is a prominent policy issue, featuring in two of the five elements of the Northern Territory Fiscal Strategy (see Chapter 1).

A reduction in gross debt of $10 million was achieved in 1998-99, along with a reduction in net debt of $36 million. Gross and net debt are forecast to increase to $2.29 billion and $1.5 billion in 2000-01 and 2001-02 respectively (as illustrated in Figures 2.14 and 2.15) as a result of a period of increased infrastructure development.

Figure 2.15
NORTHERN TERRITORY GOVERNMENT DEBT

	Gross Debt	Financial Assets	Net Debt
	$M	$M	$M
30 June 2000	2 064	770	1 294
30 June 2001(e)	2 250	807	1 443
30 June 2002(b)	2 297	842	1 455

Source: Northern Territory Treasury
Note: (b) Budget (e) estimate

INTERSTATE COMPARISONS

The polarisation of state policies on the use of public assets to fund the retirement of debt, has made valid comparisons of the change in gross and net debt increasingly difficult in recent years. While there has been a general trend towards reducing debt through the sale of public assets, some States, supported by sizeable public assets, have pursued this policy far more aggressively than others.

In 1992-93, Victorian net debt was approximately 209% of total revenue, over twice the level of debt in the Territory. Since then, Victoria has raised roughly $35B through asset sales, most of which has been used to retire debt. On 30 June 2000, Victoria had the lowest ratio of net debt to total revenue in Australia, (6.3%).

The sale of assets can be an effective means of obtaining revenue with which to reduce debt, and therefore interest payments. However, the sale of profitable public enterprises also means that a source of revenue through dividend payments is lost.

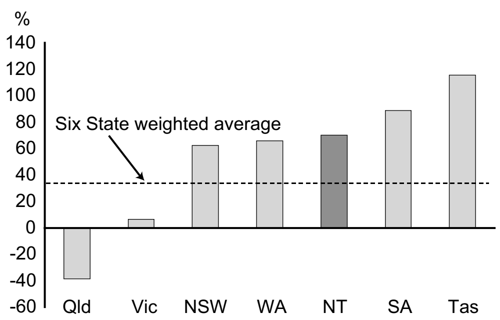
NET DEBT TO TOTAL REVENUE

The Territory's net debt fell from 99% to 68% of revenue between 1993-94 and 1998-99. However, the six State weighted average, largely driven by Victoria, Western Australia and Queensland, fell from 109% to 36% during the same period.

Irrespective of policy, small jurisdictions including the Northern Territory, Tasmania and South Australia, have a limited capacity to retire debt through the sale of public assets, since the risk to both private sector investors and the public is likely to be greater than in the larger jurisdictions.

Figure 2.16 shows the ratio of net debt to total revenue for the six States and the Territory estimated as at 30 June 2000. The chart shows the clear distinction between Queensland and Victoria, and the rest of the jurisdictions. Of those jurisdictions with policies more comparable to the Territory, the average ratio of net debt to revenue is 69.6%, compared with 70% for the Territory. For the six States in aggregate, however, the ratio is 34%, reflecting the impact of the different conditions in Victoria and Queensland.

Figure 2.16
NET DEBT TO TOTAL REVENUE – AT 30 JUNE 2000



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

GROSS INTEREST PAYMENTS TO TOTAL REVENUE

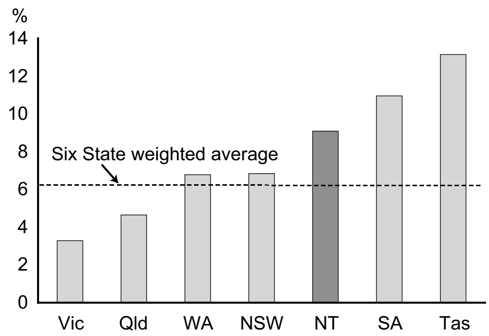
An alternative measure of the level of debt carried by the Territory and the six States is the ratio of gross interest payments to total revenue. Figure 2.17 shows that the Territory's gross interest payments are greater, as a proportion of total revenue, than for the six States in aggregate.

As suggested in previous years' Budget Papers, the Territory has moved above the six State average on this measure as the full benefits of debt retirement through asset sales flow through to State budgets.

The ratio of interest payments to total revenue is expected to rise in 2001-02, however, it remains lower than Tasmania and slightly higher than South Australia. South Australia's debt position has benefited from the recent sale of its electricity assets.

Figure 2.17

GROSS INTEREST PAYMENTS TO TOTAL REVENUE – AT 30 JUNE 2001



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

Note: Accrual based estimate

DATA APPENDIX

BACKGROUND

The analysis provided in this chapter is based on a time series of financial data, which has been developed by the Northern Territory Treasury to provide a consistent view of fiscal trends since 1983-84.

The Australian Bureau of Statistics (ABS) *Government Financial Statistics* Cat. Nos 5501.0 and 5512.0, have undergone changes in scope and presentation in recent years which have affected their usefulness for the long term analysis of trends.

For each of the modifications to scope and treatment, the ABS has backcast only five years' data on a comparable basis.

NORTHERN TERRITORY TIME SERIES (NTGFS)

The Northern Territory time series (NTGFS) is a cash series based on ABS data for the Non-Financial Public Sector (NFPS), which is the consolidation of the General Government and Public Trading Enterprise sectors.

The NTGFS is aligned as closely as possible with the ABS 1998-99 cash framework for government financial statistics.

Data for 1996-97 to 1999-00 is sourced from *1998-99 Government Financial Estimates* (GFE), uniform presentation tables in State Budget Papers, and Mid-Year Reports.

Data for earlier years is based on ABS data for the consolidated public sector (1996-97 GFE), which at that time did not include the Public Financial Enterprise (PFE) sector, although central borrowing authorities were included as general government agencies.

Modifications have been made to ABS data from 1983-84 to 1995-96 to:

- estimate the removal of university related grants and outlays from State and Territory aggregates; and
- classify net advances paid as financing transactions.

Although the inclusion of central borrowing authorities in financial aggregates until 1995-96 represents a break in the series, it does not significantly affect the interpretation of trends.

GROSS AND NET DEBT

Gross and net debt data provided in this Chapter is based on Uniform Presentation Framework statistics up to 1999-00. For the years 2000-01 and 2001-02, changes in gross and net debt reflect changes in budget sector gross and net debt.

ACCRUAL GOVERNMENT FINANCIAL STATISTICS

In the 1999-00 GFE, the ABS published its first experimental estimates of government financial statistics on an accrual presentation framework. The cash series, on which the NTGFS is based, has not been continued.

Due to the current transitional phase from cash to accrual accounting, no accrual data has been utilised within this chapter, with the exception of the section titled Gross Interest Payments to Total Revenue. Accrual information has been used in this section as it provides the most recent data available on debt. Net Debt is the only measure that has survived the transition from cash to accrual accounting and can be broadly compared with its previous cash counterpart.

The lack of data will continue to be an obstacle in 2002-03 to comparing jurisdictional financial reports, as the Territory commences accrual accounting. Comparable analysis will only be possible after the publication of the Territory's Budget Papers in 2002-03.

As it may be several years before a reliable time series of accrual government financial statistics can be compiled, the Territory will need to employ a more introspective approach to the analysis of fiscal developments under the new accrual framework.

COMMONWEALTH GRANTS COMMISSION 2001 UPDATE OF RELATIVITIES

The Commonwealth Grants Commission is a statutory authority whose primary role is to recommend the distribution of untied Commonwealth financial assistance between the States and Territories. Each jurisdiction's Commonwealth financial assistance requirement is determined in accordance with the principles of horizontal fiscal equalisation and in line with the Commission's Terms of Reference which is agreed by Australian governments.

The definition of horizontal fiscal equalisation, as applied in Australia, is that "State and Territory Governments should receive funding from the Commonwealth such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard".

The Commission's recommendations are expressed in terms of per capita relativities (or per capita grant shares) for each State and Territory.

The Terms of Reference for the Commission's 2001 Update required the calculation of relativities for the distribution of Goods and Services Tax (GST) revenue in 2001-02, and a second set for the distribution of a notional financial assistance pool that would have existed in 2001-02 had tax reform not occurred. The two sets of relativities are required in order to calculate the level of budget balancing assistance necessary to ensure that no jurisdiction is worse off as a result of the introduction of the GST.

In the 2001 Update, the Territory's GST Relativity decreased slightly and its Financial Assistance Grants (FAG) Relativity increased slightly when compared to the respective 2000 relativities. However, the lower GST Relativity will result in a $12.4 million increase in the Territory's share of the GST revenue pool because the GST revenue pool is larger than the notional FAG pool, as it includes the capacity to:

- abolish revenue replacement payments;
- remove various State taxes (Tourism Marketing Duty, Financial Institutions Duty and stamp duty on quoted marketable securities);
- reduce gambling taxes; and
- finance increases in expenditure obligations (GST administration costs and first home owners assistance).

As the size of the grant pool increases, all relativities tend toward one; therefore the Territory's GST Relativity is lower than its assessed FAG Relativity.

If the 2001 Update GST and FAG Relativities had been applied to the respective 2000-01 pools, the Territory would have experienced the following funding increases:

- a $12.4 million increase in the Territory's share of the 2000-01 GST revenue pool; and
- an $18.8 million increase in the Territory's share of the notional 2000-01 FAG pool.

As the Territory will still be receiving budget balancing assistance in 2001-02, this means its FAG Relativity (+$18.8 million) will apply to the Territory's funds in 2001-02.

OVERVIEW: 2001 UPDATE RELATIVITIES

As required, in the 2001 Update the Commission prepared GST Relativities for the distribution of the 2001-02 GST revenue pool. FAG Relativities for the distribution of a notional financial assistance grants pool were also prepared.

The fiscal responsibilities of Australian governments under the national tax reforms are delineated in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement). The terms of the Intergovernmental Agreement require the Commonwealth to pass on all GST revenues to the States and Territories. GST revenues are to be distributed between States and Territories on the basis of horizontal fiscal equalisation. These provisions require the calculation of relativities by the Commission.

Another key element of the Intergovernmental Agreement is that no State or Territory is to be worse off as a result of tax reform. This requires the provision of budget balancing assistance by the Commonwealth where GST revenues are not sufficient to compensate the States and Territories for the loss of previously existing revenue sources in the initial years after the introduction of the tax reforms.

The calculation of FAG Relativities is necessary to determine the level of Commonwealth funding that each State and Territory would have received had tax reform not occurred.

The Commission calculates relativities by use of a five year moving average process. Each annual update involves the progression of the assessment period forward one year. Therefore the development of 2001 Update relativities required the replacement of 1994-95 financial data with 1999-00 data.

In recent years, the Commission has derived financial data necessary to calculate relativities from the Australian Bureau of Statistics (ABS). Under national uniform reporting arrangements, Commonwealth, State and Territory financial data has been reported to the ABS on an accruals basis since 1998-99.

The compilation of reliable and comparable accruals data proved extremely difficult in the 2000 and 2001 Updates. As a result, the Commission has found it necessary to make extensive adjustments to the ABS accrual data provided in both 1998-99 and 1999-00 to ensure the integrity of its assessments.

2001 UPDATE RELATIVITIES

Prior to the Commonwealth Treasurer approving the GST and FAG Relativities at Ministerial Council (see Chapter 4), Western Australia advised that its stamp duty on conveyances data provided to the Commission from 1997-98 to 1999-00 were incorrect.

Western Australia's error was considered to significantly affect relativities. Therefore, the Commonwealth Treasurer postponed approval of the 2001 Update Relativities and instructed the Commission to make the appropriate adjustments with relation to stamp duty on conveyances. As such, the final relativities for the 2001 Update, detailed in Table 3.1, differ from the relativities published in the Commission's report.

Table 3.1

2001 UPDATE RELATIVITIES

Jurisdiction	GST Relativities	FAG Relativities
NSW	0.92032	0.88284
Vic	0.87539	0.84543
Qld	1.00269	1.01882
WA	0.97516	0.92429
SA	1.17941	1.27328
Tas	1.50095	1.68695
ACT	1.14633	1.18924
NT	**4.02166**	**4.93364**
Aust	1.00000	1.00000

Source: Addendum to the Commonwealth Grants Commission 2001 Update Report

Both the GST and FAG Relativities were assessed by use of the same methodology. However, the two sets of relativities are not comparable because they are based on a different mix of expenditure and revenue responsibilities and apply to a different pool of funds for distribution.

The GST Relativities will be applied to the GST revenue pool that will exist in 2001-02. These relativities are calculated on the basis of State and Territory revenue sources and expenditure responsibilities that apply in 2001-02 as determined by the terms of the Intergovernmental Agreement.

The FAG Relativities are intended to apply to the hypothetical FAG pool that would have existed in 2001-02 had tax reform not occurred. FAG Relativities are assessed on the basis of State and Territory revenue sources and expenditure responsibilities prior to tax reform.

Why GST and FAG Relativities Differ

Although changes are required to specific categories to calculate GST Relativities and FAG Relativities to accommodate changed expenditure and revenue responsibilities, the largest cause of the difference between GST and FAG Relativities is the difference in the size of the pool of financial assistance available to the States and Territories. Detailed discussion of changes to revenue and expenditure responsibilities is contained in Chapter 5, *Budget Paper No.3, 2000-01*.

Current estimates indicate that the 2001-02 GST pool will be approximately $9 billion larger than the pool of Commonwealth Financial Assistance Grants that would have existed had tax reforms not occurred.

Overall State and Territory expenditure needs are funded through two main sources: own-source revenues and Commonwealth grants. If States and Territories had no tax powers, each jurisdiction's assessed relativity would be the same as its overall expenditure disability because all expenditure needs would be met from the pool of Commonwealth financial assistance.

Relativities diverge from overall expenditure disabilities when own-source revenue capacities (and the distribution of Commonwealth specific purpose payments) are considered.

Under the terms of the Intergovernmental Agreement, the pool of untied funds to meet the assessed total financial assistance requirement (that is, the GST revenue) has increased significantly and certain State and Territory taxes have been abolished. Consequently, a smaller proportion of State and Territory expenditures are now funded through own-source revenues and hence the overall requirement for Commonwealth financial assistance has increased.

Jurisdictions with above average revenue capacity, or below average expenditure needs, have an increased requirement for Commonwealth financial assistance. This is because a relatively lower proportion of their needs is being funded through own-source revenues.

Conversely, jurisdictions with below average revenue capacity or above average expenditure needs have a decreased need for Commonwealth financial assistance. This is because a relatively higher proportion of their needs is being funded through Commonwealth sources.

Therefore, as demonstrated in Table 3.1, the increase in the size of the pool has resulted in a convergence of GST Relativities relative to FAG Relativities.

How GST Relativities are Calculated

Since the Commission calculates GST Relativities using a five year moving average, it requires data for the revenue and expenditure categories, together with the size of the GST pool, for all five years of the assessment period.

GST Relativities were first required in the 2000 Update (assessment years 1994-95 to 1998-99) with these relativities applying to the 2000-01 GST revenue pool. Accordingly, the GST arrangements had to be backcast as though they had existed in these years. Expenditure and revenue categories were adjusted to reflect post GST responsibilities. Since there was no GST revenue pool during the 2000 Update assessment period, the Commission also had to estimate the size of a notional pool in the assessment years. The Commission calculated the ratio of a GST to FAG pool in the application year and used this ratio to estimate the GST revenue pool in the assessment period. However, GST revenue in 2000-01, the first year of operation, will not be known until during 2001-02, and it will include a number of one-off effects.

The Commission has adjusted the GST:FAG ratio in 2000-01 based on revised Commonwealth *Mid-Year Economic and Fiscal Outlook 2000-01* (MYEFO) estimates of GST revenue. The MYEFO increased GST revenue estimates from $24 billion to $26.3 billion, largely due to one-off effects. However, it remains unclear as to whether this ratio will be recast in the future by the Commission as GST revenue estimates are refined. The recalculation of this ratio had a material effect on the relativities. Whether or not it continues to be done will require consideration of the conflicting issues of certainty as compared with being accurate and up-to-date.

SPECIFIC OUTCOMES: GST RELATIVITIES

As with the 2000 Update, the Commission's Terms of Reference required it to consider relevant provisions of the Intergovernmental Agreement when calculating the 2001 Update Relativities. Table 3.2 contrasts 2000 and 2001 Update GST Relativities and the associated redistribution of grants if 2001 Update relativities were applied to the 2000-01 GST revenue pool.

Table 3.2

2001 UPDATE: GST RELATIVITIES

	2000 Update	2001 Update	Redistribution
NSW	0.90913	0.92032	$66.6M
Vic	0.87049	0.87539	-$18.4M
Qld	1.01830	1.00269	-$85.7M
WA	0.98365	0.97516	-$29.3M
SA	1.18258	1.17941	$18.5M
Tas	1.51091	1.50095	$15.0M
ACT	1.11289	1.14633	$20.8M
NT	**4.16385**	**4.02166**	**$12.4M**
Aust	1.00000	1.00000	$0.0M

Source: Commonwealth Grants Commission 2000 Update Report and Addendum to the 2001 Update Report

As Table 3.2 illustrates, the Territory's share of the 2000-01 GST revenue pool would have increased by $12.4 million if 2001 Update Relativities had been applied. The reasons for this are explained below.

EXPENDITURE NEEDS

The principle of horizontal fiscal equalisation dictates that each jurisdiction should be afforded the fiscal capacity to provide uniform service standards. Therefore, in calculating relativities, the Commission determines the per capita expenditure levels each jurisdiction needs to incur in order to achieve a national average service level.

The Commission's assessed expenditure levels diverge between jurisdictions because of relative differences in expenditure needs. Expenditure needs are the result of factors that influence the costs of, and demand for, services.

The Territory has considerable expenditure needs, primarily because of its small and widely dispersed population, the unique composition of its population, its harsh physical environment and its relative isolation from Australia's main population centres. The combined influence of these factors determines that the Territory would incur overall expenditure levels 2.3 times the national average in order to achieve a national average service standard.

Main Changes in 2001 Update

The Territory's assessed expenditure needs declined by $18.1 million for the 2001 Update. Decreases in assessed debt and depreciation requirements, together with a significant decrease in the Administration of Justice assessment, were partially offset by increases in National Parks and Wildlife Services and Hospital-related expenditure needs.

Table 3.3 illustrates the expenditure functions that experienced the largest changes in assessed expenditure needs. It also shows the associated impact on the Territory's share of GST revenue from replacing the 2000 Update Relativies with those from the 2001 Update.

Table 3.3
2001 UPDATE: ASSESSED EXPENDITURE NEEDS

	Redistribution
Depreciation	-$6.5M
Debt Charges	-$4.4M
Administration of Justice	-$13.3M
National Parks and Wildlife Services	$5.8M
Hospitals	$4.6M
Other	-$4.3M
Total	**-$18.1M**

Source: Commonwealth Grants Commission 2001 Update Report.

The primary causes of variations to assessed expenditure needs are changes in demand patterns, service delivery costs and population characteristics within jurisdictions. A discussion of the expenditure categories listed in Table 3.3 follows.

Depreciation

The Territory was assessed as having a reduced cost of service provision in the Depreciation assessment due to:

- the updating of construction cost factors for buildings, other construction and housing components. This resulted in an increase in grants for NSW and a decrease for other jurisdictions, reflecting the continuing faster rise in construction costs in NSW related to major infrastructure projects associated with the 2000 Olympics; and
- revision to recurrent expenditure-related costs used in calculating the socio-demographic composition factor. Any reductions in the socio-demographic composition factor reduce the Territory's grant share.

Debt Charges

In the 2001 Update, the Territory's need for debt was assessed to have decreased due to:

- changes in the depreciation disability factors (detailed above), which are given a weight of 75% within the category disabilities for debt charges; and
- changes in recurrent expenditure disability factors, which receive a weight of 25% in the debt charges assessment. The decreased cost of services in the Territory in relation to other jurisdictions is driven by changes in demand and the cost of service inputs.

Administration of Justice

Revisions were made to the Administration of Justice assessment in the 2001 Update, leading to a significant decline in the Territory's GST Revenue Grant share. The revisions resulted from the Commission's discovery that the ratio of non-Indigenous to Indigenous use rates, used in the calculation of one of this category's main factors (socio-demographic composition) in previous Updates, had been incorrect.

The population use rates previously used were well below what they should have been, therefore the ratio of Indigenous to non-Indigenous was over-estimated. Given the population structure of the Territory, this correction affected the Territory more than any other jurisdiction.

National Parks and Wildlife Services

Conversely, improvements in the data used for the National Parks and Wildlife Services assessment led to an increase in the assessed cost of providing related services within the Territory, resulting in an increase in the

Territory's GST Revenue Grant share. The data improvements in this category included:

- the use of updated visitor numbers;
- the use of area data in the urbanisation factor. The urbanisation factor is based on the relative size of populations contiguous to national parks and measures the indirect costs associated with contiguous populations who are direct users of the parks. After the 2000 Update, it was indicated that the current method did not include all parks, thus there was a switch to the use of area data, which is considered a better measure; and
- various minor changes, such as revisions to the mean resident population and the use of updated per capita area of national parks data.

Hospitals

The Territory's cost of service provision for the Hospitals assessment increased due to:

- changes in the input cost factors;
- movements in the relative size of total population and population groups. For example, growth in both the total population as well as certain population groups (that demand more hospital services) is faster in the Territory than some other jurisdictions; and
- changes in the region, economic environment and urbanisation adjustment, which provides for the different use of hospital services and cost per episode in different regions of States.

The net effect on the Territory's relativity of the expenditure category changes detailed above is significant and indicates considerable change in cost and demand influences in the Territory.

Superannuation Assessment

An additional expenditure category that significantly impacted on the 2001 Update relativities was Superannuation. The 2001 Update Terms of Reference directed the Commission to consider whether a cash or accrual standard should be used, "taking into account the large one-off payments being made for past unfunded liabilities and their consistency with the Commission's overarching framework".

The basic options proposed by the Commission for assessing Superannuation included:

- continuing with a cash-based standard;
- changing to an accrual-based standard without any adjustment to reflect the recent large one-off payments and/or the unfunded liabilities; or
- changing to an accrual-based standard but making some kind of an adjustment for the recent payments and/or the unfunded liabilities (maybe over a period of years).

The Commission decided against changing to an accrual-based standard without any adjustments, as this approach would not have achieved horizontal fiscal equalisation. For example, the largely unfunded nature of public sector superannuation schemes in the past meant that the cash expenses paid had been less than the accrual expenses incurred. To shift from cash to accrual, with no adjustments, would have resulted in some superannuation expenses never being included in the calculation of the Superannuation standard.

However, continuing with a cash-based standard was inappropriate given that States now report on an accrual basis. Thus the Commission decided to use a cash standard for 1995-96 to 1997-98 and an accrual standard for 1998-99 to 1999-00. The use of an accrual standard for 1998-99 and 1999-00 is consistent with the Commission’s treatment of other categories.

The cash and accrual standards used in the 2001 Update include:

- cash standard – expenditure on the contributions of government to superannuation funds or superannuation payments for those employees and holders of public office whose salaries are included in the Commission’s standard budget, together with associated administrative expenditures; and
- accrual standard – expenditure on the States’ accrued expenses in the financial year and the nominal interest on unfunded liabilities not already equalised.

The Commission has also adopted transitional arrangements to ensure that all expenses that would have been equalised under a cash standard are equalised under the accrual standard. The transitional arrangements are for a period of ten years commencing in 1998-99, whereby the standard will comprise, the accrual standard, plus one-tenth of the standard unfunded liabilities at the commencement of 1998-99.

The significant expenditure standard increase (resulting from these scope changes) and the Territory’s cost disadvantage compared with other States in the provision of this service, resulted in a $17.8 million increase in the Territory’s share of the GST revenue pool.

REVENUE NEEDS

The Commission calculates relativities on the basis that each jurisdiction makes an average effort to derive revenues from State and Territory tax bases. However, assessed per capita revenue collections vary between States and Territories because of differences in revenue needs.

Revenue needs are a result of factors that influence each jurisdiction’s capacity to generate revenue from its own sources. These factors include differences between jurisdictions in natural resource endowments and the divergent structure of State and Territory economies.

In the late 1990s, robust population growth coupled with the strong performance of the Territory economy generated significant growth in employment, investment and property market values. This high economic activity served to drive an increase in the Territory’s overall assessed revenue capacity in the 2000 Update, resulting in a reduction in the Territory’s own-source revenue needs.

Revenue capacity refers to potential revenue collections that the Commission considers a jurisdiction could achieve if national average tax rates are applied to available revenue bases. Revenue capacity and effort are discussed in detail in Chapter 13.

The strong economic growth during the late 1990s reduced the Territory’s grant share in previous Updates, as a decrease in assessed own-source revenue needs indicates a reduced need for Commonwealth financial assistance. Conversely, the Territory’s economic performance in 1999-00 was less robust than previous years and when compared with other jurisdictions or the average/standard, to the point where, aside from the Mining Revenue assessment, the Territory’s own-source revenue needs have increased. Overall, this indicates a slight increase in the Territory’s need for Commonwealth financial assistance in the 2001 Update.

Table 3.4 indicates the revenue sources, assessed for the 2001 Update, that have resulted in significant changes to the Territory’s share of the 2001-02 GST revenue pool.

Table 3.4
2001 UPDATE: ASSESSED REVENUE NEEDS

	Redistribution
Pay-roll Tax	$0.1M
Stamp Duty on Conveyances	$1.0M
Land Revenue	-$1.4M
Mining Revenue	-$17.6M
Other	$1.0M
Total	**-$16.9M**

Source: Commonwealth Grants Commission 2001 Update Report

Following is a discussion of the revenue assessment categories and factors that have significantly reduced the Territory's GST revenue grant share in the 2001 Update.

Mining Revenue

As previously discussed, the main contributor to the Territory's decreased revenue needs assessment in the 2001 Update related to mining. An ongoing error in the Commission's calculations previously resulted in a lower mining revenue capacity being assessed for the Territory.

The error involved the total capital expenditure of all the States being attributed to the Territory, rather than the Territory's actual expenditure. Since the volume of capital expenditure is an important component of the mining assessment (it is deducted from the tax base) this error resulted in the Territory receiving a much larger deduction for capital expenditure and thus significantly reduced its mining revenue base. This error was corrected in the 2001 Update thus reducing the Territory's assessed revenue need.

Land Tax

Although the Territory does not levy land tax, land tax is considered a standard State and Territory revenue source by the Commission. The Territory is therefore assessed as having the capacity to generate revenue from land tax. Table 3.4 highlights the $1.4 million decrease in the Territory's grant share in 2001-02 due to the Land Revenue assessment. The reduced grant share is explained by the increase in the Territory's assessed revenue capacity, resulting from its faster growing revenue base (that is, land values) relative to other jurisdictions.

TAX REFORM

Tax reforms have also contributed to the decrease in the Territory's assessed revenue needs in 2001-02. These include the abolition of both Financial Institutions Duty (FID) and stamp duty on quoted marketable securities from 1 July 2001.

Since the Territory's capacity to raise revenue from these taxes was not as great as that of other States, their previous inclusion within the Commission's assessment increased the Territory's assessed needs. Thus the abolition of these taxes and removal from the Commission's assessment has resulted in a $5.1 million decrease in the Territory's share of the GST revenue pool.

FINANCIAL STANDARDS

Changes to the financial standards in the 2001 Update resulted in a $35.6 million increase in the Territory's share of the GST revenue pool.

As previously stated, the Commission calculates relativities by use of a five year moving average assessment period. This means that the relativities applied to the GST revenue pool in any given year are the average of the previous five annual Update relativities.

Therefore, the data used for the calculation of relativities is updated annually to include the most recent year's data and to exclude the earliest year's data. For the 2001 Update, this required the substitution of 1999-00 data for 1994-95 data (the assessment period for the 2001 Update is 1995-96 to 1999-00).

In addition, the data used for the calculation of relativities may differ between updates due to revisions undertaken, when more accurate data becomes available or when actual data becomes available to replace previous estimates.

Progression of the assessment period and revision of financial data have resulted in significant increases in service standards, particularly for Community Health and National Parks and Wildlife Services. As the Territory has substantial expenditure needs in these areas, these changes resulted in an increase of $43.4 million in the Territory's share of the GST revenue pool. However, this was partly offset by a decline in the Territory's assessment of debt charges (-$7.8 million), a function of large debt reductions in some States.

Categories where changes to financial standards have had a significant effect on the Territory's share of the estimated 2001-02 GST revenue pool are illustrated in Table 3.5.

Table 3.5

2001 UPDATE: PROGRESSION OF REVIEW PERIOD

	Redistribution
Debt Charges	-$7.8M
National Parks and Wildlife Services	$7.2M
Other General Public Services	$6.3M
Community Health	$6.2M
Depreciation	$3.5M
Other	$20.2M
Total	**$35.6M**

Source: Commonwealth Grants Commission 2001 Update Report

OVERALL OUTCOMES

Although the net result for the Territory was a marginal decrease in its GST Relativity when compared to 2000, the Territory's dollar redistribution would still have increased by $12.4 million due to the larger pool size. This increased grant share is a result of changes to financial standards ($35.6 million) and the superannuation standard ($17.8 million) which more than offset the influence of the increase in the Territory's assessed revenue capacity (-$16.9 million), tax reforms (-$5.1 million) and the decline in assessed expenditure needs (-$18.1 million).

The overall change in GST Relativities and subsequent grant share effects for the other States and Territories are detailed in Table 3.2.

SPECIFIC OUTCOMES: FAG RELATIVITIES

FAG Relativities have been assessed as if tax reforms were not taking place. Table 3.6 contrasts 2000 and 2001 Update FAG Relativities. It also shows the associated redistribution of grants if 2001 Update relativities were applied to the notional 2000-01 FAG pool.

Table 3.6

2001 UPDATE: FAG RELATIVITIES

	2000 Update	2001 Update	Redistribution
NSW	0.89462	0.88284	-$109.4M
Vic	0.85780	0.84543	-$73.3M
Qld	1.01079	1.01882	$36.8M
WA	0.92399	0.92429	$1.1M
SA	1.23481	1.27328	$72.5M
Tas	1.62565	1.68695	$36.1M
ACT	1.14522	1.18924	$17.4M
NT	**4.85767**	**4.93364**	**$18.8M**
Aust	1.00000	1.00000	$0.0M

Source: Commonwealth Grants Commission 2000 Update Report and Addendum to the 2001 Update Report

As Table 3.6 illustrates, the Territory's share of the notional 2000-01 FAG pool would have increased by approximately $18.8 million if 2001 Update Relativities had been applied. The reasons for the redistribution of grants to the Territory by applying the 2001 Update FAG Relativities are essentially the same as for GST Relativities, adjusting for the effects of tax reform.

OVERALL OUTCOME: 2001 UPDATE RELATIVITIES

As previously discussed, the application of the 2001 Update Relativities to their respective pools will determine:

- the distribution of the 2001-02 GST revenue pool; and
- the distribution of the notional FAG pool, which is required to determine the guaranteed minimum amount of funding for each jurisdiction in 2001-02.

It is currently estimated that the sum of revenues that the Territory will forgo in 2001-02 (including Financial Assistance Grants) plus the additional expenditure requirements (for example, GST administration costs and First Home Owners Scheme) will total $1 381 million. This is $22.6 million greater than the Territory's share of the estimated 2001-02 GST revenue pool ($1 359 million).

Consequently, the Territory is estimated to receive $22.6 million in budget balancing assistance from the Commonwealth in 2001-02 to guarantee that it is no worse off through the introduction of tax reform. The requirement for budget balancing assistance is explained in detail in Chapter 4.

2001 MINISTERIAL COUNCIL MEETING

The Ministerial Council for Commonwealth-State Financial Relations was established under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) to oversee the operation of that Agreement.

Key responsibilities of the Ministerial Council include:

- oversight of the operation of the Goods and Services Tax (GST);
- oversight and coordination of the implementation of the Intergovernmental Agreement; and
- consideration of Commonwealth Grants Commission recommendations regarding the distribution of GST revenue between the States and Territories.

The second Ministerial Council meeting took place in Canberra on 30 March 2001.

The Commonwealth Treasurer indicated that GST Relativities (and the Financial Assistance Grant (FAG) Relativities, required to calculate transitional assistance payments), recommended by the Commonwealth Grants Commission for the distribution of GST revenues would be endorsed by June 2001, following the resolution of a technical matter.

Specific purpose payment estimates continued to be of concern to States and Territories at the Ministerial Council meeting. However, it was found that the Commonwealth had met its Intergovernmental Agreement commitment in 2000-01, that aggregate specific purpose payments (SPPs) would not be cut as part of the tax reform process.

Estimates of 2001-02 Commonwealth general purpose grants presented in this chapter are based on estimates provided for consideration by Heads of Treasuries to Ministerial Council, adjusted for changes in relativities by Ministerial Council. Specific purpose payments estimates are those provided to the Ministerial Council meeting by the Commonwealth.

Underlying general revenue grants comprise GST entitlements, budget balancing assistance and national competition payments less the various adjustments required under the Intergovernmental Agreement, including changes in tax powers in 2001-02. Underlying general revenue grants to the States and Territories are projected to increase by 5.1% in 2001-02 while for the Territory the increase is 6.8%.

The difference in the Territory's increase compared with the States and Territories, on average, is the combined effect of the Territory's increased relativity on the FAG pool and the Health Care Grants, and the Territory's increased population growth compared with the growth for Australia.

Taking into account SPPs, the increase in underlying Commonwealth payments (again excluding the various adjustments required under the Intergovernmental Agreement) to the States and Territories in 2001-02 is 4.7%, while the increase to the Territory is 4.6%.

MINISTERIAL COUNCIL FUNCTIONS AND PROCEDURES

The Ministerial Council was established on 1 July 1999 by the Intergovernmental Agreement to oversee the operation of the Agreement. A copy of the Agreement can be found in Chapter 3, *Budget Paper No. 3 2000-01*. The Budget Papers are also available online at *www.nt.gov.au/ntt/*.

The Ministerial Council comprises the Treasurers of the Commonwealth, States and Territories (or their designated representatives). The Commonwealth Treasurer chairs the Council, which meets at least once a year.

The Premiers' Conference was previously the formal mechanism for the determination of the amount of general purpose funds to be provided by the Commonwealth to States and Territories, and the distribution between jurisdictions.

However, negotiation is no longer required on this point, as the level of State and Territory general purpose funding from the Commonwealth is now determined by the level of GST revenue collections. Nevertheless, the Council of Australian Governments will continue to address issues of national importance including broad financial matters.

MINISTERIAL COUNCIL MEETING AGENDA

The 2001 Ministerial Council meeting took place on 30 March 2001 in Canberra.

The key areas for consideration on the agenda were:

- GST Revenue and Transitional Assistance, including:
  - the Commonwealth Grants Commission 2001 Update Report;
  - consideration of the *Statement of Estimated Payments;*
  - monitoring the level of SPPs; and
  - changes to the First Home Owners Scheme.
- GST Administration Subcommittee issues;
- National Tax Equivalents Regime (NTER) for income tax;
- national excise concession scheme for low alcohol beer;
- implications of the collapse of the HIH Insurance Group;
- future flood insurance arrangements; and
- the Heads of Treasuries' paper, *The State and Territory Shares of National Tax Revenue*.

GST REVENUE AND TRANSITIONAL ASSISTANCE

COMMONWEALTH GRANTS COMMISSION 2001 UPDATE REPORT

As per Clause 8 of the Intergovernmental Agreement, the Commonwealth distributes GST revenue grants in accordance with the principle of horizontal fiscal equalisation. This is achieved by the application of relativities recommended by the Commonwealth Grants Commission (the Commission).

Even so, there is not unanimous support among the States and Territories for the use of the Commission's Relativities in the distribution of GST revenue. For example, New South Wales and Victoria expressed concern with regard to the Commission's new assessment method for Superannuation in the 2001 Update and the resultant reductions in their revenue shares.

Western Australia also raised, at Ministerial Council, a major error regarding its assessment for stamp duty on conveyances (subsequently found to be due to incorrect data being supplied by Western Australia to the Commission). This resulted in agreement that the Commission would revise the 2001-02 GST and Financial Assistance Grant (FAG) Relativities as necessary.

Notwithstanding the arguments against the use of the Commission's relativities, the Commonwealth Treasurer indicated that, other than the correction of the Western Australian error, the revised GST and FAG Relativities would be endorsed in June 2001, when the Commonwealth Treasurer is required to make his determination.

Since the Ministerial Council meeting, the revised relativities, incorporating the adjustments made for the Western Australian data error, have been released. However, a revised *Statement of Estimated Payments* incorporating the changes is still to be circulated. The 2001-02 data has been updated in accordance with the revised relativities, using a method developed by South Australia (State-by-State Impact Tables, Version 27).

CONSIDERATION OF THE STATEMENT OF ESTIMATED PAYMENTS

The *Statement of Estimated Payments* is presented to the Ministerial Council for consideration. It sets out the latest available State-by-State estimates of general revenue assistance in the form of:

- GST revenues;
- transitional arrangements incorporating Guaranteed Minimum Amounts (GMA) and budget balancing assistance;
- special revenue assistance; and
- competition payments.

Details of SPPs are also included and are provided on a no-policy-change basis.

GENERAL REVENUE ASSISTANCE

Table 4.1 presents the headline level of general revenue assistance to the States and Territories in 2000-01 and 2001-02. It includes those amounts that the Commonwealth provides to the States and Territories as compensation for the abolition and reduction of certain State and Territory taxes and increased expenditure responsibilities taken on by the States and Territories as a result of tax reform. The Commonwealth funds these compensation payments from GST revenue, and budget balancing assistance.

The table shows that a 10.7% or $3 billion increase in general revenue assistance is expected in 2001-02 reflecting increases in GST entitlements, budget balancing assistance and competition payments. The latter increase reflects an increase in line with the Agreement to Implement the National Competition Policy and Related Reforms. For the Territory, the table shows an increase of 7.7% or $99 million.

The increase in budget balancing assistance mainly reflects the need to compensate all jurisdictions for the loss of Financial Institutions Duty (FID) and stamp duty on quoted marketable securities, which are to be abolished as a part of national tax reform on 1 July 2001. These taxes would have raised for the States and Territories $1.9 billion in 2001-02 had they not been abolished.

In contrast to headline or actual levels of general revenue assistance, the underlying measure reflects the real or effective general revenue fiscal capacity provided to the States and Territories by the Commonwealth after taking into account the compensation component of Commonwealth payments under the Intergovernmental Agreement.

Table 4.2 shows both underlying and headline general revenue grants to the Territory and the combined States and Territories in 2000-01 and 2001-02. It also shows the change between these two years and, for both underlying and headline levels, the percentage point contribution to total change.

For the combined States and Territories, of the 10.7% increase in headline general revenue grants identified in Table 4.1, Table 4.2 shows that 3.4 percentage points of this is due to the growth in underlying grants. The remaining 7.3 percentage points represents increased compensation to the States and Territories associated with tax reform, with the majority reflecting the tax reforms introduced in 2001-02 (6.8 percentage points due to the abolition of FID and stamp duty on quoted marketable securities).

The table shows that for the States and Territories, the underlying or effective increase in general revenue grants is a more modest 5.1% comprising a real per capita increase in the FAG pool and an agreed increase in competition payments.

For the Territory, of the 7.7% increase in headline general revenue grants, 6.0 percentage points of this is due to growth in underlying grants with the remaining 1.6 percentage points due to increased compensation associated with tax reform. The Territory's underlying increase in general revenue grants is 6.8%. This is higher than the rate of growth for the States (5.1%), because of the positive impacts of:

- absorption of unquarantined health care grants into the FAG pool;
- higher Territory population growth compared to the combined States and Territories; and
- the increase in the Territory's FAG Relativity, reflecting the Territory's increased relative need.

Each of the components of general revenue assistance is discussed in more detail in the following sections.

Table 4.1

GENERAL REVENUE ASSISTANCE TO STATES AND TERRITORIES, 2000-01 AND 2001-02

	GST Entitlement (a)	Budget Balancing Assistance	Special Revenue Assistance (b)	Competition Payments (c)	Total	Change (d)	
	$M	$M	$M	$M	$M	$M	%
2000-01							
NSW	7 863	391	0	156	8 410	n/a	n/a
Vic	5 533	243	0	115	5 892	n/a	n/a
Qld	5 041	31	0	86	5 158	n/a	n/a
WA	2 550	25	0	46	2 620	n/a	n/a
SA	2 463	74	0	36	2 573	n/a	n/a
Tas	1 062	22	0	11	1 095	n/a	n/a
ACT	506	9	14	8	536	n/a	n/a
NT	1 285	0	0	5	1 290	n/a	n/a
Total	**26 303**	**794**	**14**	**463**	**27 573**	**n/a**	**n/a**
2001-02							
NSW	8 487	863	0	241	9 591	1 181	14.3
Vic	5 933	483	0	178	6 595	703	12.1
Qld	5 302	42	0	134	5 478	333	6.5
WA	2 696	131	0	71	2 897	235	9.0
SA	2 591	152	0	55	2 799	226	8.9
Tas	1 108	53	0	17	1 178	83	7.6
ACT	555	29	14	12	609	73	13.8
NT	1 359	23	0	7	1 389	99	7.7
Total	**28 029**	**1 776**	**14**	**716**	**30 535**	**2 962**	**10.7**

a) The GST entitlements are determined by distributing a pool of GST revenue (including the GST growth dividend) and unquarantined health care grants (HCGs) on the basis of the relativities recommended by the Commonwealth Grants Commission (CGC), and then deducting the HCGs estimate. A further adjustment incorporates the redistribution of GST revenue required by the transitional arrangements (where necessary).

b) These payments consist of transitional allowances and special fiscal needs paid to the ACT in accordance with CGC recommendations.

c) The Agreement to Implement the National Competition Policy and Related Reforms specifies that $400 million and $600 million in 1994-95 prices be distributed among the States and Territories on an equal per capita basis in 2000-01 and 2001-02 respectively. The receipt of payment is conditional on the obligations of the Agreement being met.

d) The growth in total payments is not shown for 2000-01, due to marked changes in the system of Commonweatlh-State financial relations.

Source: Commonwealth Treasury *Statement of Estimated Payments* 2001-02, South Australian State-by-State Impact Tables, Version 27

Table 4.2

UNDERLYING AND HEADLINE GENERAL REVENUE GRANTS – COMPONENTS OF GROWTH [1]

	Northern Territory				States and Territories			
	2000-01	2001-02	Change		2000-01	2001-02	Change	
	$M	$M	$M	% pts [6]	$M	$M	$M	% pts [6]
Real Per Capita Escalation of FAG Pool [2]			43.2	3.8			686.2	3.7
Health Care Grant Effect [3]			8.5	0.7			n.a.	n.a.
Additional Northern Territory Population [4]			4.6	0.4			n.a.	n.a.
Underlying Growth in Territory Needs [5]			18.8	1.6			n.a.	n.a.
Total FAG	*1 136.0*	*1 211.4*	*75.1*	*6.6*	*18 037.5*	*18 723.7*	*686.2*	*3.7*
National Competition Payment	4.7	7.4	2.7	0.2	462.6	715.8	253.2	1.4
Underlying General Revenue Grants	**1 140.7**	**1 218.8**	**77.8**	**6.8**	**18 500.1**	**19 439.5**	**939.4**	**5.1**
Underlying General Revenue Grants	1 140.7	1 218.8	77.8	6.0	18 500.1	19 439.5	939.4	3.4
Tax Reforms introduced in 2000-01	149.2	155.4	6.5	0.5	9 059.2	9 210.3	151.1	0.5
Tax Reforms introduced in 2001-02	0.0	14.5	14.5	1.1	0.0	1 871.0	1 871.0	6.8
Headline General Revenue Grants	**1 289.9**	**1 388.7**	**98.8**	**7.7**	**27 559.3**	**30 520.8**	**2 961.5**	**10.7**

1. Underlying General Revenue Grants refer to the level of General Revenue Grants provided by the Commonwealth excluding amounts provided as compensation for taxes abolished or reduced and additional expenditure responsibilities taken on by the States and Territories as a result of tax reform. It reflects the effective financial capacity provided by the Commonwealth to States and Territories as untied financial assistance. Headline General Revenue Grants includes the adjustments associated with tax reform and it does not reflect the effective financial capacity provided
2. Change in FAG amounts resulting from the escalation of the FAG pool by the increase in the 8 Capitals CPI excluding the effects of the GST through the year to the March quarter 2001 and the increase in the total population of the States and Territories in the year to 31 December 2000
3. Change in Northern Territory FAG amount resulting from the absorption of the unquarantined component of the Australian Health Care Grant into the escalated FAG Pool
4. Change in Northern Territory FAG amount resulting from higher Northern Territory population growth compared to the combined States and Territories
5. Change in Northern Territory FAG amount resulting from the increase in the Northern Territory's FAG Relativity as recommended by the Commonwealth Grants Commission
6. % pts refers to the percentage point contribution of each component of Underlying General Revenue Grants and Headline General Revenue Grants to the total change in those respective amounts

Source: Commonwealth Treasury *Statement of Estimated Payments* to the States and Territories 2001-02, NT Treasury, South Australian State-by-State Impact Tables, Version 27 and Commonwealth Grants Commission

GST REVENUE

Consistent with the Intergovernmental Agreement, all GST revenue is to be distributed to the States and Territories as untied grants according to the principles of horizontal fiscal equalisation, as recommended by the Commonwealth Grants Commission.

Clauses 10 to 14 of the Intergovernmental Agreement sets down transitional arrangements following the introduction of the GST. These arrangements require a relatively minor departure from horizontal fiscal equalisation principles for the first two years following the introduction of the GST, as outlined in the next section.

Chapter 3 of this Budget Paper presents a detailed discussion of Commonwealth Grants Commission processes. It explains the principles underlying relativities which form the basis of the distribution process and changes to assessed revenue needs brought about by the introduction of the GST.

The Territory's requirements for Commonwealth assistance have increased with the application of the Intergovernmental Agreement. The major influence on this requirement has been the abolition of revenue replacement payments, on 1 July 2000 and FID on 1 July 2001.

As shown in Table 4.1, the Territory's GST revenue entitlement for 2001-02 is estimated to be $1 359 million. However, the Territory will still require $22 million in budget balancing assistance as a result of tax reform required by the Intergovernmental Agreement. Budget balancing assistance is covered in detail in the following sections.

THE BASIS OF THE TRANSITIONAL ARRANGEMENTS

The changes to revenue and expenditure needs, following tax reform, will have different effects on the budgetary positions of each jurisdiction.

This is because tax reform has resulted in substantial changes for the budgets of State and Territory governments through reduced own-source revenues and to a lesser degree additional expenditure obligations. The States have effectively replaced some of their own-source revenue with GST revenue.

The tax reform changes have required greater transfers from the Commonwealth, made possible by the increased size of the GST pool relative to the FAG pool.

Fiscal equalisation remains the principle by which State shares of the GST revenue are calculated. When GST revenues replace a tax that was not imposed in a particular jurisdiction, the budget position of that State is improved. The reason that this occurs is that prior to tax reform, State own-source revenue capacity was assessed on the basis that an average revenue effort was applied to those revenue bases generally accessed by States.

Examples of where States have chosen not to access particular revenue bases are FID in Queensland and land tax in the Northern Territory. In both cases, the Financial Assistance Grant share would assume a revenue capacity for these taxes but because of the policy choice of these jurisdictions, own-source revenue was not raised from them.

Thus the budgets of these jurisdictions would be worse off by the amount of the assessed revenue capacity. Residents of these States either bear greater tax burden in other own-source revenue areas or in reduced services as a result of this policy choice.

Under the new arrangements, each State's requirement for GST takes into account the relative capacity of its remaining own-source revenue base, and the additional revenue required to replace the abolished taxes. Thus if a State had not imposed one of the abolished taxes, under equalisation principles it would still receive GST revenues to replace the abolished tax. Its budget would be better off than it would otherwise have been, however, this additional financial capacity would be available to reduce the overall tax burden on its citizens to pre-tax reform levels should it so choose. This would be a realistic policy option, as taxpayers in those jurisdictions would now be paying GST on the same basis as all other jurisdictions and the tax burden on them would be greater than before.

However, equalisation is not the only basis for the distribution of Commonwealth general purpose revenues. A key part of the Intergovernmental Agreement is the Commonwealth's guarantee that, after the introduction of the GST, the budgetary position of each State and Territory will be no worse off than it would have been had tax reform not been implemented. Thus, budget neutrality will override equalisation until such time that the equalisation share exceeds the budget neutral position.

The guarantee is provided to States and Territories as an aggregate guarantee for the first two years following the introduction of the GST, which means there will be a departure from horizontal fiscal equalisation principles as they are applied to the GST pool. That is, if any jurisdiction's budgetary position is better than it would have been under the previous arrangements, this 'benefit' is distributed to other jurisdictions, thus limiting the Commonwealth's contribution to the guarantee. The guarantee provisions are in reality a misnomer for jurisdictions whose GST revenue share (the equalisation share) would have put them in a better budgetary position than the previous arrangements. Once the benefit is redistributed any jurisdiction in this circumstance will be under-equalised.

After the first two years, horizontal fiscal equalisation principles are to be applied unfettered to the GST pool but the Commonwealth will continue to provide the guarantee payments. From 2002-03, jurisdictions will be able to retain the benefit of any revenue that the new GST arrangements provide over the previous arrangements.

For those jurisdictions where the GST revenue is less than previous arrangements, they will receive Commonwealth provided guarantee payments. Thus these jurisdictions will in fact be over-equalised while the transitional arrangements are in place.

Transitional assistance is not time-limited. It will be provided if a jurisdiction's total revenue falls below what it would have received under the previous arrangements, even if this occurs after a period of being better off.

The level of transitional payments (called budget balancing assistance) is determined by subtracting the estimates of GST revenue from the Guaranteed Minimum Amount determined by Heads of Treasuries.

GUARANTEED MINIMUM AMOUNT AND BUDGET BALANCING ASSISTANCE

Heads of Treasuries are required by the Intergovernmental Agreement to provide written advice to the Ministerial Council on the estimated transitional assistance to be provided to the States and Territories.

Transitional assistance in a financial year is calculated by subtracting a State's or Territory's estimated entitlement to GST revenue grants from its guaranteed minimum amount. The guaranteed minimum amount is determined in the following manner for each jurisdiction as prescribed by the Intergovernmental Agreement. It is the sum of:

- revenues forgone (financial assistance grants, revenue replacement payments and own-source revenues, including the reduction in gambling taxes required to accommodate the GST);
- additional expenditure responsibilities (First Home Owners Scheme and GST administration costs); and
- additional budgetary costs arising from the introduction of the GST (administration and interest costs on cash flows arising from replacing weekly financial assistance grant payments with monthly GST grant payments);

less:

- reduced expenditure responsibilities (Off-Road Diesel Subsidies which are no longer necessary because users are now compensated through the GST arrangements); and
- budgetary savings arising from the introduction of the GST (the abolition of wholesale sales taxes and additional own-source revenues generated through increased economic activity associated with tax reforms).

Most of the estimated components of the guaranteed minimum amount will be subject to adjustments based on actual outcomes data.

For components where taxes have been abolished, as there is no way of determining an actual amount, the estimate will remain unchanged. Those components are:

- wholesale sales tax equivalent regime payments;
- State taxes to be abolished, including accommodation taxes, FID, stamp duty on the transfer of quoted marketable securities and debits tax;
- reduced costs to government from indirect tax reform; and
- interest costs on the cash flow shortfall due to a decrease in frequency of payments.

At the commencement of 2000-01, the Territory was estimated to require budget balancing assistance. However, a one-off upward revision of $2.3 billion in GST revenue by the Commonwealth for the *Mid-Year Economic and Fiscal Outlook 2000-01* resulted in the Territory not requiring budget balancing assistance in 2000-01. The Territory was the only jurisdiction not to require budget balancing assistance. All other jurisdictions had a lesser requirement for budget balancing assistance in 2000-01 because of this revision. The extra GST revenue also resulted in the removal of the loan component.

The guaranteed minimum amount for the Territory in 2000-01 was estimated at $1 285 million. The estimated GST Revenue to the Territory in 2000-01 is $1 316 million, a difference of $31 million. Therefore, the Territory is estimated to have no requirement for budget balancing assistance in 2000-01. As previously discussed, due to the departure from horizontal fiscal equalisation, this ‘excess’ GST revenue in this transitional year is redistributed to the other States and the ACT.

On the basis of current estimates of GST revenue, each jurisdiction will require budget balancing assistance in 2001-02. The amount of budget balancing assistance is greater than 2000-01 even with increased GST revenue as a result of the cessation of:

- FID; and
- stamp duty on quoted marketable securities.

These duties, which would have raised $1.9 billion across jurisdictions in 2001-02, will cease from 1 July 2001, in accordance with the Intergovernmental Agreement.

The 2001-02 guaranteed minimum amount estimates calculated for each jurisdiction are presented in Table 4.3. It is estimated that the Territory will receive $1 381 million in 2001-02 on this basis.

Table 4.3

CALCULATION OF THE GUARANTEED MINIMUM AMOUNT 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
State Revenues Forgone									
Financial Assistance Grants	5 284	3 716	3 628	1 672	1 927	885	401	1 211	18 724
Revenue Replacement Payments	2 361	1 581	1 436	997	615	209	105	134	7 438
Accommodation Taxes	72	0	0	0	0	0	0	8	80
Financial Institutions Duty	588	342	0	129	86	21	17	13	1 196
Marketable Securities	388	202	25	24	13	1	22	1	675
Marketable Securities Needs	- 13	3	10	0	2	2	- 4	1	0
PLUS									
Reduced Revenues									
Gambling Taxes	576	400	214	58	81	23	20	14	1 386
Interest Costs									
Interest Costs	3	3	4	1	1	1	0	1	14
Additional Expenditures									
First Home Owners Scheme	231	237	146	113	50	12	21	9	820
GST Administration Costs	174	129	97	51	40	13	8	5	517
Other Items									
WST Payments	38	5	18	19	13	13	4	3	113
MINUS									
Reduced Expenditures									
Off-road Diesel Subsidies	137	58	126	173	37	2	0	4	537
Savings from Tax Reform	157	107	89	53	39	13	9	13	481
Growth Dividend									
Remaining State Taxes	57	37	19	12	9	2	2	1	139
PLUS									
Loan Repayments	0	0	0	0	0	0	0	0	0
Total Guaranteed Minimum Amount	**9 350**	**6 416**	**5 344**	**2 826**	**2 743**	**1 161**	**583**	**1 381**	**29 805**

Source: Commonwealth Treasury *Statement of Estimated Payments* 2001-02, South Australian State-by-State Impact Tables, Version 27

Table 4.3 presents summary data of current estimates of guaranteed minimum amounts, budget balancing assistance and GST revenue grants for 2001-02 for all States and Territories.

The budget balancing assistance estimate is the difference between each jurisdiction's entitlement to GST revenues and its guaranteed minimum amount.

Table 4.4

DETERMINATION OF BUDGET BALANCING ASSISTANCE 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
Guaranteed Minimum Amount	9 350	6 416	5 344	2 826	2 743	1 161	583	1 381	29 805
LESS									
GST Revenue Grants	8 487	5 933	5 302	2 696	2 591	1 108	555	1 359	28 029
GST Redistribution Amount	0	0	0	0	0	0	0	0	0
EQUALS									
Budget Balancing Assistance Grant	863	483	42	131	152	53	29	22	1 776

Source: Commonwealth Treasury *Statement of Estimated Payments* 2001-02, South Australian State-by-State Impact Tables, Version 27

The Territory's budget balancing assistance for 2001-02 is calculated at $22 million to compensate for revenues forgone and additional expenditure responsibilities resulting from tax reform. In 2001-02, this budget balancing assistance payment will take the form of a grant and the Commonwealth classifies this grant as general revenue assistance.

The least robust estimate in these calculations is the GST revenue. The Commonwealth makes the estimate based on the best information available. The quality of information is expected to improve the longer the GST is in place. Nevertheless, a further revision of GST revenue is expected before the end of 2001-02. The level of GST collections is monitored closely by Heads of Treasuries. Written advice is to be provided to the Ministerial Council by 1 March of each year on the revised level of transitional assistance. This results in the actual payment in that year being revised and an estimate being generated for the following year. The final guarantee amount for each jurisdiction in any one year will be derived early in the next year based on actual GST revenue collections for the year. Adjustments will be made in the following year to reflect the actual outcome.

FORWARD ESTIMATES OF BUDGET BALANCING ASSISTANCE

Using current estimates of GST revenues, revised State and Territory own-source revenues and new expenditure obligations, the respective positions of all jurisdictions have been projected until 2010, on the basis of a method developed by South Australia. The most recent projections are at Attachment A. The projected figures are indicative guides only and will be subject to substantial and ongoing revision.

On the basis of these estimates, the Territory will receive budget balancing assistance until 2004-05. From 2005-06 onwards, the Territory's GST revenue entitlement is expected to exceed its GMA. Queensland only requires budget balancing assistance until 2002-03, while assistance is required for some other jurisdictions until 2006-07.

The differences in duration of budget balancing assistance between the States arise because the levels of State taxes forgone as a result of tax reform vary between States. Under the terms of the Intergovernmental Agreement, States are effectively compensated for reducing, or removing, certain own-source taxes as a part of tax reform.

The level of, and time required for, budget balancing assistance, will be most affected by the level of growth in GST collections. In the event that the aggregate GST collection exceeds the aggregate GMA, *all* jurisdictions will be able to keep any excess GST revenue. For example, as previously mentioned, in 2000-01 the Territory had $31 million of its GST revenue redistributed because the GST revenue collected exceeded its GMA. However, as the *aggregate* GST revenue total did not exceed the *aggregate* GMA, the Territory's excess GST revenue was redistributed to those jurisdictions in a less positive position.

SPECIAL REVENUE ASSISTANCE

The ACT is the only jurisdiction to receive special revenue assistance in the current year. This is in accordance with the Commission's recommendations and recognises the ACT's special fiscal needs arising out of its status as the nation's capital. An amount of $14 million is to be provided in 2001-02, the same as 2000-01.

COMPETITION PAYMENTS

Competition payments are made in accordance with the National Competition Policy agreements entered into between the States, Territories and the Commonwealth in 1995.

Most of the taxation revenue benefits of competition reform carried out by the States and Territories accrue to the Commonwealth. Consequently, the Commonwealth distributes dividends to States and Territories as a means of sharing the benefits of reform.

Competition payments are being made to the States and Territories in three cumulative tranches (dividend pools), commencing with a total pool of $200 million per annum in 1997-98 and rising to $600 million in 2001-02 (in 1994-95 dollars). The payments are indexed for inflation, distributed on a per capita basis and are not subject to fiscal equalisation processes. The Territory expects over $7 million in competition payments in 2001-02.

TOTAL COMMONWEALTH PAYMENTS

Table 4.5 presents the general revenue assistance data for all jurisdictions for 2000-01 and 2001-02.

Table 4.5
TOTAL COMMONWEALTH PAYMENTS 2000-01 AND 2001-02

	GST Revenue (a)	Budget Balancing Assistance	Special Revenue Assistance and Competition Payments (c)	Specific Purpose Payments 'To' States and Territories	Other Specific Purpose Payments 'Through' States and Territories	Direct to Local Government	Total
	$M	$M	$M	$M	$M	$M	$M
2000-01							
NSW	7 863	391	156	4 647	1 627	35	14 719
Vic	5 533	243	115	3 146	1 157	47	10 242
Qld	5 041	31	86	2 584	821	17	8 580
WA	2 550	25	46	1 633	461	14	4 729
SA	2 463	74	36	1 175	329	8	4 085
Tas	1 062	22	11	384	110	5	1 593
ACT	506	9	21(c)	226	96	0	838
NT	1 285	0	5	330	61	1	1 682
Total	**26 303**	**794**	**476**	**14 201**	**4 662**	**127**	**46 563**
2001-02							
NSW	8 487	863	241	4 796	1 729	35	16 152
Vic	5 933	483	178	3 402	1 227	49	11 273
Qld	5 302	42	134	2 683	870	11	9 043
WA	2 696	131	71	1 605	488	14	5 004
SA	2 591	152	55	1 225	348	8	4 379
Tas	1 108	53	17	389	115	4	1 686
ACT	555	29	26(c)	243	101	0	928
NT	1 359	23	7	321	63	0	1 773
Total	**28 029**	**1776**	**730**	**14 733**	**4 941**	**122**	**50 331**

(a) The GST entitlements are determined by distributing a pool of GST revenue (including the GST growth dividend) and unquarantined health care grants (HCGs) on the basis of the relativities recommended by the Commonwealth Grants Commission (CGC), and then deducting the HCGs estimate. A further adjustment incorporates the redistribution of GST revenue required by the transitional arrangements (where necessary).

(b) These payments consist of transitional allowances and special fiscal needs paid to the ACT in accordance with CGC recommendations. (includes $13.5 million and $14.2 million Special Revenue Assistance in 2000-01 and 2001-02, respectively.)

(c) The Agreement to Implement the National Competition Policy and Related Reforms specifies that $400 million and $600 million in 1994-95 prices be distributed among the States and Territories on an equal per capita basis in 2000-01 and 2001-02 respectively. The receipt of payment is conditional on the obligations of the Agreement being met.

Source: Commonwealth Treasury *Statement of Estimated Payments* to the States and Territories 2001-02, NT Treasury, South Australian State-by-State Impact Tables, Version 27.

The estimated headline total of Commonwealth grants to the Territory in 2001-02 is $1 773 million, an increase of 5.4% compared to a national increase of 8.1%. Table 4.6 presents underlying and headline estimates of total Commonwealth grants for the Territory and the combined States and Territories. It shows the change in grants from 2000-01 to 2001-02, for both the underlying and headline measures and the percentage point contributions of each component to the respective total changes. Removing the tax reform compensation component of Commonwealth grants, the underlying measure shows that a 4.7% increase in total grants is projected for the States and Territories, much the same as the 4.6% increase for the Territory.

Table 4.6

UNDERLYING AND HEADLINE COMMONWEALTH GRANTS - COMPONENTS OF GROWTH [1]

	Northern Territory				States and Territories			
	2000-01	2001-02	Change		2000-01	2001-02	Change	
	$M	$M	$M	% pts [2]	$M	$M	$M	% pts [2]
Underlying General Revenue Grants	1 140.7	1 218.8	77.8	5.1	18 500.1	19 439.5	939.4	2.5
Specific Purpose Payments	391.9	384.1	- 7.8	-0.5	18 990.0	19 795.6	805.6	2.1
Underlying Commonwealth Grants	**1 532.6**	**1 602.9**	**70.0**	**4.6**	**37 490.1**	**39 235.1**	**1 745.0**	**4.7**
Underlying Commonwealth Grants	1 532.6	1 602.9	70.0	4.2	37 490.1	39 235.1	1 745.0	3.7
Tax Reforms introduced in 2000-01	149.2	155.4	6.2	0.4	9 059.2	9 210.3	151.1	0.3
Tax Reforms introduced in 2001-02	0.0	14.5	14.5	0.9	0.0	1 871.0	1 871.0	4.0
Headline Commonwealth Grants	**1 681.8**	**1 772.8**	**90.7**	**5.4**	**46 549.3**	**50 316.4**	**3 767.1**	**8.1**

1. Underlying Commonwealth Grants refer to the level of General Revenue Grants provided by the Commonwealth excluding amounts provided as compensation for taxes abolished or reduced and additional expenditure responsibilities taken on by the States and Territories as a result of tax reform, plus Specific Purpose Payments. It reflects the effective financial capacity provided by the Commonwealth to States and Territories as untied and tied financial assistance. Headline Commonwealth Grants includes the adjustments associated with tax reform and it does not reflect the effective financial capacity provided
2. % pts refers to the percentage point contribution of each component of Underlying Commonwealth Grants and Headline Commonwealth Grants to the total change in those respective amounts

Source: Commonwealth Treasury *Statement of Estimated Payments* to the States and Territories 2001-02, NT Treasury, South Australian State-by-State Impact Tables, Version 27 and Commonwealth Grants Commission

SPECIFIC PURPOSE PAYMENTS

The Commonwealth has given its committment in the Intergovernmental Agreement to maintain the aggregate level of specific purpose payments to the States and Territories. The estimates provided in the *Mid-Year Economic and Fiscal Outlook 2000-01* and the 2001 *Statement of Estimated Payments* confirm that the Commonwealth has met its commitment under the Intergovernmental Agreement for 2000-01. Table 4.5 presents a summary of the agreed inflation and population growth benchmarks for the monitoring of the aggregate level of SPPs, as presented to the Ministerial Council.

Table 4.5

INFLATION AND POPULATION GROWTH BENCHMARKS FOR THE MONITORING OF SPPs

	1999-00 Actuals (a)	Indexed by CPI	Indexed by CPI and Population	2000-01 Estimates (b)	Growth (b)/(a)
	$M	$M	$M	$M	%
SPPs ‘to’ States and Territories	13 369	13 804	13 968	14 147	6
SPPs ‘through’ States and Territories	4 183	4 319	4 371	4 662	11
Total SPPs	**17 552**	**18 123**	**18 338**	**18 810**	**7**

Source: WA Report to March 2001 Ministerial Council, Commonwealth Treasury *Statement of Estimated Payments* 2001

At this Ministerial Council meeting, the States and Territories expressed their concern about the future levels of SPPs. They reminded the Commonwealth of its commitment under the Intergovernmental Agreement and sought assurance the Commonwealth would not use SPPs as a means to claw back GST revenue. The States agreed that Heads of Treasuries should monitor and report on the SPP guarantee.

Table 4.6 presents estimates of SPPs ‘to’ and ‘through’ jurisdictions. Payments made ‘through’ the Territory are non-discretionary and the Territory’s role is effectively to act as an agent for the Commonwealth. The Territory does not determine how the funding will be used but rather allocates funds according to the Commonwealth’s national priorities. Payments ‘to’ the Territory are more discretionary in that the Territory has greater flexibility to determine its own priorities and direct funding accordingly. The extent of the flexibility depends on the particular agreement.

On the assumption that there will be no policy change, it is estimated that SPPs paid 'through' the Territory will increase by $2 million in 2001-02, while SPPs made 'to' the Territory for the same period will decrease by $9 million, or 3%. Overall, the Territory expects a 2% decrease in SPPs while nationally, at the aggregate level, there will be an increase of 4%. The 2% decrease in aggregate payments to the Territory can be mainly attributed to a reduction in Commonwealth funding for the Alice Springs to Darwin railway project from $95 million in 2000-01 to $70 million in 2001-02. However, if the large one-off effects of the railway funding in both 2000-01 and 2001-02 were removed, aggregate SPPs to the Territory would have increased by 6% in 2001-02.

Detailed estimates of the proposed level of SPPs and their distribution amongst the States and Territories will be available when the Commonwealth Budget is released.

Table 4.6

ESTIMATES OF SPECIFIC PURPOSE PAYMENTS 'TO' AND 'THROUGH' THE STATES AND TERRITORIES 2001-02

	'To' States (a)	'Through' States	Direct to Local Government	Total	Change from 2000-01	
	$M	$M	$M	$M	$M	%
NSW	4 796	1 729	34.9	6 561	252	3.8
Vic	3 402	1 227	49.0	4 678	328	7.0
Qld	2 683	870	10.7	3 564	142	4.0
WA	1 605	488	14.3	2 107	- 2	-0.1
SA	1 225	348	8.4	1 581	69	4.3
Tas	389	115	4.4	508	10	1.9
ACT	243	101	0.0	344	22	6.2
NT	321	63	0.3	384	- 8	-2.0
Total	**14 664**	**4 941**	**122**	**19 727**	**737**	**3.7**

a) This table does not include State and Territory splits for fringe benefits tax transitional grants for public hospitals since estimates of the distribution to each State and Territory are not currently available. They are, however, included in the national totals.

b) Specific purpose payment data are presented on an accruals basis in this table and abstract from the grants to the States and Territories under the Natural Disaster Relief Program ($64 million in 2000-01 and 2001-02).

Source: Commonwealth Treasury *Statement of Estimated Payments* 2001-02

FIRST HOME OWNERS SCHEME

The Intergovernmental Agreement provides for States and Territories to assist eligible first homebuyers to offset the impact of the GST, through the funding and administration of a new uniform First Home Owners Scheme. The assistance takes the form of a one-off grant of $7 000 to eligible applicants. The Ministerial Council's role is to monitor compliance with the conditions governing the provision of assistance.

The Ministerial Council noted that the Commonwealth will be providing funding for an additional $7 000 grant, doubling the grant to first home owners contracting to buy or build new homes from March 2001 through to 31 December 2001. In 2001-02, this additional funding for the second $7 000 may be provided as an SPP. Other incentives provided to first home owners by the Territory Government were also noted.

OTHER MATTERS

The following issues were among the other matters discussed.

GST ADMINISTRATION ISSUES

The Intergovernmental Agreement provided for the Ministerial Council to establish a GST Administration Subcommittee to monitor the operation of the GST. The Subcommittee recommends possible changes to the GST base and rate, and monitors the Australian Taxation Office's (ATO) performance in GST administration.

The Subcommittee convened on six occasions between 2000 and 2001 Ministerial Council meetings and also pursued a range of issues by correspondence. The Ministerial Council considered a report from the GST Administration Subcommittee on issues concerning:

- the GST base;
- GST administration (including ATO operations and local government GST compliance);
- GST-related matters (including GST revenue and payments, and provision of data to the States and Territories); and
- the Intergovernmental Agreement.

The Ministerial Council approved a forward work program for the Subcommittee.

INTERGOVERNMENTAL TAXATION AGREEMENT

The Intergovernmental Agreement notes the intention of governments to introduce a National Tax Equivalents Regime (NTER) for income tax for State and Territory government business enterprises. The Ministerial Council endorsed the detailed arrangements for the NTER to come into effect from 1 July 2001. The NTER will largely replace the current State and Territory tax equivalent regimes, and promote competitive neutrality and economic efficiency in respect of State and Territory business enterprises. The States and Territories will retain the tax equivalent payments. The ATO will administer the NTER, and in return, the States and Territories will pay for NTER administration costs.

NATIONAL EXCISE CONCESSION SCHEME FOR LOW ALCOHOL BEER

The Commonwealth and States and Territories had previously agreed to participate in a working group to consider arrangements for a proposed national excise concession scheme for low alcohol beer. The Ministerial Council agreed that this matter be referred to a Heads of Treasuries' Working Group.

IMPLICATIONS OF THE COLLAPSE OF HIH

Following the collapse of the HIH Insurance Group, State Treasurers expressed their concern for policy holders and future premiums. Also of concern was the role of the Australian Prudential Regulation Authority. While the Commonwealth did not consider that the Ministerial Council should become involved directly, the Commonwealth agreed to pass on the concerns of all Ministerial Council members to the relevant Commonwealth Minister.

FLOOD INSURANCE ARRANGEMENTS

Major floods have affected many parts of the Territory as well as other parts of Australia. In many cases insurance is not available to people who are regularly threatened by such floods. The Ministerial Council agreed that it would be appropriate for the Territory and New South Wales to be admitted to a task force, established by the Commonwealth Minister for Financial Services and Regulation and the insurance industry, to identify possible improvements to flood insurance arrangements.

THE HEADS OF TREASURIES' PAPER, *THE STATE AND TERRITORY SHARES OF NATIONAL TAX REVENUES*

The Territory in conjunction with all other Treasuries developed the paper, *The State and Territory Shares of National Tax Revenues*. The paper comprises an analysis of trends in revenue raising and revenue sharing between the Commonwealth and the States from 1983-84 to 1998-99. Heads of Treasuries endorsed the paper in September 2000 for consideration at the 2001 Ministerial Council meeting.

The paper shows that since 1983-84 the Commonwealth has retained an increasing share of nationally raised revenues. While the Intergovernmental Agreement, under which all GST revenues are to be provided to the States and Territories, will be an improvement compared with previous arrangements, the State and Territory share is still predicted to decline. This has significant implications for the capacity of the States and Territories to provide essential government services, and for future intergovernmental financial arrangements.

The paper was discussed by the Ministerial Council and noted by all State and Territory Treasurers. The paper was subsequently released, and is reproduced in Chapter 6 of this budget paper.

FUTURE MEETINGS

The Ministerial Council is expected to meet again in March 2002.

ATTACHMENT A

NATIONAL TAX REFORM GUARANTEE CALCULATION – VERSION 27 SUMMARY

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
GST Revenue less Guaranteed Minimum Amount									
2000-01	(406.1)	(252.7)	(31.8)	(26.0)	(76.7)	(22.7)	(9.3)	31.2	(794.2)
2001-02	(863.0)	(483.2)	(42.3)	(130.7)	(152.1)	(53.1)	(28.8)	(22.6)	(1 775.9)
2002-03	(850.4)	(473.6)	(36.8)	(127.3)	(153.2)	(58.0)	(26.7)	(32.3)	(1 758.5)
2003-04	(586.6)	(328.9)	101.6	(42.2)	(96.0)	(29.6)	(8.1)	(21.6)	(1 011.4)
2004-05	(309.2)	(156.1)	275.0	41.8	(33.4)	(11.4)	6.3	(6.4)	(193.5)
2005-06	(274.5)	(210.1)	106.9	27.6	(59.7)	(27.0)	7.8	0.4	(428.5)
2006-07	(16.9)	(22.7)	272.5	131.0	(0.9)	(7.7)	22.2	14.7	392.1
2007-08	301.6	202.5	485.1	249.4	72.1	14.4	40.0	31.4	1 396.5
2008-09	647.6	446.8	718.2	378.9	150.8	38.0	59.3	49.6	2 489.3
2009-10	1023.1	711.3	973.2	520.3	235.3	63.2	80.2	69.3	3 676.0
Redistribution of Surplus Between Jurisdictions for First 2 years (Gaining States Contribute to Losing States)									
2000-01	15.3	9.5	1.2	1.0	2.9	0.9	0.4	(31.2)	0.0
2001-02	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury and Finance, South Australia, 2001

SPECIFIC PURPOSE PAYMENTS

The operational framework of the Australian Federation necessitates the provision of financial assistance by the Commonwealth to the States[1]. The primary mechanisms employed by the Commonwealth to facilitate the flow of financial assistance are Goods and Service Tax (GST) revenue grants (which take the place of General Purpose Payments) and Specific Purpose Payments (SPPs). GST revenue is discussed further in Chapter 3 (Commonwealth Grants Commission 2001 Update of Relativities), Chapter 4 (2001 Ministerial Council Meeting) and Chapter 6 (The State and Territory Shares of National Tax Revenue) of this publication.

SPPs are a form of Commonwealth grant which provides the recipient State with little discretion as to the expenditure of the grant. This is due to the capacity of the Commonwealth to specify the purpose for which the grant can be expended. In addition, the Commonwealth has the capacity to impose various other conditions, ranging from reporting requirements to fund-matching requirements.

As SPPs provide the States with little discretion and, at times, can also impose strict conditions on the States, SPPs are the least favoured form of Commonwealth financial assistance. However, despite these difficulties, SPPs still represent an important source of revenue. Their importance will continue, as the Commonwealth has committed to maintaining current aggregate levels of SPPs. Furthermore, the Heads of Treasuries report to the Ministerial Council for Commonwealth-State Financial Relations on 30 March 2001 titled “The State and Territory Shares of National Tax Revenue” estimated that if the States’ share of national revenue is to be maintained, aggregate levels of SPPs must increase in real terms by 3.4% per annum in the future.

Given the continued importance of SPPs, the focus of the States has been on reforming all aspects of SPPs. Part of the reform process has involved the establishment of the SPP Working Group which has undertaken three projects designed to reform the negotiation and administration of SPPs.

BACKGROUND

FINANCIAL OPERATIONS IN THE AUSTRALIAN FEDERATION

The operational framework of the Australian Federation necessitates the flow of financial assistance to the States due to the mismatch between revenue raising capacity and expenditure responsibilities at both levels of government. State own-source revenue is insufficient to fund expenditure responsibilities, while the Commonwealth has the capacity to generate revenue in excess of its expenditure responsibilities.

This relationship is known as *vertical fiscal imbalance*. It results in State dependency on Commonwealth financial assistance to the extent required to preserve the cohesion and interdependence required by the Federation. For further discussion, refer to Chapter 6 (The State and Territory Shares of National Tax Revenue).

[1] Unless otherwise stated, States refers to States and Territories

SPECIFIC PURPOSE PAYMENTS – DEFINITION

The Commonwealth utilises two types of grants to facilitate the flow of financial assistance to the States – GST revenue grants (known as General Purpose Payments prior to the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement)) and Specific Purpose Payments (SPPs). Unlike GST revenue grants, SPPs create Commonwealth discretion as to the expenditure of the grant. To varying degrees, the Commonwealth specifies the purpose for which the grant can be expended. In addition to this restriction, the Commonwealth can impose various conditions on the expenditure of the grant (for example, reporting requirements or the condition that Commonwealth funds be matched by State funds).

Despite such restrictions, the States, in some instances, are afforded some discretion in the expenditure of SPPs. In such instances, the degree of discretion afforded depends on whether the SPP is provided "to" or "through" the State.

SPPs are made "through" the State where the Commonwealth lacks the necessary constitutional head of power to legislate in relation to the particular area of expenditure. Accordingly, the only means available to the Commonwealth is to provide the grant "through" the State so that the State is an agent for the Commonwealth, and lacks any discretion as to the expenditure of the grant. In such cases, the States have no role in determining the allocation of funds; rather the funds are allocated according to Commonwealth policy objectives.

SPPs are provided "to" the States when the Commonwealth funds programs or services that are already substantially administered by the States. These SPPs generally provide the States with the greatest discretion in allocating funds to mirror State needs and priorities. However, even with SPPs to the States, there is considerable variation in the level of State discretion.

CONSTITUTIONAL AND OPERATIONAL CONTEXT

Section 96 of the Australian constitution gives the Commonwealth the legislative capacity to provide financial assistance to a State on such terms as the Commonwealth sees fit. This power has provided the Commonwealth with the capacity to use SPPs for a variety of purposes including:

- providing additional financial assistance to the States;
- encouraging State expenditure in an area which may have an impact on other States (for example, dams and highways);
- improving the efficiency of Commonwealth own purpose outlays by transferring administration to State or local government agencies (for example, Aboriginal affairs);
- encouraging new programs; and
- promoting national objectives (for example, railway gauge standardisation).

However, the most important application of SPPs by the Commonwealth is as a means of imposing Commonwealth policy priorities in areas where the Commonwealth has no constitutional head of power to legislate.

DIFFICULTIES ASSOCIATED WITH SPPS

The use of SPPs by the Commonwealth decreases State autonomy and State budget flexibility. In particular, SPPs result in:

- *Lack of flexibility for the States:* SPPs concerned with the promotion of Commonwealth policy priorities reduce the ability of the States to address their own policy concerns. Commonwealth funds allocated with set, predetermined conditions are also inflexible in terms of their ability to respond to the changing needs of a program or service. Furthermore, State agencies are burdened with the need to implement and administer programs that are essentially Commonwealth initiatives, while performing their State-based functions. This difficulty is compounded if the Commonwealth places stringent conditions on the expenditure of the grant.

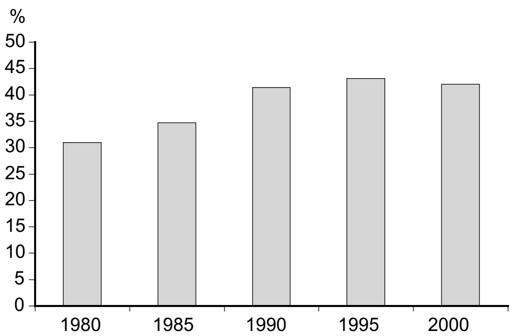
- *Distortion of State priorities:* Current monitoring mechanisms for SPPs focus on program inputs rather than outputs and outcomes. This distorts the priorities of the States as well as reducing efficiency.
- *Financial risks for the States:* The cost of an SPP program is likely to increase. The Commonwealth is inclined to impose the risk of meeting such increases on the States. New indexation arrangements aimed at addressing cost increases over time have caused difficulties and still expose the States to financial risk. The problem is compounded by the lack of data concerning the financial impacts of an SPP program or service. This causes difficulties at the negotiating table. Such uncertainty exposes the States to further risk.
- *Expectation of the continuation of the program:* States can incur further costs if the Commonwealth ceases funding for an SPP program. In these circumstances, community expectation is for the continuation of the program and the State has little option but to fund the program in its entirety.
- *Blurred accountability to clients and the general community:* SPP agreements require Commonwealth agencies to monitor and oversee the activities of State agencies, which are themselves monitoring and overseeing the delivery of particular programs in their own jurisdictions. This 'doubling up' blurs accountability for the operation of the program to clients and the broader community.

THE CURRENT CONTEXT

Over the past two decades, SPPs have increased from 31% to 42% of total Commonwealth financial assistance to the States[2] (see Figure 5.1). This upward trend has stabilised in recent years and the States remain heavily reliant on SPPs to fund own purpose outlays. Furthermore, heavy reliance on SPPs presents the States with further restraints extending beyond, but inherently interlinked with, restraining expenditure discretion. Such restraints include limiting both State budget flexibility and the promotion of State priorities.

These restraints are caused by the imposition of monitoring and fund-matching requirements on the expenditure of the grant. Therefore, heavy State reliance on SPPs produces multiple restraints, specifically in terms of expenditure, State budget flexibility and the promotion of State priorities.

Figure 5.1
SPPs TO THE STATES (AS A PROPORTION OF TOTAL PAYMENTS TO THE STATES)



This heavy reliance of the States on SPPs as a source of financial assistance, combined with the numerous administrative and operational difficulties associated with SPPs, prompts two important concerns given the changing nature of fiscal operations in the Federation provided by the Intergovernmental Agreement.

2 Commonwealth Budget Papers.

First, concerns are raised regarding the status and operation of SPPs under the Intergovernmental Agreement. Secondly, concerns are raised over the possibility of reforming the SPP process to provide SPP grants in a manner that does not create numerous administrative, operational and costing problems.

THE INTERGOVERNMENTAL AGREEMENT AND SPPS

A central component of the new taxation system was the reform of Commonwealth-State financial relations. Under the Intergovernmental Agreement, all revenue generated by the GST is to be passed on to the States. As a result, SPPs will represent the only form of financial assistance over which the Commonwealth will retain discretion.

The reforms did not directly affect SPPs and their role in the Federation. Rather, the reforms provide for the continuation of SPPs with current operational parameters intact. Importantly, the Intergovernmental Agreement (clause 5(v)) specifies the Commonwealth's commitment that there will be no reduction in aggregate SPPs as a result of tax reform. This undertaking is reinforced by the Commonwealth's commitment that no State will be worse off as a result of the new taxation system. Transitional arrangements are in place to meet this commitment.

STATE CONCERNS

The Commonwealth's undertaking to maintain the aggregate level of SPPs is partly a response to State concerns that any financial benefits provided by an expanding GST revenue base will be offset by a reduction in SPPs. Such concerns are likely to grow upon the completion of the transitional period.

MONITORING THE COMMONWEALTH'S SPP COMMITMENT

Clause 42 of the Intergovernmental Agreement requires the Ministerial Council to monitor compliance with the Commonwealth's commitment with respect to SPPs.

Indicative measures to assist in determining whether the Commonwealth commitment is being met were agreed at the July 2000 Heads of Treasuries meeting (HOTS). These indicative measures consist of:

- aggregate SPPs "to" the States in 1999-00, excluding SPPs related to debt redemption and natural disaster relief, indexed by movements in the Consumer Price Index (excluding the estimated impact of indirect tax reform); and
- aggregate SPPs "to" the States in 1999-00, excluding SPPs related to debt redemption and natural disaster relief, indexed by movements in the Consumer Price Index (excluding the estimated impact of indirect tax reform) and population growth.

Western Australia, on behalf of the States, prepared a paper for the 2001 Ministerial Council to assist in determining whether the Commonwealth commitment is being met. The paper provides analysis based on the *Mid-Year Economic and Fiscal Outlook 2000-01* data and presents the HOTS indicative measures. The analysis also included additional measures on:

- aggregate SPPs "through" the States in 1999-00, indexed by movements in CPI (excluding the estimated impact of indirect tax reform); and
- aggregate SPPs "through" the States in 1999-00, indexed by movements in CPI (excluding the estimated impact of indirect tax reform) and population growth.

The assessments made in the analysis are based on information provided by the Commonwealth Department of Finance and Administration in the new SPP database, incorporating information from the Commonwealth's *Mid-Year Economic and Fiscal Outlook 2000-01* (final outcomes for 1999-00 and SPP estimates for 2000-01 and 2001-02).

The Western Australian paper confirms that the Commonwealth will meet its commitments in 2000-01 under the Intergovernmental Agreement. The 2000-01 estimates of SPPs "to" and "through" are greater than the 1999-00 estimates of SPPs indexed by both the CPI (less the effects of tax reform) and population growth. Similarly, the 2001-02 commitment is expected to be met.

However, it is clear that if the States' shares of national revenues are not to diminish, aggregate levels of SPPs must increase in real terms well above the rate of population growth in the future. Chapter 6 (The State and Territory Shares of National Tax Revenue) estimates that the real increase needs to be 3.4% per annum.

Therefore, the Commonwealth merely honouring the current commitment in the future will not be enough to prevent a decline in State shares of Commonwealth revenue. For further discussion on the need for the Commonwealth to increase aggregate levels of SPPs, see Chapter 6 (The State and Territory Shares of National Tax Revenue).

REFORMING SPPS

SPP WORKING GROUP

Given that SPPs are likely to continue to provide an important source of revenue, the States and the Commonwealth have been examining ways to improve their operation.

The SPP Working Group was established after agreement at the August 1999 HOTS meeting.

The objectives of the Working Group are to focus on ways to ensure quality outcomes from SPP arrangements and to actively seek reform in the way future SPPs will be framed. SPP-related policies, negotiation procedures and subsequent monitoring have been examined with regard to:

- flexibility and financial risk for all jurisdictions;
- clearly identifying the responsibilities of each party;
- moving to outcome-based performance measures;
- Commonwealth central agency participation;
- the development of a common financial database;
- common reporting; and
- the need to simplify the current legalistic approach to agreements.

To meet its objectives, the Working Group is undertaking three projects:

- the identification of 'best practice' principles for effective SPP agreements;
- the better promotion of outcome measures to replace input controls; and
- the development of the SPP database to achieve improved SPP data.

SPP 'BEST PRACTICE' PRINCIPLES

The decision to develop 'best practice' principles was aimed at achieving better service delivery outcomes and improving the consistency and effectiveness of SPP agreements. This is to be achieved by distributing the principles to SPP negotiators and administrators, at all levels of government, in all jurisdictions, to guide negotiation and administration of SPPs.

'Best practice' principles have existed in isolation in several jurisdictions. However, the SPP Working Group principles provide a uniform approach to SPPs Australia-wide.

Under the 'best practice' approach, ten key principles should form the basis of SPPs:

- SPP agreements should be constructed to maximise the coverage of related policy areas, rather than establishing multiple agreements.
- Combining a smaller number of SPPs into a larger pool can increase flexibility and reduce administrative costs. Options such as broadbanding would enhance this process.
- Administrative and accountability arrangements should be simplified and standardised wherever possible.
- SPP details, such as funding levels, schedules and timetables for renegotiation of agreements, should be known well in advance. Access to a common SPP database would assist in this process.
- Where responsibilities are shared, SPP agreements should reflect a spirit of cooperation between governments, defining broad principles, objectives and performance measures.
- Where it is appropriate that States should be accountable for results, those results should be defined in terms of the achievement of broad outcomes or of delivering outputs, rather than in terms of expenditure or inputs.
- Flexibility for States to tailor programs to suit local needs can lead to more effective and efficient programs. Agreements should avoid prescribing delivery mechanisms wherever possible.
- Criteria for the allocation of resources between the States, including indexation arrangements, should be clearly defined within each SPP.
- SPPs should be avoided where there is potential to increase unnecessary and costly duplication of functions between different levels of government. Where necessary, SPP agreements should encourage coordination of the SPP with any existing State programs.
- In keeping with their status as intergovernmental agreements, SPP agreements should be written in plain English rather than in the nature of a legally binding document – including any provision for sanctions which may be included in the agreement.

In addition, the SPP Working Group has devised a number of operational guidelines that provide the framework necessary for the application of the 'best practice' principles to SPP agreements:

- Outcome/Output process – SPP agreements should state the overall policy purpose of the program.
- Detailed reporting of input data should be avoided in SPP agreements.
- Clear responsibilities – agreements should clearly define the responsibilities of each level of government.
- Demonstrated commitment – agreements should allow each level of government to demonstrate its commitment to the program.
- Clear financial mechanisms – SPP funding agreements should provide predictability and stability, to facilitate forward planning at each level of government.
- Incentives and sanctions – one way to ensure good programs and the fulfilment of all obligations is through the use of incentives.

- Varying the agreement and resolving disputes – sound SPP arrangements are based on shared objectives and mutual understanding of the requirements of the agreement. Nevertheless, problems or new issues may arise during implementation. In such cases, all parties to an SPP agreement are entitled to fair consideration.
- Renewal of the agreement – each SPP should be framed with a view to whether it is likely to be renegotiated or renewed.

As outlined previously, the 'best practice' principles and operational guidelines provide a uniform, nation-wide approach for the reform of SPPs. The intention is for all jurisdictions to endorse the guidelines and subsequently distribute them to those responsible (for example, agency CEOs, the responsible Minister) for the negotiation and administration of SPPs within each jurisdiction.

The States have indicated that endorsement would be sought as soon as practicable. The Commonwealth's position is not entirely clear.

OUTCOME-BASED AGREEMENTS

This project is designed to promote the application of SPP performance measurement on the basis of outcomes and performance against objectives, rather than input measurement. A move to outcomes as a measure of performance would also promote accountability.

In order to assess the applicability of outcome measures to SPPs, the working group will seek to apply such measures to a specific SPP, namely the Supported Accommodation Assistance Program. The aim is to examine the specific SPP and determine its compliance with SPP 'best practice' guidelines, develop outcome measures and consider the restatement of reporting requirements using outcome measures.

A project team has been established to undertake this task. It consists of representatives from:

- Commonwealth Treasury;
- Commonwealth Department of Finance and Administration;
- Commonwealth Department of Family and Community Services;
- Victorian Department of Treasury and Finance;
- Victorian Department of Human Services;
- South Australian Department of Treasury and Finance; and
- South Australian Department of Human Services.

The project team is expected to submit a report to the SPP Working Group by 30 June 2001.

SPP DATABASE

Essential to the reform of SPPs is the provision and maintenance of comprehensive, relevant and up-to-date data pertaining to all individual SPPs. A key undertaking for the SPP Working Group was the creation of an SPP database providing financial and descriptive data on all existing SPPs. The Commonwealth Department of Finance and Administration was primarily responsible for the project.

The main objectives of the database are:

- monitoring the Commonwealth SPP commitment in the Intergovernmental Agreement;
- reconciling State and Commonwealth SPP data;
- providing a means of comparison for terms and conditions in all SPPs; and
- improving the renegotiation of the SPP process by providing data, for example, on expiry dates.

The initial database has been distributed to all jurisdictions. It currently represents a collection of financial and other descriptive data on all existing SPPs. The Territory is committed to participating in an ongoing process to refine the database to ensure it meets State, Territory and Commonwealth objectives.

FUTURE DIRECTIONS

SPPs form a vital part of Commonwealth-State financial relations. The ability of SPPs to reduce State budgetary discretion and flexibility, through the imposition of conditions on the expenditure of the grant, makes SPPs the least favoured form of Commonwealth financial assistance. Despite these difficulties, from the Territory's perspective, SPPs represent a significant source of financial assistance, necessary for the funding of expenditure responsibilities.

Given the Commonwealth's role in the Federation and notwithstanding the limitations discussed in this chapter, it would be appropriate for the Commonwealth to support and encourage measures to assist the States in providing relevant, cost-efficient SPP funded services and programs. To achieve this, the Commonwealth could coordinate the appraisal of programs and services to ensure that 'best practice' solutions are identified and this information is made available to all States.

The new intergovernmental arrangements set out in the Intergovernmental Agreement, for the time being, have not affected the operation of SPPs. Furthermore, given that SPPs provide the Commonwealth with the means of implementing policies in areas where the Commonwealth has no constitutional power, it is unlikely that the Commonwealth would relinquish such a capacity, and abolish SPPs as a means of providing financial assistance.

However, the concern remains that SPPs may be reduced in the future as a means of clawing back GST revenue. Given this, the importance of the SPP Working Group reform projects is increased. Therefore, the Northern Territory remains committed to the continuance of the Working Group and its recommendations, and is committed to the process of reforming SPPs.

STATE AND TERRITORY SHARES OF NATIONAL TAX REVENUES

Financial relations between the levels of Government in the Federation are characterised by vertical fiscal imbalance. The Commonwealth raises more revenue than it spends on its own functions and the opposite applies in the States. This results in a need for Commonwealth grants to the States.

Over the past decade or so, the Commonwealth has increased expenditure on its own functions at the expense of grants to the States and Territories.

Whereas States and Territories received 33% of Commonwealth revenue in 1983-84, this had reduced to 22% on a comparable basis in 1999-00. Perhaps more starkly, in real terms and on a comparable basis, Commonwealth payments to the States and Territories have increased by only 11% from 1983-84 to 1999-00, while Commonwealth revenue increased by 66% over the same period.

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 that are not policy related have grown more rapidly than those of the States and Territories. If this is correct, the Commonwealth's decision to restrict grants to the States and Territories in favour of its own-purpose expenditure cannot be justified.

Over time, the reduced proportions of Commonwealth revenue going to the States and Territories have resulted in a shift in priorities from State and Territory functions to Commonwealth functions. In real terms, expenditure on Commonwealth functions increased by 40% from 1983-84 to 1999-00, compared to a 22% increase in the States and Territories. In recognition of the deteriorating fiscal position of the States and Territories and in the context of tax reform, Northern Territory Treasury, in conjunction with the Commonwealth and all other State and Territory Treasuries, developed the paper *The State and Territory Shares of National Tax Revenues*. The paper comprises an analysis of trends in revenue raising and revenue sharing between the Commonwealth and the States and Territories from 1983-84 to 1998-99. Likely impacts of tax reform are also discussed. The paper does not consider the financial positions of individual States and Territories, rather the combined position of the six States and two Territories is considered.

The paper was endorsed by Heads of Treasuries in September 2000 and the March 2001 meeting of Heads of Treasuries agreed that the paper should be considered at the Ministerial Council. The paper was discussed by Ministerial Council at its meeting in March 2001 and noted by all State and Territory Treasurers. The paper was subsequently released and is reprinted in this chapter.

The paper identifies the following trends:

- Commonwealth revenue and own-purpose outlays have grown faster than grants to the States and Territories;
- State and Territory own-source revenue has grown faster than Commonwealth grants to the States and Territories;
- Commonwealth own-purpose outlays have grown at a marginally higher rate than State and Territory outlays; and

- the growth in State and Territory outlays has been funded through increased effort in State and Territory own-source revenue.

Under the revised arrangements for Commonwealth-State financial relations, the States and Territories should be materially better off. This is primarily because the Goods and Services Tax (GST) provides the States and Territories with access to a broad-based tax, which replaces the need for untied financial assistance. It is expected that this revenue source will grow more strongly (generally in line with the economy) than Financial Assistance Grants (escalated by population and inflation) and the State and Territory taxes that have been and will be abolished.

The paper concludes that tax reform will result in a significant improvement in the States' and Territories' finances. However, if the States' and Territories' share of national revenue and outlays is not to diminish further, a combined real growth of around 3.4% per annum in own-source revenue and Commonwealth specific purpose payments is required in the future.

In an environment of changing financial responsibilities, monitoring this situation is a difficult task.

The Commonwealth's 2001-02 Budget reveals that, other than for some one-off effects of ongoing tax reform, the deteriorating position of the States and Territories is projected to continue, at least according to one measure.

In 2000-01, the Commonwealth estimates that Commonwealth payments to the States and Territories accounted for 26.2% of total Commonwealth revenue. This figure is not comparable with earlier data because of the substantial tax reforms implemented by all governments from 1 July 2000 under which significant State and Territory own-source revenue has been replaced with Commonwealth revenue.

In 2001-02, one-off increases in this ratio to 28.8% are anticipated due to the abolition by States and Territories of Financial Institutions Duty (FID) and stamp duty on quoted marketable securities. The Commonwealth is required to compensate the States and Territories for forgone tax revenue in accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) and the resulting increase in compensation payments creates a one-off increase in Commonwealth payments.

Thereafter, using a combination of Commonwealth projections and forecasts prepared by South Australia and agreed by all jurisdictions, the ratio of Commonwealth payments to the States and Territories to Commonwealth revenue will decline to 26.9% by 2004-05. This decline results because Commonwealth payments from 2001-02 to 2004-05 are projected to grow at an average annual rate of only 2.9%, considerably lower than the 5.4% growth rate projected for Commonwealth revenues. This low rate of growth occurs because New South Wales and Victoria in particular do not benefit from the increasing GST funds until 2007-08. This means the Commonwealth payments to these States only escalates at the current real per capita rate of increase.

Specific purpose payments are projected to grow by 2.8% per annum in this period which is below the long-term combined rate of growth for specific purpose payments and own-source revenue of 3.4% per annum required to ensure that the States' share of national revenue does not diminish.

When all jurisdictions' budgets are handed down and comparable data compiled, further monitoring of the State and Territory shares of national tax revenues will be possible.

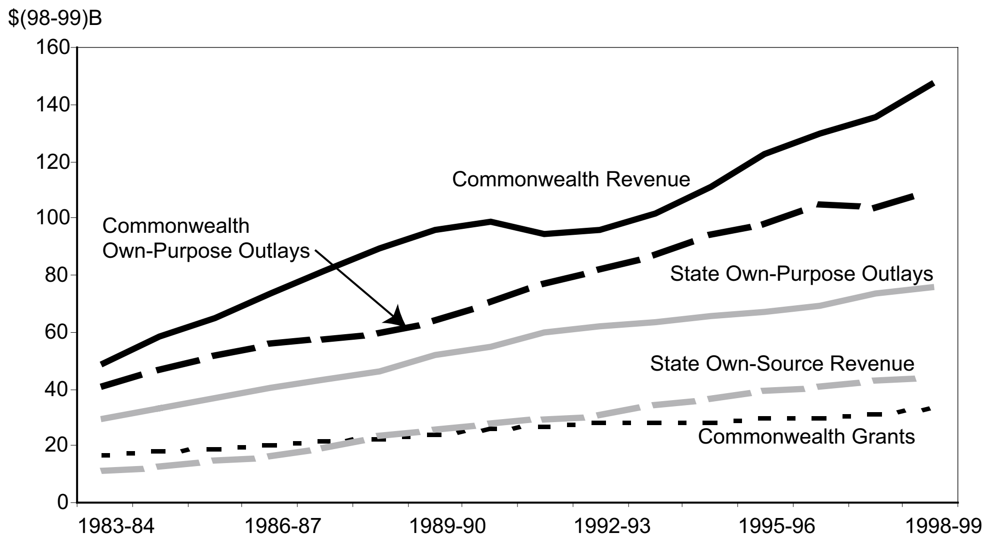
The State and Territory Shares of National Tax Revenues

The distribution of tax powers in Australia requires the Commonwealth to raise revenue for its own purposes as well as to provide grants to the States and Territories[1]. As part of the new tax system, the Commonwealth and the States will replace a number of existing revenue sources with a goods and services tax, all of the revenue from which will be provided to the States. This paper sets out the recent history with respect to revenue raising and revenue sharing between the Commonwealth and States, and addresses the likely impact of the recent tax reforms. The data appendix outlines data sources and assumptions[2].

Own-Purpose Outlays, Revenue and Grants

Figure 1 illustrates several of the trends which underpin the issues relevant to this paper.

Figure 1. Revenue, Own Purpose Outlays and Grants



[1] Hereafter for "States" read "States and Territories" unless otherwise noted.

[2] The data sources, treatments and assumptions used are detailed in the Data Appendix. Points of particular interest are:

- Revenue Replacement Payments are excluded from Commonwealth grants and deducted (net) from State outlays;
- State fiscal contributions are deducted from Commonwealth grants to the States;
- university grants are deducted from Commonwealth grants and State outlays;
- Specific Purpose Payments are treated as State own-purpose outlays;
- Growth assumptions from ANTS and as used by HoTs for the estimation of guarantee amounts.

Commonwealth Revenue

Commonwealth revenue collections are subject to volatility associated with the impact of economic cycles. Between 1983-84 and 1998-99, Commonwealth revenue grew 77% in real terms, an average of 3.9% per annum.

Commonwealth Own-Purpose Outlays

Growth in Commonwealth own-purpose outlays has been comparatively steady since 1983-84, growing 60% in real terms; an average of 3.2% per annum. The rate of growth has moderated in recent years.

State Own-Purpose Outlays

State own-purpose expenditure has grown 51% in real terms since 1983-84. Like Commonwealth own-purpose expenditure, it has grown steadily, but at a marginally slower rate, increasing on average 2.8% per annum.

State Own-Source Revenue

State own-source revenue has grown 120% in real terms since 1983-84, or 5.4% per annum, and is now greater in absolute terms than Commonwealth grants. Own-source revenue has increased as a proportion of total State revenue from 42% in 1983-84 to 57% in 1998-99.

Commonwealth Grants

Grants to the States and Territories have grown 21% in real terms since 1983-84; an average of 1.3% per annum. This rate of growth is slower than Commonwealth revenue, own-purpose outlays, and State own-purpose outlays.

Growth in Commonwealth grants is comprised of a real reduction in general revenue assistance of 8.8% and an increase in specific purpose payments of 83%. The replacement of identified health grants (part of general revenue assistance), with hospital funding grants (specific purpose payments) in 1988-89 magnifies this trend. If identified health grants are treated as specific purpose payments over the whole period the real increase in General Revenue Assistance is 2.4% since 1983-84, compared with a 50% increase in specific purpose payments.

In summary, Figure 1 shows that between 1983-84 and 1998-99:

- Commonwealth revenue and own-purpose outlays have grown faster than grants to the States;
- State own-source revenue has grown faster than Commonwealth grants to the States;
- Commonwealth own-purpose outlays have grown at a marginally higher rate than State outlays;
- The growth in State outlays has been funded through increased effort in State own-source revenue;
- Commonwealth revenue is affected by economic conditions to a greater extent than State own-source revenue;

- Notwithstanding the cyclical volatility of Commonwealth revenues, Commonwealth grants to the States have generally increased in real terms since 1983-84; and
- The real growth in Commonwealth own-purpose outlays has been funded through the retention of an increased share of Commonwealth revenue, while maintaining the real level of grants to the States.

Growth in Commonwealth and State Revenues

The Commonwealth controls a much larger tax base than the States. Between 1983-84 and 1998-99, the Commonwealth has raised, on average, approximately 80% of national revenue (i.e. the sum of Commonwealth and State revenue) compared with 20% for the States.

National revenue has increased as a proportion of GDP between 1983-84 and 1998-99 from 30.2% to 32.1%. The States are largely responsible for this increase, having increased own-source revenue collections from 5.8% of GDP in 1983-84 to 7.4% of GDP in 1998-99.

Commonwealth revenue collections have increased 0.3% as a proportion of GDP since 1983-84.

Figure 2. State and Commonwealth Own-Source Revenue Collections as a Proportion of GDP

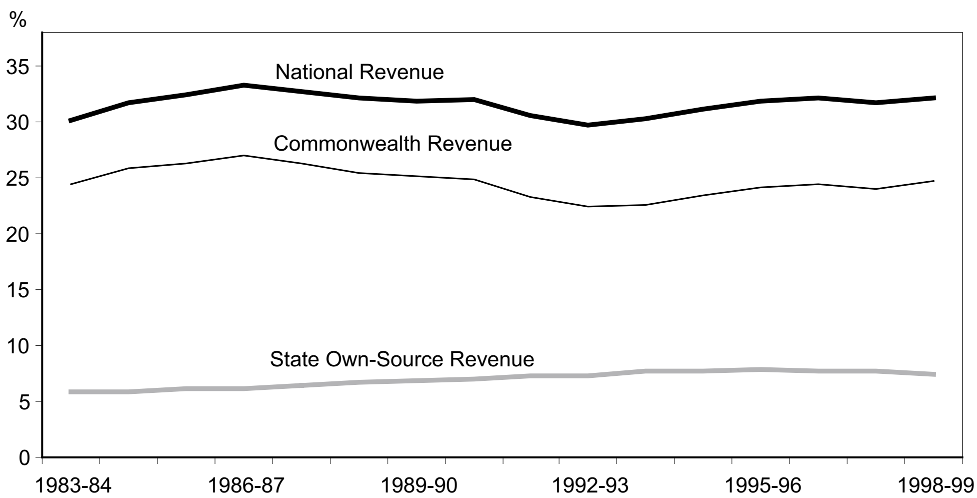
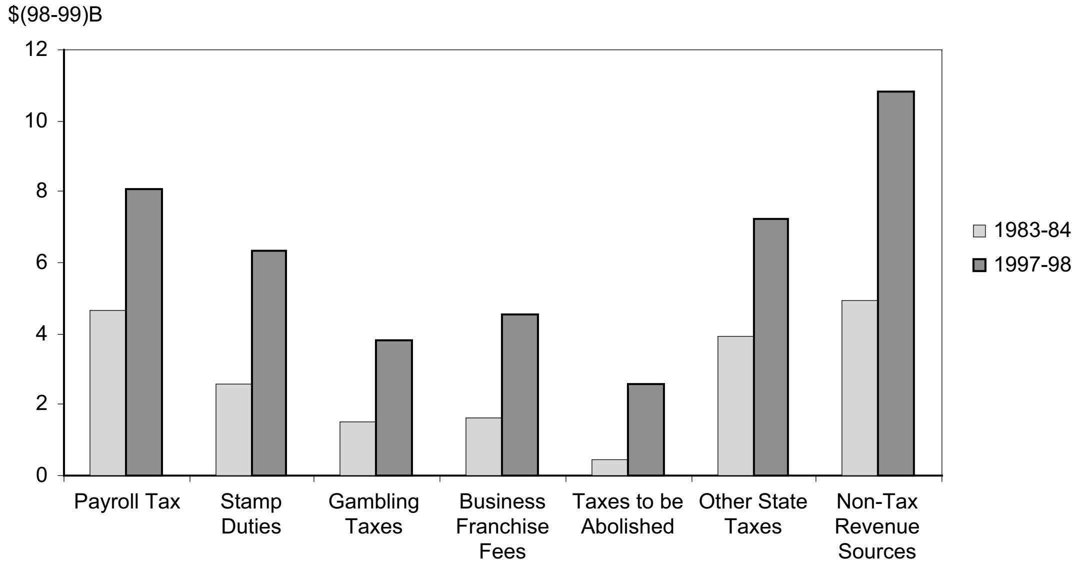


Figure 2 illustrates that the growth in total national revenue closely mirrors that of Commonwealth revenue, highlighting the relative size of the Commonwealth revenue base.

Areas of Growth in State and Commonwealth Taxation

The growth in State own-source revenue since 1983-84 has been distributed across most major revenue sources. The largest increases in revenue effort have been in relatively narrow tax bases such as gambling, stamp duties and business franchise fees (or the equivalent safety net surcharges applied on the States behalf by the Commonwealth). Although payroll tax has diminished as a proportion of total State revenue, due in part to increases in tax-free thresholds since 1983-84, it has nonetheless nearly doubled in size in real terms.

Figure 3. Growth in State Own-Source Revenue by Source



By comparison, real revenue growth for the Commonwealth between 1983-84 and 1997-98 has largely been in personal income tax and company tax.

Figure 4. Growth in Commonwealth Revenue by Source

The Shares of National Revenue

Although the States have been largely responsible for the increase in national revenue collections, over time they have received a declining share of national revenue.

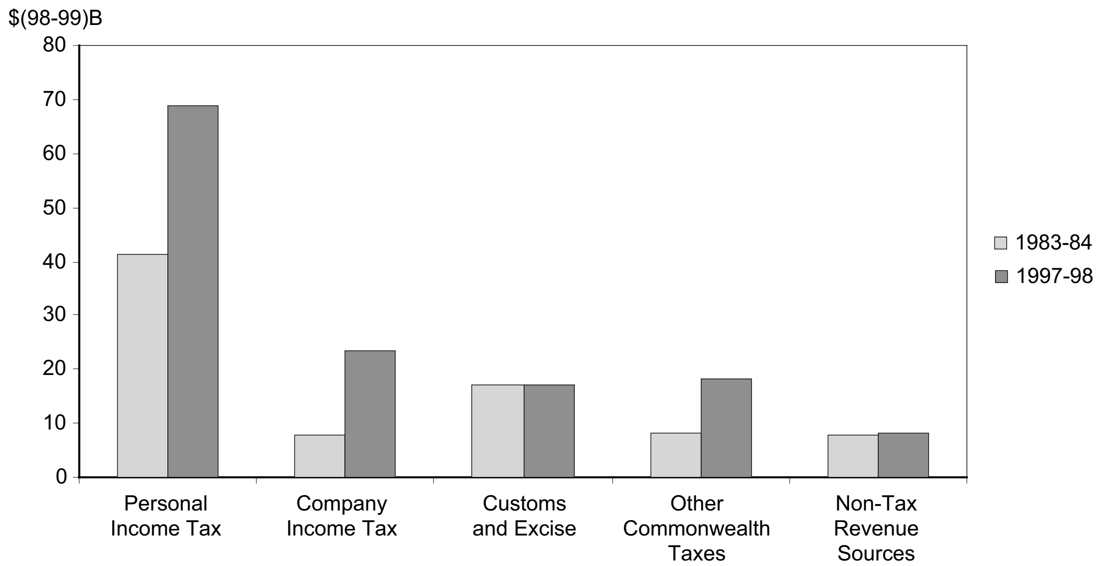


Figure 5. Shares of Total National Revenue

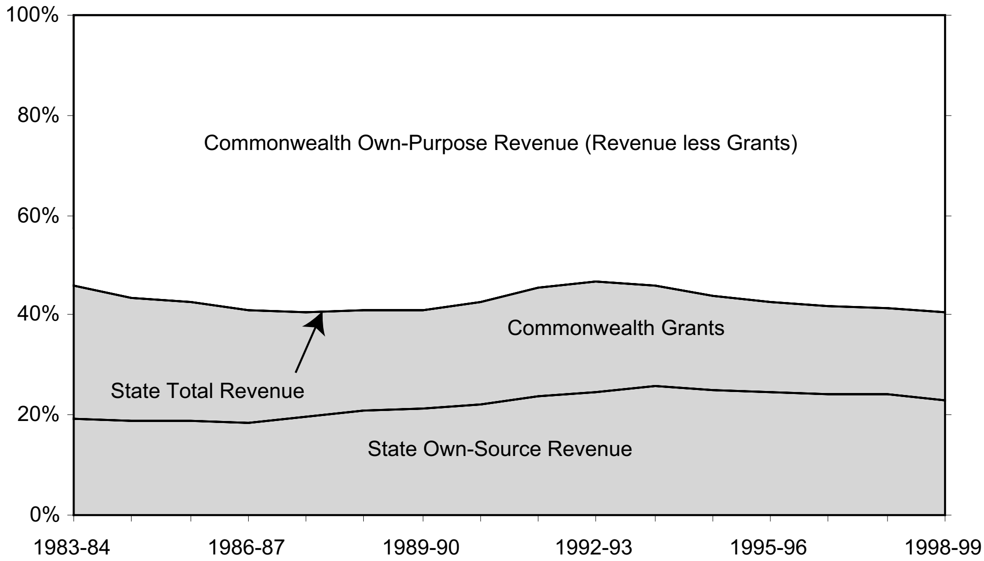


Figure 5 shows that:

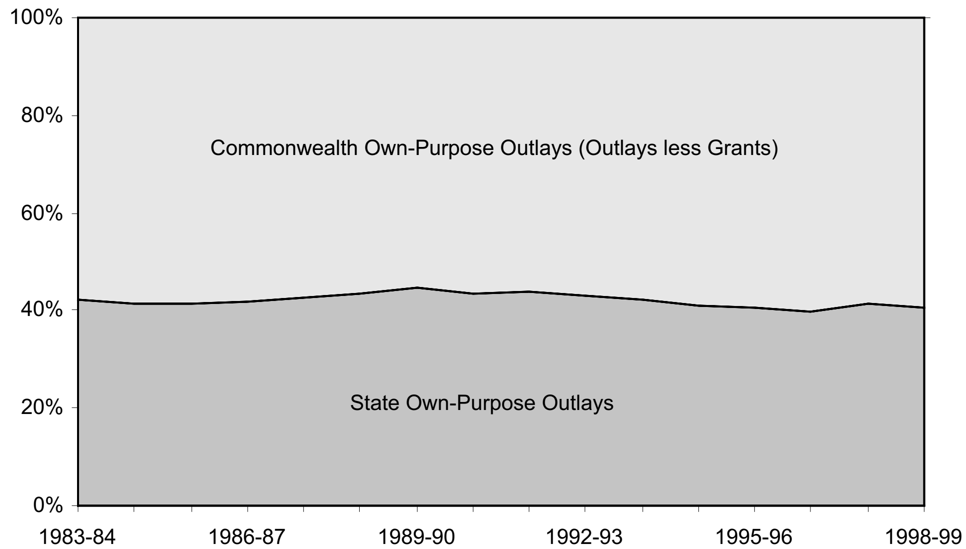
- State own-source revenue represents an increasing proportion of total State revenue;
- the total share of national revenue provided for State purposes has diminished from 45% to 41% since 1983-84; and
- the States share of national revenue increased during the early nineties as the Commonwealth maintained grants to the States in real per capita terms while Commonwealth revenue collections were diminishing in real terms.

The Shares of National Outlays

While there is greater volatility in Commonwealth outlays, the States share of national outlays has declined slightly from 42.1% in 1983-84 to 40.7% in 1998-99% (see Figure 6).

If State outlays had grown at the same rate as Commonwealth outlays, State outlays would have been some $4.3 billion, or 5.7%, greater in 1998-99.

Figure 6. Shares of National Outlays



Revenue and Outlays Over Time

Figure 7 illustrates the cyclical pattern of Commonwealth own-purpose revenue and outlays. Figure 8 shows that the States revenue has been less volatile than Commonwealth revenue with the result that States have been able to control their budget positions since 1983-84 within a relatively narrow range. This has been achieved through an increased own-source revenue raising effort, and assisted by the maintenance of Commonwealth grants in real terms.

Figure 7. Commonwealth Own-Purpose Outlays and Revenue since 1983-84

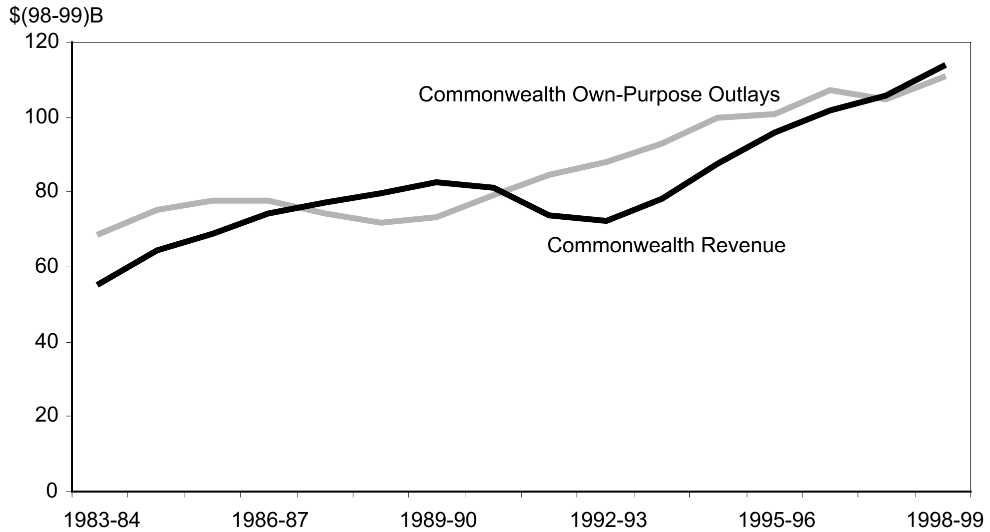
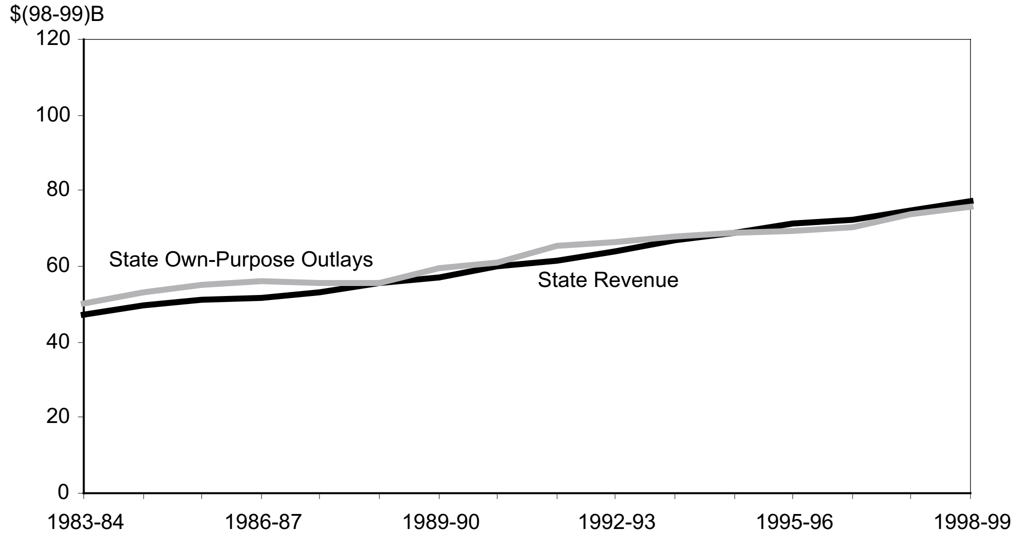


Figure 8. State Own Purpose Outlays and Revenue since 1983-84



Effect of Tax Reform

The States should be materially better off under the revised arrangements for Commonwealth/State financial relations. This is primarily because the GST will provide the States with access to a broad-based tax which will replace the need for untied financial assistance. This revenue source is expected to grow more strongly (generally in line with the economy) than Financial Assistance Grants (escalated by population and inflation) and the State taxes to be abolished.

Figure 9 (expected growth scenario) demonstrates the initial improvement in the States share of national revenue once the new arrangements commence in 2000-01. Although the financial arrangements do not improve the budget positions of the States in the early years, the States increased share of national revenue results from a reduction in Commonwealth revenue in the ANTS package, thereby increasing the States share of national revenue in 2000-01.

Figure 9 also demonstrates the expected decline in the States share of national revenue thereafter.

The States will continue to receive specific purpose payments, which the Commonwealth has agreed will not be reduced as part of the reform process. The States also retain a reduced own-source revenue capacity. When Goods and Services Tax revenue is treated as State revenue, Commonwealth grants to the States as a percentage of Commonwealth revenue falls significantly in 2000-01. Thereafter, they are expected to continue to decline.

Figure 10 (high growth scenario) suggests that a real rate of growth of around 3.4% in both State revenue and specific purpose payments would be required to stabilise the States share of national revenue. This compares with current projections for real growth in State own-source revenue of 1.5% and in specific purpose payments of 1.1% which are incorporated in Figure 9.

Figure 9. State Share of Commonwealth and National Revenue* (expected growth scenario)

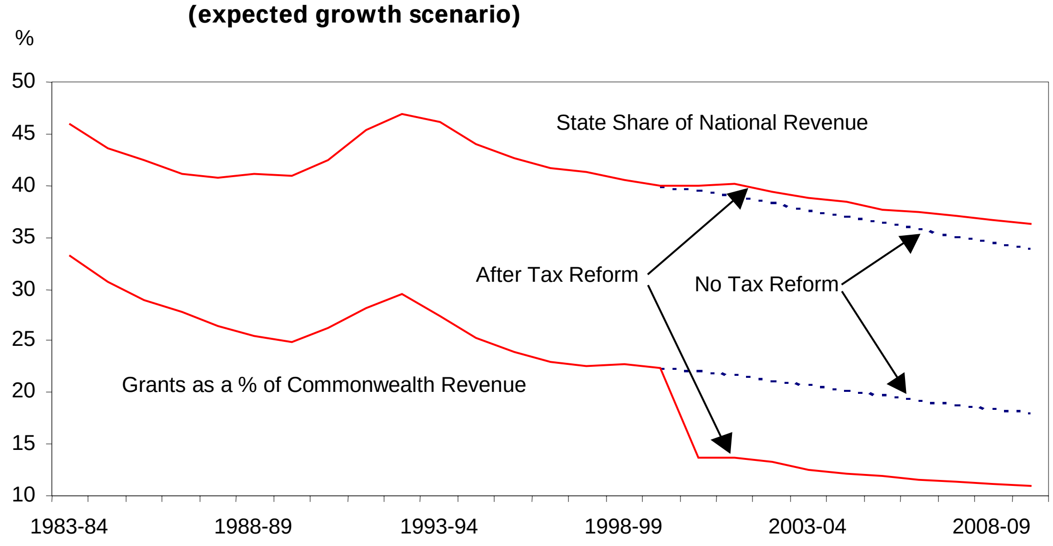
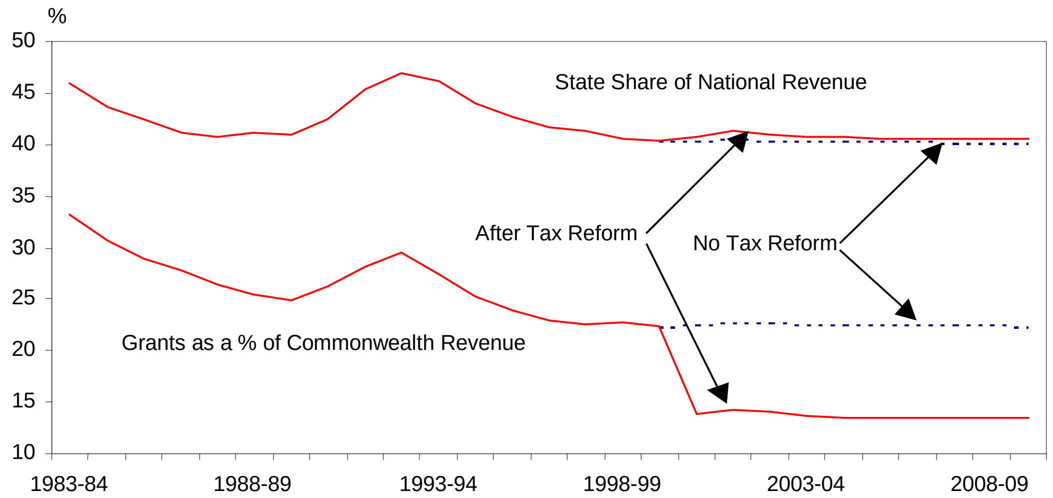


Figure 10. State Share of Commonwealth and National Revenue* (high growth scenario)



**Note: Revenue Replacement Payments and the Goods and Services Tax are treated as State revenue, consistent with the treatment in the Commonwealth Budget. However, it is noted that the Australian Bureau of Statistics treats GST revenue as a Commonwealth tax in keeping with international classification guidelines.*

Conclusions and Further Considerations

A prime conclusion drawn from the material presented is that the Commonwealth will continue to have a significant role in ensuring that States are adequately funded to provide services because specific purpose payments will remain an important source of revenue to the States for the foreseeable future.

On the basis of the information presented in this paper, it can be concluded that:

- the States share of national revenue and outlays has declined even though the States have increased their own-source revenue effort;
- the States will be better off under the new arrangements which will provide them with all GST revenue; however
- specific purpose payments and own-source revenue will remain an important source of revenue to the States in the future.

In summary, while tax reform will result in a significant improvement in the States finances, if the States share of national revenue and outlays is not to diminish further, a combined real growth of around 3.4% in own-source revenue and specific purpose payments is required in the future.

15 September 2000

Sources

The data used in this analysis is from the following sources:

(a) ABS 1996-97 / 1998-99, *Government Financial Estimates*, Cat. No. 5501.0

(b) ABS 1997-98, *Government Financial Statistics*, Cat. No. 5512.0

(c) ABS *Taxation Revenue,* Cat. No. 5506.0

(d) ABS 1999, *Australian Demographic Statistics,* Cat. No. 3101.0

(e) ABS 1999, *National Accounts/State Accounts,* Cat. No. 5206.0

(f) Commonwealth Treasury

(g) Commonwealth Budget Papers

(h) South Australian Treasury

(i) Commonwealth Department of Education Training and Youth Affairs

Data Issues Methods and Treatments

There are several issues relating to the data series constructed for this analysis which may affect the interpretation of the material presented.

Specific Purpose Payments

All SPPs are treated as State own-purpose expenditure, as they are spent by States and generally relate to State areas of responsibility. SPPs are therefore included in Commonwealth Grants. It can be argued that SPPs could be treated as Commonwealth outlays rather than State outlays. This would result in a decrease in Commonwealth Grants and an increase in Commonwealth own-purpose outlays.

Revenue Replacement Payments

RRPs have been treated as State own-source revenue in this analysis, primarily to avoid a break in the data series which would have obscured certain trends in 1997-98 and 1998-99.

State Fiscal Contributions

At the 1996 Premiers' conference the States agreed to contribute to the Commonwealth's deficit reduction program through a series of payments over the next three financial years. These payments amounted to a reduction in Commonwealth grants and have been treated as such.

University Grants

In 1997-98 the Australian Bureau of Statistics reclassified universities, which had previously been treated as part of the State general government sector, to the multi-jurisdictional sector. This change caused an apparent drop in Commonwealth grants to the States and a corresponding drop in State outlays.

For the sake of consistency, university grants and expenditure have been removed from the entire series of financial statistics used in this paper. This was achieved, with a degree of estimation, by sourcing university grants from 1983-84 to 1995-96, and deducting them from Commonwealth grants and State outlays for those years. From 1996-97 to 1998-99 an ABS series with university grants already excluded has been used. The resulting series is intuitively reasonable over the break between 1995-96 and 1996-97 (see Tables 1 & 5.)

Other Changes in ABS Scope and Treatment

The two other changes to ABS data in recent years have been the implementation of SNA93 standards, which affected the treatment of certain items in the cash-based Government Finance Statistics (GFS), and the inclusion of the Public Financial Enterprise sector in consolidated GFS. No adjustments have been made for these changes, however both are considered to be immaterial in relation to general government statistics at a highly aggregated level.

1998-99 Data Estimates

Data for the 1998-99 financial year is sourced from the 1998-99 GFE (ABS Cat. No. 5501.0) which contains estimates for that year. GFE estimates of State revenue and outlays tend to be understated in comparison with actual data, which is likely to explain unexpected movements in several of the charts in the 1998-99 financial year. Changing trends suggested by the final years' data should be interpreted with caution.

Inclusion of the Australian Capital Territory

Financial data for the ACT is only available from the 1989-90 financial year, and was previously included in Commonwealth outlays. Although the inclusion of the ACT as a 'State" in 1989-90 represents a break in the series, it does not significantly impact on the interpretation of trends in the series. In 1990-91, the ACT accounts for 2.6% of Commonwealth grants, and would increase Commonwealth own-purpose outlays by 1.2% if treated as part of the Commonwealth.

Data Scope

The Government Financial Statistics used in this paper are based on ABS data for the General Government sector.

Series Construction

<u>Commonwealth Revenue & Total Outlays</u>

Sources:

- (1983-84 to 1990-91) electronic ABS data, GG sector;
- (1991-92 to1995-96) ABS 1996-97 GFE, GG sector;
- (1996-97 and 1998-99) ABS 1998-99 GFE, GG sector;
- (1997-98) ABS 1997-98 GFS, GG sector.

No adjustments were made to these items.

<u>Commonwealth Grants</u>

Sources:

- Commonwealth Treasury (General Revenue Assistance, Specific Purpose Payments, State Fiscal Contributions);
- Commonwealth Budget Papers (University Grants 1983-84 to 1991-92);
- Department of Education Training and Youth Affairs (University Grants 1992-93 to 1995-96).

Adjustments:

- University Grants are deducted from Commonwealth grants from 1983-84 to 1995-96 (after which they were already excluded from Commonwealth Budget Paper data);
- State Fiscal Contributions are deducted from Commonwealth grants.

Note: As Revenue Replacement Payments are treated as State revenue by the ABS, no adjustment needed to be made for this purpose.

State Outlays

Sources:

- (1983-84 to 1990-91) electronic ABS data, GG sector (consistent with 1996-97 GFE);
- (1991-92 to1995-96) ABS 1996-97 GFE, GG sector;
- (1996-97 and 1998-99) ABS 1998-99 GFE, GG sector;
- (1997-98) ABS 1997-98 GFS, GG sector.

Adjustments:

- Net Advances Paid are deducted from outlays from 1983-84 to 1995-96 (data from 1998-99 GFE did not need to be adjusted as it treated Net Advances Paid as a financing transaction).
- University grants are deducted from outlays from 1983-84 to 1995-96 (prior to 1992-93 only Commonwealth university grants are available).

State Own-Source Revenue

Sources:

- (1983-84 to 1990-91) electronic ABS data, GG sector (consistent with 1996-97 GFE);
- (1991-92 to1995-96) ABS 1996-97 GFE, GG sector;
- (1996-97 and 1998-99) ABS 1998-99 GFE, GG sector;
- (1997-98) ABS 1997-98 GFS, GG sector.

No adjustments were made to this item.

State Total Revenue

Sources:

- (1983-84 to 1990-91) electronic ABS data, GG sector;
- (1991-92 to1995-96) ABS 1996-97 GFE, GG sector;
- (1996-97 and 1998-99) ABS 1998-99 GFE, GG sector;
- (1997-98) ABS 1997-98 GFS, GG sector.

Adjustments:

- University grants from the Commonwealth are deducted from State revenue from 1983-84 to 1995-96 (data from 1996-97 onwards already excludes university grants from State revenue).

Commonwealth Own-Purpose Outlays

Commonwealth own-purpose outlays are defined to be Commonwealth Outlays *less* Commonwealth Grants to the States and Territories.

Other Data Treatments

CPI Adjustments

A GDP price deflator sourced from ABS Cat. No. 5206.0 is used for inflationary adjustments to historical data.

Real Per Capita Adjustments

A real per capita index was created using the product of the rates of growth of population and inflation. Population data is sourced from ABS Cat No. 3101.0

Projections

Projections from 1999-00 to 2009-10 incorporate the impact on State and Commonwealth revenues and outlays of the tax reform package as calculated by the South Australian Treasury (Version 18 Tables). GST revenue is treated as Commonwealth revenue and is therefore included in grants to the States.

The assumptions used for forward estimates are as follows:

Item	Annual Growth Rate
GST	6.0%
Commonwealth Revenue	6.0%
Other State Revenue	4.0%
National Population	1.1%
Inflation	2.5%
Specific Purpose Payments	3.6%
Financial Assistance Grants	3.6%

The increases in National Competition Payments (escalated for inflation) in 1999-00 and 2001-02 are included in grants to the States and Commonwealth outlays.

Table 6.1
COMMONWEALTH GRANTS TO THE STATES AND TERRITORIES (NOMINAL)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	$M	$M	$M	$M	$M	$M	$M	$M
Total General Purpose Payments	10 931	11 611	12 599	13 743	14 505	13 365	13 673	13 984
Total Specific purpose Payments	5 406	6 196	6 300	6 631	6 990	9 228	10 319	11 885
Total Commonwealth Grants	16 338	17 807	18 899	20 374	21 496	22 593	23 993	25 869

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	$M	$M	$M	$M	$M	$M	$M	$M
Total General Purpose Payments	14 077	14 637	14 974	15 301	15 924	15 879	16 194	16 781
Total Specific purpose Payments	12 551	13 612	12 839	12 783	13 386	14 010	14 550	16 642
Total Commonwealth Grants	26 628	28 249	27 812	28 084	29 310	29 889	30 744	33 423

Table 6.2
UNIVERSITY GRANTS

Source: Commonwealth Budget Papers

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	$M	$M	$M	$M	$M	$M	$M	$M
Commonwealth Grants to Universities	1 751	1 884	2 098	2 187	2 379	2 287	2 389	2 645
State Grants to Universities								
Total	**1 751**	**1 884**	**2 098**	**2 187**	**2 379**	**2 287**	**2 389**	**2 645**

Source: DETYA

	1991-92	1992-93	1993-94	1994-95	1995-96
	$M	$M	$M	$M	$M
Commonwealth Grants to Universities	2 777	3 553	3 842	4 180	4 392
State Grants to Universities		263	201	118	107
Total	**2 777**	**3 816**	**4 043**	**4 298**	**4 498**

Table 6.3
GDP DEFLATOR

As at 30 June	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Index	60	63.3	67.7	72.5	78.6	84.3	88.5	90.5
Implied Rate of Growth (%)		5.5	7.0	7.1	8.4	7.3	5.0	2.3

As at 30 June	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Index	92.4	93.9	94.8	95.6	98.1	99.2	100.3
Implied Rate of Growth (%)	2.1	1.6	1.0	0.8	2.6	1.1	1.1

Table 6.4
REAL PER CAPITA INDEX

As at 30 June	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Index	119	127	138	150	166	181	192	199
Implied Rate of Growth (%)	8.1	6.9	8.5	8.7	10.2	9.1	6.5	3.6

As at 30 June	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Index	206	211	216	220	229	234	240
Implied Rate of Growth (%)	3.3	2.6	2.0	2.1	4.0	2.3	2.3

Table 6.5

HISTORIC SERIES - GENERAL GOVERNMENT FINANCIAL ESTIMATES (ADJUSTED)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	$M	$M	$M	$M	$M	$M	$M	$M
Commonwealth Outlays	57 327	64 857	70 994	76 302	79 324	82 729	88 326	96 641
Commonwealth Revenue	49 346	58 054	65 177	73 525	81 638	89 015	96 182	98 572
Commonwealth Grants	16 338	17 807	18 899	20 374	21 496	22 593	23 993	25 869
State OS Revenue	11 772	13 329	15 225	16 727	19 778	23 732	26 118	27 998
State Total Revenue	28 110	31 137	34 124	37 101	41 273	46 325	50 111	53 867
State Outlays	29 796	33 405	36 871	40 347	43 077	46 291	52 251	54 782
Commonwealth OP Outlays	40 990	47 050	52 095	55 928	57 828	60 136	64 333	70 771

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	$M	$M	$M	$M	$M	$M	$M	$M
Commonwealth Outlays	103 791	110 168	115 009	122 691	127 375	135 121	134 608	141 547
Commonwealth Revenue	94 245	95 655	101 312	110 983	122 512	129 841	135 779	143 984
Commonwealth Grants	26 628	28 249	27 812	28 084	29 310	29 889	30 744	33 423
State OS Revenue	29 604	31 187	34 906	36 884	39 899	41 341	43 413	43 745
State Total Revenue	56 232	59 436	62 718	64 968	69 209	71 230	74 157	77 168
State Outlays	59 928	61 868	63 710	65 400	67 287	69 217	73 339	75 969
Commonwealth OP Outlays	77 163	81 919	87 197	94 607	98 065	105 232	103 864	108 124

Table 6.6
PROJECTIONS - NO TAX REFORM

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
	$M	$M	$M	$M	$M	$M
Commonwealth Outlays	149 963	155 607	161 449	167 248	173 255	179 478
Commonwealth Revenue	155 171	164 481	174 350	184 811	195 900	207 654
Commonwealth Grants	34 846	36 345	37 894	39 245	40 643	42 093
State OS Revenue	45 495	47 315	49 207	51 175	53 222	55 351
State Total Revenue	80 341	83 660	87 101	90 420	93 866	97 444
State Outlays	78 704	81 537	84 473	87 514	90 664	93 928
Commonwealth OP Outlays	115 117	119 262	123 555	128 003	132 611	137 385

	2005-06	2006-07	2007-08	2008-09	2009-10
	$M	$M	$M	$M	$M
Commonwealth Outlays	185 925	192 603	199 523	206 691	214 117
Commonwealth Revenue	220 113	233 320	247 319	262 158	277 888
Commonwealth Grants	43 594	45 149	46 759	48 428	50 157
State OS Revenue	57 565	59 868	62 263	64 753	67 343
State Total Revenue	101 159	105 017	109 022	113 181	117 500
State Outlays	97 309	100 813	104 442	108 202	112 097
Commonwealth OP Outlays	142 331	147 455	152 763	158 263	163 960

Table 6.7

PROJECTIONS - FINAL PACKAGE

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Commonwealth Outlays	149 963	139 085	143 481	145 449	150 685	156 110	161 730	167 552	173 584	179 833	186 307
add GST		24 176	28 494	29 221	30 975	32 833	34 803	36 891	39 104	41 450	43 937
add Growth Dividend		97	161	211	268	330	396	469	547	630	719
add Local Govt funding		1 352	1 394	1 444	1 497	1 553	1 610	1 670	1 732	1 796	1 862
other (a)		1 078	898	1 232	1 278	1 325	1 374	1 425	1 477	1 532	1 589
add Guarantee Grants (b)		1 039	1 411	881	194	4	3	0	0	0	0
increase in NCP payments		245	495	499	502	506	510	514	518	522	526
Total	**149 963**	**167 073**	**176 334**	**178 937**	**185 399**	**192 661**	**200 427**	**208 521**	**216 962**	**225 764**	**234 940**
Commonwealth Revenue	155 171	142 199	150 691	157 909	167 384	177 427	188 072	199 356	211 318	223 997	237 437
add GST		24 176	28 494	29 221	30 975	32 833	34 803	36 891	39 104	41 450	43 937
add Growth Dividend (GST)		97	161	211	268	330	396	469	547	630	719
other (c)		1 894	1 900	2 088	2 213	2 346	2 487	2 636	2 794	2 962	3 140
Total	**155 171**	**168 366**	**181 246**	**189 429**	**200 840**	**212 936**	**225 758**	**239 352**	**253 763**	**269 039**	**285 232**
Commonwealth Grants	34 846	18 218	18 874	19 553	20 257	20 986	21 742	22 524	23 335	24 175	25 046
add GST		24 176	28 494	29 221	30 975	32 833	34 803	36 891	39 104	41 450	43 937
add Growth Dividend		97	161	211	268	330	396	469	547	630	719
add Guarantee Payments		1 039	1 411	881	194	4	3	0	0	0	0
increase in NCP payments		245	495	499	502	506	510	514	518	522	526
Total	**34 846**	**43 775**	**49 434**	**50 365**	**52 196**	**54 660**	**57 454**	**60 398**	**63 505**	**66 778**	**70 228**
State OS Revenue	45 495	47 315	49 207	51 175	53 222	55 351	57 565	59 868	62 263	64 753	67 343
add taxes foregone		-7 960	-10 430	-10 955	-11 207	-11 592	-13 129	-13 602	-14 091	-14 597	-15 122
Total	**45 495**	**39 355**	**38 777**	**40 220**	**42 015**	**43 760**	**44 436**	**46 266**	**48 172**	**50 156**	**52 221**
State Total Revenue	80 341	83 130	88 212	90 585	94 212	98 420	101 890	106 665	111 677	116 934	122 449
State Outlays	78 704	81 537	84 473	87 514	90 664	93 928	97 309	100 813	104 442	108 202	112 097
add additional expenditure		567	32	- 33	- 87	- 144	- 209	- 280	- 356	- 439	- 528
Total	**78 704**	**82 104**	**84 505**	**87 481**	**90 577**	**93 784**	**97 100**	**100 533**	**104 086**	**107 763**	**111 569**
Commonwealth OP Outlays	**115 117**	**123 297**	**126 899**	**128 572**	**133 203**	**138 001**	**142 972**	**148 122**	**153 458**	**158 985**	**164 712**

Notes to Table 6.7.

(a) includes: pensioners and allowees supplement; self-funded bonus; family assistance; environmental package; Increased GST administration costs; book bounty scheme and writers assistance; supported accommodation program; GST assistance for low income earners

(b) does not include loan amount in 2000-01, however includes grants required for loan repayments in 2001-02

(c) includes: reduced income tax cuts; diesel fuel excise and credits; environmental package

GOVERNMENT EXPENDITURE – AN INTERNATIONAL PERSPECTIVE

Following analysis in previous years of the influence of intergovernmental financial arrangements on trends in national expenditure, there was concern that institutional arrangements may have been contributing to a less than optimal allocation of national resources to key functions. As a result, a broad comparison of government expenditure in an international context was undertaken in order to progress understanding of these important issues.

Three broad categories of public expenditure examined were education, health, and defence for the following five countries:

- Australia;
- Canada;
- New Zealand;
- the United Kingdom; and
- the United States.

The expenditure levels were compared at three time intervals: 1960, 1980 and the mid 1990s.

The main conclusions are summarised below:

- Total government expenditure trends for Australia do not appear to differ significantly from the other countries considered here.
- More of each nation's wealth has been applied to government services since 1960.
- Most of the increase in government expenditure has occurred between 1960 and 1980.
- Similar trends in total government expenditure have taken place across the five countries examined.

In most countries, health has progressively attracted a larger share of each nation's resources, whereas education has remained comparatively stable.

BACKGROUND

Trends in broad functional areas of Commonwealth expenditure within Australia have been discussed in an earlier edition of *Issues in Public Finance* (Chapter 7, *Budget Paper No. 3, 2000-01*). This Chapter considers international trends in government expenditure to further the understanding of the Australian experience.

It has been established elsewhere (Chapter 6 of this Budget Paper and the reference in the previous paragraph) that the States have increasingly been required to meet their expenditure needs from their own-source revenue, as a decreasing proportion of Commonwealth funds has been transferred to the States.

Tax reforms that accompany the introduction of *A New Tax System* address this inequity to some extent, however, the long-term implications of a reduced share of Commonwealth revenue going to the States and Territories needs to be better understood.

All governments undertake public expenditures to pursue a variety of economic, social and political goals. Additionally, all governments face the competing demands of cost containment and equity when considering areas of expenditure within their budgets.

Internationally, government expenditure has grown considerably in recent history as a proportion of the total economy, with the majority of growth having taken place by 1980 in most countries. Growth in public spending has been a general phenomenon despite considerable institutional differences and geographic and language barriers that have existed among industrialised countries and their economies.

Initially, the two world wars permitted notable increases in revenue and expenditure levels. However, the period between 1960 and 1980 saw the greatest period of expansion. The 1980s and early 1990s witnessed another change with a slowing in growth of government expenditure and, as has been suggested elsewhere, the first attempts at reversing the trend of expenditure growth.

Changes in public expenditure levels in the past century have generally followed changes in attitudes toward the role of the state. The growth of government over the past century has been accompanied by considerable changes in the composition of public spending, reflecting the changing perceptions of what the state should do. A century ago, government spending was mostly limited to the maintenance of law and order, external security, and to very limited government services and investment.

Over the subsequent decades, the provision of goods and services extended considerably. Cash spending, often associated with social programs, grew rapidly. Most of the increase has probably been the result of explicit policy decisions and not the result of technical factors. In more recent years, unemployment and demographic changes have also contributed to the growth of public spending.

Internationally, the rapid expansion between 1960 and 1980 was not associated with engagement in war, depression or obvious demographic developments. It was perhaps brought about by the belief that higher public spending would improve social welfare. The period has been referred to elsewhere as the 'golden age' of public sector intervention. It has been proposed that growth throughout this 'golden age' might have been driven by the following assumptions:

- Actions of policymakers are generally driven by the objective of promoting social welfare.
- All important economic decisions for the whole sector were made in a rational and transparent way and policies could not be inconsistent among them.
- Policy decisions are reversible.

During this period of rapid growth it is suggested that there was also an underlying assumption that the horizon of governments was long enough for current policies not to conflict with future policies. Conflict might arise from mistakes, or from political considerations, that could lead policymakers to choose the 'short run' policies that are inconsistent with 'long run' objectives.

The 1980s and 1990s witnessed a change in attitudes with respect to the role of the governments, and an accompanying decrease in the growth in each of the expenditure categories. The only major, and consistent, decreases in expenditure were in the functional area of defence. By 1995, the United States had more than halved its 1960 resource commitment.

TRENDS IN AUSTRALIAN EXPENDITURE

Australia has been cited in the economic literature as an initiator of 'bold' institutional reform. The reform referred to purports to promote:

- the efficiency of public spending;

- strengthening the strategic policy-making ability of the government by improving:
  - the consistency;
  - the quality;
  - the transparency; and
  - public accountability of government activities.

Since 1990, Australia has increased controls over expenditure largely through restrictions in the payments to the States and Territories. Other fiscal savings have come from public enterprise reform. Total government expenditure of approximately one-third of Gross Domestic Product (GDP) is one of the lowest spending levels among OECD countries (Tanzi and Schuknect).

GENERAL TRENDS

TOTAL GENERAL GOVERNMENT EXPENDITURE

Figure 7.1

TOTAL GENERAL GOVERNMENT EXPENDITURE AS A PROPORTION OF GDP: 1960, 1980 AND 1996

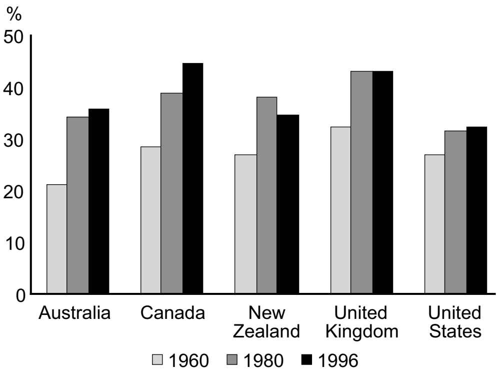


Figure 7.1 illustrates the trends in total general government expenditure for each of the five countries at the time intervals, 1960, 1980 and 1996.

- Total government expenditure as a proportion of GDP increased progressively for all countries. The only exception to this trend was New Zealand, where total government expenditure actually declined from the mid 1980s to the mid 1990s.
- The United States increase was low compared with other countries.
- The other countries experienced relatively dramatic growth in expenditure levels between 1960 and 1980.
- Between 1980 and 1996, total government expenditure as a proportion of GDP generally continued to grow but its growth slowed markedly.
- The average proportion of expenditure to GDP grew from 27.2% in 1960 to 37.1% in 1980 and 38.1% in 1996.

HEALTH, EDUCATION AND DEFENCE AS A PROPORTION OF TOTAL GENERAL GOVERNMENT EXPENDITURE

The expenditure areas of health, education and defence are generally afforded high policy priority in industrialised countries. Figure 7.2 summarises the trends in the ratio of total health, education and defence expenditure to total general government expenditure.

Figure 7.2

HEALTH, EDUCATION AND DEFENCE EXPENDITURE AS A PROPORTION OF TOTAL GENERAL GOVERNMENT EXPENDITURE: 1960, 1980 AND MID 1990s

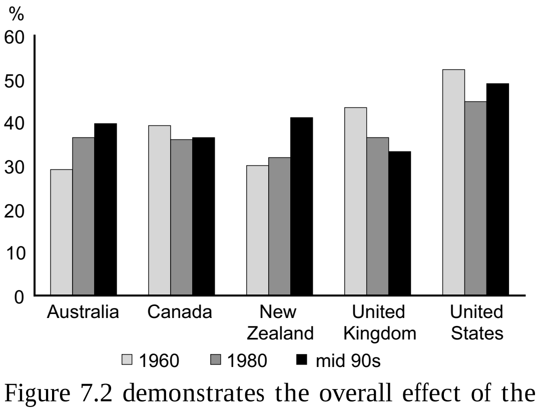


Figure 7.2 demonstrates the overall effect of the changes within each of the countries' total government expenditure patterns in terms of the broad functional categories considered in this analysis.

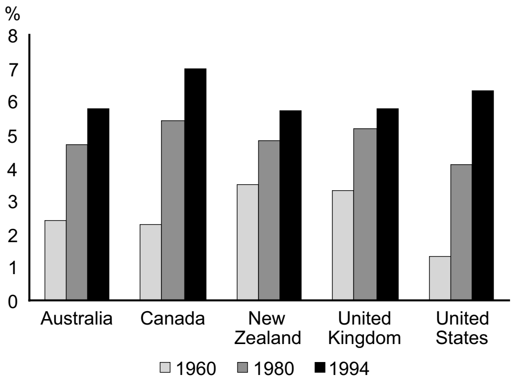
- Australia now dedicates almost 40% of general government expenditure to health, education and defence.
- New Zealand has been noted for the decline in the proportion of its economy attributable to government expenditure, however, for the core functional categories considered here, Figure 7.2 shows that government expenditure on these functions has increased from 30% to 40%.
- The United States, the United Kingdom and Canada have decreased expenditure in these areas as a proportion of their total government expenditure since 1960, due to the relatively high defence expenditure in 1960.

The aggregate expenditure on these three functions masks significant changes in the relative allocation to each function.

HEALTH

Figure 7.3

GOVERNMENT EXPENDITURE ON HEALTH AS A PROPORTION OF GDP: 1960, 1980 AND 1994



Health expenditure has increased significantly in all countries since 1960.

- The rate of growth in government expenditure on health functions in each country has slowed significantly from 1980 to 1994, when compared to the dramatic growth witnessed between 1960 and 1980.
- At each time interval Australia spent slightly less than the average of the five countries on health.
- In 1994 health expenditure as a proportion of GDP is quite similar for all countries.

Figure 7.4

HEALTH EXPENDITURE AS A PROPORTION OF TOTAL GENERAL GOVERNMENT EXPENDITURE: 1960, 1980 AND MID 1990s

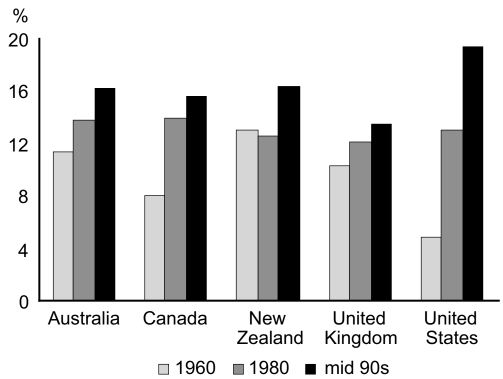


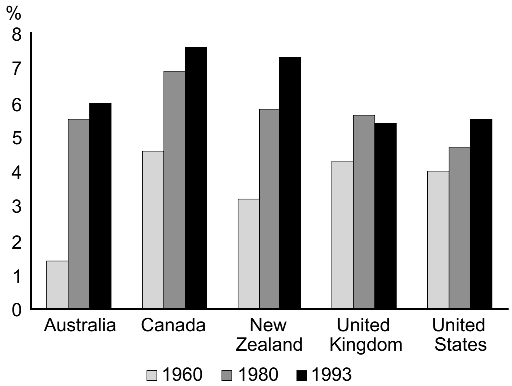
Figure 7.4 shows trends in health expenditure as a proportion of total general government expenditure.

- The figure demonstrates that health has been an increasing priority in all countries.
- Australia's proportion of total general government expenditure spent on health has remained generally high at all time intervals, recording the second highest expenditure in 1960, the second highest in 1980, and reducing to third highest in 1994 at 16.2%.
- In the United States, health expenditure as a proportion of total general government expenditure has grown significantly over the time periods, from 4.8% in 1960 to 19.4% in the mid 1990s.

EDUCATION

Figure 7.5

GOVERNMENT EXPENDITURE ON EDUCATION AS A PROPORTION OF GDP: 1960, 1980 AND 1993

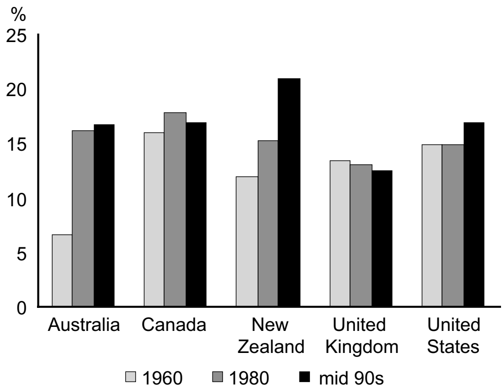


Most countries have applied an increasing proportion of their nation's wealth to education since 1960.

- Government expenditure on education in Australia increased dramatically between 1960 and 1980.
- Australia spends a lower proportion of its nation's income on education than Canada and New Zealand, but more than the United Kingdom and the United States.
- Government expenditure on education will be affected by differing levels of private provision, however, that information was not available for this study.

Figure 7.6

EDUCATION EXPENDITURE AS A PROPORTION OF TOTAL GENERAL GOVERNMENT EXPENDITURE, 1960, 1980 AND MID 1990s



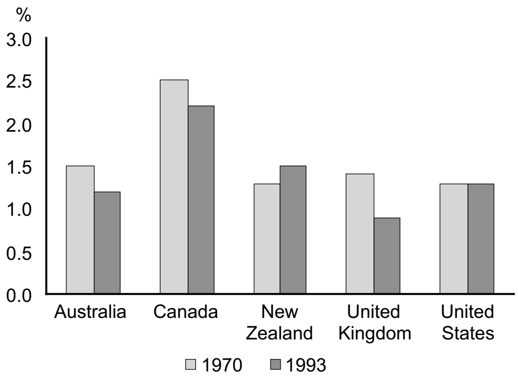
- In most countries, education has remained a relatively stable proportion of general government outlays. This contrasts with health expenditure where the proportion of general government expenditure has grown significantly.
- Consistent with the data in previous charts, Australia has experienced a dramatic increase in expenditure between 1960 and 1980. However, like most of the other countries, there has been minimal change since 1980.
- New Zealand by comparison, has allocated a significantly greater proportion of its general government outlays to education.

HIGHER EDUCATION EXPENDITURE

Comparable data for higher education as a proportion of total education expenditure was only available for 1970 and 1993.

Figure 7.7

HIGHER EDUCATION AS A PROPORTION OF EDUCATION EXPENDITURE: 1970 AND 1993

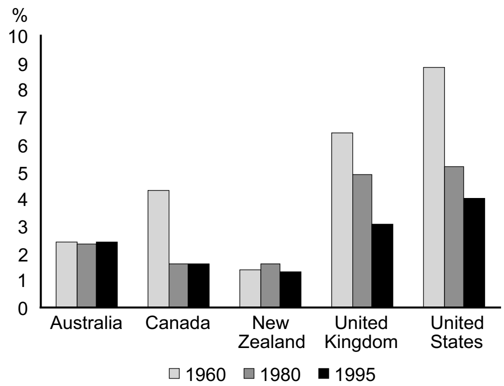


- While Canada is above average and the United Kingdom is below, all these countries spend a similar proportion of their education budgets on higher education.
- Australia's proportion has declined since 1970, perhaps reflecting the greater contribution being made by student fees.

DEFENCE

Figure 7.8

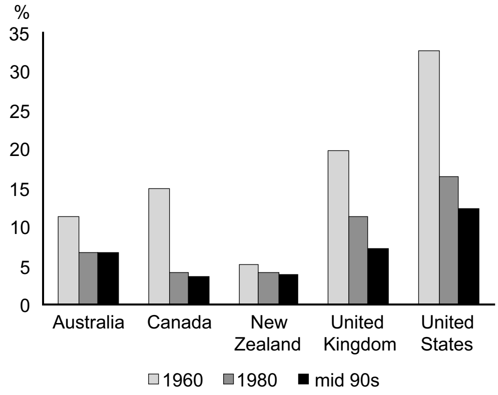
GOVERNMENT EXPENDITURE ON DEFENCE AS A PROPORTION OF GDP: 1960, 1980 AND 1995



- All countries, except Australia, have reduced defence spending as a proportion of their GDP over the three time intervals.
- Decreases in defence expenditure in the United States, United Kingdom and Canada are significant, and would appear to coincide with the cessation of the Cold War.

Figure 7.9

DEFENCE EXPENDITURE AS A PROPORTION OF TOTAL GENERAL GOVERNMENT EXPENDITURE, 1960, 1980 AND MID 1990s



- Figure 7.9 shows clearly that defence expenditure has become less of a priority for each of the governments examined.
- Australia's defence spending is now about middle of the range in the countries analysed.

CONCLUSION

The focus of this chapter has not been on providing explanations for the reasons underlying expenditure patterns. Rather the aim has been to come some way toward understanding how Australia compares to selected countries in the last 40 years. This provides us with a reference point to progress discussions relating to government expenditure patterns in the Australian context.

The overriding conclusion is that expenditure trends in Australia do not appear to differ significantly from the countries examined.

APPENDIX

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Tait, A. and Heller, P. (1982), *International Comparisons of Government Expenditure*, Occasional Paper No. 10, International Monetary Fund, Washington.

Tanzi, V. and Schuknecht, L. (2000), *Public Spending in the 20th Century A Global Perspective*, Cambridge University Press.

DATA ISSUES

Two social expenditure categories and one core expenditure category are examined in the analysis. The categories are:

- health;
- education; and
- defence.

These categories were chosen for availability of datasets, and the time intervals were likewise chosen for availability of data. The data used for this analysis draws on datasets compiled by Tanzi and Schuknecht, for their analysis of public spending in the 20th century.

Data and discussion are presented in terms of government expenditure as a percentage of GDP or as functional expenditure as a proportion of general government expenditure.

Countries were selected for comparison if they were considered to be quite industrialised and in broadly comparable stages of economic and social development. The following five countries were compared:

- Australia;
- Canada;
- New Zealand;
- the United Kingdom; and
- the United States.

The analysis provides snapshots of expenditure at three points in time for each of the five countries (1960, 1980 with either 1993, 1994, 1995 or 1996) for each of the expenditure categories. The years were selected for dataset availability across countries.

As the comparisons reflected government expenditure only, differences in reliance on private sector provision of these services between countries and over time has not been examined.

DATA SOURCES

The data selected for this analysis were compiled by Tanzi and Schuknecht, and were based on a variety of sources for each expenditure category.

- general government expenditure (p7);
- defence (p28);
- education (p34); and
- health (p38).

WORKING FOR OUTCOMES

Working for Outcomes is a comprehensive financial and performance management framework comprising three fundamental elements:

- outputs;
- performance; and
- accruals.

Development and implementation of *Working for Outcomes* is underway, with the new framework to be in full operation for the 2002-03 financial year.

Working for Outcomes represents one of the most significant reform initiatives to be introduced in the Territory. The *Working for Outcomes* framework builds on prior initiatives and reflects the Territory's ongoing commitment to improving financial and performance management practices.

The *Working for Outcomes* framework is consistent with the current national trend in public sector financial management of focusing on outcomes and presenting accrual financial information on an outputs basis.

The principal objective of *Working for Outcomes* is to provide a better basis for resource allocation within the Northern Territory by:

- a focus on outputs and performance;
- clearly defining links between outcomes and outputs; and
- provision of full cost information for outputs.

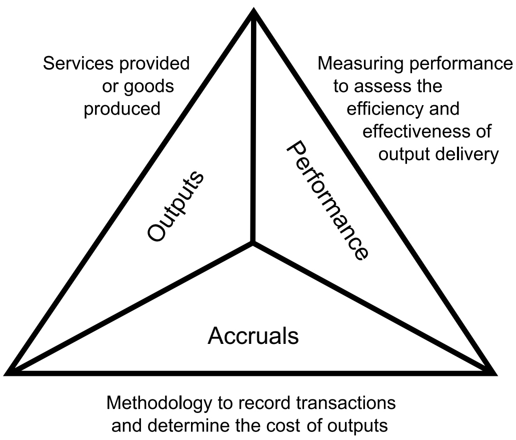
Working for Outcomes will provide agencies with the tools necessary to monitor and evaluate their service delivery to the Territory community. In addition, agencies will have a clearer view of the Government's outcomes to which they are contributing and the relative priorities and costs of their services.

This chapter explains the elements that comprise the *Working for Outcomes* framework, describes the Territory's new accrual output budget framework that will be part of *Working for Outcomes*, and outlines the major aspects of the implementation project.

FRAMEWORK ELEMENTS

The *Working for Outcomes* framework incorporates three elements: Outputs, Performance and Accruals, as depicted in Figure 8.1.

Figure 8.1
WORKING FOR OUTCOMES – ELEMENTS



OUTPUTS ELEMENT

Outputs is the term used to describe the services or goods produced by Government agencies for the benefit of the Territory community. Under *Working for Outcomes*, resource allocation decisions will concentrate on outputs, with agencies funded to produce specified outputs.

Ideally, outputs are uniform and hence easily identified (such as the provision of primary school education). However, in practice many services are not readily grouped into such uniform products. For example, even with primary school education there are sub outputs that can be identified, such as the provision of primary education services to disadvantaged students. Generally, Government's consideration of outputs and outcomes will be at the strategic level and thus will not direct resource allocation decisions at this sub output level. A key issue therefore in the *Working for Outcomes* process will be to combine like or related products to produce an output that is meaningful and useful for Government consideration.

These sub outputs are nevertheless fundamental to the management of the agency providing the services. One of the intentions of the reform process is to provide tools for agency managers to record physical and financial data about their sub outputs to enable them to be in a position to better manage the resources under their control.

Output Groups

For reporting purposes, related outputs will be aggregated into output groups, which are combinations of like outputs. Output groups provide summary information and represent a useful means of demonstrating the relationships between individual outputs. Output groups enable a strategic view of services provided and highlight links or relationships.

Outcomes

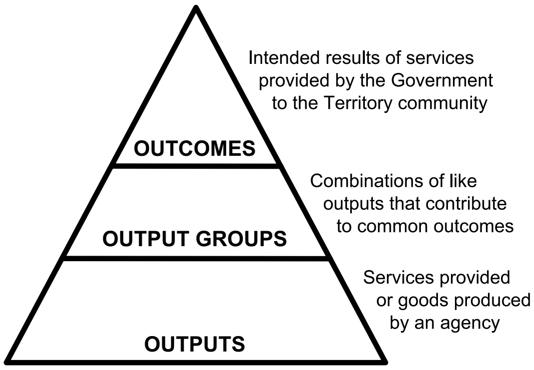
Outcomes represent the objectives that the Government is seeking to achieve on behalf of the community and thus will reflect the Government's policy direction.

Outputs and output groups align with Government outcomes. Outcomes can be described as expressions of the intended results, impacts or consequences on the Territory community of outputs provided by agencies.

Outputs Hierarchy

The hierarchical relationship of outputs, output groups and outcomes is depicted in Figure 8.2.

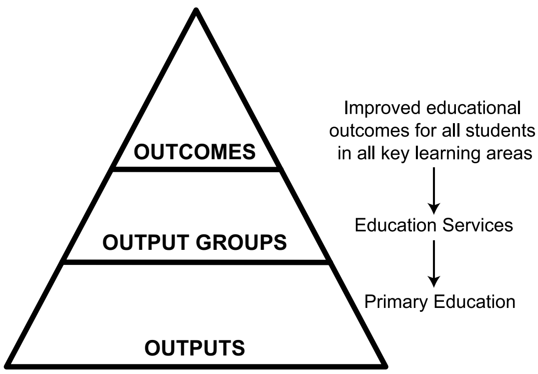
Figure 8.2
OUTPUTS HIERARCHY



Budget Presentation in 2001-02

Information on agency outputs for 2001-02 and the outcomes to which they relate is provided in *Budget Paper 2*, as a precursor to the full implementation of *Working for Outcomes* in 2002-03. This will facilitate a greater emphasis by agencies on their role as service providers and clearly identify the outputs agencies are delivering. As a practical example, Figure 8.3 is an extract from the Department of Education's outputs hierarchy as described in *Budget Paper 2*.

Figure 8.3
EXAMPLE OUTPUTS HIERARCHY - EXTRACT FROM DEPARTMENT OF EDUCATION



PERFORMANCE ELEMENT

The performance of agencies in the delivery of outputs is the focus of the second element of *Working for Outcomes*. The use of performance measures will assist decision makers both within and outside the agency in determining whether Territory resources are being applied in an efficient and effective manner to achieve Government outcomes and for ongoing assessment of services.

For each output, performance measures will be developed for quantity, quality, timeliness and cost.

Quantity

Quantity measures relate to the number of units of output and are usually described in terms of 'how many'. Quantity is a volume measurement and, as such, it depicts the number or amount of services provided. Examples of quantity measures for fairly uniform outputs include:

- number of applications processed, for example, licences;
- number of hospital separations;
- number of users of a particular service, for example, museum; and
- number of registrations, for example, births, deaths and marriages.

However, many Government services are not easily quantifiable as separate units and need to be considered in terms of the overall capacity to provide the type of service. In such cases it is not appropriate to define a unit of output as the number of items produced.

An example of this type of 'capacity' output is policy advice. Agencies are required to maintain the capacity to provide the service such that appropriate advice can be provided when required. It is the capacity to provide policy advice that is the basis of funding the output.

As another example of measuring quantity, the output may be an amalgam of many sub outputs and the quantity measure might be related to the largest sub output or simply be a sum total of the different sub outputs (for example, where the proportions remain relatively stable over time).

Quality

Quality measures relate to the calibre or excellence of an output and generally reflect service standards based on customer need. Dimensions of quality as an output performance measure include accuracy, completeness, accessibility, continuity and customer acceptability. Examples of quality performance measures include:

- percentage of output units meeting agreed NT standards;
- comparisons with national benchmarks;
- maximum number of undesirable events (for example, appeals sustained as a percentage of decisions); and
- customer satisfaction levels measured by surveys.

Timeliness

Timeliness measures relate to the time taken to produce an output and provide an indication of the processing or service speed and efficiency. Measures of timeliness provide parameters for 'how often' or 'within what time frame' outputs are to be produced. Examples of timeliness measures include:

- response time for inquiries/emergencies;
- average waiting time for service; and
- percentage of projects completed within negotiated timeframe.

Cost

Cost measures have always been recorded on a cash basis. Under the *Working for Outcomes* framework, costs will be recorded on an accrual basis and greater attention given to combining the cost information with other performance measures, particularly the output quantity measure. Ideally, the outputs are uniform and the cost per unit of output provides an obvious benchmark for measuring performance both over time and between like service providers. However, such uniformity is not always possible.

Those outputs that relate to the capacity to provide an overall level of service rather than individual units of output will have cost measured as the total cost to maintain the output capacity.

Examples of cost performance measures include:

- average cost per hospital separation;
- marginal cost per hospital separation;
- average cost of administration per dwelling;
- average cost per government primary school student;
- cost of providing policy advice, expressed as a total; and
- output cost per head of Territory population.

Budget Presentation for 2001-02

Budget Paper 2 presents information on performance measures related to agency outputs for 2001-02. Additional reporting of performance information in Territory budgets will commence in 2002-03 with the full implementation of *Working for Outcomes*. Figure 8.4 provides a practical example of performance measures as they relate to the output previously noted in Figure 8.3. These measures have been extracted from the Department of Education's output performance measures as described in *Budget Paper 2*.

Figure 8.4

EXAMPLE PERFORMANCE MEASURES - EXTRACT FROM DEPARTMENT OF EDUCATION

Category	Measure
Quantity	Number of primary students enrolled at Government schools; number of schools providing primary education
Quality	Percentage of students who achieved the national benchmark for reading in 1999
Timeliness	Primary education is delivered during the four terms comprising the designated Government school year
Cost	For 2001-02, an indicative total output cost (on a cash basis) is published
	Output costing information will be refined once *Working for Outcomes* is fully implemented

ACCRUALS ELEMENT

The adoption of the accrual basis for accounting, reporting and budgeting is the third element of *Working for Outcomes*. The accrual basis facilitates the focus on agency outputs by providing financial information on the full cost of outputs. This requires the cash accounting, reporting and budgeting frameworks traditionally used by governments to be replaced with accrual accounting, reporting and budgeting. Thus, the *Working for Outcomes* framework is enhanced to encompass both output data and accrual financial information.

Accrual Accounting

A key aspect to the monitoring of performance is the recording of transactions on an accrual basis. In accrual accounting, revenue and expenses are recorded in the period they are incurred, even though no cash may have been received or paid. In contrast, the cash basis of accounting only records a transaction when cash is received or paid.

Accrual accounting includes transactions where no cash is exchanged, such as transactions involving the creation of obligations to pay or rights to receive cash at future dates, and transactions relating to the cost of using assets in the production of outputs. Further examples of transactions that are recorded differently under an accrual accounting methodology, where all aspects of the transaction rather than simply the cash effects are recorded, are:

- selling a good or service on credit;
- establishing a finance lease arrangement;
- making an allowance for outstanding debts owed that are not likely to be repaid; and
- paying an annual subscription or membership fee in advance of using the services.

Government business divisions have been accounting on an accrual basis since 1995 and from 2002-03 general agencies will be accounting on this basis.

The move to accrual accounting for general agencies will require the development of a range of accounting policies to facilitate the recording of transactions. For instance, in relation to the transactions listed above, the following policy issues arise:

- timing for recognition of revenue earned, considering all the categories of revenue;
- treatment of finance leases;
- creation of provisions (for example, doubtful debts); and
- treatment of expenses that are paid in advance.

In addition, properly accounting for assets will require a range of policies relating to:

- control and ownership of assets for recording and reporting purposes;
- threshold value for the recording of an item as an asset;
- determination of appropriate valuation methodologies for valuing existing and future assets;
- methodology and rates to apply in depreciating assets as they are used;
- treatment of repairs and maintenance and the improvement of assets; and
- system requirements for the recording of asset information.

Accrual Reporting

Under *Working for Outcomes*, accrual financial statements will be prepared. These statements will be published at both the whole of government and agency level in the Territory's Budget (using estimated financial data), the *Treasurer's Annual Financial Report* and agency annual reports (using actual financial data). The accrual basis uses three main financial statements:

- a Statement of Financial Performance that details the revenue earned and expenses incurred for the period;
- a Statement of Financial Position that details assets, liabilities and equity at the end of the period;
- a Statement of Cash Flows that details all the cash inflows and outflows for the period.

These main financial statements will be supplemented with additional financial information to satisfy accountability requirements and provide further relevant information to the Territory community. Such statements would include information on outputs and performance and on significant capital movements.

ACCRUAL OUTPUT BUDGET FRAMEWORK

At present, the Territory has a cash budget framework based on Activities within each agency. Appropriation is the limit of total cash expenditure at Activity level and provides the parliamentary approval to spend to this limit. The principle control under this framework is that cash expenditure is not to exceed appropriation for each Activity.

The new accrual output budget framework is more comprehensive than the cash budget framework and includes some fundamental differences as described below. The accrual output budget framework encompasses provision of outputs and specific performance criteria, management of assets and liabilities as well as cash flow management. Further, the accrual output budget framework introduces and clearly defines distinct roles for the Government and agencies.

GOVERNMENT AND AGENCY ROLES

The accrual output budget framework highlights the separate roles for the Government and agencies that are integral to the control of government operations and the provision of funding for these operations.

Owner / Agent

The Government is the owner of agencies, with agencies performing the role of agent for the owner. As owner, the Government is interested in maintaining an appropriate level of investment in agencies to ensure they are capable of delivering their services.

As owner, the Government will consider the nature and mix of assets and liabilities in each agency. Agencies will need sufficient assets to produce required outputs. However, surplus or unproductive assets should be identified and either transferred to another agency where they can be used or relinquished. The accrual output budget framework recognises the cost of capital and will impose a financing charge on agencies to take account of the cost of the Government's investment in assets that have been given to agencies.

As the agent of the Government, each agency needs to:

- keep the Government informed of its financial position;
- advise the Government of any significant anticipated impacts on this financial position; and
- seek approval from the Government before taking any action that will affect the financial position (such as acquiring assets or incurring liabilities).

Purchaser / Provider

In addition to its owner role, the Government purchases outputs from agencies on behalf of the community and thus takes on a purchaser role. The Government funds these output purchasing decisions through provision of budget funding (explained further below).

As purchaser, the Government is interested in ensuring that it achieves 'value for money' for the community. The Government specifies its requirements for agency outputs by determining and agreeing with each agency, the output quantity, quality, timeliness and cost. Thus, the Government advises the required number of outputs, the service or quality standard, when outputs are to be delivered and the amount that the Government will pay to purchase the outputs, according to the above specifications. In this way, output performance measures are integrated into the framework, with performance targets essentially comprising the Government's specifications for outputs.

As the provider of outputs, each agency needs to:

- negotiate output specifications that it can achieve;
- ensure it delivers the required number of output units at the agreed quality and timeliness standards;
- contain its costs to produce the outputs within the purchase price funded by the Government; and
- consult with the owner if costs cannot be contained or any additional assets or liabilities are required.

In the initial stages of the new accrual output budget framework the purchase price will be set at a level to cover agency costs in producing the output. However, in future years, the Government may strengthen its purchasing role and give greater consideration to the price that should be paid. This would entail gaining an understanding of prices for similar outputs from other sources, such as reviewing national benchmarks. The distinction between the price the Government is prepared to pay for a service and the actual cost of providing that service would then act as a further incentive for agencies to achieve efficiencies and reduce their output costs to competitive levels.

APPROPRIATION

Under the accrual output budget framework, appropriation is quite different to the cash expenditure limit concept. In this accrual framework, appropriation is the Government's purchase price of outputs. The purchase price should encompass all the expenses required to produce the outputs, including both cash and non-cash expenses (the major non-cash expense item is the depreciation charge for assets).

Funding for Non-cash Items

The budget frameworks of most jurisdictions adopt one of two main methods for funding non-cash items. The two methods are:

1. the Government provides cash funding for the full output price; or
2. the Government provides cash funding for the cash component of the output price and provides for the remainder of the price (total of non-cash items) by recording this remaining amount as an obligation. The agency records this as an amount receivable from the Government.

While Method 1 appears straightforward, it may result in the Government providing agencies with more cash than they need for operating requirements. Usually agencies are then required to apply this additional cash to the purchase of replacement assets. As this cash primarily relates to depreciation charges, it is considered appropriate to link it to asset replacements. However, in situations where an agency has relatively long-lived assets that are infrequently replaced (such as roads and museums), depreciation charges will almost always exceed replacement programs and will result in a build up of excessive cash balances in the agency. Such cash balances can be transferred back to the Government by means of an equity withdrawal. Equity withdrawals have the effect of reducing the agency's financial position and can result in the agency having a negative financial position.

Method 2 ensures that only an agency's cash requirements are met by the Government. However, by acknowledging the obligation to pay in the future, the Government is adhering to the concept of purchasing outputs at a price that covers all costs. At a time when an agency requires additional cash to purchase assets or repay liabilities, the Government will pay cash to reduce its obligation (and hence reduce the agency's receivable amount).

Effect of Revenue on Appropriation

The purchase price of the outputs funded by Government as appropriation will be net of each agency's own-source revenue. Own-source revenue is revenue earned by agencies through their own endeavours and does not include Territory revenue. Examples of agency own-source revenue are book and map sales and facility fees (charges to use some government facilities).

Territory revenue is revenue earned from Territory taxes and statutory fees and revenue provided by the Commonwealth to the Territory (such as GST revenue). Territory revenue is usually collected by agencies on behalf of the Territory but does not belong to the agencies.

CONTROLS

The main objective of budget controls in the new framework will remain to ensure that the budget bottom line is protected and, where changes are required, there is an appropriate process for this to occur.

Budget controls relate back to the Government's purchaser role, with the Government controlling the output price and specification. The Budget represents the purchase agreement between the Government and the agencies, as providers. As with any purchase situation, the provider cannot arbitrarily change the price or the product specification.

The key controls will thus be:

- to not pay more for agency outputs than the amount recorded in the Budget (that is, not to provide any additional funding to agencies in excess of Budget) without appropriate parliamentary approval processes; and
- to ensure that the specifications for outputs (expressed as performance targets) are not materially altered without Government approval, even where there may be no effect on the total budget funding for the agency. This means that agencies cannot alter the mix of outputs (for example, vary the quantity between a number of outputs to reduce some and increase others), or the quality or timeliness, by varying the standards significantly up or down. Likewise, performance measures cannot be 'traded off' against each other, such as to reduce output quantity and increase quality or vice versa.

AGENCIES RECORDING OF OUTPUT REVENUE

Under the accrual output budget framework, agencies are generally required to demonstrate that they have delivered the specified outputs before being able to record the price funded by the Government as output revenue in their accounts. This process accords with normal purchaser/provider situations and is the approach adopted in both Victoria and Western Australia.

At the end of each quarter, agencies will provide information to the Government regarding the outputs delivered during the quarter. This information will cover all aspects of output specification including the quantity, quality standards, timeliness and cost. This output information will be assessed by Government and a decision taken to either:

- verify that agreed outputs have been delivered and allow the agency to record the appropriate output revenue amount; or
- determine that the outputs delivered did not match the predetermined specification and accordingly, decide the amount of output revenue that the agency will be entitled to record for the quarter.

In cases where the output revenue amount decided by the Government is lower than that anticipated, an agency may have costs that exceed its revenues and be in a deficit situation. Such a situation would require careful management by the agency's Chief Executive Officer to ensure that input costs are managed so as to meet output requirements and earn sufficient output revenues in future quarters.

Agencies will be provided with funds to meet their cash requirements each month. These funds will virtually be in the nature of a working capital advance, with the position adjusted at the time revenue is recorded.

CAPITAL WORKS

Capital works processes will not change under the accrual output budget framework, although the funding mechanisms will be varied. Agencies will continue to submit requests for capital works and capital acquisitions to the Government. These requests will be channeled through the usual assessment processes and the Government, in its capacity as owner, will decide the projects that form the Territory's Capital Works Program.

After an agency's capital program is decided, the source of funding to purchase or construct the assets is considered. Funding will come from three main sources:

- amounts 'owed' to the agency by the Government for outputs delivered but not fully paid (that is, the receivable recorded in agency accounts for non-cash components of outputs);
- agency internal funds; and
- equity injection from the Government, as owner.

Where an agency has a receivable amount owed by the Government for outputs provided, the Government can pay this obligation to reduce or clear the receivable balance. This will provide funds to allow the agency to undertake its capital program.

Where an agency has internal funds that are not required for the production of outputs, such as excessive cash balances, these funds can also be applied to the capital program. As it is not expected that agencies will have significant cash balances, this will not be a common source of funds.

Once other avenues have been exhausted, the Government will provide any remaining funds required to complete the agency's capital program. These funds will be provided, in the Government's capacity as owner, in the form of an equity injection, being additional money provided to an organisation by its owner. This type of funding would not be classified as revenue. Most jurisdictions provide equity or capital injections by means of a separate appropriation, usually called a capital appropriation. Thus, two distinct appropriations are provided, one in a purchasing capacity (output appropriation) and one in an owner capacity (capital appropriation).

The Government's consideration and approval of capital requests will have regard, amongst other things, to whether the asset will assist the agency to deliver its required outputs. The new framework incorporates incentives for agencies to only maintain an asset level necessary to provide outputs.

Agencies' asset holdings will affect the cost of their outputs through inclusion in these costs of the Government's financing charge and also the depreciation charge on assets. Thus, the more assets an agency holds the higher its financing and depreciation charges will be and, correspondingly, the higher the output cost. Assets being used to produce outputs will generate revenue for the agency that will cover these charges. This will provide a further incentive for agencies to relinquish surplus assets that are not generating revenue returns.

TERRITORY HOLDING UNIT

The Territory Holding Unit is the preliminary name for the unit that will:

- receive all Territory revenue (not agency own-source revenue);
- hold all Territory assets and liabilities that have not been assigned to an agency; and
- meet all expenses associated with these Territory assets and liabilities.

As mentioned previously, Territory revenue includes funding provided to the Territory by the Commonwealth, such as GST revenue and budget balancing adjustments, Territory taxation (for example, pay-roll tax, stamp duties) and statutory fees, such as licence and inspection fees levied under Territory legislation.

Territory assets and liabilities are assets and liabilities that belong to the Government as a whole and are held centrally. These are sometimes referred to as 'assets/liabilities of the Crown' and in fact some jurisdictions describe their central unit, with similar functions as the Territory Holding Unit, as 'the Crown'. Examples of Territory assets are investments of surplus government funds and long-term investments. Examples of Territory liabilities are the global debt not able to be assigned to specific functions, and superannuation. Any obligations to pay agencies for the remaining price of outputs would also be a Territory liability. In this regard, expenses of the Territory Holding Unit would include interest on liabilities.

Apart from superannuation, the other major employee entitlement category is long service leave. There are two main management approaches for long service leave:

1. require each agency to manage their own long service leave liability; or
2. hold the total long service leave liability in a central pool and reflect it as part of a central unit such as the Territory Holding Unit.

Under Approach 1, all employee transfers between agencies require the transferring agency to pay an amount equivalent to the employee's long service leave liability to the receiving agency. The receiving agency then records a liability for the transferred employee's long service leave. This approach results in substantial additional transactions across Government, with associated reconciliation and cash payment issues, for every employee transfer.

Approach 2 requires each agency to pay the central pool for the annual long service leave cost of each employee. Agencies do not have any long service leave liabilities and no payments are required when employees transfer between agencies. However, this approach also involves some management and reconciliation issues in recording and tracking the individual long service leave liability of all Government employees.

Other jurisdictions are varied in the adoption of Approach 1 or 2. Some that initially adopted Approach 1 have recently moved to the central model outlined in Approach 2. This is largely due to the complications caused by paying for the long service leave liability of employees transferring from one agency to another.

CONTROLLED AND ADMINISTERED ITEMS

Many jurisdictions make a distinction between revenue, expense, asset and liability items that belong to agencies (that is, are controlled by the agencies) and those that the agency manages on behalf of the government (these are known as administered items).

The Territory's accrual output budget framework will probably not segregate these items, principally on the basis that this leads to significant additional recording and reporting for little benefit. This segregation also provides an environment where agencies are only responsible for part of their operations and encourages attempts to move items from the controlled to the administered category.

Recognition of the differences for items that agencies manage on behalf of the Territory can be accommodated through other means. In this regard, Territory revenue will be distinguished and recorded in the Territory Holding Unit. Expenses where agencies have limited control, such as transfer payments, will be recorded as discrete outputs and managed accordingly. Agencies will not hold any assets or liabilities on behalf of the Territory, as these will be centrally held by the Territory Holding Unit.

BUDGET PRESENTATION

The Territory's accrual output budget framework will provide information on:

- outputs to be produced in the financial year;
- performance measures to be used in the monitoring of output delivery;
- Government outcomes to which the agency outputs and output groups contribute;
- price to fund specified outputs and output groups;
- amounts owed by Government to agencies for outputs not fully paid;
- revenue earned by agencies in the form of funding from Government and from their own sources;
- capital programs and sources of funding;
- capital appropriations;
- agency assets and liabilities; and
- net cash requirements.

IMPLEMENTATION

Working for Outcomes is a significant whole of government undertaking that will change the financial and performance management practices of all Government agencies. The key to successful implementation of the *Working for Outcomes* framework is a cooperative effort across all Government agencies.

ROLES

The Government has established an overall project coordination team in Northern Territory Treasury to manage the implementation project and has identified the major roles and responsibilities.

Northern Territory Treasury

Northern Territory Treasury is responsible for the development of *Working for Outcomes*, including the formulation and introduction of an accrual output budget framework, integrated policy models for outputs, performance and accruals, and amendment of the *Financial Management Act*. As part of its whole of government coordination role, Northern Territory Treasury will also develop and provide training to a wide range of staff across all agencies and assist agencies with their implementation processes.

Department of Corporate and Information Services

As the central financial and personnel services provider, the Department of Corporate and Information Services has the primary role of ensuring that accrual accounting requirements under *Working for Outcomes* can be met. This role involves:

- modifying transaction processes and recording arrangements;
- converting the Government Accounting System to an accrual basis;
- establishing accrual-based agency ledgers; and
- ensuring that the Personnel Integrated Payroll System provides information on employee costs required for accrual accounting.

Agencies

The role of each agency is to use the tools available from *Working for Outcomes* within the agency, with a particular focus on outputs and associated performance measures. This role includes amending business processes and decision-making models and, where appropriate, modifying agency financial systems to provide the information to manage better under *Working for Outcomes*.

TIMETABLE

To ensure a smooth transition, *Working for Outcomes* is being implemented using a phased approach over a number of years. There are three implementation phases: Preparation for New Framework, Transition to New Framework and New Framework Operational.

Phase 1: Preparation for New Framework – 2000-01

The 2000-01 financial year marks the preparatory phase of *Working for Outcomes* with an emphasis on planning, reviewing and development functions to determine the changes required. Preparing for the new framework will focus on policy formulation, specification of agency outputs and associated performance measures, consideration of business processes, and examination of financial systems.

During Phase 1, the Territory presents its Budget for 2001-02, incorporating agency outputs, output groups and Government outcomes. This marks the first significant preparation for *Working for Outcomes*.

Phase 2: Transition to New Framework – 2001-02

Following preparation, the 2001-02 financial year will concentrate on the requirements to move to the *Working for Outcomes* framework. The emphasis during Phase 2 will be on further developing, formalising and explaining policies supporting *Working for Outcomes*, as well as on completing the modifications required to business processes, financial systems and management practices.

In Phase 2, as a major part of the transition to *Working for Outcomes*, the Territory's Budget for 2002-03 will be developed and presented using the accrual output budget framework. This Budget will build on the output and outcome information in the 2001-02 Budget and will be formulated applying the *Apex* System (see below).

Phase 3: New Framework Operational - 2002-03

The *Working for Outcomes* framework will formally commence in the 2002-03 financial year. Phase 3 will concentrate on ensuring policies are properly applied in practice and on finalising any unresolved or unanticipated issues. In this Phase, agencies will begin fully utilising output-based management principles, recording transactions on an accrual basis and reporting accrual financial information.

Phase 3 will also mark the first year of managing an accrual output budget. The Territory's 2002-03 Budget, developed in Phase 2, will come into effect in Phase 3 with a focus on monitoring, analysing and recording the progress of actual results against budget projections.

COMMUNICATION AND TRAINING STRATEGIES

A critical factor in the implementation of *Working for Outcomes* is the requirement for a wide range of staff in all agencies to be fully informed about the new framework. Communication and training strategies are being formulated to adequately address communication requirements and to plan for the development and delivery of comprehensive training programs.

Communication

Northern Territory Treasury, in its role as coordinator of the whole of government implementation project, is ensuring that agencies are given the information they need to implement *Working for Outcomes*. The following are the major communication mediums that are currently being utilised in the implementation project.

Intranet Site – a *Working for Outcomes* Intranet site has been created as the primary communication mechanism to assist agencies in understanding the framework and to advise agency project teams on implementation requirements. The Intranet site recorded over 13 000 hits in its first two months of operation.

Project Managers' Forum – each agency has a *Working for Outcomes* project manager with a Project Managers' Forum held regularly to advise implementation requirements and facilitate discussion of issues amongst all project managers.

Bulletins – a series of *Working for Outcomes* information bulletins for agencies has commenced, with five bulletins already published. The bulletins will continue to be published throughout the implementation phases of *Working for Outcomes* and will cover both policy and implementation issues.

Agency Liaison – establishing and maintaining communication with agencies on an individual basis is a significant aspect of the implementation project. In this regard, a series of executive overview presentations have already been provided to agencies and meetings have been held with many agencies to discuss their specific issues.

CEO Newsletter – to ensure that the Chief Executive Officer of each agency is kept informed of major policy and implementation issues, a regular newsletter will be distributed. This newsletter will be supplemented with the usual communication mechanisms to advise CEOs, including letters and Coordination Committee briefings on important issues.

Regional Briefings – the first set of regional briefings was provided at the end of March 2001 to give all the main Territory centres an overview of *Working for Outcomes*. As *Working for Outcomes* will impact on the financial management practices of all agencies across the whole of the Territory, it is important that the changes are explained to agency staff throughout the Territory. Briefings will continue to be provided in the major Territory centres at key stages throughout the implementation project.

Training

To operate under the *Working for Outcomes* framework, the Northern Territory public sector will be required to develop skills in new areas, in particular output based and accrual management. Examples of these new skills include the ability to determine and evaluate performance measures and the ability to analyse and interpret accrual financial statements.

A training strategy is being developed incorporating a needs analysis to determine and meet the needs of a broad range of stakeholders, from Ministers and parliamentarians to Chief Executive Officers and through to agency managers and staff. This training strategy will be supported by a series of detailed training programs that identify training requirements for each stakeholder group, timeframes and delivery methods.

FINANCIAL SYSTEMS

The move to an accrual basis for budgeting, accounting and reporting under *Working for Outcomes* requires that computerised financial systems be capable of capturing and collating accrual financial information. The change in the timing for the recording of transactions will require modifications to a number of existing financial systems, including the Government Accounting System and individual agency financial systems. In addition to existing systems, *Working for Outcomes* will require the support of a centralised budgeting, consolidation and reporting system, and costing systems in agencies to determine the cost of outputs.

Apex System

An important part of *Working for Outcomes* is the implementation of a new budgeting, consolidation and reporting system. The new system, known as *Apex*, is currently being implemented and provides the tools to:

- aggregate and report financial information, including both budget and actual data; and
- enhance budget development and monitoring.

The *Apex* System will be able to record, collate and report on budget and actual financial information as well as output information and performance measures. *Apex* will also have the capacity to link non-financial performance measures, for example, quantity and quality information, with an agency's financial information. The key benefits of being able to record all this information on the one system are:

- both Treasury and agencies will be able to better monitor actual performance against budgeted targets for both financial and non-financial information; and
- the preparation and publication of materials such as Budget Papers, *Treasurer's Annual Financial Reports* and external reports will be greatly enhanced.

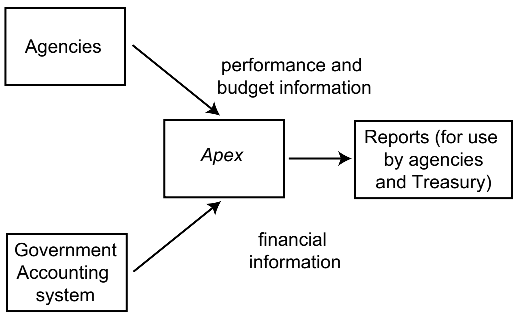
This contrasts with the present situation where Treasury has to maintain a series of databases and spreadsheets which need to be carefully monitored and reconciled. Meeting the range of reporting requirements, including full accrual financial statements for the Australian Bureau of Statistics, has necessitated the creation of multiple database systems. These systems are then provided with cash financial data extracted from the Government Accounting System, and supplemented with additional accrual information gathered through an intensive process of manual data collections from every agency.

The *Apex* System will improve financial reporting processes. The System will collect information in two ways:

- agencies will be able to directly access the System via the Government Intranet and enter budget and performance information online; and
- actual financial information will be uploaded directly from the Government Accounting System.

The collection of information for the *Apex* System is depicted in Figure 8.5. The central collection of both budget and actual information using the *Apex* System will facilitate agency and whole of government financial reporting.

Figure 8.5
SOURCES OF INFORMATION FOR THE APEX SYSTEM



Government Accounting System

The Government Accounting System (GAS) is a commercial accrual based accounting system that has been modified to support the Territory's current cash financial information requirements. At present, government business divisions use GAS to provide information on both an accrual and cash basis. The Department of Corporate and Information Services is presently reviewing GAS and will be undertaking the necessary modifications to ensure that GAS is capable of supporting accrual accounting requirements under *Working for Outcomes*.

Agency Financial Systems

A number of agencies have financial systems to fulfil business needs and record financial information that is passed to GAS. From 2002-03, these systems will need to provide financial information on an accrual basis and, as a result, system modifications may be required. Agencies are aware of this requirement and are presently reviewing their financial systems.

Agency Costing Systems

Outputs will form the basis of agency funding under *Working for Outcomes* and, consequently, information on the cost of producing agency outputs is an essential requirement of the new framework. Costing systems assist financial and performance management by providing information on the cost of inputs and activities undertaken in the delivery of outputs.

In some cases, existing systems already provide costing information and will therefore only require modification to align with new processes. However, for many agencies, taking advantage of costing systems will be a new requirement, and agencies will be giving careful consideration to the selection of systems that match their business profile. The actual costing system used by agencies and the sophistication of the system will vary depending on the particular needs of each agency. For example, an agency responsible for the delivery of services and products (such as Territory Health Services) will require a more sophisticated costing system than an agency without a large service delivery component (for example, the Northern Territory Attorney-General's Department).

CONCLUSION

The implementation of *Working for Outcomes* is a significant undertaking across the whole of the Northern Territory Government. The implementation project is nearing the end of Phase 1, with the focus currently on:

- finalising the accrual output budget framework;
- developing the outputs, performance and accounting policies;
- recommending amendments to the *Financial Management Act* to support the framework;
- converting agency financial information to an accrual basis;
- developing and delivering training programs to provide agencies with the understanding and skills necessary to operate under *Working for Outcomes*;
- testing the *Apex* System and rolling this System out to government business divisions initially and then to all agencies; and
- ensuring that whole of government and agency financial systems are capable of supporting the recording and reporting requirements of *Working for Outcomes*.

Working for Outcomes will introduce a new financial and performance management framework that will improve the information available to manage the Territory's resources and hence provide a basis for enhancing financial management practices. This framework will have as its central focus the services being delivered to the Territory community. This will ensure that decisions of the Government and agencies are directed towards achieving 'value for money' by delivering effective and efficient services that are needed by the community.

NATIONAL COMPETITION POLICY

This chapter briefly summarises the Territory's National Competition Policy (NCP) commitments and reports on recent progress in implementing NCP and related reforms.

The Territory has made significant progress in implementing NCP since its inception in 1995:

- the Territory is in the process of reviewing and, where necessary, reforming legislation that restricts competition;
- competitive neutrality principles have been applied through the establishment and progressive reform of Government Business Divisions; and
- reform of the Territory's water, electricity, gas and road transport industries has proceeded in line with nationally agreed frameworks.

The Territory has recently submitted its 2000 Annual Report on the implementation of NCP to the National Competition Council (NCC). The report documents reform progress against the NCC's Third Tranche Assessment Framework.

BACKGROUND

In April 1995, all Australian governments signed three Intergovernmental Agreements, which together form National Competition Policy: the Competition Principles Agreement, the Conduct Code Agreement and the Agreement to Implement the National Competition Policy and Related Reforms.

The NCP agreements commit the Commonwealth, State and Territory Governments to a range of microeconomic reforms:

- extension of the anti-competitive conduct provisions of the *Trade Practices Act* to all private and public sector businesses (unincorporated businesses were previously exempt);
- review and reform of all laws that restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs and the objectives of the legislation can only be achieved by restricting competition;
- introduction of competitive neutrality to ensure that publicly-owned businesses compete with privately-owned businesses on an equal footing;
- structural reform of public monopolies to facilitate competition;
- implementation of independent prices oversight arrangements for government businesses;
- development of a National Access Regime to enable other businesses to use significant infrastructure facilities that are essential for competition; and
- specific reforms to the gas, electricity, water and road transport industries.

The NCC assesses the progress of State and Territory governments in implementing NCP reforms and makes recommendations to the Commonwealth Treasurer. Satisfactory reform progress is necessary for the receipt of competition payments from the Commonwealth. Non-compliance may lead to a suspension or loss of a proportion of competition payments.

BENEFITS OF NCP

The primary aim of NCP is to promote competition where it will deliver net public benefits. The longer term benefits of effective competition include lower prices and increased choice for consumers, higher economic and employment growth and improved living standards.

The Report of the Productivity Commission Inquiry, *The Impact of Competition Policy Reforms on Rural and Regional Australia*, was released in October 1999. This report is a comprehensive examination of NCP, and provides a strong endorsement of the reform process. A concern raised by the report is that NCP is sometimes incorrectly blamed for the difficulties faced by rural and regional communities. It notes that broader economic and social forces are having a significant impact on regional Australia. Accordingly, the report recommends that measures be implemented to improve the public awareness of NCP.

The Report of the Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy, *Riding the Waves of Change*, was released in February 2000. The report supports the Productivity Commission's finding that, overall, NCP has brought significant economic benefits to the Australian community. However, the report recommends that the NCC, and State and Territory agencies with responsibility for implementing NCP, conduct more extensive public education programs on implementation of NCP across Australia and the related benefits.

The Productivity Commission Report attempted to quantify some of the broader economic benefits of NCP. Longer term gains attributable to NCP for the Territory were estimated to include an additional 3.3% of Gross State Product (approximately $210 million) and a further 600 jobs.

PROGRESS

Since 1995, the Territory has made substantial progress in implementing NCP, including the related reform areas of electricity, gas, water and road transport.

The assessment of NCP reform progress has been undertaken in three 'tranches'.

The Territory has fulfilled all NCP reform commitments for the first and second tranche assessments, except for the adoption of a driver demerit points scheme consistent with the national road transport reform framework.

The NCC released its Third Tranche Assessment Framework on 5 February 2001. The Assessment Framework outlined the approach the NCC will adopt in assessing progress by jurisdictions in implementing third tranche NCP reforms. The NCC's third tranche assessment is to be presented to the Commonwealth Treasurer by 30 June 2001. The third tranche assessment will determine eligibility for third tranche competition payments amounting to over $7 million per annum for the Territory.

In response to the Third Tranche Assessment Framework, the Territory has prepared its 2000 Annual Report on the implementation of NCP. The Annual Report was submitted to the NCC on 1 May 2001.

The report notes that the application of competitive neutrality in the Territory is largely complete and the review of legislation is progressing. In addition, reform of the water, electricity and gas industries has been consistent with nationally agreed frameworks. As discussed later in this chapter, the outstanding road transport reform commitment relating to demerit points is expected to be resolved by the time the NCC finalises its third tranche assessment.

COMPETITIVE NEUTRALITY

In the Territory, competitive neutrality has principally been implemented through the establishment and commercialisation of significant Government-owned businesses, known as Government Business Divisions.

Government Business Divisions adopt commercial accounting and management practices. In addition, Government Business Divisions are required to meet the full cost of resources used (including tax equivalents) and to set efficient prices based on costs.

While not classified as a Government Business Division, the Territory Insurance Office is also subject to the Territory Government's policy statement on competitive neutrality.

Further details of Government Business Division reforms are provided in Chapter 11.

LEGISLATION REVIEWS

The Territory is continuing the process of reviewing anti-competitive provisions in its legislation. In addition, all proposals for new legislation, or amendments to existing legislation, must address NCP issues.

The Territory has made significant progress in meeting its legislation review commitments. As at May 2001, the Territory had reviewed 90 of the total 116 pieces of legislation identified as containing restrictions on competition, and Cabinet had considered and endorsed 72 of these reviews.

The Competition Principles Agreement originally set a deadline of 31 December 2000 for governments to complete their NCP legislation review and reform programs. However, in recognition of the considerable workload involved in meeting legislation review commitments, the Council of Australian Governments extended this timeframe in November 2000. Governments now have until 30 June 2002 to complete legislation review programs.

Legislation review requirements are ongoing, as all jurisdictions are required to review legislative restrictions on competition every ten years.

ELECTRICITY

The Territory is not part of the National Electricity Market and is therefore not subject to any formal electricity reform obligations. However, the Territory has undertaken significant reform of its electricity supply industry arrangements over the past two years. Details on electricity reforms are provided in Chapter 10.

GAS

Gas reform activity has primarily involved the development of legislation to allow third party access to the Territory's gas pipeline network.

The Territory implemented the *Gas Pipelines Access (Northern Territory) Act* and consequential amendments in late 1998.

An application for certification of the Territory gas pipeline access regime was formally submitted to the NCC for consideration during February 2001. The application was delayed by a number of factors. These included the *Wakim* High Court case and a successful request by Envestra Limited to have its natural gas pipelines in Central Australia removed from coverage by third party access arrangements.

On 23 March 2001, the NCC placed advertisements in Territory and national newspapers inviting public comment on the Territory's application. It is expected that the NCC will make a determination on the Territory's access regime in the near future.

WATER

Water industry reforms have centred on the implementation of the Council of Australian Governments' Strategic Framework for Water Reform.

This has involved the institutional separation of service provision, water resource management and regulatory functions, and the introduction of water allocation, licensing and trading arrangements in order to promote the efficient and sustainable use of the Territory's water resources.

These reforms were implemented through amendments to the *Water Act* during 2000 and the introduction of the *Water Supply and Sewerage Services Act* from 1 January 2001. Details of the latter are provided in Chapter 10.

ROAD TRANSPORT

The Territory has almost completed its obligations under the reform package endorsed by the Australian Transport Council as part of the third tranche assessment. The Territory has implemented Australian road rules, enforcement of roadworthiness and heavy vehicle charges, is in the process of implementing combined vehicle standards, and is exempt from the driving hours regulation.

As noted earlier, the Territory has complied with all second tranche road transport reform commitments except for the adoption of a driver demerit points scheme.

The NCC found that the Territory's approach was not consistent with Council of Australian Governments' transport reform obligations and proposed an ongoing suspension of a proportion of the Territory's 2000-01 competition payments. The suspension is to be lifted on the condition that the Territory is granted a Council of Australian Governments-sanctioned exemption from this reform commitment.

FUTURE DEVELOPMENTS

From July 2001, the NCC will be conducting annual assessments of progress with NCP and related reforms. The Territory is eligible for annual competition payments of over $7 million from 2001-02.

The Territory needs to complete the review of, and where necessary reform, 44 pieces of legislation by 30 June 2002. Also, all new legislation and amendments to existing legislation will need to comply with NCC principles. The legislation review process is an ongoing one as all laws that restrict competition need to be reviewed every ten years under the terms of the Competition Principles Agreement.

For future assessments, the NCC will be monitoring the efficacy of the institutional arrangements and regulatory frameworks established under the Territory's *Water Supply and Sewerage Services Act*. The NCC will also continue to assess compliance with competitive neutrality and other commitments under the Competition Principles Agreement.

Chapter 10

REFORM OF ELECTRICITY, WATER SUPPLY AND SEWERAGE SERVICES

The Territory has undertaken significant reform of its electricity, water supply and sewerage service industries over the past two years. This followed completion of a strategic review of the Power and Water Authority (PAWA) in late 1998 (see Chapter 9, *Budget Paper No. 3, 1999-00)*.

Underlying the reforms, the Government has sought to permit competition, where possible, and to strengthen regulation where monopoly remains. The reforms have involved:

- removal of PAWA's monopoly over electricity supply;
- establishment of a regime to permit third parties to access PAWA's monopoly electricity networks;
- introduction of licensing arrangements for suppliers of electricity, water and sewerage services, including requirements to comply with price regulation and defined service and supply conditions;
- transfer of regulatory and policy functions from PAWA; and
- establishment of an independent industry regulator, the Utilities Commission.

Through these reforms, the Government has sought to provide a long-term industry and regulatory framework for the efficient provision of utility services in the Territory. The new framework, together with improvements to the governance arrangements for Government Business Divisions (see Chapter 11, Government Business Divisions Reform), should also enhance PAWA's commercial focus.

This chapter provides an update on progress with the implementation of electricity supply industry reforms. It also details the recent changes to the regulatory arrangements applying to water supply and sewerage services.

BACKGROUND

Reform of the Territory's electricity, water supply and sewerage industries has been implemented in two stages:

- legislation to reform the electricity supply industry and to establish the Utilities Commission was passed in March 2000, enabling competition in the electricity market to commence in April 2000; and
- changes to the legislative arrangements applying to water supply and sewerage services were passed in November 2000, and took effect on 1 January 2001.

Through the combination of these reforms, the Government has sought to provide a long-term industry and regulatory framework for the efficient provision of utility services in the Territory.

The reforms also address two of the Territory's national reform commitments:

- the review of restrictions on competition in Territory legislation under National Competition Policy; and

- the institutional reform requirements of the Council of Australian Governments' Strategic Framework for Water Reform.

Both sets of commitments are linked to the Territory's continued receipt of competition payments from the Commonwealth (see Chapter 9, National Competition Policy).

The following section provides an update on progress with the implementation of electricity supply industry reforms. The subsequent section details the recent changes to the regulatory arrangements applying to water supply and sewerage services.

ELECTRICITY SUPPLY INDUSTRY REFORM

The Government's reforms to the electricity supply industry have involved:

- removal of PAWA's monopoly over electricity supply;
- establishment of a regime to permit third parties to access PAWA's monopoly electricity networks;
- transfer of regulatory and policy functions from PAWA; and
- establishment of an independent industry regulator, the Utilities Commission.

Following passage of the *Electricity Reform Act* and related legislation, the Territory's electricity market was opened to competition on 1 April 2000. Choice of supplier was initially available to customers using at least 4 gigawatt hours a year. The threshold has since been progressively lowered to 2 gigawatt hours a year from 1 April 2001. Under the original timetable, it will be further lowered to 750 megawatt hours a year on 1 April 2002. By then, in terms of electricity sales, around 45% of the market will be open to competition. (Recent developments regarding the contestability timetable are outlined in the following section.)

The use of PAWA's networks by other suppliers is governed by a formal Electricity Networks (Third Party Access) Code and related legislation. To provide certainty for new suppliers and for PAWA, the Government has sought certification of the Access Code as an effective regime under Part IIIA of the *Trade Practices Act*. Certification would establish the Access Code as the sole legal regime for third party access to electricity networks in the Territory. The certification process is close to completion (see the Recent Developments section below).

In relation to the electricity supply industry, the Utilities Commission licenses suppliers, administers the Access Code, and regulates network prices and service standards.

Electricity industry regulatory and policy functions previously performed by PAWA have been transferred to relevant government agencies. For example, licensing functions have been transferred to the Utilities Commission and electrical inspection and safety functions to the Department of Industries and Business. In addition, certain powers previously granted only to PAWA have been extended to other electricity suppliers to enable them to operate effectively.

Further details of the electricity supply industry reforms were provided in Chapter 9, *Budget Paper No. 3, 2000-01*.

RECENT DEVELOPMENTS

During 2000, the Territory Government confirmed that its agencies are subject to the same contestability timetable as other electricity customers. A formal process has been established for agencies to negotiate electricity supply contracts, commencing with the two largest sites: Territory Health Services (Royal Darwin Hospital) and Police, Fire and Emergency Services (Peter McAulay Centre). Similar processes will follow for the other eight Territory Government sites that are currently contestable. The Government expects to achieve significant savings in electricity costs as agencies progressively benefit from the competitive environment.

Following extensive discussions with the National Competition Council (NCC) in relation to certification of the Territory's Access Code, the Government proposed a range of changes to the Code. For the most part, the changes were minor and of a technical nature. The changes included:

- more precisely specifying the services covered by the Code;
- rewording some provisions to ensure consistency with the requirements of the National Competition Policy Agreements;
- removing the provision for penalty charges for excess network usage;
- clarifying aspects of the calculation of the regulated cap on network revenues; and
- revising some time limits specified in the Code.

However, a number of issues were still to be resolved at the time the NCC released its draft recommendation on certification in September 2000. At that stage, the NCC was unable to recommend certification, mainly because:

- the Territory's contestability program did not phase in all customers over a three to five year period; and
- improvements were required to the pricing arrangements for out-of-balance energy (when a generator's transfers of energy into the network do not closely match the demand profile of its customers).

Following further discussions with the NCC, in March 2001, the Government approved additional changes to the Access Code and related arrangements.

In particular, the Government has conditionally agreed to extend contestability to all customers by April 2005, subject to a detailed independent review and public benefit test in 2002.

In addition, the Government proposed further changes to the Access Code to address the NCC's concerns with the arrangements for out-of-balance generation. The changes are designed to:

- improve the efficiency of pricing for out-of-balance energy, by replacing penalty-based charges with prices based on the marginal cost of the generating plant that supplies the energy; and
- make the supply of out-of-balance energy effectively contestable.

The changes to the Access Code are to take effect on 1 July 2001. However, in recognition that it will take some time to finalise the precise details of the new out-of-balance arrangements, their date of effect is to be 1 July 2002. In the interim, to the extent permitted under the existing arrangements, the Utilities Commission is to determine more efficient prices for out-of-balance energy.

Changes are also being made to regulations to ensure the Utilities Commission has the power to enforce ring-fencing requirements. Ring-fencing seeks to ensure that PAWA does not use its monopoly power in non-contestable areas to advantage its contestable businesses.

Another regulation is being implemented to cover ancillary generation services (such as reserve capacity and system frequency support) which are necessary to maintain reliable transmission services.

With PAWA's acquisition of the Darwin-Katherine transmission line in November 2000, the line is to be covered by the Access Code. The Government has requested the NCC to include the line within the Territory's application for certification. Coverage of the line will require an amendment to the *Electricity Networks (Third Party Access) Act*.

In its update on the certification process on 30 March 2001, the NCC stated its preliminary view that the amendments proposed by the Government would meet the requirements for certification. However, the NCC has sought comments from interested parties. It has also made clear that any changes to the contestability timetable resulting from the proposed public benefit review would equate to amendments to the access regime, negating certification and requiring a recertification process.

In relation to timing, the NCC has indicated that it would require all amendments to the Access Code and related legislation to be in effect before it would finalise its recommendation on certification. A final recommendation is therefore unlikely before July-August 2001.

REFORM OF WATER SUPPLY AND SEWERAGE SERVICES

Changes to the regulatory arrangements applying to water supply and sewerage services in the Territory took effect on 1 January 2001. This followed repeal of the *Water Supply and Sewerage Act 1983* and its replacement by the new *Water Supply and Sewerage Services Act 2000*.

The new Act establishes the framework necessary to ensure appropriate regulation of the monopoly provision of water supply and sewerage services and to separate regulatory functions from service provision.

THE BROAD FRAMEWORK

The new Act is essentially an amalgam of relevant provisions of the *Electricity Reform Act* – suitably modified for the water supply and sewerage service industries – and the previous *Water Supply and Sewerage Act*.

The key elements of the new arrangements involve:

- retention of the single-supplier model for provision of water supply and sewerage services in defined geographical areas in the Territory;
- introduction of a requirement for the single supplier of water and sewerage services within an area to hold a licence to operate issued by the Utilities Commission;
- transfer of regulatory functions, including price regulation, relating to water and sewerage services from PAWA and the Minister for Essential Services to the Minister responsible for the Utilities Commission (the Regulatory Minister);
- establishment of a requirement for a licensed supplier of water and sewerage services to comply with service and supply conditions approved by the Regulatory Minister; and
- in future, the adoption by the Regulatory Minister of procedures for regulating the prices of water and sewerage services provided by PAWA broadly equivalent to those already in operation with respect to non-contestable electricity customers (under the *Electricity Reform Act*).

RETENTION OF THE SINGLE-SUPPLIER MODEL

A National Competition Policy review of the previous legislation concluded that there would be an overall public benefit from the retention of restrictions on competition in the supply of water and sewerage services.

The natural monopoly characteristics and economies of scale of these industries mean that it is not realistic to expect competitive provision of most water and sewerage services. Importantly, there was no evidence that these restrictions were creating adverse impacts on the Territory economy.

Most parties consulted during the review supported the single-provider model. None of the alternatives identified provided a realistic approach that would be equally effective in achieving the objectives of the legislation.

The new legislation, however, better defines the limits of PAWA's monopoly role. In addition, the obligations on PAWA as the monopoly service provider to most customers in the Territory have been strengthened, in order to offset its monopoly power. For example, the legislation requires PAWA to develop customer contracts to make the rights and responsibilities of customers transparent.

LICENCES TO SUPPLY

The new arrangements require suppliers of water and sewerage services to be licensed. Under transitional provisions, existing suppliers have 12 months to obtain a licence (or an exemption from the licensing requirement).

Licences are issued by the Utilities Commission for defined geographical areas in the Territory. A licence gives the supplier – generally PAWA – the powers necessary, for example, to construct new infrastructure and to levy charges in the relevant area.

The Utilities Commission may only grant one water supply licence in any water supply licence area. Similarly, it may only grant one sewerage services licence in any sewerage services licence area.

PAWA is to be licensed to deliver water supply and sewerage services within areas – including Aboriginal communities – it currently services or could service in the foreseeable future.

Similar to the arrangements applying to electricity supply, a flexible 'light-handed' approach is to be adopted to licensing requirements in areas currently serviced by providers other than PAWA, such as those serviced by mining companies. The Utilities Commission, with the approval of the Regulatory Minister, is also able to grant full or partial exemptions from licensing requirements.

Licensing is designed to ensure a focus on and commitment to customers. Licensees are obliged to publish customer contracts setting out the rights and responsibilities of customers and provide transparent mechanisms for customers to raise complaints and for the resolution of disputes.

Parties who are dissatisfied with a decision of the Utilities Commission in relation to licensing can have that decision reviewed, initially by the Commission.

Penalties apply for contravention of licence conditions. A significant contravention will render the licensee liable to a maximum penalty of $250 000 and to the possible suspension or cancellation of its licence.

REGULATION OF SERVICE STANDARDS

Licences also specify the performance standards which licensees are required to meet. The standards included in licences are subject to approval by the Regulatory Minister.

Initially, licence conditions are to include the requirement that the quality and reliability of supply must be maintained at least equal to current standards, or as provided for in specific contracts.

Over time, the Utilities Commission is to recommend to the Regulatory Minister where improved service standards would be appropriate. These standards are to be developed through a transparent process, in consultation with industry and consumer representatives. Any changes are to take into account the trade-off between cost and service quality, and the willingness of consumers to pay.

Responsibility for overall monitoring of compliance with the service standards required under a licence rests with the Utilities Commission. However, other agencies have responsibility for overseeing specific outputs. For example, the Department of Lands, Planning and Environment continues to regulate water abstraction and effluent discharge.

While the Utilities Commission is responsible for monitoring, the licensee is responsible for publishing information on actual performance against service standards included in the licence and against the supplier's customer charter. The adequacy of that compliance may be further assessed through the use of operational audits.

The Utilities Commission is also responsible for enforcing penalties for failure to meet licence conditions.

PRICE REGULATION

Under the *Water Supply and Sewerage Services Act*, the Regulatory Minister is responsible for prices oversight of water supply and sewerage services in the Territory.

As is the case in the non-contestable segment of the electricity market, price control for water and sewerage services is to be achieved by the Regulatory Minister periodically issuing a pricing order. The pricing order can specify:

- tariffs and future price paths to apply to final consumers; and
- the methodologies for determining certain charges where it would not be appropriate to assess the individual charges themselves, such as for developer and trade waste charges.

Licensees have the authority to charge customers in line with these terms.

The role of the Utilities Commission in this area is an advisory one. The Commission can also provide assessments on matters such as:

- ensuring that PAWA has correctly implemented the pricing determination; and
- the costing of Community Service Obligations.

The Government's commitment to uniform tariffs across the Territory is to be made binding through the licence conditions.

OTHER ISSUES

Responsibility for other regulatory-type functions previously assigned to PAWA has been transferred to appropriate agencies. The relevant sections of the repealed Act that reflect the previous transfer of the regulation of plumbing standards – from PAWA to the Department of Lands, Planning and Environment – have been retained for the time being. The Department is currently considering transferring the regulation of plumbing standards to the *Building Act*, at which time these provisions would be repealed.

The *Water Supply and Sewerage Services Act* retains a range of other provisions from the previous Act. However, where necessary, these have been reworked to apply generically to licensees rather than specifically to PAWA. For example, the new Act provides powers to licensees to carry out certain works and to enter a property to read meters or disconnect services.

Similarly, the new Act retains offences, such as tampering with the property of a licensee, connections that have not been approved and building over infrastructure.

Regulation of the discharge of trade waste into the sewerage system has been improved. The previous arrangements required formal gazetting of each trade and left PAWA with the discretion as to whether, and on what terms, to accept the waste. Under the new arrangements, a more generic approach has been adopted. Licence conditions are to include an obligation to accept trade waste that complies with pre-determined guidelines. Any controls are to be administered in a flexible way that takes account of the risks involved.

Licensees are also obliged to develop asset management plans. The plans are required to demonstrate that outcomes will be delivered which appropriately balance performance and investment in the medium and longer term. The Utilities Commission will monitor compliance with this requirement and report to the Regulatory Minister.

CONCLUSION

The reforms to the Territory's electricity, water supply and sewerage service industries represent the culmination of a substantial program of work that commenced with the strategic review of PAWA in 1998.

Together, these reforms provide a long-term framework for improvements in PAWA's efficiency and for the effective delivery of affordable utility services to Territorians.

GOVERNMENT BUSINESS DIVISION REFORM

The Northern Territory's government businesses included in the NT Budget Sector have been established as Government Business Divisions (GBDs).

Improvements have been pursued in the commercial orientation and efficiency of operation of GBDs since the mid 1990s. The objectives have been to reduce Government and business costs and to free up Government resources for other expenditure priorities.

The first stage of GBD reform focused on setting efficient prices as the basis of full cost recovery and generally establishing more appropriate commercial accounting and management structures.

Further reforms were implemented in the lead-up to the 1999-00 Budget in four areas: community service obligations (CSOs), dividend policy and capital structures, performance monitoring, and the budget treatment of GBDs.

During 2001-02, the budget treatment of GBDs will be further developed. This will involve the preparation of detailed accrual-based budgets and the provision of new performance-based monitoring arrangements. In addition, a Shareholder Model of corporate governance is being developed. It is proposed that the model will apply, on a case-by-case basis, to major government businesses that trade in the marketplace.

There are also important taxation changes affecting GBDs, including commencement of a National Tax Equivalents Regime for income tax.

This chapter briefly outlines the new reforms and reports on progress with implementation of earlier stages of reform.

BACKGROUND

In April 1995, the Territory Government commenced reform of its commercial activities. The key change was the establishment of GBDs under the *Financial Management Act*. GBDs are required to pay the full cost of resources used (including tax equivalents), set efficient prices based on costs, and operate under appropriate commercial accounting and management structures.

In the lead-up to the 1999-00 Budget, the Government adopted a range of changes to GBD policies. The aim was to create a better framework for GBDs to encourage greater commercial focus, improve management practices, and generate additional efficiency and productivity gains.

In particular, the Government has endorsed formal statements of policy on community service obligations (CSOs), dividends and performance monitoring. Changes were also made to the budget treatment of GBDs and a review of appropriate capital structures for GBDs was foreshadowed. The changes were explained in detail in Chapter 8, *Budget Paper No. 3, 1999-00* and the revised GBD policy statements were included as an appendix.

NEW REFORMS

BUDGET AND FINANCIAL MANAGEMENT REFORMS

An essential element of the recent GBD reforms is the differential treatment of GBDs in the budget to better reflect their commercial nature and operations. The budget treatment of GBDs was refined for the 1999-00 Budget with greater emphasis on the financial performance, key outcomes and outputs of their business units.

During 2000-01, GBDs have, in consultation with Treasury, developed their budgets on an accrual basis. Accrual-based financial statements are included in *Budget Paper No. 2*. The accrual information has been prepared to support the GBDs' total approved Budget Allocation, to ensure accurate information during the changeover period from cash to accrual-based budgeting.

The creation of accrual-budgeted financial statements, in conjunction with appropriate performance measures, has provided the basis upon which the GBDs will be monitored from 2001-02 onwards. It also establishes a model that will be the basis for changes to whole of government financial management practices from 2002-03 as part of *Working For Outcomes*. Variations to GBD budgets will be reviewed on an accrual basis, to better reflect the commercial operations of the GBDs.

The existing GBD performance monitoring regime is being revised in light of these reforms. Current arrangements centre on an annual performance report prepared by Northern Territory Treasury. The regime includes a range of economic and financial performance measures, such as return on equity. It also includes GBD-specific non-financial measures such as productivity and service quality.

In future years, it is anticipated that annual monitoring will be supplemented by an increased focus on quarterly reporting and assessment of performance against agreed targets.

SHAREHOLDER MODEL

Widely adopted elsewhere in Australia and overseas, the Shareholder Model of corporate governance offers the potential for further improvement in the performance of government businesses. The model replicates, as far as possible, the disciplines that apply to private sector businesses, for example, a board of directors that exercises corporate control and which reports to shareholders. The model also applies accountability arrangements suited to off-budget Government Owned Corporations (GOC) rather than those that are appropriate for budget-dependent agencies.

Because there are costs in applying the Shareholder Model, the full approach is best suited to the larger and more commercially-oriented government businesses, particularly those that trade in the marketplace, such as the Power and Water Authority.

A Shareholder Model, for application on a case-by-case basis to the larger Territory Government businesses, is currently being developed. The main elements of the framework are based on the arrangements applying interstate and are outlined below.

GOC Legislation

GOCs are usually governed by generic GOC legislation. The legislation is intended to provide a governance framework for major government businesses that is conducive to improved performance over time, including an appropriate set of accountability arrangements. Consistent with this, the principal objectives of a GOC are to operate at least as efficiently as any comparable business and to maximise the sustainable return to the Government on its investment in the corporation. GOCs are usually established as statutory corporations and are outside the scope of legislation such as the *Financial Management Act*.

Shareholding and Portfolio Ministers

Under the GOC framework, the Shareholding Minister has separate and distinct powers from the Portfolio Minister. The Shareholding Minister holds shares in the corporation on behalf of the Government and administers the GOC legislation. By contrast, the Portfolio Minister administers the corporation's own legislation and is responsible for industry-wide policy matters such as service quality.

Board of Directors

GOCs have a commercial board of directors. The board is accountable to the Shareholding Minister for the financial performance of the corporation and to the Portfolio Minister in respect of non-financial matters. Directors are appointed with regard to the expertise necessary for the corporation to achieve its objectives. The chief executive officer (CEO) is responsible to the board. This contrasts with arrangements under the *Financial Management Act*, where the CEO has direct accountability to Government and there is no provision for board accountability.

Accountability

The main instrument for accountability under the GOC framework is a Statement of Corporate Intent. This replaces the accountability mechanisms for budget sector agencies (such as under the *Financial Management Act)*.

Usually covering a three-year period, the Statement of Corporate Intent is an annually negotiated performance agreement between the Shareholding Minister and the board of the corporation. It sets out what the shareholder may expect in terms of performance, particularly financial performance, any material risks faced by the corporation, and the corporation's business strategies to minimise the risks and achieve financial targets. Where a GOC has separate lines of business, a supplement to the Statement of Corporate Intent provides appropriately disaggregated information. The statement also includes the capital investment program for the GOC.

The framework also provides for quarterly and annual reports against the Statement of Corporate Intent objectives and performance targets. These are provided to the Shareholding Minister and the Portfolio Minister.

The Statement of Corporate Intent is generally tabled in Parliament, with any commercially confidential information excluded. A report on performance is also tabled following the end of the financial period.

Budget scrutiny of GOCs is limited to the CSOs paid to GOCs and the dividends received from GOCs. All taxes, rates and charges that apply to private sector firms generally also apply to GOCs.

TAXATION

Currently, the income of GBDs is exempt from income tax under Commonwealth income tax laws. However, the Territory imposes an income tax equivalents regime on GBDs in order to ensure competitive neutrality in respect of the private sector.

From 1 July 2001, a National Tax Equivalents Regime (NTER) for income tax for government businesses will be introduced. The NTER will largely replace the current tax equivalents regime. It will apply to the TIO, Power and Water Authority and Darwin Port Corporation, with extension subsequently to other GBDs as appropriate. The Australian Taxation Office will administer the regime on behalf of the States and Territories.

From 2001-02, the Power and Water Authority and the Darwin Port Corporation will pay the equivalent of their local government rates liability into consolidated revenue. Both organisations have previously been exempt from paying rates. An amendment to the existing Territory tax equivalents regime will enable the application of a local government rates equivalents regime.

The exemption of GBDs from stamp duty is also being removed.

EXISTING REFORMS

COMMUNITY SERVICE OBLIGATIONS

CSOs arise when the Government specifically requires a GBD to carry out an activity which it would not elect to do on a commercial basis or would only undertake commercially at higher prices. CSOs are undertaken to achieve identifiable community or social objectives.

The identification and budget funding of CSOs has two important benefits:

- first, it enables the GBD to manage its commercial activities without having to cross subsidise its non-commercial activities. The development of a commercial culture within GBDs is fundamental to an improvement in their operating efficiency; and
- second, it provides for an annual review of those activities funded as CSOs.

The policy framework for CSOs covers costing and measurement, the approval process, the purchaser-provider framework and accountability mechanisms for their delivery.

Table 11.1 presents information on CSOs paid by the Government for 2000-01 and budgeted CSOs for 2001-02.

DIVIDENDS

The Territory Government provides equity capital to its GBDs. As sole owner, the Government may decide to receive profits earned by a GBD as a dividend payment or permit the GBD to retain the funds as additional equity capital. In the latter case, the returns accrue to the Government as capital gains.

Under the *Financial Management Act*, the Treasurer may determine that a GBD is to pay a dividend, if the Treasurer is satisfied that the GBD has the resources to do so.

Table 11.1
COMMUNITY SERVICE OBLIGATIONS

PURCHASER/Provider/Description	2000-01 Estimate	2001-02 Budget
	$000	$000
NORTHERN TERRITORY TREASURY	**56 839**	**54 107**
Power and Water Authority		
Uniform Tariffs	21 504	20 374
Aboriginal Essential Services	35 335	33 733
NORTHERN TERRITORY TOURIST COMMISSION	**970**	**982**
Darwin Port Corporation		
Cruise Ship Support	191	191
Territory Discoveries		
Tourism Marketing	779	791
TERRITORY HEALTH SERVICES	**3 692**	**3 793**
Power and Water Authority		
Pensioner Concession Scheme – Electricity	3 017	3 099
Pensioner Concession Scheme – Water	470	483
Pensioner Concession Scheme – Sewerage	205	211
DEPARTMENT OF TRANSPORT AND WORKS	**7 574**	**6 695**
Darwin Port Corporation		
Marine Industry Support	1 087	827
Wharf Precinct	2 212	1 953
East Arm Port Debt Servicing	n/a	n/a
East Arm Port Capital and Operating Costs	3 405	3 162
Fort Hill Wharf Cathodic Protection System	320	n/a
NT Fleet		
Disposals	468	468
Loans of Vehicles and Plant Equipment	82	82
TERRITORY HOUSING	**17 297**	**17 026**
Territory Housing: Business Services		
Rent Subsidies	12 951	13 644
Low Interest Home Loans	2 423	1 444
Early Start – Deposit Assistance Scheme	790	790
Fringe Benefits Tax (FBT) on Employee Loans	140	140
Assist, Interest Subsidy	170	170
Stamp Duty Differential	250	250
Police Rent Forgone	573	588
PARKS AND WILDLIFE COMMISSION	**8 219**	**8 508**
Territory Wildlife Parks		
Territory Wildlife Park – Tourism	3 399	3 595
Territory Wildlife Park – Threatened Species	481	475
Territory Wildlife Park – Education	115	118
Alice Springs Desert Park – Tourism	3 098	3 178
Alice Springs Desert Park – Threatened Species	220	222
Alice Springs Desert Park – Education	273	277
Alice Springs Desert Park – Botanic Gardens	633	643
DEPARTMENT OF CORPORATE AND INFORMATION SERVICES: GENERAL SERVICES	**23**	**n/a**
Information Technology Management Services		
Disposals	23	n/a
Total	**94 614**	**91 111**

A commercial approach for the determination of dividends is specified under the formal dividend policy statement for GBDs. Dividend payments made by a GBD are determined independently from CSO funding received by the GBD.

Dividends are based on a benchmark of 50% of after-tax profit, but with scope for a higher or lower figure depending on the specific circumstances of each GBD. In certain circumstances, there is a provision for the payment of a special dividend out of retained profits or as a return of equity.

Dividend payments by GBDs in 1999-00 and 2000-01, and those budgeted to be paid in 2001-02, are reported in Table 11.2.

Table 11.2
DIVIDEND PAYMENTS (a)

	1999-00	2000-01	2001-02 Budget
	$000	$000	$000
Construction Agency	0	840	350
Darwin Bus Service	213	108	55
Darwin Port Corporation	0	0	1 298
Government Printing Office	179	59	51
Information Technology Management Services	235	706	126
NT Fleet	0	2 209	1 712
Territory Housing: Business Services	0	2 971	4 062
Power and Water Authority	12 625	23 134	13 702
Territory Discoveries (b)	n/a	0	0
Territory Wildlife Parks	0	0	0
Total	**13 252**	**30 027**	**21 356**

Note: (a) Dividends are reported for the year in which they are paid. The dividend paid is based on the profit made in the previous financial year.
(b) Territory Discoveries was established as a Government Business Division on 1 July 1999. Consequently, there is no comparative figure for 1999-00.

To complement the improved dividend arrangements, more commercially oriented capital (debt/equity) structures are being progressively introduced for GBDs. Capital structures for GBDs are determined using the common commercial concept of interest cover to estimate the appropriate level of debt that should be held.

Changes to the debt levels of GBDs as a result of capital restructuring have no impact on the Government's overall debt position. Any change in GBD debt levels is fully offset by an equivalent change in general Government debt.

Changes to the capital structures for the Darwin Port Corporation and Territory Housing: Business Services were implemented during 1999-00. The Power and Water Authority's capital structure is currently being reviewed.

CONCLUSION

Improving the efficiency of GBDs has the overall objective of reducing costs to consumers and freeing up Government resources for other expenditure priorities.

The transition to accrual-based budgeting and performance-based monitoring arrangements, combined with the proposed adoption of the Shareholder Model for major GBDs, will encourage greater commercial focus, enhanced accountability and improved performance by Government businesses.

A key policy focus for the future will be to combine aspects of the Shareholder Model with the existing policy framework for GBDs, in order to foster further improvement in the performance of all GBDs.

ALTERNATE BUDGET PRESENTATIONS

There are multiple users of Budget material, including the Members of the Legislative Assembly, the Northern Territory Government, the community, other jurisdictions and external analysts. The Territory also has statutory and national reporting obligations that need to be observed.

This chapter discusses various budget presentations. The presentations are based on two scopes: the Northern Territory Budget Sector and the nationally agreed Uniform Presentation Framework (UPF). Differences between the various scopes, formats and treatment of different items between the presentation frameworks and information supplied to the Australian Bureau of Statistics (ABS) are also explained.

Changes to public sector reporting frameworks are also addressed, followed by a discussion of the implications of these changes on the Territory's reporting requirements.

PRESENTATION AND SCOPE OF FINANCIAL DATA

The Territory's *Budget Papers* include two presentations for recording and classifying Northern Territory Budget Sector financial data: Gross Outlays and Receipts and the Economic Transaction Framework. These presentations include the outlays and receipts included in the Territory's Budget. The UPF is also provided in this chapter, consistent with the Territory's national reporting requirements.

Since 1988-89, the Territory's *Budget Papers* have presented budget information in a form consistent with the system of Government Finance Statistics (GFS) as specified by the ABS. For consistency of reporting and comparability between jurisdictions, it was agreed at the 1991 Premiers' Conference that all jurisdictions should publish certain budget and financial information on a uniform basis. In 1995, the agreed presentations were enhanced and incorporated in the UPF, which was further refined in 1997.

The UPF was redeveloped during 1999 to incorporate accrual-based financial information, reflecting the progressive development of accrual budgeting and reporting in many jurisdictions. The new Accrual UPF is scheduled to be adopted in all jurisdictions by the 2002-03 budget year.

NORTHERN TERRITORY BUDGET SCOPE

Northern Territory Budget Sector data comprises all General Government Agencies and Government Business Divisions as determined under the *Financial Management Act*. Data is presented in two formats:

- Gross Outlays and Receipts or gross presentation, which includes all transactions between agencies and is the basis on which appropriations are determined (Figure 12.1) and;
- Economic Transaction Framework or the net presentation in which particular transactions between and within the sectors are eliminated (Figure 12.2). The net presentation more accurately identifies the impact of the Territory's Budget on the economy.

Figures 12.3 and 12.4 track the movements from Gross Outlays and Receipts to the Economic Transactions Framework. There are two steps in this process:

- moving from a gross presentation to the 'net budget' format using the gross presentation layout (Figure 12.3); and
- moving from the interim 'net budget' format (Figure 12.3) to the Budget Sector Economic Transactions Framework (Figure 12.4).

The adjustments incorporated in Figure 12.3 are:

- Reclassification of Transactions – elements of expenditure are reclassified between personnel costs, capital expenditure and grants and subsidies;
- Intrasector Transactions – transfers within the General Government sector are removed from both expenditure and receipts (pay-roll tax, superannuation, intrasector operational costs, grants and subsidies, and all Consolidated Revenue Account and Operating Account intrasector receipts); and
- Government Business Division Surplus – personnel and operational costs, charges and miscellaneous receipts are netted out for Business Divisions so that only their net impact on the Budget is recorded as their net operating surplus.

The steps in Figure 12.4 are primarily reclassifications, namely:

- disaggregation of expenditures into current and capital components;
- reduction of expenditure by charges, recoveries and secondhand asset sales so that only the net impact on the Budget is recorded; and
- treatment of borrowings and net advances as financing transactions.

CHANGES IN BUDGET SCOPE FROM PREVIOUS YEARS

Past years have seen significant changes in the scope of the Budget Sector with entities moving 'off Budget'. However, there are no changes in Budget Sector scope in 2001-02 from the previous year.

Notwithstanding this, there is the possibility that the Power and Water Authority could move off Budget during the Budget year if the proposed Government Owned Corporations legislation is enacted. More information on this is provided in Chapter 11 of this Budget Paper.

CHANGES IN TREATMENT FROM PREVIOUS YEARS

Although there have been no changes in Budget Sector scope, there have been treatment changes within the Budget Sector presentations in 2001-02 from the previous year.

A material change has been to 'gross up' the transactions in Northern Territory Treasury Corporation. Previously, interest earned on investments of cash balances were recorded as the difference between total earnings and the amount attributable and paid to GBDs. Now, total interest earned shows as a receipt and the interest paid to GBDs shows as an interest expense. This treatment is likely to change in future to ensure the total interest paid only reflects interest paid on borrowings from outside the public sector.

The other material treatment change has been to transfer dividend payments and receipts, that previously netted off within intrasector receipts, to operational costs within GBDs and property income into the Consolidated Revenue Account. This treatment has the effect of 'grossing up' expenditure and revenue.

Figure 12.1

NORTHERN TERRITORY PUBLIC SECTOR

GROSS OUTLAYS AND RECEIPTS

	Budget Sector	
	2000-01 Estimate	2001-02 Budget
	$M	$M
OUTLAYS BY ACCOUNT	**3 568**	**3 185**
General Agency Operating Accounts	2 860	2 522
Business Division Operating Accounts	708	663
OUTLAYS BY CATEGORY OF COST	**3 568**	**3 185**
Personnel Costs	994	1 001
Operational Costs	927	892
Capital Expenditure	310	272
Grants and Subsidies	649	489
Interest	366	387
Advances	323	120
Advance to the Treasurer		24
RECEIPTS BY ACCOUNT	**3 741**	**3 272**
Consolidated Revenue Account	2 023	1 893
General Agency Operating Accounts	1 027	705
Business Divisions Operating Accounts	691	674
RECEIPTS BY SOURCE	**3 741**	**3 272**
Taxes	227	218
Fees and Charges	612	600
Miscellaneous Receipts	12	26
Sale of Land	5	10
Capital Receipts	370	97
Property Income	57	51
Interest Received	36	30
Advances Received	179	125
GST Revenue	1 285	1 387
Commonwealth Revenue Replacement Payments	8	
Other Commonwealth Grants	310	305
Territory Borrowing	244	62
Intrasector Receipts	397	361
USE OF BALANCE (a)	**- 172**	**- 87**
Consolidated Revenue Account	- 54	- 26
General Agency Operating Accounts	- 135	- 49
Business Division Operating Accounts	17	- 11
(a) OPENING BALANCE	**236**	**409**
Consolidated Revenue Account	39	93
General Agency Operating Accounts	98	234
Business Division Operating Accounts	100	82
less CLOSING BALANCE	**409**	**496**
Consolidated Revenue Account	93	119
General Agency Operating Accounts	234	283
Business Division Operating Accounts	82	94

Note: Totals may not add due to rounding

Figure 12.2

NORTHERN TERRITORY PUBLIC SECTOR

ECONOMIC TRANSACTIONS

	Budget Sector	
	2000-01 Estimate	2001-02 Budget
	$M	$M
CURRENT EXPENDITURE	**1 873**	**1 892**
Final Consumption Expenditure	1 279	1 302
Current Grants and Subsidies	412	402
Interest Paid	182	188
CAPITAL EXPENDITURE	**129**	**219**
New Fixed Assets	237	244
Capital Grants	188	47
Other Net Expenditure	- 296	- 73
less		
TERRITORY REVENUE	**400**	**408**
Taxes	227	218
Property Income	57	51
Interest Received	36	30
Surplus of Business Divisions	71	84
Other Revenue	9	24
COMMONWEALTH GRANTS	**1 603**	**1 691**
GST Revenue	1 285	1 387
Other Grants	318	305
equals		
INCREASE IN TERRITORY DEBT	**190**	**47**
Territory Borrowing	244	62
Commonwealth Advances	- 54	- 15
DECREASE IN FINANCIAL ASSETS	**- 191**	**- 35**
Net Territory Advances Repaid	- 19	51
Use of Balances	- 172	- 87
CHANGE IN NET DEBT	**- 1**	**12**

Note: Totals may not add due to rounding

Figure 12.3

NORTHERN TERRITORY PUBLIC SECTOR

TRANSFERRING GROSS OUTLAYS AND RECEIPTS TO 'NET BUDGET' FORMAT

GROSS OUTLAYS AND RECEIPTS	2001-02 Budget	Reclassification Transactions		Intrasector Transactions	GBD Surplus	2001-02 Net Budget
	$M	$M		$M	$M	$M
OUTLAYS BY CATEGORY OF COST	**3 185**			**- 361**	**- 447**	**2 377**
Personnel Costs	1 001	- 12	(a)	- 80	- 87	822
Operational Costs	892			- 4	- 360	528
Capital Expenditure	272	53	(b)			325
Grants and Subsidies	489	- 41	(c)	- 47		402
Interest	387			- 199		188
Advances	120			- 31		89
Advance to the Treasurer	24					24
RECEIPTS BY SOURCE	**3 272**			**- 361**	**- 447**	**2 464**
Taxes	218					218
Fees and Charges	600				- 528	72
Miscellaneous Receipts	26				- 2	24
Sale of Land	10					10
Capital Receipts	97					97
Property Income	51					51
Interest Received	30					30
Advances Received	125					125
GST Revenue	1 387					1 387
Other Commonwealth Grants	305					305
Territory Borrowing	62					62
Intrasector Receipts	361			- 361		
Surplus of Business Divisions (d)					84	84
USE OF BALANCE	**- 87**					**- 87**
Consolidated Revenue Account	- 26					- 26
General Agency Operating Accounts	- 49					- 49
Business Division Operating Accounts	- 11					- 11

Note: Totals may not add due to rounding

(a) Salaries for own construction reclassified as Capital Expenditure and General Government Fringe Benefits Tax reclassified as grants and subsidies

(b) Capital Grants, Capital Community Service Obligation and Salaries for own construction are included as Capital Expenditure

(c) General Government Fringe Benefits Tax is added and Capital Grants and Capital Community Service Obligation are transferred to Capital Expenditure

(d) Not a category in the 'Gross Presentation', though included here to reflect the net impact of removing Government Business Division revenue and expenditure

Figure 12.4

NORTHERN TERRITORY PUBLIC SECTOR

MOVEMENTS FROM 'NET BUDGET' TO ECONOMIC TRANSACTION FRAMEWORK

GROSS OUTLAYS AND RECEIPTS	2001-02 Net Budget			ECONOMIC TRANSACTIONS	2001-02 Budget
	$M				$M
OUTLAYS BY CATEGORY OF COST	**2 377**			**CURRENT EXPENDITURE**	**1 892**
Personnel Costs	822	(a)	(a)	Final Consumption Expenditure	1 302
Operational Costs	528	(a)	(c)	Current Grants and Subsidies	402
Capital Expenditure	325	(b)	(d)	Interest Paid	188
Grants and Subsidies	402	(c)			
Interest	188	(d)	(b)	**CAPITAL EXPENDITURE**	**219**
Advances	89	(e)		New Fixed Assets	244
Advance to the Treasurer	24	(a)		Capital Grants	47
				Other Net Expenditure	- 73
				less	
RECEIPTS BY SOURCE	**2 464**			**TERRITORY REVENUE**	**408**
Taxes	218	(f)	(f)	Taxes	218
Fees and Charges	72	(a)	(h)	Property Income	51
Miscellaneous Receipts	24	(g)	(i)	Interest Received	30
Sale of Land	10	(b)	(m)	Surplus of Business Divisions	84
Capital Receipts	97	(b)	(g)	Other Revenue	24
Property Income	51	(h)			
Interest Received	30	(i)			
Advances Received	125	(e)		**COMMONWEALTH GRANTS**	**1 691**
GST Revenue	1 387	(j)	(j)	GST Revenue	1 387
Other Commonwealth Grants	305	(k)	(k)	Other Commonwealth Grants	305
Territory Borrowing	62	(l)			
Surplus of Business Divisions	84	(m)		equals	
				INCREASE IN TERRITORY DEBT	**47**
			(l)	Territory Borrowing	62
USE OF BALANCE	**- 87**	(n)	(e)	Commonwealth Advances	- 15
Consolidated Revenue Account	- 26				
General Agency Operating Accounts	- 49			**DECREASE IN FINANCIAL ASSETS**	**- 35**
Business Division Operating Accounts	- 11		(e)	Net Territory Advances Repaid (*)	51
			(n)	Use of Balances	- 87

Note: Totals may not add due to rounding
The gross outlays and receipts components are incorporated in the economics transactions format in accordance with the corresponding letter
(*) Net of advances (excluding Commonwealth advances of $15 million) and advances received

UNIFORM PRESENTATION FRAMEWORK

Under the UPF, jurisdictions have agreed to publish particular information in an agreed format in their Budget Papers. The UPF agreed in March 1997 has been expanded to include data on an economic transactions basis for five sectors: General Government, Public Non-Financial Corporations (PNFC), Public Financial Corporations (PFC), and aggregates for the Total Non-Financial Public Sector and the Total Public Sector. Also included are:

- three years of forward estimates for the General Government sector;
- outlays dissected by Government Purpose Classification (GPC);
- details of taxes collected; and
- Loan Council Allocation for the current financial year and the forthcoming budget year.

Under the Uniform Presentation Agreement, those jurisdictions with early budgets (pre-June) are not required to publish information relating to Public Financial Corporations and the Total Public Sector as part of their budget reporting. However, for completeness, economic transactions for these sectors are included in Figures 12.8 and 12.9.

In previous years, the Territory's Public Financial Corporations sector has included the commercially-orientated activities of the Northern Territory Treasury Corporation (NTTC). The remainder of NTTC operations were classified as General Government. This treatment was reviewed in consultation with the Australian Bureau of Statistics during preparation of the 2000-01 Government Financial Estimates. Given that all financing transactions are appropriately reflected in their sectors, irrespective of the treatment of NTTC and that no other jurisdiction segregates its central borrowing authority, it was determined that NTTC should be treated wholly as a Public Financial Corporation.

Because NTTC is part of the Budget Scope, it is included in the Budget UPF presentation as a Public Financial Corporation even though its inclusion is not strictly required under UPF rules.

The financial data presented in Figures 12.5 to 12.14 meet the Territory's national UPF reporting requirements.

COMPARISONS BETWEEN BUDGET AND UNIFORM PRESENTATION

RECLASSIFICATION OF TRANSACTIONS

The UPF is similar, but not identical in concept, to the Budget Scope Economic Transaction Framework. To move from the Economic Transaction format to the Uniform Presentation format some transactions need to be reclassified. These movements are detailed in Figure 12.15.

SCOPE DIFFERENCES

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

The material adjustments in scope made to Budget Sector data to achieve the UPF are detailed in Figure 12.16. These adjustments are:

- Batchelor Institute of Indigenous Tertiary Education is included as it remains within the UPF scope until it satisfies ABS criteria for university status ($1 million increase in deficit);
- the Northern Territory Legal Aid Commission, the Power and Water Authority subsidiaries and the AustralAsia Railway Corporation are brought into scope ($141 million increase in deficit); and
- the Conditions of Service Trust was previously in UPF scope but not Budget scope. However, the Conditions of Service

Trust will be brought into the Public Account (and thus part of Budget scope) in 2000-01.

TREATMENT DIFFERENCES

The ABS, and consequently the UPF, treats some items differently than they are treated in the Territory's Budget presentations.

Figure 12.16 details these treatment differences which are as follows:

- the UPF treats only those Government Business Divisions that trade in the marketplace, such as the Power and Water Authority, as Public Non-Financial Corporations. Other Government Business Divisions, such as NT Fleet, are included in the General Government sector;
- Northern Territory Treasury Corporation is removed from the General Government sector and recognised as a Public Financial Corporation;
- revenue replacement payments are classified as Commonwealth grants in the Territory's presentations, however, the ABS and UPF treat these payments as if they were State and Territory own-source revenue;
- sales of secondhand assets are included under other net capital expenditure by the Territory, but under the UPF they are netted off against new fixed assets in gross capital expenditure;
- equity transactions are included in other net capital expenditure in Budget scope whilst the UPF includes them as net advances paid;
- amounts of interest paid to Public Non-Financial Corporations on cash balances are treated as intrasector transactions; and
- dividends paid by Public Non-Financial Corporations are treated as intrasector transactions.

Figure 12.5

UNIFORM PRESENTATION - NORTHERN TERRITORY

GENERAL GOVERNMENT

	2000-01 Estimate	2001-02 Budget	2002-03 Forward Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate
	$M	$M	$M	$M	$M
CURRENT OUTLAYS	**1 866**	**1 877**	**1 950**	**2 021**	**2 097**
Final Consumption Expenditure	1 366	1 373	1 442	1 513	1 589
Interest Payments	143	156	160	160	160
Subsidies Paid to PNFC's and PFC's	79	77	77	77	77
Current Grants	210	203	203	203	203
Other Current Payments	68	68	68	68	68
CAPITAL OUTLAYS	**306**	**434**	**209**	**210**	**211**
Gross Capital Expenditure	254	380	175	169	170
New Fixed Capital Expenditure	275	451	196	191	192
Expenditure on Secondhand Assets (net)	- 21	- 71	- 21	- 22	- 22
Capital Grants	48	47	42	46	46
Other Capital Outlays	4	7	- 8	- 5	- 5
TOTAL OUTLAYS	**2 172**	**2 311**	**2 159**	**2 231**	**2 308**
REVENUE	**2 056**	**2 171**	**2 142**	**2 228**	**2 329**
Taxes	223	215	222	232	237
Interest Received	24	22	22	22	22
Grants Received	1 732	1 855	1 818	1 894	1 974
Dividends Received from PNFC's and PFC's	42	29	29	29	29
Other Revenue	34	50	51	51	67
DEFICIT AND FINANCING TRANSACTIONS	**116**	**139**	**17**	**3**	**- 21**
Net Advances Received	- 26	- 8	- 5	- 5	- 4
Net Domestic and Overseas Borrowings	146	50			
Increase in Provisions (net)					
Other Financing Transactions	- 4	97	22	8	- 17
Less					
Increase in Provisions (net)					
DEFICIT	**116**	**139**	**17**	**3**	**- 21**
NET DEBT	**1 136**	**1 275**	**1 292**	**1 295**	**1 274**

Note: Totals may not add due to rounding

Figure 12.6

UNIFORM PRESENTATION - NORTHERN TERRITORY

PUBLIC NON-FINANCIAL CORPORATIONS

	2000-01 Estimate	2001-02 Budget
	$M	$M
CURRENT OUTLAYS	**77**	**72**
Interest Payments	49	51
Other Current Payments	28	21
CAPITAL OUTLAYS	**99**	**65**
Gross Capital Expenditure	46	55
New Fixed Capital Expenditure	69	75
Expenditure on Secondhand Assets (net)	- 23	- 20
Capital Grants		
Other Capital Outlays	53	10
TOTAL OUTLAYS	**176**	**137**
REVENUE	**74**	**73**
Net Operating Surplus of PNFC's	55	54
Interest Received	19	19
Grants Received		
Other Revenue		
DEFICIT AND FINANCING TRANSACTIONS	**102**	**64**
Net Advances Received	10	49
Net Domestic and Overseas Borrowings	27	- 31
Increase in Provisions (net)	50	50
Other Financing Transactions	16	- 4
Less		
Increase in Provisions (net)	50	50
DEFICIT	**53**	**14**
NET DEBT	**391**	**405**

Note: Totals may not add due to rounding

Figure 12.7

UNIFORM PRESENTATION - NORTHERN TERRITORY

TOTAL NON-FINANCIAL PUBLIC SECTOR

	2000-01 Estimate	2001-02 Budget
	$M	$M
CURRENT OUTLAYS	**1 917**	**1 930**
Final Consumption Expenditure	1 366	1 373
Interest Payments	192	207
Current Grants	291	282
Other Current Payments	68	68
CAPITAL OUTLAYS	**406**	**499**
Gross Capital Expenditure	301	434
New Fixed Capital Expenditure	345	526
Expenditure on Secondhand Assets (net)	- 44	- 92
Capital Grants	48	47
Other Capital Outlays	57	18
TOTAL OUTLAYS	**2 323**	**2 429**
REVENUE	**2 104**	**2 225**
Taxes	223	215
Net Operating Surplus of PNFC's	55	54
Interest Received	43	41
Grants Received	1 733	1 855
Other Revenue	50	60
DEFICIT AND FINANCING TRANSACTIONS	**219**	**204**
Net Advances Received	- 16	41
Net Domestic and Overseas Borrowings	172	19
Increase in Provisions (net)	50	51
Other Financing Transactions	12	93
Less		
Increase in Provisions (net)	50	51
DEFICIT	**169**	**153**
NET DEBT	**1 527**	**1 680**

Note: Totals may not add due to rounding

Figure 12.8

UNIFORM PRESENTATION - NORTHERN TERRITORY

PUBLIC FINANCIAL CORPORATIONS

	2000-01 Estimate	2001-02 Budget
	$M	$M
CURRENT OUTLAYS	**191**	**191**
Interest Payments	175	181
Other Current Payments	16	10
CAPITAL OUTLAYS		
Gross Capital Expenditure		
New Fixed Capital Expenditure		
Expenditure on Secondhand Assets (net)		
Capital Grants		
Other Capital Outlays		
TOTAL OUTLAYS	**191**	**191**
REVENUE	**186**	**197**
Net Operating Surplus of PFC's	- 3	- 4
Interest Received	184	199
Grants Received	5	2
Other Revenue		
DEFICIT AND FINANCING TRANSACTIONS	**5**	**- 6**
Net Advances Received	- 196	- 61
Net Domestic and Overseas Borrowings	219	92
Increase in Provisions (net)		
Other Financing Transactions	- 18	- 37
Less		
Increase in Provisions (net)		
DEFICIT	**5**	**- 6**
NET DEBT	**- 60**	**- 66**

Note: Totals may not add due to rounding

Figure 12.9

UNIFORM PRESENTATION - NORTHERN TERRITORY

TOTAL PUBLIC SECTOR

	2000-01 Estimate	2001-02 Budget
	$M	$M
CURRENT OUTLAYS	**1 907**	**1 911**
Final Consumption Expenditure	1 366	1 373
Interest Payments	182	189
Current Grants (Other Current Grants/ Payments)	291	282
Other Current Payments (Current Grants to other Governments)	68	68
CAPITAL OUTLAYS	**406**	**500**
Gross Capital Expenditure	301	434
New Fixed Capital Expenditure	345	526
Expenditure on Secondhand Assets (net)	- 44	- 92
Capital Grants	48	47
Other Capital Outlays	57	18
TOTAL OUTLAYS	**2 313**	**2 411**
REVENUE	**2 090**	**2 213**
Taxes	223	215
Operating Surplus of PNFC's and PFC's	52	50
Interest Received	43	41
Grants Received	1 738	1 857
Other Revenue	34	50
DEFICIT AND FINANCING TRANSACTIONS	**223**	**198**
Net Advances Received	- 66	30
Net Domestic and Overseas Borrowings	246	62
Increase in Provisions (net)	50	51
Other Financing Transactions	- 7	55
Less		
Increase in Provisions (net)	50	51
DEFICIT	**173**	**147**
NET DEBT	**1 467**	**1 614**

Note: Totals may not add due to rounding

Figure 12.10

UNIFORM PRESENTATION - NORTHERN TERRITORY

TAXES COLLECTED

	2000-01 Estimate	2001-02 Budget
	$M	$M
TOTAL TAXES	**223**	**215**
TAXES ON EMPLOYEES PAYROLL AND LABOUR FORCE TAXES	**88**	**92**
TAXES ON PROPERTY	**53**	**43**
Stamp Duties on Financial and Capital Transactions	40	41
Financial Institutions Transactions Taxes	13	2
TAXES ON THE PROVISION OF GOODS AND SERVICES	**48**	**43**
Taxes on Gambling	36	31
Taxes on Insurance	12	12
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES	**34**	**37**
Motor Vehicle Taxes	27	30
Other	7	7

Note: Totals may not add due to rounding

Figure 12.11

UNIFORM PRESENTATION - NORTHERN TERRITORY

GENERAL GOVERNMENT

EXPENDITURE BY GOVERNMENT PURPOSE CLASSIFICATION

	2000-01 Estimate	2001-02 Budget
	$M	$M
TOTAL OUTLAYS	**2 172**	**2 311**
CURRENT EXPENDITURE	**1 866**	**1 877**
General Public Services	217	230
Public Order and Safety	207	210
Education	421	428
Health	389	397
Social Security and Welfare	52	54
Housing and Community Amenities	85	82
Recreation and Culture	96	91
Fuel and Energy	122	124
Agriculture, Forestry, Fishing and Hunting	54	49
Mining and Mineral Resources, Other than Fuels; Manufacturing	55	58
Transport and Communication	53	44
Other Economic Affairs	65	60
Other Purposes	50	49
CAPITAL EXPENDITURE	**306**	**434**
General Public Services	47	23
Public Order and Safety	8	6
Education	27	24
Health	7	9
Social Security and Welfare	1	1
Housing and Community Amenities	27	24
Recreation and Culture	9	8
Fuel and Energy		
Agriculture, Forestry, Fishing and Hunting	2	1
Mining and Mineral Resources, Other than Fuels; Manufacturing	37	40
Transport and Communication	130	288
Other Economic Affairs	1	
Other Purposes	10	10

Note: Totals may not add due to rounding

Figure 12.12

UNIFORM PRESENTATION - NORTHERN TERRITORY

PUBLIC NON - FINANCIAL CORPORATIONS

EXPENDITURE BY GOVERNMENT PURPOSE CLASSIFICATION

	2000-01 Estimate	2001-02 Budget
	$M	$M
TOTAL OUTLAYS	**176**	**137**
CURRENT EXPENDITURE	**77**	**72**
General Public Services		
Public Order and Safety		
Education		
Health		
Social Security and Welfare		
Housing and Community Amenities	19	21
Recreation and Culture		
Fuel and Energy	39	32
Agriculture, Forestry, Fishing and Hunting		
Mining and Mineral Resources, Other than Fuels; Manufacturing		
Transport and Communication	4	5
Other Economic Affairs		
Other Purposes	15	14
CAPITAL EXPENDITURE	**99**	**65**
General Public Services		
Public Order and Safety		
Education		
Health		
Social Security and Welfare		
Housing and Community Amenities	24	17
Recreation and Culture		
Fuel and Energy	58	32
Agriculture, Forestry, Fishing and Hunting		
Mining and Mineral Resources, Other than Fuels; Manufacturing		
Transport and Communication	6	5
Other Economic Affairs		
Other Purposes	11	11

Note: Totals may not add due to rounding

Figure 12.13

UNIFORM PRESENTATION - NORTHERN TERRITORY

NON - FINANCIAL PUBLIC SECTOR

EXPENDITURE BY GOVERNMENT PURPOSE CLASSIFICATION

	2000-01 Estimate	2001-02 Budget
	$M	$M
TOTAL OUTLAYS	**2 323**	**2 429**
CURRENT EXPENDITURE	**1 917**	**1 930**
General Public Services	216	230
Public Order and Safety	208	208
Education	421	428
Health	389	397
Social Security and Welfare	52	54
Housing and Community Amenities	102	101
Recreation and Culture	96	91
Fuel and Energy	138	142
Agriculture, Forestry, Fishing and Hunting	54	49
Mining and Mineral Resources, Other than Fuels; Manufacturing	55	58
Transport and Communication	56	48
Other Economic Affairs	65	60
Other Purposes	65	64
CAPITAL EXPENDITURE	**406**	**499**
General Public Services	48	24
Public Order and Safety	8	6
Education	27	24
Health	8	9
Social Security and Welfare	1	1
Housing and Community Amenities	50	42
Recreation and Culture	9	8
Fuel and Energy	59	32
Agriculture, Forestry, Fishing and Hunting	2	1
Mining and Mineral Resources, Other than Fuels; Manufacturing	37	40
Transport and Communication	135	293
Other Economic Affairs	1	
Other Purposes	21	19

Note: Totals may not add due to rounding

Figure 12.14

LOAN COUNCIL ALLOCATION (BUDGET PRESENTATION)
NORTHERN TERRITORY

	2000-01 Estimate	2001-02 Budget
	$M	$M
General Government Sector Deficit	116	139
PNFC Sector Net Financing Requirement	53	14
Non-Financial Public Sector Deficit	169	153
NFPS Net Advances Paid	16	- 41
Memorandum Items		
Loan Council Allocation	**185**	**112**

Note: Totals may not add due to rounding

Figure 12.15

NORTHERN TERRITORY PUBLIC SECTOR

MOVEMENTS FROM ECONOMIC TRANSACTION FORMAT TO THE UNIFORM PRESENTATION FORMAT

ECONOMIC TRANSACTIONS	2001-02 Budget $M			UNIFORM PRESENTATION FORMAT	2001-02 Budget $M
CURRENT EXPENDITURE	**1 892**			**CURRENT OUTLAYS**	**1 892**
Final Consumption Expenditure	1 302	(a)	(a)	Final Consumption Expenditure	1 302
Current Grants and Subsidies	402	(b)	(c)	Interest Payments	188
Interest Paid	188	(c)	(b)	Current Grants	402
				Other Current Payments	
CAPITAL EXPENDITURE	**219**			**CAPITAL OUTLAYS**	**219**
New Fixed Assets	244	(d)		Gross Capital Expenditure	152
Capital Grants	47	(e)	(d)	New Fixed Capital Expenditure	244
Other Net Expenditure	- 73	(f)	(f)	Expenditure on Secondhand Assets (net)	- 92
			(e)	Capital Grants	47
			(f)	Other Capital Outlays	19
less					
				TOTAL OUTLAYS	**2 111**
TERRITORY REVENUE	**408**			**REVENUE**	**2 100**
Taxes	218	(g)	(g)	Taxes	218
Property Income	51	(h)	(j)	Operating Surplus of PNFC's and PFC's	84
Interest Received	30	(i)	(i)	Interest Received	30
Surplus of Business Divisions	84	(j)	(k)	Grants Received	1 692
Other Revenue	24	(h)	(h)	Other Revenue	75
COMMONWEALTH GRANTS	**1 691**	(k)			
GST Revenue	1 387				
Other Commonwealth Grants	305				
equals					
INCREASE IN TERRITORY DEBT	**47**			**DEFICIT AND FINANCING TRANSACTIONS**	**12**
Territory Borrowing	62	(l)	(m)	Net Advances Received	36
Commonwealth Advances	- 15	(m)	(l)	Net Domestic and Overseas Borrowings	62
				Increase in Provisions (net)	
DECREASE IN FINANCIAL ASSETS	**- 35**		(n)	Other Financing Transactions	- 87
Net Territory Advances Repaid	51	(m)			
Use of Balances	- 87	(n)		Less Increase in Provisions (net)	
CHANGE IN NET DEBT	**12**			**DEFICIT**	**12**

Note: Totals may not add due to rounding

The gross outlays and receipts components are incorporated in the economics transactions format in accordance with the corresponding letter

Figure 12.16

NORTHERN TERRITORY PUBLIC SECTOR

TRANSFERRING FROM BUDGET SCOPE AND TREATMENT TO THE UNIFORM PRESENTATION FRAMEWORK

UNIFORM PRESENTATION FRAMEWORK	2001-02 Budget	Scope Changes	Treatment Changes	2001-02 Budget
	$M	$M	$M	$M
CURRENT OUTLAYS	**1 892**	**34**	**- 15**	**1 911**
Final Consumption Expenditure	1 302	33	37	1 372
Interest Payments	188	1		189
Current Grants	402		- 120	282
Other Current Payments			68	68
CAPITAL OUTLAYS	**219**	**282**	**- 1**	**500**
Gross Capital Expenditure	152	282		434
New Fixed Capital Expenditure	244	282		526
Expenditure on Secondhand Assets (net)	- 92			- 92
Capital Grants	47			47
Other Capital Outlays	19		- 1	18
TOTAL OUTLAYS	**2 111**	**316**	**- 16**	**2 411**
REVENUE	**2 100**	**121**	**- 7**	**2 213**
Taxes	218		- 4	215
Net Operating Surplus of PNFC's and PFC's	84	- 55	22	50
Interest Received	30	11		41
Grants Received	1 692	165		1 857
Other Revenue	75		- 25	50
DEFICIT AND FINANCING TRANSACTIONS	**12**	**193**	**- 8**	**198**
Net Advances Received	36	- 6	- 2	30
Net Domestic and Overseas Borrowings	62			62
Increase in Provisions (net)		51		51
Other Financing Transactions	- 87	148	- 6	55
Less Increase in Provisions (net)		51		51
DEFICIT	**12**	**142**	**- 8**	**147**

Note: Totals may not add due to rounding

DEVELOPMENTS IN PUBLIC SECTOR REPORTING

In recent years most jurisdictions throughout Australia have moved from a cash to an accrual reporting and budgeting framework. The Territory is proposing to move to an accrual budget framework for the 2002-03 financial year as part of the *Working for Outcomes* reforms detailed in Chapter 8 of this Budget Paper.

AAS 31 FINANCIAL REPORTING BY GOVERNMENTS

Australian Accounting Standard AAS 31 was first introduced in November 1996. The standard requires full accrual accounting for all governments' consolidated financial reports. This has followed on from AAS 29 Financial Reporting by Government Departments that was issued in October 1996, which also requires full accrual accounting for government agencies.

Compliance with Australian Accounting Standards, including AAS 31, is at the discretion of each jurisdiction. There is no legislative requirement within the *Financial Management Act* for the Northern Territory Government to comply with Australian Accounting Standards. Government Business Divisions are required to report on a commercial basis and therefore must comply with Accounting Standards.

The Territory is currently focusing its efforts on meeting the accrual UPF reporting requirements, with further consideration to follow on whether to observe AAS 31 for ancillary reporting purposes. The current emphasis is on conversion of cash data to accrual and on improving the standard of base accrual information.

The main differences between the accrual GFS, UPF and AAS 31 relate to issues of scope of the Public Sector, treatment of asset and liability revaluations and gains or losses, allowances for bad debts and abnormal items. There are also differences in the consolidation approaches and the presentation and format of the statements.

GOVERNMENT FINANCE STATISTICS

The ABS transferred its Government Finance Statistics reporting from cash to an accrual basis for the financial year ended 30 June 1999. This change in the reporting basis covered the Government Financial Estimates publication (April 2000) and the related Government Finance Statistics publication, released in July 2000.

The Territory provides accrual information to the ABS on an agency basis. However, because the accrual data is derived from baseline cash data, it remains less robust than it could be. This situation will change in 2002-03 when the Territory moves to an accrual framework under *Working for Outcomes*.

UNIFORM PRESENTATION FRAMEWORK

With the conversion to accrual budgeting in 2002-03, the cash UPF will be replaced with the accrual UPF. The accrual UPF will comprise a Statement of Financial Performance, a Statement of Financial Position and a Cash Flow Statement. The format to be used for UPF purposes is that adopted by the ABS for accrual Government Finance Statistics.

The accrual UPF will continue to undergo review and refinement in future reporting periods. Debate currently focuses on the extent to which the framework should follow Generally Accepted Accounting Principles and Australian Accounting Standards whilst continuing to conform to GFS standards.

TERRITORY OWN-SOURCE REVENUE

Northern Territory own-source revenue comprises taxes, fees, charges, miscellaneous receipts, capital receipts including the sale of land, property income and interest received. Full details of revenue collected from Territory sources are detailed in Chapter 4 of *Budget Paper No. 2*.

This chapter sets out the key revenue measures announced in this Budget which include a reduction in the pay-roll tax rate to 6.5%, changes to pay-roll tax grouping, a number of stamp duty anti-avoidance measures, and amendments to enhance the efficiency and effectiveness of the Territory's taxes.

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

This analysis and the comparison of the rates of taxes and charges confirms that the Territory's per capita revenue raising capacity, and the rates of taxes and charges applied in the Territory, are similar albeit slightly lower than other jurisdictions. This is consistent with the third element of the Territory's fiscal strategy that the Territory's own-source revenue effort will be broadly comparable to the States.

KEY REVENUE MEASURES IN THIS BUDGET

A number of key revenue measures have been announced in the 2001 Budget. The measures comprise a further reduction to the pay-roll tax rate, enhancements to the equity and efficiency of Territory taxes and a number of integrity and anti-avoidance measures. The Treasurer has also announced that a tax consultative group will be formed to provide advice on 'simple but fair' tax arrangements.

These revenue measures are estimated to decrease revenue collections by $1.5 million in a full year.

PAY-ROLL TAX

The pay-roll tax rate has again been reduced from 6.6% to 6.5% which follows rate reductions in 1999-00 from 7% to 6.75% and down to 6.6% in 2000-01. A comparison of interstate pay-roll tax rates can be found at Figure 13.4.

The requirement for persons to be grouped for pay-roll tax where they hold equal 50% interests in a business has been relaxed to only apply where a person holds a greater than 50% interest in a business.

The measures also promote efficiency by easing compliance and administration of pay-roll tax by allowing the Commissioner of Taxes to approve the payment of pay-roll tax without the requirement to lodge a monthly return. Furthermore, the Budget measures will allow a part-year apportionment of interstate wages where an employer ceases paying wages in the Territory.

The pay-roll tax regime has also been enhanced by several minor clarifications in the legislation that improve and simplify administration and compliance.

STAMP DUTY

The stamp duty revenue measures bolster the integrity of the Territory's stamp duty regime and counter a range of stamp duty avoidance schemes. These measures include:

- countering schemes that use vestings and distributions to non-family members from discretionary trusts to avoid stamp duty on the transfer of dutiable property;
- ensuring that distributions *in specie* upon the liquidation of a company are not used to avoid stamp duty on the transfer of dutiable property;
- ensuring that mining tenements (including mining information related to the tenement) held outside of the Territory are taken into account for the purposes of the stamp duty 'land rich' provisions;
- ensuring that transfers of Territory statutory business licences are subject to duty whether or not they are issued in connection with a business undertaking carried on in the Territory; and
- clarifying that the existing provisions prohibiting the registration of an unstamped transfer instrument apply to an application for the transfer of a fishing licence.

The Budget also includes measures that enhance the simplicity, equity and efficiency of the Territory's stamp duty regime. These include:

- the provision of a statutory method for apportioning the stamp duty on conveyance of industrial and intellectual dutiable property (for example, goodwill) situated in the Territory and elsewhere;
- requiring Australian insurers to register for stamp duty where a policy is effected outside of the Territory on a risk situated in the Territory, and removing the requirement for the insurer to complete an 'information return';
- removing marketable securities duty on corporate debt securities to align the Territory tax base with other jurisdictions;
- increasing the liability threshold for stamp duty on hiring arrangements from \$12 000 to \$36 000 to bring it in line with other Australian jurisdictions;
- providing an exemption for hiring arrangements between related parties where the lender does not hire equipment to the public;
- providing an exemption for motor trader bailment arrangements for demonstration vehicles and trading stock; and
- removing stamp duty exemptions provided to Government Business Divisions on conveyances, leases, insurance and motor vehicles in order to place these entities on the same cost footing as the private sector.

Other measures include:

- an increase to the maximum stamp duty limit that applies to receipts arising from a hiring arrangement from \$7 500 to \$9 000 per hiring arrangement;
- standardising the required period for retaining tax records for all Territory taxes to five years;
- requiring stamp duty to be payable within 60 days of the date a dutiable instrument is executed;
- allowing stamp duty notices of assessment to be sent to post office box addresses; and
- allowing the Commissioner to waive stamp duty liabilities that are less than \$5.

OTHER CHANGES

The proposals also include the establishment of a tax consultative forum to provide a closer working relationship between taxpayers and the Commissioner of Taxes on tax-related policy and administrative matters.

In addition, the revenue measures include a review of the administration provisions of the respective Territory taxation legislation.

NATIONAL TAX REFORM ISSUES

As part of the national tax reform package, the intergovernmental financial arrangements have changed significantly. States and Territories have given up some own-source revenues. Tourism Marketing Duty was abolished from 1 July 2000 and the following State and Territory taxes are to be abolished from 1 July 2001:

- Financial Institutions Duty; and
- stamp duty on the transfer of quoted marketable securities.

In addition, subject to review by the Ministerial Council, debits tax may be abolished by July 2005. The Ministerial Council will also review the need to retain a range of business stamp duties by 2005.

CHANGES TO THE TAX EQUIVALENTS REGIME

As part of the Territory's Government Business Division framework, and consistent with National Competition Policy, tax equivalent regimes apply to the Territory's government business enterprises.

This regime is currently set out in the Territory's Tax Equivalents Regime (TER) Manual. The manual is currently being amended to take account of national tax reform.

The abolition of wholesale sales tax from 1 July 2000 means the cessation of the sales tax equivalent regimes that applied to the Power and Water Authority (PAWA), Darwin Port Corporation and the Territory Insurance Office (TIO). Sales tax equivalent payments have been made during 2000-01 in respect of liabilities accruing from the previous year.

Secondly, the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) signalled the intention of all governments to introduce a National Tax Equivalents Regime for Income Tax (the NTER) in relation to its business enterprises. This will replace individual State and Territory schemes. The NTER is scheduled to commence from 1 July 2001. The NTER is to be administered by the Australian Taxation Office, however, NTER payments will be retained by the respective State and Territory governments. States and Territories will pay the Australian Taxation Office for their costs in administering the NTER.

The Territory entities initially identified for the NTER are:

- TIO;
- Darwin Port Corporation; and
- PAWA (and its wholly-owned subsidiaries, Darnor Pty Ltd and Gasgo Ltd).

Finally, the Territory's TER Manual will also be modified to apply local government rate equivalents to PAWA and Darwin Port Corporation from 1 July 2001. Both organisations have been exempt from paying rates. This measure is not an element of the Intergovernmental Agreement changes but is aimed at enhancing competitive neutrality.

COMPARISONS OF TERRITORY AND STATE TAXES AND MINING REVENUE

REVENUE EFFORT AND CAPACITY

The ability of the States and Territories to generate revenue from their own-sources is a result of the size of each jurisdiction's revenue base and the tax rates the government applies.

The relative magnitude of each jurisdiction's revenue base is determined by economic activity and natural resource endowments. Revenue capacity represents potential revenue levels if national average tax rates are applied to each jurisdiction's revenue base. This is usually expressed as a ratio of the national average revenue capacity.

Revenue capacity is calculated as the ratio of:

- the Commonwealth Grants Commission-assessed per capita revenue that a State could raise by applying the average rate (standardised revenue per capita); to
- the Australian average per capita revenue actually raised (standard revenue per capita).

Revenue effort compares actual revenue collections with revenue capacity. Thus revenue effort introduces a policy element to the analysis given the linkage to the actual tax rates and base set by each jurisdiction.

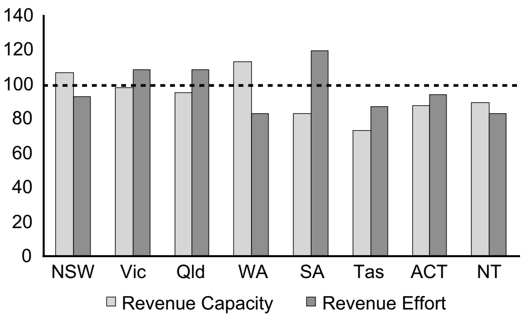
Revenue effort is calculated as the ratio of:

- the actual per capita revenue raised by each State; to
- the Commonwealth Grants Commission-assessed per capita revenue that a State could raise by applying the average rate (standardised revenue per capita).

The Commonwealth Grants Commission assesses revenue capacity in its analysis of the relative fiscal needs of the States and Territories for Commonwealth financial assistance.

Figure 13.1 provides a comparison of the Commission's assessment of total revenue raising capacity and effort in 1999-00 for the States and Territories. This includes taxes, mineral royalties, interest earnings and contributions from trading enterprises.

Figure 13.1
1999-00 REVENUE CAPACITY AND EFFORT BY JURISDICTION – TOTAL STATE OWN-SOURCE REVENUE

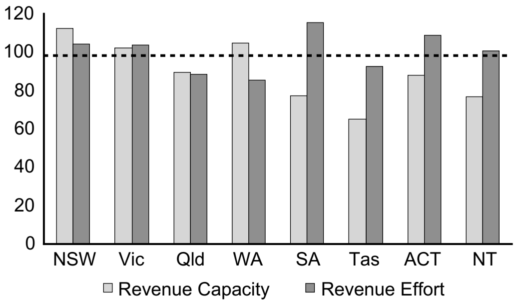


Source: Commonwealth Grants Commission 2001 Update Report

Figure 13.1 highlights both the relative sizes of the revenue base and the revenue effort for all jurisdictions post 1 July 2001 tax reform changes as assessed by the Commonwealth Grants Commission. Although 1999-00 is before the tax reforms commenced, the Commission has backcast the 1 July 2001 arrangements as if they were applying in 1999-00. This assessment of total own-source revenue shows that the Territory's revenue capacity is about 11% below the Australian average, but its overall revenue effort is 83% of the Australian average. The difference between the Territory's capacity and effort has increased in 1999-00 and is due to changes in the Commission's assessment and, to a lesser extent, tax reform changes.

To further understand the Territory position, a more detailed analysis of the components is necessary. Figure 13.2 provides a comparison of the Commission's assessment of the taxation component for capacity and effort in 1999-00 for the States and Territories.

Figure 13.2
1999-00 REVENUE CAPACITY AND EFFORT BY JURISDICTION – TOTAL TAXATION



Source: Commonwealth Grants Commission 2001 Update Report

Figure 13.2 demonstrates that the Territory's tax effort is just above 100% and that the increased gap between the Territory's revenue capacity and effort in 1999-00 (shown in Figure 13.1) is due to changes in revenue sources other than taxes. The Commission's assessment of revenue sources other than taxes, includes:

- interest earnings;
- mining royalty revenue; and
- contributions by trading enterprises.

Interest earnings revenue capacity is measured by the Commission on an equal per capita basis, hence revenue capacity for all jurisdictions in 1999-00 remained constant at 100%. In contrast, the Commission's assessment of the Territory's revenue effort with regard to interest earnings decreased significantly. However, since interest earnings are a very small component of Territory revenue, any change to interest earnings will have a negligible effect overall. Conversely, the Commission's assessment of Territory revenue capacity and effort from contributions by trading enterprises changed very little in 1999-00. As such, this revenue source was also unlikely to explain the changes in the Territory's overall revenue capacity and effort.

There were significant changes to the Commission's assessment of Territory mining revenue capacity and effort in 1999-00. These changes (detailed later in the chapter) were specific to the Territory and led to a significant increase in the Territory's mining revenue capacity and subsequent decrease in its mining revenue effort. Mining revenue is a significant source of revenue for the Territory. Therefore the increased revenue capacity and decreased revenue effort assessed for this revenue source in 1999-00 impact the Territory's overall revenue capacity and effort, as is illustrated by Figure 13.1.

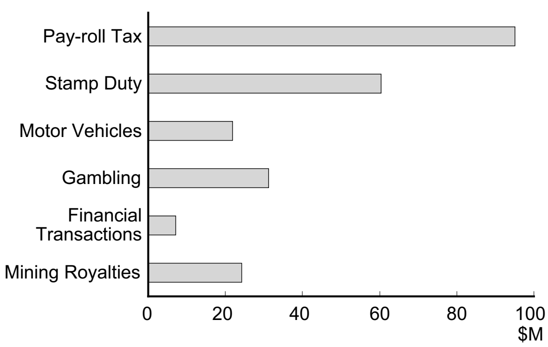
Figure 13.2 highlights revenue capacity and revenue effort for all jurisdictions at 1 July 2001, incorporating changes from tax reform. It illustrates that while the Territory's taxation revenue capacity at 77% is significantly less than the national average, its revenue effort is comparable to the national average.

Although the Territory's taxation revenue effort is comparable to the national average, it is nevertheless different to the national average assessed by the Commission. For example, there are various taxes assessed by the Commission where the Territory's rate of tax varies from the Australian average rate or where the Territory does not impose tax at all, such as land tax (discussed in detail later in this chapter).

ANALYSIS OF TERRITORY REVENUE

Figure 13.3 provides on overview of the Territory's major own-source revenues.

Figure 13.3
MAIN OWN-SOURCE REVENUE CATEGORIES



Source : Northern Territory Treasury

Total own-source revenue from the above sources totals $240 million. As indicated in Figure 13.3, the most significant portion is derived from pay-roll tax, which comprises $95 million or 40%.

So far the discussion has focused on aggregate revenue capacities and collections. The following section provides an inter-jurisdictional comparison by selected revenue source for both revenue capacity and revenue effort.

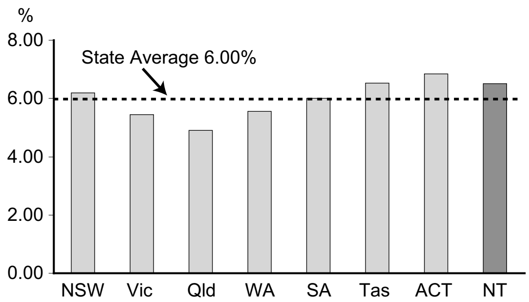
PAY-ROLL TAX

Revenue from pay-roll tax is estimated to be $95 million in 2001-02 (excluding that raised from the General Government sector) and continues to be the Territory's single most significant own-source revenue.

As shown in Figure 13.4, the pay-roll tax rate reduction to 6.5% announced in this Budget aligns the Territory more closely with the States' average pay-roll tax rate.

Figure 13.4
PAY-ROLL TAX - MAXIMUM RATES

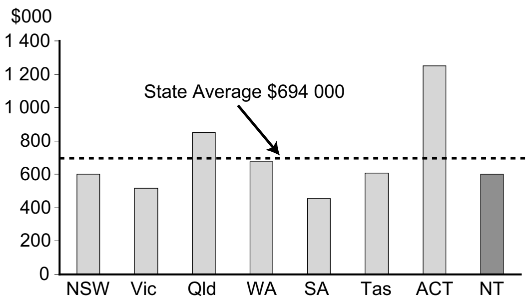
Source: State Legislation Acts and Budget Papers
Note: Reflects reduced rates for Victoria and Northern Territory



(effective from 1 July 2001)

The threshold where tax commences in the Territory is equal to, or higher than, that in four other jurisdictions, as shown in Figure 13.5.

Figure 13.5
PAY-ROLL TAX - TAX FREE THRESHOLD

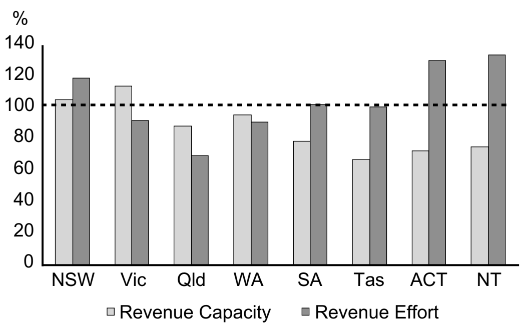


Source: State Legislation and Budget Papers

Figure 13.6 compares the revenue capacity and effort for pay-roll tax between jurisdictions as assessed by the Commonwealth Grants Commission. This is a complex assessment and is subject to data limitations. The assessment requires an estimate of the number and size of payrolls that are above and below the general exemption threshold. The Commission uses the aggregate value of payrolls subject to tax as a proxy measure of State and Territory pay-roll tax capacity.

Australian Bureau of Statistics (ABS) wages and salaries data is used as the basis of the assessment. Given the Territory's small size, there are concerns that the data published by the ABS for the Territory may not be as robust as that published for larger jurisdictions.

Figure 13.6
1999-00 REVENUE CAPACITY AND EFFORT – PAY-ROLL TAX



Source: Commonwealth Grants Commission 2001 Update Report

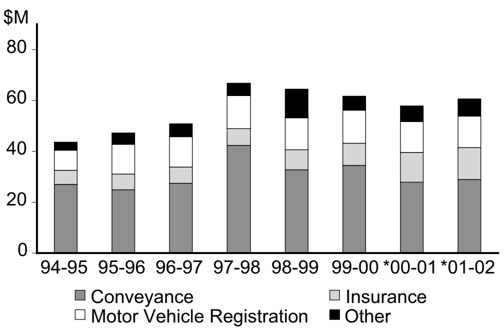
Along with the Australian Capital Territory, the Northern Territory's effort in raising pay-roll tax is the highest of all the jurisdictions. The extent of this difference in revenue effort is at odds with the other comparisons of pay-roll tax rates and is probably due to data deficiencies.

Additionally, the reduction in the pay-roll tax rate announced as part of the 2000-01 Budget has not yet flowed through to Commission assessments. A more realistic assessment of pay-roll tax effort is expected as data improves.

STAMP DUTY

Total revenue from the Territory's stamp duties is estimated to be $60 million in 2001-02. The main components of stamp duty are conveyance, insurance and motor vehicle transfer of registration duties, and these are shown in Figure 13.7.

Figure 13.7
STAMP DUTY



Source: Northern Territory Treasury

Note: 2000-01 and 2001-02 are estimate figures

The 1997-98 and 1998-99 stamp duty receipts shown in Figure 13.7 are abnormally high due to large 'one-off' transactions in each year. If those transactions are discounted, then the 2000-01 and 2001-02 estimates reflect the trend established in the other years. Estimated receipts for 2000-01 are lower than 1999-00, particularly for conveyance duty, which reflects a 'softer' property market.

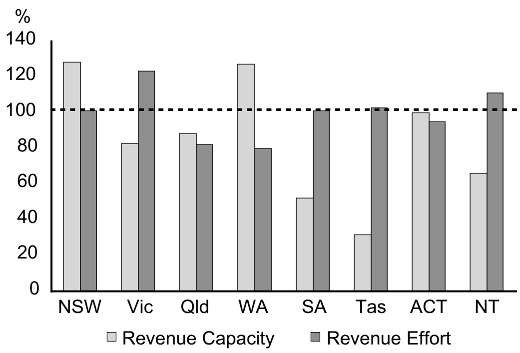
CONVEYANCE DUTY

Conveyance duty remains the most significant component of stamp duty in all jurisdictions. The Territory's conveyance duty is derived from conveyances of dutiable property in the Territory. Such property mainly comprises real estate and transfers of businesses.

The Commonwealth Grants Commission measures revenue capacity and effort for conveyance duty with reference to the value of transactions that attract conveyancing duty in each jurisdiction, adjusted for the value distribution of transactions. The Commission applies a value distribution adjustment because most State and Territory stamp duty rates are levied progressively.

Figure 13.8 illustrates that in 1999-00, the Territory's stamp duty on conveyances capacity was 30% below the national average. This is primarily because the majority of transactions in the Territory were at the lower end of the value range. Accordingly, the Territory's assessed capacity falls below the national average once the value distribution of transactions is taken into account.

Figure 13.8
1999-00 REVENUE CAPACITY AND EFFORT – CONVEYANCE DUTY

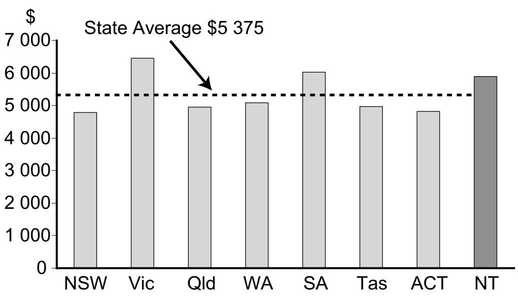


Source: Commonwealth Grants Commission 2001 Update Report

Conveyance duty rates are comparatively high because land tax and stamp duty on mortgage securities are not imposed in the Territory. Thus, as shown in Figure 13.8, the Territory's revenue-raising effort in this category is slightly above the national average.

As a further example of the Territory's comparative effort, Figure 13.9 indicates the effect of the Territory's above average stamp duty rate as applied to the purchase of a $180 000 house.

Figure 13.9
2000-01 STAMP DUTY PAYABLE ON PURCHASE OF A HOUSE VALUED AT $180 000

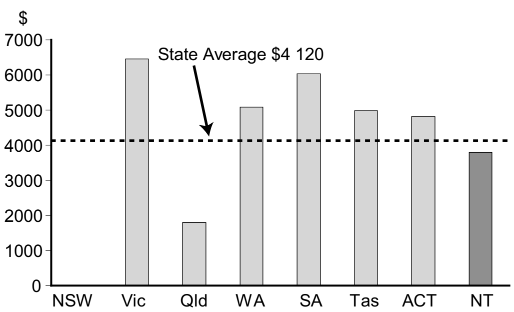


Source: State Legislation and Budget Papers

While the Territory's conveyance duty appears high in comparison to the national average, in other jurisdictions, buyers would also be required to pay stamp duty on any mortgage security and investors would also pay land tax annually. However, the Territory provides relief for first homebuyers on the first $80 000 of their purchase.

Figure 13.10 provides an interjurisdictional comparison of the stamp duty levied for a first home owner on the purchase of a home worth $180 000. As indicated below, the stamp duty payable in the Territory is well below the national average.

Figure 13.10
2000-01 REDUCED STAMP DUTY PAYABLE ON PURCHASE OF FIRST HOME VALUED AT $180 000



Source: State Legislation and Budget Papers

INSURANCE DUTY

Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty.

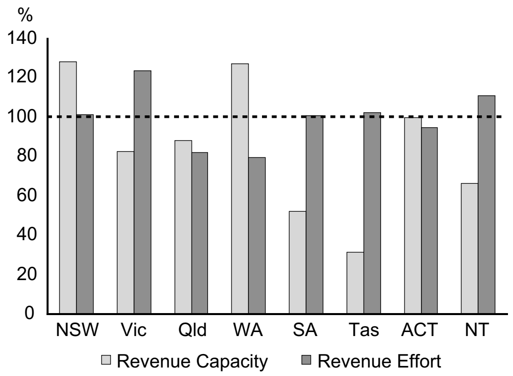
Figure 13.11 provides an interjurisdictional comparison of the stamp duty rates that apply to policies of general insurance.

Figure 13.11
INSURANCE DUTY RATES

Source: State Legislation and Budget Papers

Figure 13.12 illustrates that the Territory's assessed capacity to derive revenue from insurance transactions is considerably below the Australian average. The Commission uses the value of insurance premiums subject to duty as a measure of insurance duty capacity. The value of insurance premiums in the Territory is low relative to the larger States and therefore the Territory's assessed insurance duty capacity is also comparatively low.

Figure 13.12
1999-00 REVENUE CAPACITY AND EFFORT – INSURANCE DUTY



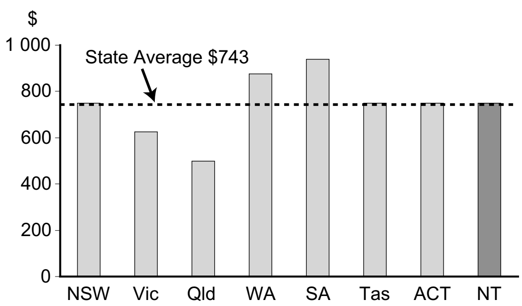
Source: Commonwealth Grants Commission 2001 Update Report

Motor Vehicle Registration Duty

Stamp duty is levied on the transfer and initial registration of motor vehicles. Generally, the duty is levied on the purchase price of the vehicle.

The Territory rate of duty, as shown in Figure 13.13, is in line with the Australian Capital Territory, New South Wales and Tasmania for a vehicle valued at $25 000. Unlike some jurisdictions, the Territory does not impose a higher rate for luxury cars. Revenue from this source in 2001-02 is estimated to be $12 million.

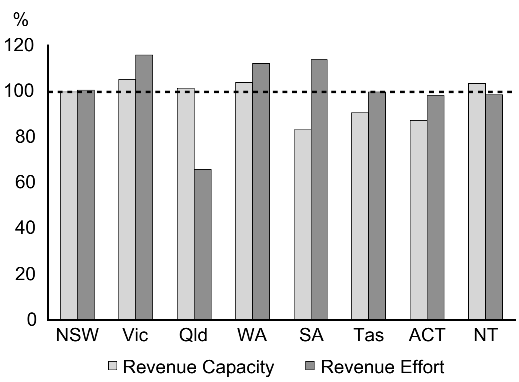
Figure 13.13
MOTOR VEHICLE REGISTRATION DUTY ON A NEW VEHICLE VALUED AT $25 000



Source: State Legislation and Budget Papers

Figure 13.14 shows the relative capacity from stamp duty on new registrations and transfers of all motor vehicles. The assessed capacity for the Territory is slightly above the national average.

Figure 13.14
1999-00 REVENUE CAPACITY AND EFFORT – MOTOR VEHICLE REGISTRATION DUTY



Source: Commonwealth Grants Commission 2001 Update Report

Figure 13.14 also shows that the Territory's revenue-raising effort from this category is around average, which confirms the stamp duty rate on vehicle transfers applied in the Territory is comparable to other jurisdictions.

FINANCIAL TAXES

Until 1 July 2001, financial taxes comprise Financial Institutions Duty (FID), debits tax and stamp duty on leases, mortgages, hiring arrangements and electronic debits.

Under the national tax reform measures, FID is being abolished from 1 July 2001. FID was levied on the receipts of financial institutions at a rate of 0.06%, with a maximum duty of $1 500 per receipt.

Debits tax is imposed on debits to cheque accounts or accounts with cheque facilities. The rates vary according to the amount of the debit.

Debits tax rates and thresholds are the same in all jurisdictions except Tasmania, where the rates that apply per threshold are half of the other States and Territories. Full details of the debits tax rates and thresholds are appended to this chapter.

Subject to review by the Ministerial Council, debits tax may be abolished by July 2005.

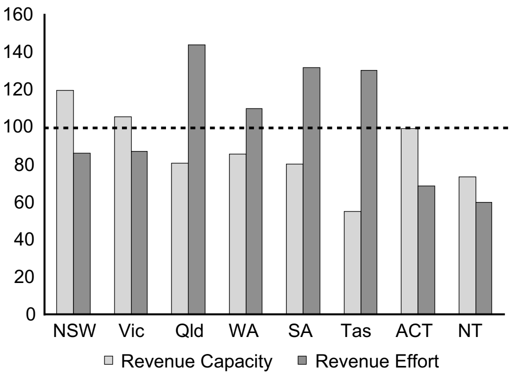
In 2001-02, it is anticipated that financial taxes will raise approximately $7 million after taking into account the abolition of FID.

The financial transaction tax base is continually placed under pressure with development of new products outside the present scope of the tax base and through greater globalisation. Developments in electronic technology, particularly those enabling replacement payment mechanisms for cheques, and dutiable banking being centralised in larger States or offshore, lead to base erosion of these taxes. Because of the effect of such influences on the revenue base, in the 1999 Review the Commission adopted a proxy measure using capital transaction data to assess the revenue base.

Figure 13.15 shows the Commonwealth Grants Commission's assessment of revenue capacity and effort associated with collections from stamp duties and taxes on financial transactions. The Commission's financial taxes assessment incorporates a variety of taxes, which previously included FID. However, the abolition of FID from 1 July 2001 has led to its exclusion from the assessment of financial taxes in 1999-00.

Figure 13.15

1999-00 REVENUE CAPACITY AND EFFORT – FINANCIAL TAXES



Source: Commonwealth Grants Commission 2001 Update Report

Figure 13.15 illustrates that in 1999-00 the Territory's revenue capacity exceeded its revenue effort in relation to financial taxes. With the exclusion of FID from the Commission's assessment of financial taxes, debits tax now comprises approximately 55% of the assessment and stamp duty on mortgages comprises 30%. Therefore, the Territory's low revenue effort is explained by the fact that the Territory does not charge stamp duty on mortgages (as discussed in conveyance duty).

The removal of FID from the financial taxes assessment means that the Commission may need to reconsider its proxy measure for the revenue base.

GAMBLING TAXATION

Gambling taxation comprises revenues from the licensing and taxing of the activities of gambling operators. Gambling taxes constitute a significant proportion of State and Territory revenues. Revenue from the Territory's gambling taxes is estimated to be $31.2 million in 2001-02.

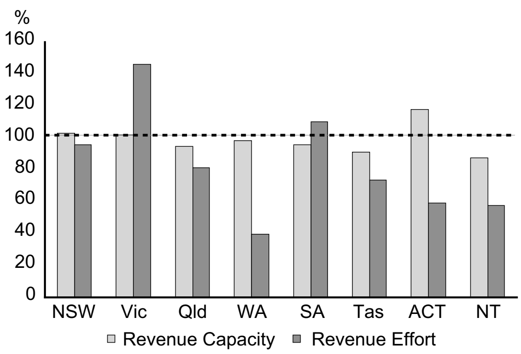
The Territory raises gambling revenues from taxes levied on the value of bets placed with bookmakers, taxes levied on the value of investments in lotteries, taxes levied on the turnover of gaming machines in clubs and hotels, and taxes levied on player losses of casinos. Similar taxes are raised in all other jurisdictions.

The Territory has a below average gambling revenue capacity due to the high prevalence of small gambling operations, which results in higher operating costs and lower net profits, and also necessitates the Territory entering into revenue-sharing arrangements with other States.

Additionally, relatively large proportions of the Territory's population reside in remote areas and do not have access to the full range of gambling services, hence the below average capacity indicated in Figure 13.16.

Figure 13.16

1999-00 REVENUE CAPACITY AND EFFORT – GAMBLING TAXATION



Source: Commonwealth Grants Commission 2001 Update Report

Figure 13.16 also shows relative gambling tax efforts. The Territory's relatively low effort reflects, among other things, restrictions imposed on the distribution of poker machines in the Territory and a comparatively high proportion of gambling taxes passed on in the form of racing industry assistance.

MINING REVENUE

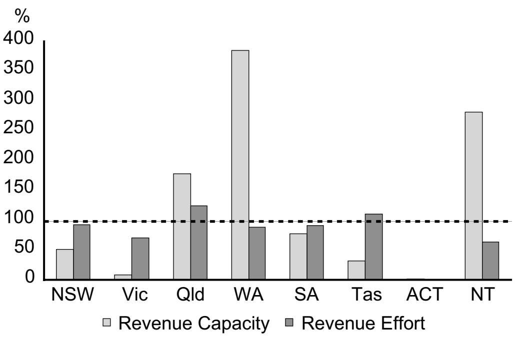
Mining revenue includes collections of royalties or rent equivalents levied on mining activity. Mining revenue is estimated to be $24 million in 2001-02.

The Territory's mining royalty revenues are based on both profits-based and *ad valorem* regimes whereas *ad valorem* regimes predominate in other jurisdictions.

The more extensive natural mineral resources of Queensland, Western Australia and the Territory are reflected in their assessed mining revenue capacities (see Figure 13.17).

Figure 13.17

1999-00 REVENUE CAPACITY AND EFFORT – MINING REVENUE



Source: Commonwealth Grants Commission 2001 Update Report

The mining revenue assessment has presented difficulties for the Commission's assessment over a number of review periods.

In 1999-00, the Commission identified a significant error in its assessment of mining revenue that the Territory could raise by applying the national average rate. The error was found to have existed for some time and involved the total capital expenditure of all the States being attributed to the Territory. Capital expenditure is an important component of the mining assessment as it is deducted from the mining value-added measure to determine the tax base. This error resulted in the Territory receiving a much larger deduction for capital expenditure. Correction of the error in 1999-00 resulted in both a significant increase in the Territory's assessed mining revenue capacity and a decrease in its mining revenue effort.

However, after this correction, the Territory's mining revenue capacity now appears to be too high. Overestimation of the Territory's mining revenue capacity may have resulted from:

- inconsistent treatment of mining revenue, for example, the Territory's mining revenue regime is very different to the regimes in other jurisdictions, therefore the Commission's current method may not adequately calculate the Territory's share of the revenue base;
- underestimated exploration costs; in the Territory there is a significant level of off-lease mining exploration, however, the current assessment method only deducts on-lease exploration costs; and
- the Territory's profit-based royalty regime encourages the establishment of mines that would not otherwise be commercially viable under *ad valorem* regimes. As such, these mines are unlikely to provide significant royalties to the Territory, yet they may inflate the Territory's assessed revenue base and thus revenue capacity.

LAND REVENUE

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

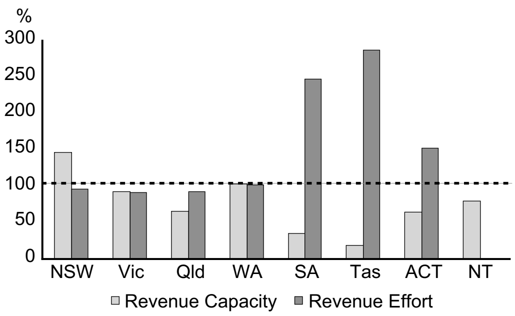
The Territory alone does not levy land taxes. However, the Commonwealth Grants Commission assesses the Territory's land tax capacity because it is average State policy to do so.

To determine the land tax base, the Commission utilises the site value of commercial and industrial land, adjusted for differences between jurisdictions in the value distribution of relevant properties.

The Commission's assessment methodology necessarily excludes all publicly-owned land, and land vested in Aboriginal authorities and Aboriginal councils. Consequently, the Territory's low population density and relatively lower proportion of land available for commercial and industrial purposes is reflected in its below average capacity to generate land revenue (see Figure 13.18).

Figure 13.18

1999-00 REVENUE CAPACITY AND EFFORT – LAND REVENUE



Source: Commonwealth Grants Commission 2001 Update Report

As discussed, the Territory imposes no taxes on the ownership of land. Consequently, the Territory's assessed land revenue effort is zero as Figure 13.18 shows.

FULL COMPARISON OF TAXES, DUTIES AND FEES BETWEEN THE TERRITORY AND THE 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.

COMPARISON OF SELECTED STATE AND TERRITORY CHARGES

As is the case for all jurisdictions, the Territory raises charges on various items. These include water, sewerage, electricity and motor vehicle registration charges. The following section provides comparative data on the main charges levied in the Territory.

There is no change in the 2001-02 Budget to Territory charges.

ELECTRICITY CHARGES

Commercial customers who use more than 2 GWh per year are able to choose their electricity supplier. This threshold will be further lowered to 750MWh per year from 1 April 2002. Figure 13.19 provides an interstate comparison of the State and Territory thresholds that allow a choice of supplier.

Figure 13.19

THRESHOLD FOR CHOICE OF SUPPLIER

NSW (from 1 January 2001)	100 MWh
Vic (from 1 January 2001)	40 MWh
Qld (from July 1999)	200 MWh
WA (from 1 January 2000)	8.76 GWh
SA (from January 2000)	160 MWh
ACT (from June 1998)	160 MWh
NT (from April 2001)	2 GWh

Source: NCP Third Tranche Assessment Framework (5 February 2001), and State and Territory Treasuries

Note: Tasmania is yet to announce a timetable for choice of supplier for customers

Further discussion on reform of the Territory's electricity supply is provided in Chapter 10.

Tariffs for commercial customers in the contestable market are commercial in confidence.

The commercial standard tariff for customers who use less than 2 GWh comprises a fixed charge of 43.14 cents per day and a usage charge of 16.3 cents per kWh. The GST component of the charge is a deductable expense.

Another option is the commercial time-of-use tariff. It comprises a fixed charge of 43.14 cents per day, and usage charges of 20.87 cents per kWh for consumption between 6am and 6pm, and 11.74 cents per kWh for consumption between 6pm and 6am.

Standard demand tariffs are also offered for customers who use more than 160 MWh per annum. Figure 13.20 provides further details of the standard demand tariff regime.

Figure 13.20

STANDARD DEMAND TARIFF FOR GREATER THAN 160 MWH CONSUMPTION

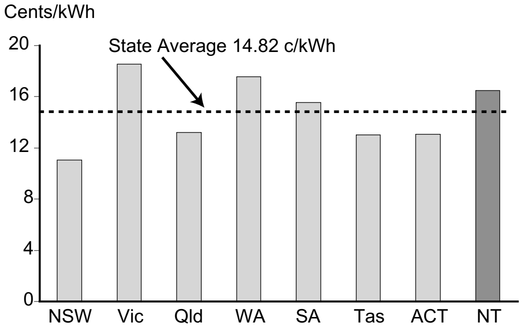
Monthly Usage kWh	Peak cents/kWh	Off peak cents/kWh
First 10 000	10.8	9.86
Next 20 000	10.7	9.75
Next 50 000	10.6	9.64
Next 100 000	10.49	9.54
Next 200 000	10.38	9.43
Next 200 000	10.28	9.33
Balance	10.17	9.22
Plus		
Monthly Demand kVa	**Peak $/kVa**	**Off peak $/kVa**
First 50	24.13	3.18
Next 100	22.03	2.91
Next 300	19.93	2.65
Next 500	17.84	2.38
Next 1000	15.74	2.23
Balance	14.68	2.12
Plus		
System charge	$3.48 per day	

Source: Power and Water Authority

Figure 3.21 provides an interstate comparison of average per kWh rates for commercial customers.

Figure 13.21

COMMERCIAL AVERAGE CENTS/KWH CHARGES FOR 7 000 KWH PER MONTH



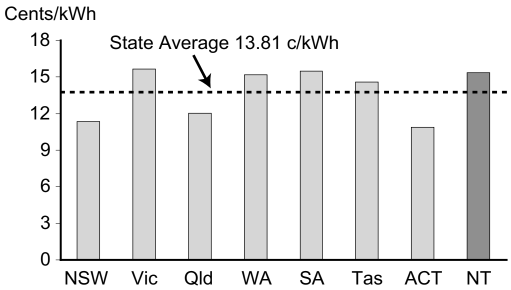
Source: Power and Water Authority

Note: The above comparison is based on the simple average rate that applies to the consumption of 7 000 kWh per month

Domestic electricity charges in the Territory comprise a fixed daily charge of 27.62 cents and usage charge of 14.02 cents per kWh for a standard meter. Figure 13.22 provides an interstate comparison of average domestic per kWh rates.

Figure 13.22

DOMESTIC AVERAGE CENTS/KWH CHARGES FOR 1 900 KWH PER QUARTER



Source: Power and Water Authority

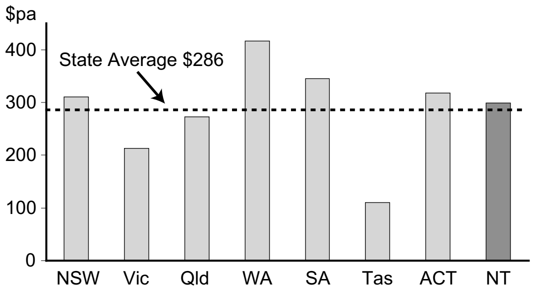
Note: The above comparison is based on the simple average rate that applies to the consumption of 1 900 kWh per quarter

Figures 13.21 and 13.22 indicate that electricity charges in the Territory are comparable with three other jurisdictions but higher than the other jurisdictions. The higher costs in the Territory reflect the absence of cheaper 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.

SEWERAGE CHARGES

Figure 13.23 shows the Territory's domestic sewerage charge to be marginally above the average of the States. The domestic charge in the Territory is $299 per annum.

Figure 13.23
SEWERAGE CHARGES FOR AN AVERAGE HOME



Source: Power and Water Authority

Note: Tasmania's charges are comparatively low due to a heavy cross-subsidy by commercial customers

WATER CHARGES

Territory water charges (Figure 13.24) are lower than the average for Australia.

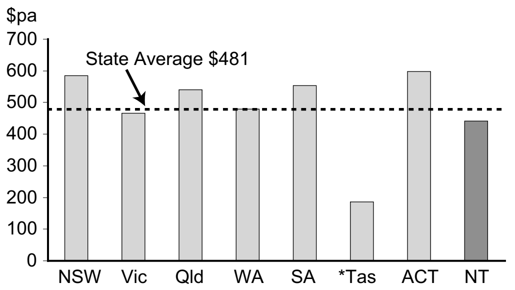
Territory water charges comprise a per kilolitre charge of 63 cents and a daily fixed charge based on the following meter sizes.

Up to 25mm	26.25c
26 to 40mm	67.20c
41 to 50mm	$1.05
51 to 100mm	$4.20
101 to 150mm	$9.45
151 to 200mm	$16.80

The charge is proportional to the meter size for meters greater than 200mm.

In most instances, meters up to 25mm are used for domestic customers.

Figure 13.24
DOMESTIC WATER CHARGES BASED ON ANNUAL CONSUMPTION OF 500 KL



Source: Power and Water Authority

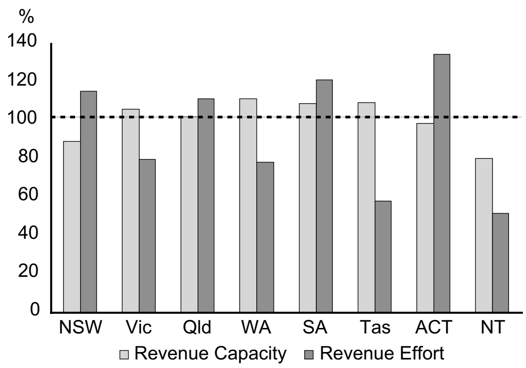
Note: *Based on 550 kl consumption per annum

VEHICLE REGISTRATION FEES

Vehicle registration fees and taxes comprise revenue collections from motor vehicle number plate and registration fees and surcharges on all vehicles other than heavy vehicles.

The revenue base is taken to be the number of privately registered passenger vehicles, caravans, trailers, motorcycles, light trucks and commercial vehicles. The Territory records relatively fewer registered privately-owned vehicles (on a per capita basis) than any other jurisdiction. Consequently, the Territory's assessed capacity is the lowest in Australia as Figure 13.25 illustrates.

Figure 13.25
1999-00 REVENUE CAPACITY – VEHICLE REGISTRATION FEES



Source: Commonwealth Grants Commission 2001 Update Report

The assessed capacity for the Territory is below the national average, and notably, it is significantly lower than the assessed capacity for stamp duty on motor vehicle registrations (see Figure 13.14).

This apparent anomaly can be explained by the scope of the Commonwealth Grants Commission's assessments. Publicly-owned and heavy vehicles are excluded from the registration fees assessment, but included along with all vehicles in the stamp duty assessment. The Territory has a relatively high proportion of government-owned and heavy vehicles, which accounts for the difference.

Figure 13.25 also shows relative effort for vehicle registration fees. The Territory's relatively lower effort is a function of its lower registration fees. Vehicle registration fees in the Territory and Western Australia are the lowest in Australia.

The revenue effort of New South Wales, Queensland and the Australian Capital Territory serve to keep the national average high compared to the other jurisdictions.

CONCLUSION

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

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

National tax reform has given the States and Territories access to a more robust and growing revenue base, but it has also further reduced the range of taxes directly available to the States and Territories. This has meant that States and Territories are paying greater attention to the efficiency and comparability of their remaining taxes and has restricted tax competition to fewer taxes.

The analysis of the Territory's overall revenue raising capacity and effort, and the comparison of the rates of taxes and charges confirms that the Territory's per capita revenue raising capacity, and the rates of taxes and charges applied in the Territory, are similar albeit slightly lower than other jurisdictions. This is consistent with the third element of the Territory's fiscal strategy that the Territory's own-source revenue effort will be broadly comparable to the States.

Appendix

NORTHERN TERRITORY TAX RATES COMPARED WITH STATES

TAX/DUTY FEE	NT	NSW	VIC
CONVEYANCE	\$0 – \$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 – \$14 000: 1.25% (min \$2) 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 Liability includes contents of buildings	\$0 – \$20 000: 1.4% Next \$95 000: 2.4% Next \$755 000: 6.0% > \$870 000: 5.5% on total
Home Purchase Assistance	**First home** First \$80 000: Nil	**First home** Threshold \$200 000 – city \$200 001 – \$300 000: 8.99% less \$17 980 \$175 000 – country \$175 001 – \$250 000: 9.65% less \$16 885 Land Threshold: \$95 000 – city \$95 001 – \$140 000: 7.53% less \$7 152 \$80 000 – country \$80 001 – \$110 000: 7.8% less \$6 240	**First home** \$115 000: Nil Exemption phases out at a limit of \$165 000. Relief subject to meeting certain eligibility criteria
	Exempt: Property transfers between spouses married or de facto exempt where consideration is nil	Exempt: Property transfers between spouses married or de facto exempt	Exempt: Eligible pensioner exemption to \$100 000. Phasing out at \$130 000

QLD	SA	WA	TAS	ACT
$0 – $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 – $12 000: 1.0% Next $18 000: 2.0% Next $20 000: 3.0% Next $50 000: 3.5% Next $400 000: 4.0% Next $500 000: 4.5% >$1 000 000 5.0% on excess	$0 – $80 000: 1.95% Next $20 000: 2.85% Next $150 000: 3.7% Next $250 000: 4.55% > $500 000: 4.85% on excess	$0 – $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 – $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
First home $80 000: Nil $80 001 – $150 000: 1% less $500 $150 001 – $155 000: 1% less $300 $155 001 – $160 000: 1% less $200 > $160 000: Same as for principal place of residence Principal place of residence (not first) 1% up to $250 000 plus scheduled conveyancing duty on the excess	**First home** $80 000: Nil $80 001 – $130 000: Concession reduces by $42/$1 000 >$130 000: No concession	**First home** Principal residence < $100 000: 1.5% First home buyers whose purchases are < $135 000 (or < $202 500 north of the 26th parallel) can additionally claim a $500 stamp duty rebate Exempt: Transfer of principal place of residence 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 – $140 000: Concessional rate $14.23/$100 or part of excess or $20 (whichever greater) >$140 000: No concession Income threhold: Gross household income <$45 000 for all persons on title and their spouses

TAX/DUTY FEE	NT	NSW	VIC
CHANGE CONTROL OF LAND OWNING CORPS/UNIT TRUSTS	As for Conveyances	As for Conveyances	As for Conveyances
LEASES	Definite term: 50c/$100 total rent Indefinite term: $1/$100 of one year's rent Exempt: Residential leases	35c/$100 total rent Exempt: Residential leases	Exempt from May 2001
HIRING ARRANGEMENT (RENTAL DUTY)	1.8% or $7 500 whichever is the lesser From 1/7/01: 1.8% or $9 000 whichever is the lesser Hire purchase agreements entered into after 30/06/00 Threshold: $12 000 per annum From 1/7/01 $36 000 per annum	Equipment financing arrangements: 0.75% of the total amount of the hiring charges Ordinary hire of goods: 1.5% of the total amount of the hiring charges $10 000 maximum duty for any single arrangement Exempt: First $6 000 for each month for hiring at 1.5% rate	Rental agreement after 1/1/97: 0.75% of rental income in excess of $6 000 per month Rental agreement before 1/1/97: 1.5% of total rental income received for the duration of the agreement Hire purchase agreements entered into on or after 1/1/97 Threshold: First $6 000 per month

QLD	SA	WA	TAS	ACT
As for Conveyances	Old trustee to new trustee where no change in beneficial ownership: $10. Other circumstances, as for conveyances rates	As for Conveyances	As for Conveyances	As for Conveyances
35c/$100 of total rental Exempt: Private dwelling house	$1/$100 of the average rate of rent per annum Exempt: Residential leases	Definite term: 35c/$100 Indefinite term: 70c/$100 yearly rent Exempt: Residential tenancies to $125 per week	Commercial leases: 1% of equivalent of the yearly rent or $5 whichever is the greater Exempt: Residential leases	50c/$100 total rent (minimum $20) Conveyance rates for leases and subleases (including options) with terms 30 years or more Exempt: Residential leases
0.43% on total rental Threshold: $100 000 per annum	1.8% on rent in excess of $24 000 per annum. Service allowance given Threshold: First $24 000 per annum	1.8% of total rental income. Service allowance given Threshold: $25 000 per annum	2% on rent in excess of $4 000 per month Threshold: First $4 000 per month	0.75% of hiring charges in respect of equipment finance arrangements 1.5% for all other types of hiring arrangements Maximum $10 000 duty for single arrangement Exempt: First $6 000 per month

TAX/DUTY FEE	NT	NSW	VIC
HIRE PURCHASE (INSTALMENT PURCHASE)	See Hiring Arrangements Duty	See Hiring Arrangements Duty	See Hiring Arrangements Duty
DUPLICATES/COPIES/ COUNTERPARTS	$5 fixed. If original not stamped, copy to be charged as original	$2	Nil
LOAN SECURITY AND MORTGAGE DUTY	Nil	$0 – $16 000: $5 >$16 000: $5 + 40c//$100 on excess Exemption for additional advances up to $10 000 in any 12 month period Exempt: Refinancing of all loans up to the maximum amount secured by the previous loans	$0 – $200: Nil $201 – $10 000: $4 > $10 000: $4 + 80c/$200 or part thereof on excess To cease from 1/7/04 Exempt: First home if satisfied conditions for exemption under conveyance duty Exempt: Refinancing of all loans, provided the criteria are met
MORTGAGE TRANSFER	Nil	Nil	Nil

QLD	SA	WA	TAS	ACT
$0 – $20: Nil > $20: 0.43%	Nil	Nil	2% of purchase price or $4 000 whichever lesser	See Hiring Arrangements Duty
Nil	Nil	$5 or same as original if less than $5	$20 first counterpart $1 each thereafter	Duplicates: $20 Counterparts: Nil if lodged same time, otherwise $20
40c/$100 Exempt: Principal place of residence, on first $100 000 for first home owners and on the first $70 000 for others Exempt: Refinancing of mortgage up to $100 000 for principal place of residence	$0 – $400: Nil $401 – $4 000: $10 $4 001 – $10 000: $10 + 25c/$100 or part of excess >$10 000: $25 + 35c/$100 on excess	$0 – $100: Nil $101 – $35 000: 25c/$100 or part >$35 000: $87.50 + 40c/$100 or part of excess Concession rate: 25c/$100 applies to all owner-occupied residential loans irrespective of the amount	$0 – $8 000: $20 $8 001 – $10 000: $20 + 25c/$100 or part of excess >$10 000: $25 + 35c/$100 or part of excess Exempt: Refinancing of all loans	Nil
$5	Nil	$20 If transfer less than full market value of the mortgage, conveyance duty applies	$20	Nil

TAX/DUTY FEE	NT	NSW	VIC
TRUSTEE APPOINTMENT	$20	Nil	Under Deed: Nil
POWER OF ATTORNEY for receiving dividend or money	Nil	Nil	Nil
MINING AGREEMENTS	Duty depends on nature of instrument	Abolished 1/07/98	Under Deed: Nil
MOTOR VEHICLE CERTIFICATES OF REGISTRATION	$3/$100 or part	$0 – $45 000: $3/$100 or part >$45 000: $1 350 + $5/$100 or part thereof	Vehicles not previously registered in Victoria or elsewhere: Passenger cars $0 – $35 000: $5/$200 or part thereof $35 001 – $45 000: $8/$200 or part thereof >$45 000: $10/$200 or part thereof Non-passenger vehicles: $5/$200 or part thereof Transfers: $8/$200 or part thereof

QLD	SA	WA	TAS	ACT
Nil	$10 fixed	$20	$20	$20
Nil	Nil	Nil	$20	Nil
Duty depends on nature of instrument	Duty depends on nature of instrument, could be exempt as an agreement or subject to conveyance rates	Duty depends on nature of instrument	$20 minimum Duty depends on nature of instrument	Nil
$2/$100 or part thereof	$0 – $1 000: $1/$100 (minimum $5) or part of excess $1 001 – $2 000: $10 + $2/$100 or part of excess $2 001 – $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 $0 – $1 000: $1/$100 (minimum $5) or part of excess $1 001 – $2 000: $10 + $2/$100 or part of excess >$2 000: $30 + $3/$100 or part of excess	$ 0 – $15 000: 2.5% $15 001 – $40 000: 2.5% - 5.0% >$40 001 5.0%	Passenger vehicles: $0 – $599: $20 $600 – $34 999: $3/$100 or part of excess $35 000 – $39 999: $1 050 + $11/$100 or part of excess > $40 000: $4/$100 on excess All other vehicles: <$600 : $20 >$600 : $3/$100 or part thereof	Passenger vehicles: $0 – $45 000: $3/$100 or part thereof >$45 000: $1 350 + $5/$100 or part of excess All other vehicles: $3/$100 or part thereof

TAX/DUTY FEE	NT	NSW	VIC
ELECTRONIC DEBITS	10c per debit transaction	Nil	Nil
LIFE INSURANCE	10c/$100 Sum insured Temporary or term policy 5% of first year's premium	$0 – $2 000: $1 > $2 000: $1 + 20c/$200 Term or rider 5% of first year's premium	$200 – $2 000: 12c/$200 >$2 000: $1.20 + 24c/$200 Term or rider 5% of first year's premium
GENERAL INSURANCE	10% of premium (including indemnity insurance) Exempt: Insurance on transport of goods, marine hulls, workers compensation	10% of premium 5% of premium motor vehicle, aviation, disability income, occupational indemnity, hospital and ancillary health benefits 2.5% of premium paid on crop and livestock Exempt: Workers compensation and compulsory third party motor vehicle insurance	10% of premium Exempt: Workers compensation, transport or commercial marine insurance

QLD	SA	WA	TAS	ACT
Nil	Nil	Nil	Nil	Nil
$100 – $200: 10c $201 – $2 000: 5c/$100 > $2 000: $1 + 10c/$100 Temporary or term: 5% of first year premium	$1.50/$100 or part thereof of net premiums of previous year paid as annual licence	$100 – $2 000: 5c/$100 > $2 000: $1 + 10c/$100 Temporary or term: 5% of first year's premium	$0 – $2 000: 10c/$200 >$2 000: $1 + 20c/$200 Term insurance: 5% of first year's premium Temporary: 2% of premium on policy	$100 – $2 000: $1 >$2 000: $1 + 20c/$200 Term insurance: 5% of the first year's premium
8.5% of premiums 5% of net premium for workers compensation, motor vehicle comprehensive, professional indemnity and plate glass insurance for dwellings (10% on plate glass for other than dwellings) 10c flat on third party motor vehicle 3% of net premium for tourist and travel special policy where the period of tour does not exceed seven days Exempt: Hull of vessel and premium on goods carried by sea, land or air	$11/$100 of premiums (including compulsory third party premiums) Exempt: Workers compensation and commercial marine insurance	8% of gross premiums Workers compensation 5% of net premium 25c per policy on third party motor vehicle Exempt: Commercial marine hulls and premium on goods carried by sea, land or air	8% of premiums $6 flat on third party motor vehicle insurance Exempt: Workers compensation	10% of gross premiums Exempt: Premiums on goods carried in international trade and workers compensation

TAX/DUTY FEE	NT	NSW	VIC
TOURISM MARKETING DUTY	Ceased from 1/7/00	Ceased from 1/7/00	Nil
CHEQUE	Nil	Nil	Nil
PAY-ROLL TAX	$0 – $600 000: Nil >$600 000: 6.6% From 1/7/01: 6.5% Employer superannuation contributions and fringe benefits included in the tax base Exempt: Trainees within the meaning of the *Industries Training Act* and graduates under an approved graduate training scheme	$0 – $600 000: Nil >$600 000: 6.2% From 1/7/02: 6.0% Employer superannuation contributions included in the tax base Exempt: Trainees under approved training scheme	$0 – $515 000: Nil >$515 000: 5.75% From 1/7/01: 5.45% From 1/7/03 >$550 000: 5.35% Employer superannuation contributions included in the tax base Exempt: Trainees under approved training scheme

QLD	SA	WA	TAS	ACT
Nil	Nil	Nil	Nil	Nil
Nil	10c drawn against an account maintained in SA	10c drawn against an account maintained in WA	Nil	Nil
$0 – $850 000: Nil > $850 000 : 4.9% From 1/7/01: 4.8% (Deduction reduces to nil between $850 000 and $3 400 000) Employer superannuation contributions included in the tax base	$0 – $456 000: Nil > $456 000: 6% Employer superannuation contributions included in the tax base	$0 – $675 000: Nil $675 001 – $2 700 000: 4.87% of excess $2 700 001 – $4 500 000: $98 550 + 6.03% of excess $4 500 001 – $5 625 000: $207 000 + 9.4% of excess >$5 625 000: 5.56% on total Employer superannuation contributions and non-remote fringe benefits included in the tax base Exempt: Apprentices and trainees under an approved traineeship scheme	$0 – $606 000: Nil > $606 000: 6.53% Employer superannuation contributions included in the tax base	$0 – $900 000: Nil >$900 000: 6.85% Threshold From 1/7/01: $1 250 000 From 1/1/02: $1 500 000 Employer superannuation contributions included in the tax base Exempt: Trainees under an approved traineeship scheme

TAX/DUTY FEE	NT	NSW	VIC
DEEDS	$20	Abolished 01/07/98	Nil
DEEDS CREATING TRUST/ DECLARATION OF TRUST	$20	Transfer duty or $200 minimum	Nil
DEBITS TAX			
>$1 but <$100	15 cents	30 cents	30 cents
$100 but <$500	70 cents	70 cents	70 cents
$500 but <$5 000	$1.50	$1.50	$1.50
$5 000 but <$10 000	$3.00	$3.00	$3.00
$10 000 or more	$4.00	$4.00	$4.00
FINANCIAL INSTITUTIONS DUTY (Scheduled to cease from 1/7/01)	0.06% Maximum $1 500 per receipt Exempt: Social Security deposits, charitable and religious organisations	0.06% Maximum $1 200 per receipt	0.06% Maximum $1 200 per receipt
Short term dealers rate	0.005% per month on the average daily liability of the bank to the account holder under that account during the month	0.005% per month on 1/3 of the average daily liability of the dealer during the month	0.005% per month on 1/3 of the monthly average Australia-wide liability for each registered financial institution 0.005% per month on the monthly average daily closing balance for short-term money market dealers only

QLD	SA	WA	TAS	ACT
Nil	$10, or conveyance rates	$20 not otherwise subject to ad valorem duty	$20	Nil, unless superannuation deed then $20
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	$20 not otherwise subject to *ad valorem* duty	As for Conveyances	$200 not otherwise subject to *ad valorem* duty
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
Nil	0.065% including Local Government levy Maximum $1 200 per receipt Exempt: Pension cheques 0.005% per month on 1/12 the average national daily liability of the bank to the account holder under that account during the month 0.005% per month on the average daily closing balance for short-term money market operators	0.06% Maximum $1 200 per receipt Exempt: Direct credit of social security payments to recipients accounts Certified dealers (not prescribed) 0.005% per month on 1/10 of the average daily Australia-wide liability of the dealer during the month Certified dealers (prescribed) 0.004% per month on average daily investments of the dealer during the month	0.06% Maximum $1 200 per receipt Exempt: Pension cheques 0.005% per month on the average daily liability of the bank to the account holder under that account during the month	0.06% Maximum $1 200 per receipt 0.005% per month on 1/20 of the average daily liability of the dealer during the month

TAX/DUTY FEE	NT	NSW	VIC
DEBITS DUTY	Nil	Nil	Nil
CREDIT CARDS	Nil	Nil	Nil
BILLS OF EXCHANGE	Nil	Nil	Nil
SHARE TRANSFERS Duty on quoted company share transactions is to cease from 1/7/01 On Market: Both buyers and sellers are liable for duty	 15c/$100 or part thereof	 15c/$100 or part thereof 0.25c/$100 or part thereof for companies incorporated in NZ and PNG	 Up to $100: 3.5c/$25 or part thereof Over $100: 15c/$100 or part thereof
Off Market: The purchaser is liable for duty	Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	Quoted Companies: 30c/$100 or part thereof Unquoted Companies: Up to $100: 14c/$25 or part thereof Over $100: 60c/$100 or part thereof Ceases from 1/7/03
ENERGY RESOURCE CONSUMPTION LEVY	0 – 10 million litres: Nil >10 million litres: Zero rate	Nil	Nil

QLD	SA	WA	TAS	ACT
Nil	Nil	Nil	15c per debit	Nil
10c per transaction less 10c per account period	Nil	Nil	15c per transaction	Nil
Nil	Nil	10c	Nil	Nil
15c/$100 or part thereof Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	15c/$100 or part thereof Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	15c/$100 or part thereof Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	15c/$100 or part thereof Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof	15c/$100 or part thereof Concessional rate: 0.25c/$100 or part thereof Differential rate: 14.75c/$100 or part thereof Quoted Companies: 30c/$100 or part thereof Unquoted Companies: 60c/$100 or part thereof (minimum $20)
Nil	Nil	Nil	Nil	Nil

TAX/DUTY FEE	NT	NSW	VIC
LAND TAX	Not imposed	$0 – $205 000: Nil > $205 000: $100 + 1.7% of excess Threshold indexed annually to estimated increases in state-wide land values for commercial, industrial and residential properties (No adjustment if state-wide land values decline)	$0 – $85 000: Nil $85 000 – $200 000: $85 + 0.1% $200 000 – $540 000: $200 + 0.2% $540 000 – $675 000: $880 + 0.5% $675 000 – $810 000: $1 555 + 1.0% $810 000 – $1 080 000: $2 905 + 1.75% $1 080 000 – $1 620 000: $7 630 + 2.75% $1 620 000 – $2 700 000: $22 480 + 3.0% > $2 700 000: $54 880 + 5.0%

QLD	SA	WA	TAS	ACT
$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 15% rebate from 1999-2000 onwards $0 – $3 999: 0.20% $4 000 – $5 999: $8 + 0.36% $6 000 – $9 999: $15.20 + 0.52% $10 000 – $29 999: $36 + 0.70% $30 000 – $49 999: $176 + 0.87% $50 000 – $199 999: $350 + 1.03% $200 000 – $349 999: $1 895 + 1.20% $350 000 – $499 999: $3 695 + 1.37% $500 000 – $649 999: $5 750 + 1.54% $650 000 – $799 999: $8 060 + 1.71% $800 000 – $949 999: $10 625 + 1.89% $950 000 – $1 099 999: $13 460 + 2.01% $1 100 000 – $1 249 999: $16 475 + 2.23% $1 250 000 – $1 299 999: $19 820 + 2.44%	$0 – $50 000: Nil $50 001 – $300 000: 0.35% of excess $300 001 – $1 000 000: $875 + 1.65% of excess > $1 000 000: $12 425 + 3.7% of excess	$0 – $10 000: Nil $10 001 – $100 000: $15 + 0.15% $100 001 – $190 000: $150 + 0.25% $190 001 – $325 000: $375 + 0.45% $325 001 – $550 000: $982.50 + 0.8% $550 001 – $850 000: $2 782.50 + 1.2% $850 001 – $1 250 000: $6 382.50 + 1.6% > $1 250 000: $12 782.50 + 2.0%	$0 – $1 000: Nil $1 001 – $15 000: $25 $15 001 – $40 000: $25 + 0.75% $40 001 – $68 750: $212.50 + 1.00% $68 751 – $100 000: $500.00 $100 001 – $125 000: $500 + 1.25% $125 001 – $170 000: $812.50 + 1.5% $170 001 – $210 000: $1 487.50 + 1.75% $210 001 – $250 000: $2 187.50 + 2.00% $250 001 – $500 000: $2 987.50 + 2.25% > $500 000: $8 612.50 + 2 .5%	$0 – $100 000: 1% flat $100 001 – $200 000: 1.25% flat. > $200 000: 1.5% flat (Upon unimproved value)

TAX/DUTY FEE	NT	NSW	VIC
LAND TAX (Cont)			
On residential owner-occupied land	Nil	Principal residence when unimproved land value < $1.319M: exempt > $1.319M: $100 + 1.7% of excess Threshold indexed annually to estimated increases in Sydney residential values (no adjustment if Sydney values decline)	Exempt: Principal place of residence
On land used for primary production	Nil	Exempt	Exempt with conditions

QLD	SA	WA	TAS	ACT
$1 300 000 – $1 349 999: $21 040 + 2.66% $1 350 000 – $1 399 999: $22 370 + 2.87% $1 400 000 – $1 449 999: $23 805 + 3.09% $1 450 000 – $1 499 999: $25 350 + 3.30% > $1 500 000: 1.8% Flat				
Exempt with conditions	Exempt with conditions	Exempt	Exempt	Exempt, apart from parcels of land with more than one dwelling where one or more of the dwellings is rented
Exempt with conditions	Exempt with conditions	Exempt	Exempt	Exempt