

Fiscal and Economic Outlook 2012-13

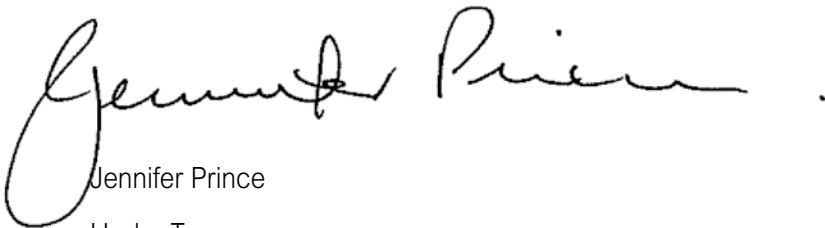
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In this book, the term 'state' or 'states' includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in the May 2012 Budget documentation were based on Government decisions that I was aware of or that were made available to me by the Treasurer before 26 April 2012. The projections are presented in accordance with the Uniform Presentation Framework.

A handwritten signature in black ink, appearing to read "Jennifer Prince", followed by a period. The signature is written in a cursive style.

Jennifer Prince
Under Treasurer

27 April 2012

Chapter 1 Overview

Fiscal and Economic Outlook

The last four years have presented considerable challenges for the Australian economy as well as for each state and territory. The downstream effects of the global financial crisis (GFC) and the European sovereign debt crisis has put substantial pressure on the availability of finance and contributed to a significant slowdown of private investment by individuals and businesses. In addition, the structural change occurring in the Australian economy combined with the effect of the high Australian dollar has increased uncertainty, particularly in the more populous areas of Australia, affecting both spending and investment decisions.

The Territory Government has sought to ameliorate these effects, particularly the limited availability of finance and low private investment, through record infrastructure spending. In 2010-11, the Territory's economy was estimated to have grown 1.6 per cent, 1.4 per cent of which was due to public sector investment.

Importantly however, private sector investment in the Territory is expected to increase significantly following the announcement in January 2012 of the final investment decision on the \$34 billion Ichthys liquefied natural gas (LNG) project by INPEX and Total that, along with other major projects, will enable the Territory to begin to reduce its investment expenditure.

The uncertain economic conditions that have prevailed since 2008-09 have had a substantial effect on the Territory's fiscal position over that time through significantly reduced revenues and higher capital investment, with the cumulative effect of these measures now apparent in the 2012-13 Budget.

Goods and services tax (GST) revenue is the Territory's largest revenue source. Prior to the GFC, GST collections had been growing at around 8 per cent per annum, however the financial turmoil resulting from the GFC led to a fall in GST collections in 2008-09 compared with 2007-08, but was expected to recover in line with the improvements in national economic conditions. However, since 2008-09 ongoing economic uncertainty, low private investment levels, the cautious consumer and changing spending patterns towards items that are not subject to GST have reduced the average annual growth in GST revenue to 2.7 per cent. The situation has worsened in 2011-12 with an anticipated \$387 million fall in the GST pool compared with 2010-11. This is only the second time that annual GST collections have fallen, the other occasion being in 2008-09 at the start of the GFC.

National GST collections are now expected to be \$3.1 billion lower than the Commonwealth forecast in the 2011-12 Budget, and \$163 million less for the Territory. Although some growth in the GST pool is expected from 2012-13 onwards, this will be from a much lower base, with growth rates less than previously anticipated, and worsening the outcomes that were forecast in the 2011-12 Budget. For 2012-13, GST revenue is expected to be \$125 million lower than estimated in May 2011, with similar reductions in all forward years. This reduction is despite an increase in the Territory's relative share of GST revenue from 2012-13, following the Commonwealth Grants Commission's 2012 Update. From the start of the GFC to 2011-12, the

Territory has lost more than \$770 million in GST revenue and, on the basis of current estimates, there is a further \$484 million less in GST revenue over the forward estimates compared to the 2011-12 Budget forecast.

Prevailing economic conditions have also resulted in downward revisions to the Territory's mineral royalty revenue. Advice from the Territory's largest miners indicates that profitability levels are expected to be lower than previously anticipated due to lower commodity prices and the value of the Australian dollar. Accordingly, royalty estimates have been revised downwards by \$21 million in 2011-12 and \$45 million in 2012-13, with flow-on effects to the forward years.

In an effort to offset these significant revenue losses, the Territory Government has implemented a further round of savings measures to restrict operational expenses growth. Capital spending is also reducing over the forward estimates on the back of increasing private sector investment.

The additional budget improvement measures in the 2012-13 Budget include an increase in the efficiency dividend from 1 per cent to 3 per cent, a further 2 per cent reprioritisation and a continuation of the staffing cap. These, together with measures already in place, mean that around \$300 million of savings will be realised by the end of 2012-13, with \$150 million ongoing over the forward estimates. In addition, new recurrent spending decisions in the 2012-13 Budget have been limited to priority service delivery areas, mainly health and community safety.

Over the period 2011-12 to 2014-15 the increase in the Territory's deficit is \$100 million lower than the reduction in these revenues, demonstrating the Government's commitment to minimising expenditure growth.

The revised fiscal outlook means that the achievement of fiscal strategy targets will remain a significant challenge over the forward estimates and a return to surplus will be delayed. Against this backdrop, the fiscal outlook in the 2012-13 Budget includes:

- an improved operating balance in 2011-12 but operating deficits projected from 2012-13, albeit reducing over the forward estimates;
- infrastructure investment continues to be at least twice the level of depreciation in all years to support the economy and maintain jobs;
- cash outcome and fiscal balance projected to remain in deficit over the budget cycle but improving over the forward estimates; and
- ratios of net debt and net financial liabilities to revenue increased since the 2011-12 Budget, largely a result of the substantially lower revenues and higher cash deficits over the forward estimates, together with the recognition of the liability for the Darwin correctional facility in 2013-14.

Despite the worsening fiscal outcomes, the implementation of further budget restraint measures has meant that the commitment to restrict growth in untied expenditure to less than untied revenue growth is being achieved.

Fiscal Position

Tables 1.1 and 1.2 present the Territory's key aggregates at the time of the 2011-12 Budget, the 2011-12 Mid-Year Report and the 2012-13 Budget.

Table 1.1: General Government Sector – Estimated Outcomes

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Operating balance					
2011-12 Budget	95	- 12	- 29	- 38	na
2011-12 Mid-Year Report	138	- 66	- 81	- 84	na
2012-13 Budget	166	- 163	- 158	- 154	- 147
Variation from 2011-12 Budget	71	- 151	- 129	- 116	na
Underlying fiscal balance					
2011-12 Budget	- 436	- 298	- 242	- 206	na
2011-12 Mid-Year Report	- 444	- 305	- 262	- 213	na
2012-13 Budget	- 546	- 490	- 408	- 349	- 285
Variation from 2011-12 Budget	- 110	- 192	- 166	- 143	na
Underlying cash outcome					
2011-12 Budget	- 388	-261	-217	-197	na
2011-12 Mid-Year Report	- 396	- 269	- 234	- 192	na
2012-13 Budget	- 491	- 449	- 373	- 317	- 278
Variation from 2011-12 Budget	- 103	- 188	- 156	- 120	na

¹ Darwin correctional facility not included.

Source: Northern Territory Treasury

Changes in estimated budget outcomes over the Budget and forward estimates period between the 2011-12 Budget and the 2012-13 Budget have been influenced by the following key factors:

- significantly lower national GST collections than previously projected, resulting in a large reduction in GST revenue of \$163 million in 2011-12, and in excess of \$125 million ongoing from 2012-13;
- decreased mining royalties of \$21 million in 2011-12 and \$45 million in 2012-13 and ongoing, associated with lower commodity prices and the high Australian dollar; and
- revised timing of Commonwealth revenue, largely for capital purposes, and timing of associated expenditure in 2012-13 and over the forward estimates.

Despite the significant falls in revenue since the 2011 Budget, the 2011-12 operating balance surplus is higher as a result of the Commonwealth bringing forward into 2011-12 payments for Remote Indigenous Housing and Stronger Futures, with expenditure to occur in later years, with a significant proportion for capital purposes. The cash and fiscal balance outcomes in 2011-12 have worsened however, associated with the higher level of capital spending.

From 2012-13, all measures have worsened as a result of further reductions in the GST, lower mining royalties, Commonwealth funding for capital purposes and timing of expenditure associated with Commonwealth revenue in all years.

Table 1.2: General Government Sector – Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
Net debt (\$M)					
2011-12 Budget	1 530	1 825	2 091	2 254	na
2011-12 Mid-Year Report	1 595	1 900	2 682	2 843	na
2012-13 Budget	1 689	2 174	3 095	3 381	3 627
Variation from 2011-12 Budget	159	349	1 004	1 127	na
Net debt to revenue (%)					
2011-12 Budget	33	41	46	48	na
2011-12 Mid-Year Report	34	43	60	62	na
2012-13 Budget	35	48	66	71	74
Variation from 2011-12 Budget	2	7	20	23	na
Net financial liabilities (\$M)					
2011-12 Budget	4 771	5 121	5 433	5 626	na
2011-12 Mid-Year Report	5 030	5 265	6 093	6 295	na
2012-13 Budget	5 444	5 760	6 525	6 864	7 137
Variation from 2011-12 Budget	673	639	1 092	1 238	na
Net financial liabilities to revenue (%)					
2011-12 Budget	103	114	120	121	na
2011-12 Mid-Year Report	108	120	137	137	na
2012-13 Budget	113	127	140	144	146
Variation from 2011-12 Budget	10	13	20	23	na

Source: Northern Territory Treasury

As shown in Table 1.2, general government net debt and net financial liabilities are set to rise over the forward estimates as a result of the higher projected cash deficits and the liability associated with the new Darwin correctional facility. By 2015-16, net debt is estimated to increase to \$3.6 billion and the net debt to revenue ratio to 74 per cent.

Net financial liabilities have also increased since the May 2011 Budget, largely due to the flow-on effect of the increase in net debt. The higher increases through 2011-12 and 2012-13 are due to an increase in the estimated value of the Territory's superannuation liability since the May 2011 Budget as a result of a decrease in the bond rate used to value the liability. The ten-year bond rates used to value the superannuation liability are 4.25 per cent in 2011-12 and 5 per cent in 2012-13, reflecting prevailing uncertain market conditions. The bond rate used in forward years remains unchanged at 5.7 per cent, being the long-term average.

Further detail on the Budget and forward estimate projections are included in chapters 2 and 3 of this Budget Paper.

Economic Conditions and Outlook

Notwithstanding the continuing uncertainty in some parts of Australia, the Territory's economic outlook is very positive. Work associated with the INPEX project has commenced in 2011-12 and will lead to a significant increase in private investment, construction, population and employment in 2012-13 and future years. This is the second largest private sector investment in

Australia's history, and will lead to substantial benefits to the Territory and the Australian economy in the short and the long term.

Economic growth in the Territory strengthened to 1.6 per cent in 2010-11, up from 1.3 per cent in 2009-10, reflecting continuing strong counter-cyclical public sector consumption and investment to offset the fall in private sector investment following completion of a number of major projects and the flow-on effects from the GFC. Private sector consumption contributed to growth, although at levels weaker than longer term averages.

Following growth of 1.6 per cent in 2010-11 supported by the Territory Government's record investment program, Territory economic growth is estimated to strengthen by 2.4 per cent to \$16.7 billion in 2011-12, reflecting increased private sector investment, which is expected to more than offset a decline in public investment and consumption and a smaller trade surplus.

Private sector investment is expected to increase by 35.5 per cent to \$4.4 billion, reflecting increases in expenditure for new machinery and equipment, new dwellings, new non-residential and engineering expenditures, and supported by higher levels of mineral and energy exploration expenditure. Private sector investment is anticipated to contribute 7.1 percentage points to growth in 2011-12.

Total investment in the Territory is estimated to increase by 14.9 per cent to \$5.7 billion, contributing 4.5 percentage points to growth, as increased private sector investment more than offsets lower investment by the public sector. Public sector investment is estimated to decline by 24.3 per cent to \$1.3 billion in 2011-12, as the capital works program retreats from historic counter-cyclical highs, and Commonwealth stimulus measures are completed.

In 2012-13, economic growth in the Territory is forecast to strengthen further to 3.9 per cent, reflecting additional growth in private business investment and improved household confidence and consumption on the back of stronger jobs growth, despite weaker public sector activity.

Private investment is forecast to increase by 47.9 per cent to \$6.3 billion in 2012-13. This includes purchases of new machinery and equipment, up by 56.4 per cent, new engineering construction, up 89 per cent, new non-residential structures and buildings, up 66 per cent, and growth in new residential construction activity, up 5.8 per cent.

Consumption expenditure is forecast to increase by 0.5 per cent to \$13.9 billion in 2012-13, due to increasing private consumption offsetting a decline in public sector consumption, as consumer confidence continues to rebuild in the aftermath of the GFC, supported by solid employment and population growth.

The Territory's population growth is forecast to grow by 1.6 per cent in 2012 before strengthening to 2.2 per cent in 2013. The increase in 2013 reflects the direct and indirect contribution to the resident population on the back of key major projects.

Inflation in Darwin remained unchanged in 2011 reflecting subdued private consumption, investment, labour market conditions and population growth,

with the Territory between major projects. In addition, lower import prices, primarily due to a sustained high Australian dollar, also constrained Darwin CPI growth in 2011.

In 2012, Darwin CPI is estimated to moderate to 2.1 per cent, reflecting moderate employment and population growth and a lack of capacity constraints. Territory inflation is expected to strengthen to 3.2 per cent in 2013, reflecting higher levels of aggregate demand and higher population, wage and employment growth, as work on major projects intensifies.

Table 1.3: Key Economic Indicators

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Actual				Estimate Forecast	
	%	%	%	%	%	%
Gross state product ¹	4.4	5.1	1.3	1.6	2.4	3.9
Employment	6.1	4.4	2.5	2.0	0.8	2.0
Population ²	2.4	2.5	2.3	0.8	0.8	1.6
Darwin CPI ³	3.4	4.0	2.8	2.8	2.8	2.1

1 Year ended June, year-on-year percentage change, inflation adjusted.

2 As at December, annual percentage change.

3 As at December, year-on-year percentage change.

Source: Northern Territory Treasury, ABS Cat. Nos 5220.0; 6202.0; 3101.0; 6401.0

Chapter 2 Fiscal Position and Outlook

The fiscal outlook for the Territory continues to be constrained by the downstream effects of the global financial crisis (GFC) and the European credit crisis, with lower investment and spending in the national economy translating to a significant reduction in government revenues over the Budget and forward estimates period.

This is particularly apparent in relation to the goods and services tax (GST) revenue where, since the 2011-12 Budget, the estimate of national GST collections for 2011-12 has fallen by \$3.1 billion and represents a 0.8 per cent decrease in the GST pool between 2010-11 and 2011-12. If realised this would be only the second year since the introduction of the GST that the pool has decreased in annual terms, with the other being in 2008-09. This results in a \$163 million reduction in 2011-12 in the Territory's GST revenue. Despite an increase in the Territory's relative share from 2012-13, following the Commonwealth Grants Commission's 2012 Update, GST revenue to the Territory in 2012-13 and all forward years will be \$125 million less than anticipated at the time of the 2011-12 Budget.

The Territory's royalty revenue has also been reduced on the basis of advice from royalty payers that profitability levels are expected to be lower than previously anticipated, driven by lower commodity prices and currency fluctuations. Accordingly royalty estimates have been revised downwards by \$21 million in 2011-12 and \$45 million in 2012-13 with flow-on effects to the forward years. The combined effect of these significant revenue reductions is a downward revision in excess of \$150 million in all years, compared to the May 2011 estimates.

In response to these significant revenue losses, the Territory Government is implementing a further round of savings measures to restrict operational expenses growth. These include a 3 per cent efficiency dividend, an increase of 2 per cent, a further 2 per cent reprioritisation of output appropriation and a continuation of the staffing cap. These, together with measures already enacted, mean that around \$300 million of savings will be realised by the end of 2012-13, with \$150 million ongoing over the forward estimates. In addition, new recurrent spending decisions in the 2012-13 Budget have been limited to priority service delivery areas, mainly health and community safety.

In addition to operational savings, the increased private sector investment associated with new major projects has allowed the Government to begin reducing its capital investment over the forward estimates, consistent with a counter cyclical approach. Although in 2012-13 investment remains higher than historic levels at \$1.3 billion, it is lower than the past three years.

This chapter presents the updated financial projections for 2011-12 through to 2015-16, and an explanation of changes since the May 2011 Budget. It also includes the identification of possible risks to the Territory's budget and forward estimates, and the Territory's contingent liabilities, as required by the *Fiscal Integrity and Transparency Act* (FITA).

The main focus is on the general government sector although commentary is provided on changes in other sectors since the 2011-12 Budget.

General Government

Table 2.1: General Government Sector – Key Fiscal Aggregates

The key fiscal aggregates for general government are presented in Table 2.1.

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Cash Flow Statement					
Operating receipts	5 080	4 802	4 927	5 031	5 164
Operating payments	4 628	4 658	4 779	4 882	5 036
Net capital payments	931	576	501	445	385
Superannuation earnings re-invested	478	432	849	297	257
Underlying cash surplus (+)/deficit (-)	- 491	- 449	- 373	- 317	- 278
Operating Statement					
Revenue	4 818	4 550	4 664	4 768	4 900
Expenses	4 653	4 713	4 822	4 922	5 047
Net operating balance	166	- 163	- 158	- 154	- 147
Net acquisition of non financial assets	712	327	250	195	138
Underlying fiscal balance	- 546	- 490	- 408	- 349	- 285
Balance Sheet					
Assets	14 436	14 593	15 520	15 851	16 156
Liabilities	6 919	6 876	7 630	7 986	8 321
Net worth	7 517	7 717	7 890	7 866	7 835
Net debt	1 689	2 174	3 095	3 381	3 627
Net debt to revenue (%)	35	48	66	71	74
Net financial liabilities	5 444	5 760	6 525	6 864	7 137
Net financial liabilities to revenue (%)	113	127	140	144	146

¹ Darwin correctional facility not included in underlying cash and fiscal balance.

Source: Northern Territory Treasury

As shown in Table 2.1, the underlying cash outcome is a deficit from 2011-12 while the net operating balance is projected to be in a surplus position in 2011-12 but in deficit from 2012-13. Both the cash outcome and operating balance deficits are reducing over the forward years.

The significant revenue reductions over the budget and forward estimates are the primary cause for the deficit balances. GST revenue, by far the largest component of Territory revenue, has decreased considerably every year since the beginning of the GFC. It again dropped significantly during 2011-12 with total collections anticipated to decrease by \$3.1 billion from the Commonwealth projection in May 2011 and expected to be less than 2010-11 collections. For the Territory, this has resulted in a reduction in GST revenue in 2011-12 of \$163 million, and about \$125 million ongoing from 2012-13. Further detail on GST revenue estimates is provided in Chapter 5 of this Budget Paper.

In addition, mining royalties have also decreased by \$21 million in 2011-12 and \$45 million in 2012-13 and ongoing as a result of lower commodity prices and currency fluctuations. These reductions have meant that two of the largest Territory revenues have decreased by on average in excess

of about \$165 million in all years. However, between 2011-12 and 2014-15 the cumulative reduction in revenue is around \$100 million more than the deterioration in the cash outcome.

Table 2.2 shows the reduction in GST revenue and mining royalties between May 2011 and May 2012. The revenue reduction in 2011-12 and the forward years, except for 2012-13, is greater than the deterioration in the cash outcome. The slight worsening in 2012-13 is due to expenditure related to Commonwealth funding received in previous years.

Table 2.2: General Government Sector – Variation in Key Revenue Items and Underlying Cash Outcome between May 2011 and May 2012

	2011-12	2012-13	2013-14	2014-15	Total
	Estimate	Budget	Forward	Estimates	
	\$M	\$M	\$M	\$M	\$M
Mining royalties	- 21	- 45	- 32	- 32	- 130
GST revenue	- 163	- 125	- 131	- 120	- 539
Variation since 2011-12 Budget	- 184	- 170	- 163	- 152	- 669
Variation between May 2011 and May 2012 in underlying cash outcome	- 103	- 188	- 156	- 120	- 567

Source: Northern Territory Treasury

The surplus operating balance in 2011-12 is the result of additional Commonwealth revenue that will be provided this year, but will not be spent until future years. The timing difference also contributes to the operating deficits in the budget and forward estimates. With tied revenue differences removed, the growth in revenue remains higher than the growth in expenses. The operating surplus on the Cash Flow Statement (operating receipts less operating payments) also indicates underlying receipts are higher than payments.

The reduced revenues emphasise the importance of minimising recurrent expenditure growth to below that of revenue growth in line with the Territory's fiscal strategy and the need for the Government to continue its savings measures. The reprioritisation and related new initiatives for each agency are presented in Chapter 4 of this Budget Paper.

The fiscal balance, which adjusts the operating balance by the net investment in capital spending is, like the cash outcome, in deficit throughout the forward years, although reducing over time. From 2012-13 the increased fiscal balance deficit is largely consistent with the change in the operating result from continued reductions in GST revenue and mining royalties.

The higher cash and fiscal balance deficits in 2011-12 and 2012-13 are the result of the Government's decision to support the economy and protect Territory jobs by investing in infrastructure. This policy has to date been a significant factor in sustaining economic growth in the Territory post the GFC. As economic growth returns and private sector investment recovers, the need to invest as significantly in public sector infrastructure will begin to diminish. Accordingly the level of infrastructure investment over the forward years reduces markedly from the record highs of recent years.

Although the cash outcome and the accrual fiscal balance encompass both operational and capital spending, the difference between the two measures relates to non cash items and accrual timing differences between years. The

most significant component relates to the Territory's superannuation liability, with the Operating Statement reflecting the change in total liability whereas the Cash Flow Statement includes only the benefit payments made. At present the increase in the liability is marginally greater than the increase in benefits paid but this situation will reverse when the liabilities peak in around five years.

Net debt is expected to increase in all forward years as a consequence of the projected cash deficits over the budget cycle, together with the liability, on completion, of the new Darwin correctional facility. The ratio of net debt to revenue is estimated to be 74 per cent in 2015-16.

Net financial liabilities are also expected to rise over the budget cycle due to the flow-on effect of the increase in net debt combined with a marginal increase in the Territory's superannuation liability, largely as a result of actuarial revisions to account for increased longevity of members. The higher increases through 2011-12 and 2012-13 are predominantly due to an increase in the estimated value of the Territory's superannuation liability, as a result of a decrease to the ten-year bond rate used in valuing the liability. The bond rate used in the forward years remains unchanged from previous projections in anticipation of a return to more usual market conditions.

The ten-year bond rate used in valuing the superannuation liability for the 2012-13 Budget is 4.25 per cent in 2011-12, 5 per cent in 2012-13 and 5.7 per cent in all forward years.

Changes Since May 2011

Table 2.3 sets out the material variations to both the fiscal balance and cash outcome for 2011-12 and 2012-13 since the May 2011 Budget, with explanations of the variations described below the table.

Table 2.3: Variations to the Cash Flow and Operating Statements since May 2011

	2011-12		2012-13	
	Accrual	Cash	Accrual	Cash
	\$M	\$M	\$M	\$M
2011-12 BUDGET	- 435.5	- 388.2	- 297.9	- 261.4
REVENUE/RECEIPTS				
Revenue/receipts – policy				
Defer abolition of business property conveyance stamp duty			8.7	8.7
Total revenue/receipts – policy			8.7	8.7
Revenue/receipts – non policy				
Taxation	- 4.3	- 4.6	4.6	6.4
GST revenue	- 163.0	- 163.0	- 125.0	- 125.0
New/expanded Commonwealth revenue	329.3	329.3	206.0	206.0
Interest income	6.7	6.7	1.6	1.6
Mining royalties	- 21.0	- 21.0	- 44.6	- 44.6
Income tax equivalents and dividends	4.2	- 6.9	12.7	6.0
Agency own-source revenue	21.7	38.6	10.4	10.4
Miscellaneous revenue	24.2	24.2	2.6	2.7
Total revenue/receipts – non policy	197.8	203.3	68.3	63.5
TOTAL REVENUE/RECEIPTS	197.8	203.3	77.0	72.2
OPERATING EXPENSES/PAYMENTS				
Expenses/payments – policy				
New and expanded initiatives	50.5	50.5	89.3	89.3
Use of capacity set aside in Treasurer's Advance	- 30.0	- 30.0	- 10.0	- 10.0
Saving measures	- 3.0	- 3.0	- 49.2	- 49.2
Total expenses/payments – policy	17.5	17.5	30.1	30.1
Expenses/payments – non policy				
Commonwealth payments and transfers between years and to capital	76.3	76.3	160.4	136.7
Employee entitlements	3.5	6.4	4.2	- 3.6
Interest	14.0	14.0	14.3	14.3
Depreciation	15.3		19.0	
Total expenses/payments – non policy	109.1	96.7	197.9	147.4
TOTAL OPERATING EXPENSES/PAYMENTS	126.6	114.2	228.0	177.5
Net capital payments				
Asset sales	- 1.9	- 1.9	- 12.4	- 12.4
Affordable housing dwellings	10.0	10.0	16.9	16.9
Commonwealth payments	94.2	94.2	59.2	79.1
Transfers between years and from operational	24.7	24.7	- 3.5	
Depreciation	- 15.3		- 19.3	
Increase in Capital Works cash	70.0	70.0		
Total net capital payments	181.7	197.0	40.9	83.6
TOTAL EXPENSES/PAYMENTS	308.3	311.2	268.9	261.1
Future infrastructure and superannuation contributions/earnings		4.7		1.0
TOTAL VARIATION	- 110.5	- 103.2	- 191.9	- 187.9
2012-13 BUDGET	- 546.0	- 491.4	- 489.8	- 449.3

Note: Excludes gross-up of GST receipts and payments as explained in the 2010-11 Treasurer's Annual Financial Report.

Source: Northern Territory Treasury

General government operating revenue (accrual) has increased from the May 2011 Budget by \$197.8 million in 2011-12 and \$77 million in 2012-13 with receipts (cash) increasing by \$203.3 million in 2011-12 and \$72.2 million in 2012-13.

The only significant revenue-related policy variation since the May 2011 Budget is the decision to defer the removal of stamp duty on non-land business property (previously scheduled for 1 July 2012) until the Territory Budget situation permits the cost of abolition. This revenue measure is discussed in more detail in Chapter 4 of this Budget Paper.

The main non policy-related variations to revenue since the May 2011 Budget are:

- downward revision of taxation revenue of \$4.3 million in 2011-12, largely due to a decline in stamp duty receipts on conveyances reflecting a subdued residential and commercial property market. The increase of \$4.6 million in 2012-13 reflects an increase in payroll tax collections as the result of forecast employment and wages growth in the Territory along with increased stamp duty on conveyances due to an expected recovery in property market transaction volumes;
- GST revenue estimates have decreased by \$163 million in 2011-12 and \$125 million in 2012-13 as a result of lower estimates of the national GST pool in 2011-12 and lower future growth rates, partly offset in 2012-13 by an increase in the Territory's relative share following the 2012 Relativities Review Update. Detailed explanations on the collection of GST revenue can be found in Chapter 5 of this Budget Paper;
- increased funding from the Commonwealth largely related to National Partnership (NP) agreements of \$329.3 million in 2011-12 and \$206 million in 2012-13 as shown in Table 2.3. Key variations include:
 - housing – predominantly accelerated timing of the National Partnership Agreement on Remote Indigenous Housing and one-off increased funding for Community Development and Employment Programs resulting in increased revenue of \$150.1 million in 2011-12;
 - health – increased funding from the Commonwealth for a range of health-related programs including \$37.8 million in 2011-12 and \$19.8 million in 2012-13 for the Office of Aboriginal and Torres Strait Islander Health along with new capital funding in 2012-13 of \$9 million for the Palmerston Hospital, and \$16.25 million for remote health centres and regional hospitals;
 - National Network Roads – predominantly due to additional funding in 2011-12 and the revised timing of funding to align with the Commonwealth's updated projections;
 - education – mainly due to Indigenous education funding of \$10 million and finalisation of Building the Education Revolution capital funding of \$8.1 million in 2011-12, with \$23.6 million in 2012-13 from the Stronger Futures package and \$23.5 million related to revised timing of capital related revenue;

- social security and welfare – increased Commonwealth funding under the Stronger Futures package of \$10.4 million in 2011-12 and \$5.8 million in 2012-13 for child, youth and community wellbeing initiatives;
- public order and safety – increased Commonwealth funding predominantly related to the Stronger Futures package for community safety and justice initiative of \$16.5 million in 2011-12 offset by revised timing of Remote Policing and Substance Abuse capital. There is also an increase of \$49 million over three years from 2011-12 for immigration detention policing;
- fuel and energy – Commonwealth funding of \$3.7 million in 2011-12 for remote renewable power generation; and
- natural disaster relief funding – estimated reimbursements related to natural disaster expenditure, largely road repairs and maintenance.

Table 2.4: Growth in Commonwealth Funding

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Housing and community amenities	150.1	11.1
Health	89.1	75.3
Roads	40.2	2.9
Education	19.1	65.5
Social security and welfare	10.4	5.8
Public order and safety	2.3	27.3
Fuel and energy	3.7	0.0
Natural disaster relief funding	7.9	15.0
Other	6.4	3.1
Total increase	329.3	206.0

Source: Northern Territory Treasury

- decreased mining royalty revenue of \$21 million in 2011-12 and \$44.6 million in 2012-13, reflecting moderating industry profitability associated with the strength of the Australian dollar and lower commodity prices;
- increased own-source revenue of \$21.7 million in 2011-12 and \$10.4 million in 2012-13 across a range of functional areas including health and housing. The difference between accrual and cash variations relate to the timing of payments; and
- an increase in miscellaneous receipts of \$24.2 million in 2011-12 is predominantly due to private Australian Taxation Office rulings regarding prior year capital works and health payments, resulting in a reimbursement of GST expenses.

General government expenses (accrual) have increased by \$126.6 million in 2011-12 and by \$228 million in 2012-13, with payments (cash) increasing by \$114.2 million in 2011-12 and \$177.5 million in 2012-13. The difference between the cash and accrual variations are predominantly due to superannuation costs and depreciation.

The main expenditure-related policy variations include:

- funding for new and expanded initiatives of \$50.5 million in 2011-12 and \$89.3 million in 2012-13, including:

Health-related

- additional funding of \$12.5 million in 2011-12 and \$12.7 million in 2012-13 for Individual Support Packages;
- additional funding of \$12.5 million in 2011-12 and \$10.7 million in 2012-13 for the Patient Assistance Travel Scheme;
- additional funding of \$7.78 million in 2012-13 for increased hospital demand pressures;
- additional aeromedical services funding of \$4.6 million in 2011-12 and \$13.6 million in 2012-13; and
- additional funding of \$4.7 million in 2012-13 for pensioner and carer concessions.

Other expenditure-related

- \$30 million in 2011-12 for increased road maintenance to respond to the Territory's flood-damaged road network;
- additional Indigenous Essential Services funding of \$7 million in 2012-13 for priority projects in Lajamanu, Maningrida and Ntaria;
- funding resulting from the Youth Justice system review of \$2 million ongoing from 2012-13;
- additional funding of \$1.5 million ongoing from 2012-13 as part of the Enough is Enough alcohol reforms package;
- Territory funding of \$15 million in 2012-13 to support Municipal and Essential Services to outstations;
- \$2.5 million ongoing from 2012-13 for the Territory's increased contribution to town camps; and
- additional \$2 million ongoing from 2011-12 for Charles Darwin University to support the new city campus.

Further information on the policy initiatives included in the Budget is provided in Chapter 4 of this Budget Paper.

The key non policy expense/payment variation is regarding Commonwealth and net transfer of payments between years and to capital of \$76.3 million for 2011-12 and \$160.4 million for 2012-13, largely related to the delivery of Commonwealth-funded programs, including where the funds were received in prior years.

There have also been some variations to net capital spending. The key variations include:

- increased asset sales of \$1.9 million in 2011-12 predominantly due to the sale of industrial land offset by a reduction in sale of public housing assets in 2011-12 and an increase of \$12.4 million in 2012-13 largely related to projected sales for Bellamack, Johnston and Zuccoli;

- \$10 million in 2011-12 and \$16.9 million in 2012-13 for the construction of affordable housing dwellings approved under the National Rental Affordability Scheme (NRAS); and
- revised timing of Commonwealth and transfer of capital payments from operational of \$118.9 million in 2011-12 and \$55.7 million in 2012-13.

Further information on the Territory's Infrastructure Program can be found in *Budget Paper No. 4*.

2012-13 Budget and 2013-14 to 2015-16 Forward Estimates

Basis of Forward Estimates

In accordance with the FITA, five years of estimates are maintained and used by Government, both as a planning and an operational tool. This provides the framework within which agencies plan and also provides the basis for the Government's fiscal strategy.

Agency forward estimates vary in line with the application of parameters (inflaters and deflators) to the Budget year on a no-policy-change basis. New policy decisions and funding decisions linked to demand or cost growth also add to each agency's budget and forward estimates. The main parameters used to adjust estimates are:

- wages – inflator;
- consumer price index (CPI) – inflator; and
- efficiency dividend – deflator.

The wage inflator applied for employee costs in 2012-13 and over the forward estimates period is 3 per cent, with a CPI factor of 2.8 per cent applied to operational costs for 2012-13, being CPI growth in the calendar year 2011 compared with the calendar year 2010. An estimate of 2.5 per cent is used for CPI over the forward estimates period from 2013-14.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and delivering services more efficiently, as is the case with private sector enterprises. For key service delivery agencies with fixed staffing costs (police, health, education and correctional services), one-quarter of the dividend is applied. An efficiency dividend of 3 per cent has been applied in 2012-13, with 1 per cent from 2013-14.

A composite factor based on 75 per cent of the wages factor and 25 per cent of the CPI factor is applied to grants. Efficiency dividends are not applied to grants and some contractual obligations.

Operating and Cash Flow Statement

Operating Revenue and Receipts

Table 2.5 presents operating revenue and receipts for 2012-13 and forward estimate years.

Table 2.5: General Government
Sector – Operating Revenue
and Receipts

	2012-13	2013-14	2014-15	2015-16
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
Revenue				
Taxation revenue	409	425	442	459
GST revenue	2 704	2 867	3 040	3 223
Current grants	770	731	672	686
Capital grants	209	162	130	61
Sales of goods and services	197	207	212	199
Interest income	59	60	62	64
Dividend and income tax equivalent income	49	48	47	45
Mining royalties income	118	130	130	130
Other	35	34	33	33
Total revenue	4 550	4 664	4 768	4 900
Year-on-year percentage increase (%)	- 6	3	2	3
Receipts				
Taxes received	409	425	442	459
Receipts from sales of goods and services	242	252	257	244
GST receipts	2 704	2 867	3 040	3 223
Grants and subsidies received	979	893	802	747
Interest receipts	59	60	62	64
Dividends and income tax equivalents	40	50	49	47
Mining royalties income	118	130	130	130
Other receipts	251	250	249	249
Sales of non financial assets	78	69	72	66
Total receipts	4 881	4 996	5 103	5 230
Year-on-year percentage increase (%)	- 5	2	2	2

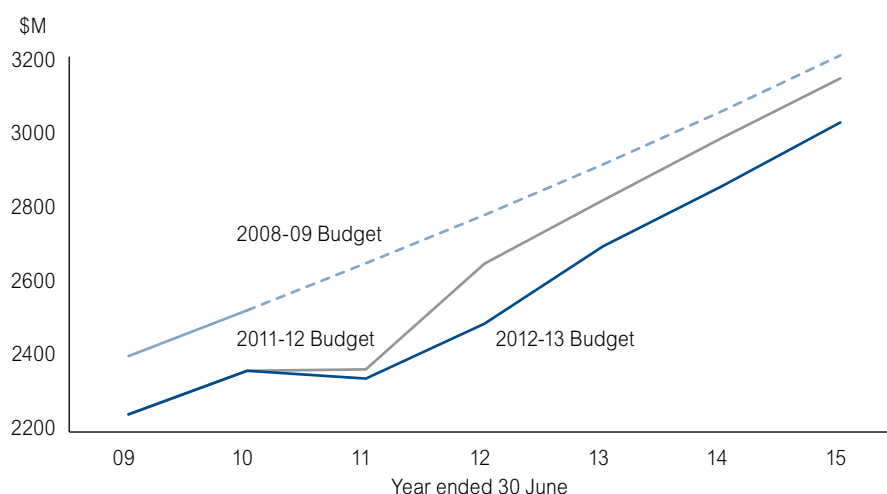
Source: Northern Territory Treasury

Total operating revenue and receipts are projected to increase by an average 2.5 per cent per annum over the forward estimates period. The two key influences on year-on-year growth are GST revenue and Commonwealth grants in the form of Specific Purpose Payments (SPPs) and NPs.

The Territory's own-source revenue has increased by about 2.4 per cent per annum and growth in total untied revenue, which includes GST, is 5.4 per cent per annum.

The Territory's largest source of revenue is in the form of GST revenue. With the continued uncertainty in some sectors of the Australian economy, resulting in lower consumption expenditure and a greater tendency for households to save combined with a greater proportion of spending on GST-free items, the GST pool has continued to decline compared to previous estimates. During 2011-12 the GST pool is expected to be 0.8 per cent less than 2010-11, the second year since the introduction of the GST that the pool has decreased in annual terms, with the first being 2008-09.

Chart 2.1: General Government Sector – GST Projections



As Chart 2.1 shows, while the growth in the GST pool is expected to improve from 2012-13 and over the forward estimates, it is lower than both historic levels and those forecast in the May 2011 Budget.

Despite growth in the forward years and a higher relative share of GST to the Territory following the Commonwealth Grants Commission's 2012 Update, as Chart 2.1 shows, GST remains significantly lower than previously estimated. By the end of 2011-12 the Territory will have received \$770 million less in GST revenue and it is estimated that by the end of 2015-16 the Territory will have lost more than \$1.5 billion in GST revenue, equivalent to a drop of over \$200 million per annum since the start of the GFC.

Table 2.6 represents the change in GST revenue projections over time from the 2008-09 Budget and shows the expected reduction over the forward estimates.

Table 2.6: General Government Sector – GST Revenue Projections

	2012-13 ¹	2013-14 ¹	2014-15 ¹	2015-16 ¹	Total
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget	2 926	3 070	3 222	3 381	12 600
2011-12 Budget	2 829	2 998	3 160	3 331	12 318
2012-13 Budget	2 704	2 867	3 040	3 223	11 834
Variation from 2008-09 Budget	- 222	- 203	- 182	- 158	- 766
Variation from 2011-12 Budget	- 125	- 131	- 120	- 108	- 484

¹ 2008-09 GST revenue denotes projections.

Source: Northern Territory Government

The year-on-year growth in GST is offset by a decrease in total Commonwealth grants, largely NPs, by an average of 7.9 per cent per annum over the forward estimates. This decrease in forward years is the result of agreements with the Commonwealth being for fixed periods and until these are renegotiated, they are not included in forward estimates. However the decline over the forward estimates in the 2012-13 Budget is more pronounced due to the higher levels of capital funding remaining in 2012-13 and the reduction over forward years for remote Indigenous housing, where negotiations in relation to future funding levels are yet to be finalised.

During each budget year there are significant changes in Commonwealth funding estimates as agreements are finalised. These adjustments tend not to affect the fiscal outcome as increases in revenue are generally matched

by a corresponding increase in expenditure. However, timing differences in the receipt of tied revenue and associated expenditure introduce a degree of volatility affecting budgeted and actual outcomes.

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

The most significant component of the Territory's own-source revenue is taxation revenue, which is expected to grow by an average of 4 per cent per annum over the forward estimates period. The growth reflects a return to more usual growth rates due to the expected upturn in the Territory economy over forward years. Independent economic forecasts predict that the Territory economy is to grow by on average by 4.4 per cent per annum through to 2015-16, the second highest of all jurisdictions behind Queensland.

While growth in taxation forecasts is projected in the 2012-13 Budget, it comes off an extremely low base, due in part to the Government's commitment to reduce the tax burden on businesses but also current economic conditions following the GFC. In 2011-12 the Territory's tax revenues, excluding mining royalties, is estimated to be \$385 million, the lowest level since 2006-07.

Further information on the Territory Government's tax revenue can be found in Chapter 6 of this Budget Paper.

The balance of own-source revenue is mainly in the form of mining royalties, which have significantly reduced since the May 2011 Budget as a result of currency fluctuations and moderating commodity prices. Mining royalties are extremely volatile and difficult to estimate due to the effect of changing exchange rates, commodity prices and mining production. Further analysis of this effect is provided in the Statement of Risks section later in this chapter.

Other own-source revenue includes sales of goods and services, interest and revenue from government trading entities. All these items are expected to remain relatively consistent over the forward estimates.

The Cash Flow Statement also includes capital receipts. These are largely sales of vehicles and land, with the latter dependant on the timing and take-up of land release and therefore not based on growth rates.

Operating Expenses and Payments

Table 2.7 shows general government sector operating expenses and payments for 2012-13 and forward estimate years.

Table 2.7: General Government Sector – Operating Expenses and Payments

	2012-13	2013-14	2014-15	2015-16
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
Expenses				
Employee expenses	1 789	1 821	1 852	1 883
Superannuation expenses	299	311	320	331
Depreciation and amortisation	226	230	244	247
Other operating expenses	1 212	1 255	1 303	1 352
Interest expenses	182	214	265	281
Current grants	797	792	749	761
Capital grants	66	55	40	36
Subsidies and personal benefit payments	142	145	149	155
Total expenses	4 713	4 822	4 922	5 047
Year-on-year percentage increase (%)	1	2	2	3
Payments				
Payments for employees	2 020	2 081	2 134	2 188
Payments for goods and services	1 474	1 516	1 559	1 614
Grants and subsidies paid	981	971	932	953
Interest paid	182	211	256	281
Purchases of non financial assets	655	571	518	451
Total payments	5 312	5 350	5 400	5 487
Year-on-year percentage increase (%)	- 6	1	1	2

Source: Northern Territory Treasury

Operating expenses are expected to grow at an average of 2.4 per cent per annum over the forward estimates, consistent with the fiscal strategy target of limiting operational expenditure growth, excluding tied Commonwealth funding, to below revenue growth. Operating payments are expected to increase at an average of 2.7 per cent per annum over the forward estimates. When infrastructure spending is included, which is projected to decline as private investment increases, total payments are expected to increase on average by 1.1 per cent per annum.

The growth in Territory-funded expenditure, including GST but excluding tied Commonwealth funding, is 3.0 per cent per annum over the forward estimates, less than the associated revenue growth of 5.4 per cent per annum over the same period.

Included in expenditure estimates is an amount attributed to the contingency allowance in all forward estimate years. The inclusion of a contingency allowance is consistent with the practices in other states to meet unforeseen expenditure and support limited new and expanded initiatives in the forward estimates. In order to achieve projected budget outcomes, additional expenditure above these amounts will need to be met through a reprioritisation of existing expenditure or additional efficiency gains, with any additional revenue to be used to reduce debt. In order to restrict growth in expenditure the Government has introduced further budget improvement

measures as outlined earlier in this chapter. In addition the Government has also committed to restricting new spending decisions to priority areas. \$30 million has also been set aside for Treasurer's Advance.

Over the forward estimates period, employee payments, including superannuation benefit payments, are estimated to increase on average by 2.8 per cent per annum. Underlying growth in other operating expenses are estimated at 3.1 per cent per annum, largely as a result of the CPI inflator included in agency budgets, offset by the efficiency dividend.

The Cash Flow Statement also includes capital payments. This element is expected to remain higher than the average of the past decade over the forward estimates, although below the peak of 2010-11 and 2011-12. The increase in private sector investment over the forward years will allow the Territory Government to responsibly reduce its capital investment, consistent with a counter-cyclical approach.

Balance Sheet

Table 2.8 provides a summary of assets, liabilities and balance sheet measures for the general government sector.

Table 2.8: General Government Sector – Balance Sheet

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total assets	13 446	14 436	14 593	15 520	15 851	16 156
Financial assets	3 685	4 100	3 922	4 095	4 217	4 375
Non financial assets	9 761	10 336	10 671	11 425	11 634	11 781
Total liabilities	5 884	6 919	6 876	7 630	7 986	8 321
Net worth	7 562	7 517	7 717	7 890	7 866	7 835
Net debt	1 172	1 689	2 174	3 095	3 381	3 627
Net debt to revenue (%)	25	35	48	66	71	74
Net financial liabilities	4 555	5 444	5 760	6 525	6 864	7 137
Net financial liabilities to revenue (%)	96	113	127	140	144	146

Source: Northern Territory Treasury

Net Worth

Since the 2011-12 Budget, projected net worth for the general government sector has reduced across years largely due to the lower revenue estimates and increased borrowings.

This is offset by an increase in the value of the Territory's infrastructure, largely the result of continued improvement in the valuation of the Territory's asset base, as assessed by the Australian Valuation Office, and the significant investment in infrastructure. Future valuation improvements on the Territory's asset base have not been included in the forward estimates.

Net Debt

The Territory is a developing economy compared with other states and, as a result, the level of debt is relatively high compared with other jurisdictions.

Table 2.8 shows that, in absolute terms, net debt for the general government sector is estimated to be \$3.6 billion in 2015-16. When measured as a ratio to revenue, it is 74 per cent by 2015-16.

Net debt projections have worsened since the May 2011 Budget, as a result of the substantially lower revenues over the forward estimates and the inclusion of the liability associated with the Darwin correctional facility on its completion. This, combined with significant levels of investment in infrastructure and ongoing demand pressures in key service delivery areas, has resulted in a deteriorating fiscal position for the Territory.

Financial assets largely comprise investments held by the Territory Government and include a range of instruments such as short-dated discounted securities, medium to long-term debt securities and growth assets such as domestic and international equities. These financial assets are structured in separate portfolios to ensure that they meet the purpose for which the investments have been designated. The performance returns on these investments to 31 March 2012 are 3.31 per cent, slightly ahead of combined benchmark returns of 2.98 per cent.

The Conditions of Service Reserve (COSR) includes funds that have been set aside to fund the Territory Government's long-term employee liabilities. COSR investments are managed by three external fund managers on the basis that there is a weighting to long-term growth assets in order to match the long-term nature of the liability.

Over the past seven years to 30 June 2011, these funds have averaged annual returns of 7.26 per cent, 2.26 per cent above benchmark and in excess of the long-term target rate of return of 6 per cent. The COSR is valued at \$445 million to 31 March 2012 and is forecast to remain at these levels for 2011-12 and expected to grow steadily over the forward estimates.

Net Financial Liabilities

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation. Table 2.8 shows that the level of net financial liabilities as a percentage of revenue is predicted to increase over the budget cycle.

The overall increase in net financial liabilities is a direct result of the projected higher net debt, together with a small increase in the Territory's superannuation liability over the forward estimates, largely as a result of improved mortality rates and lower benefit payments. The ten-year bond rate used to calculate the present value of the liability has changed since the 2011-12 Budget in line with current market conditions. The rates used are 4.25 per cent in 2011-12 and 5 per cent in 2012-13 with a return to longer term rates of 5.7 per cent expected from 2013-14. A 1 per cent movement in the bond rate equates to an approximate \$300 million movement in the superannuation liability.

The Territory's superannuation liability is expected to peak around 2016-17. Until the liability peaks, the accrual expense will be higher than actual cash payments but following that, the expense will start to reduce. However, cash payments will continue to grow and begin to exceed the accrued expense. As a result, after 2016-17 the fiscal balance is expected to improve relative to the cash outcome.

Overall net financial liabilities as a ratio to revenue is projected to be 146 per cent in 2015-16. However, the general government sector rate of

Non Financial Public Sector Operating and Cash Flow Forward Estimates

increase for both net debt and net financial liabilities slows over the forward years in line with the reducing deficit position.

The non financial public sector comprises both the general government and the public non financial corporation (PNFC) sectors of government. The PNFC sector comprises trading entities that are primarily engaged in the production of goods and services at prices that aim to recover costs and fund capital acquisitions through either borrowings or retained profits. In the case of the Territory, this sector includes the Power Water Corporation (PWC) and its subsidiaries as well as the Land Development Corporation (LDC), Darwin Port Corporation (DPC) and Darwin Bus Service.

While this sector is commercial in nature, it also receives contributions from general government in the form of community service obligations, which allows community or social objectives to be met when they would otherwise not be undertaken on a commercial basis.

Table 2.9: Non Financial Public Sector – Estimated Outcomes

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Operating balance					
2011-12 Budget	70	- 35	- 77	- 83	na
2012-13 Budget	99	- 216	- 222	- 227	- 239
Variation from 2011-12 Budget	29	- 181	- 145	- 144	na
Underlying fiscal balance					
2011-12 Budget	- 698	- 523	- 447	- 361	na
2012-13 Budget	- 824	- 767	- 620	- 538	- 499
Variation from 2011-12 Budget	- 126	- 244	- 173	- 177	na
Underlying cash outcome					
2011-12 Budget	- 656	- 502	- 427	- 356	na
2012-13 Budget	- 760	- 756	- 600	- 510	- 497
Variation from 2011-12 Budget	- 104	- 254	- 173	- 154	na

¹ Darwin correctional facility not included in underlying cash outcome and fiscal balance.

Source: Northern Territory Treasury

As shown in Table 2.9, the fiscal balance and cash outcomes are in deficit in all years and the operating balance in deficit from 2012-13.

The change since the May 2011 Budget predominantly represents the flow-on effect of the general government outcomes, together with the timing of LDC's residential and industrial land developments and the continued significant investment in infrastructure by PWC of \$1.8 billion over five years, which is largely funded by borrowings and affects the cash and fiscal balance outcomes.

Balance Sheet

Table 2.10 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

Table 2.10: Non Financial Public Sector – Balance Sheet

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total assets	14 506	15 705	16 111	17 176	17 703	18 233
Financial assets	1 691	1 857	1 525	1 542	1 586	1 675
Non financial assets	12 815	13 848	14 586	15 634	16 117	16 558
Total liabilities	6 944	8 188	8 394	9 286	9 838	10 398
Net worth	7 562	7 517	7 717	7 890	7 866	7 835
Net debt	2 097	2 852	3 581	4 647	5 127	5 591
Net debt to revenue (%)	39	53	69	87	94	100
Net financial liabilities	5 544	6 644	7 202	8 099	8 627	9 120
Net financial liabilities to revenue (%)	104	123	139	152	158	163

Source: Northern Territory Treasury

Non financial public sector net debt comprises both the net debt of the general government and PNFC sectors. This encompasses the full call on capital markets of both the general government sector that is supported by taxes and the often significant capital projects of trading entities that are largely funded through commercial borrowings.

The Territory's relative stage of economic development compared with other states results in its debt levels remaining high.

Table 2.10 shows that, in absolute terms, net debt for the non financial public sector is also predicted to rise over the budget cycle as a flow-on of the increase in general government debt together with additional borrowings in the PNFC sector for significant capital projects. When measured as a ratio to revenue, net debt is expected to be 100 per cent by 2015-16.

Table 2.10 shows that the level of net financial liabilities as a percentage of revenue for the non financial public sector is predicted to rise over the forward estimates to 163 per cent by 2015-16. This is a direct result of the projected increase in net debt together with the small increase in the valuation of the Territory's superannuation liability as mentioned earlier in this chapter.

As with the general government sector the rate of increase for both net debt and net financial liabilities slows over the forward years in line with the reducing deficit position.

Total Public Sector

Total public sector comprises all sectors of government including general government, public non financial corporations and public financial corporations sector. In the Territory, public financial corporations are entities that perform financing functions and include the Northern Territory Treasury Corporation and the Territory Insurance Office.

As required by the Uniform Presentation Framework, financial data for the public financial corporation and total public sectors is only required for the current financial year, being 2011-12, as shown in Chapter 8 of this Budget

Paper. For 2011-12 the total public sector outcomes largely mirror those of the non financial public sector.

Statement of Risks

The FITA requires that the Fiscal Outlook Report (Budget) must contain “a statement of risks, quantified as far as practical, that could materially affect the updated financial projections, including any contingent liabilities and any Government negotiations that have yet to be finalised”.

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

Goods and Services Tax Revenue

Revenue

Volatility in GST revenue represents the largest revenue risk for the Territory. While currently lower, historically, GST has accounted for about two-thirds of the Territory's total revenue, and therefore changes in GST estimates have a significant impact on the Territory's funding capacity and budget outcome.

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

National GST collections

Estimates of national GST collections for the Budget and forward estimates are based on the Commonwealth's most recent published advice and national economic indicators.

Since the 2011-12 Budget, growth in national GST collections for 2011-12 onwards has been revised downwards, reflecting continued weak consumption growth and increase in average households' savings to income ratios.

The Territory's GST entitlement is directly impacted by variations in national GST collections. A ± 1 per cent change in national GST collections is estimated to have a $\pm \$27$ million impact on the Territory's GST revenue in 2012-13. If variations of this size occurred in each of the budget and forward estimates years, the cumulative impact on Territory GST revenue would be $\pm \$118$ million.

Territory's share of national population

The Territory's population growth rate is expected to increase in 2012, following the commencement of a number of major construction projects including the INPEX workers village and processing facilities. The Territory's share of the national population is also expected to increase from 2011 and over the forward estimates period, with forecasts of population growth in the Territory above the forecast national average increase.

The effect of a 0.1 percentage point variation in the Territory's forecast population is estimated at $\pm \$3$ million impact in 2012-13. The cumulative impact of a 0.1 percentage point variation in the population growth rate in each of the forward estimate years would be $\pm \$28$ million by 2015-16.

GST Relativities

The CGC is responsible for determining GST relativities. The CGC updates GST relativities each year but it does not forecast relativities for forward years. The CGC has recommended the relativities that will be used to distribute the GST pool in 2012-13. The Territory's GST relativity has increased from 5.35708 in 2011-12 to 5.52818 in 2012-13, thereby increasing the Territory's share of GST revenue.

The revenue risks associated with a variation in GST relativities relate only to the forward estimates period (2013-14 onwards). Due to the complexity and the large number of variables that are used to determine GST relativities, the Territory's budget forecasts hold relativities constant over the forward estimates period.

The approximate effect of a 1 per cent variation in the Territory's GST relativity is \pm \$26 million in 2012-13 with a cumulative impact over the forward estimates period of \pm \$112 million.

A more detailed discussion of GST is presented in Chapter 5 of this Budget Paper.

Other Commonwealth Grants and Subsidies

Commonwealth funding is provided either under the Intergovernmental Agreement on Federal Financial Relations (IGA) or through Commonwealth Own Purpose Expenses (COPE) provided directly to agencies. The IGA affords flexibility of expenditure across the relevant sector for the Specific Purpose Payments (SPPs) (which in 2012-13 are provided for the education, skills and workforce, disability and housing sectors) without input controls, matching and maintenance of effort requirements. These payments are not time limited and are indexed on a sector-specific basis. These arrangements provide a degree of certainty for the Territory's budgeting, although adequacy of indexation in terms of capturing cost growth remains an ongoing risk.

In 2012-13 National Health Reform (NHR) payments replace the healthcare SPP. While payments for the first two years will be the same as that if the healthcare SPP continued, from 2014-15 funding will be predominantly made on the basis of hospital activity. While the Territory will receive some payments as 'block funding' in recognition of its small hospitals, it is currently unclear if the Territory's circumstances will be adequately recognised in the funding methodology, which is still under development, potentially impacting on the adequacy of Commonwealth funding.

While an improvement on previous funding agreements, and less prescriptive than COPE funding agreements, NP agreements continue to contain many of the risks to states including co-investment, input controls, application of national costs and potential withdrawal of seed funding.

The risks related to SPPs, NHR payments, NPs and COPEs cannot be quantified.

Own-source Revenue

The amount of revenue received from Territory taxes and royalties is dependent on the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions being made about the performance of the various economic factors and

indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment, average hours worked, prices, market activity and exchange rates.

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

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

Forecasting conveyance stamp duty is also difficult because it is linked to activity in the property market. For example, the previously strong growth in residential property market activity experienced prior to 2010-11 continued to slow in 2011 as transaction volumes decreased, although there appears to be some recovery in transaction levels in 2012. The extent and timing of a market change or a return to stronger growth is difficult to predict and could have a significant impact on conveyance duty collections. In addition, the Territory has a relatively small conveyance duty base, which includes valuable commercial properties including pastoral properties and mining projects. These factors introduce significant variability in collections as a result of the impact of the duty collected from large commercial transactions.

In total, a variation of ± 1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$5.3 million for 2012-13.

Expenses

The forward estimates for expenses are based on known policy decisions, with adjustments for parameters.

The parameter for wages growth in all forward years is 3 per cent, which has remained unchanged, with revised CPI of 2.8 per cent for 2012-13 and 2.5 per cent for all forward years. The efficiency dividend is 3 per cent in 2012-13 and 1 per cent in all the forward years.

The most significant risk to these estimates on the expense side is increasing budget pressure due to increased cost and demand influences.

A further risk is in relation to any future enterprise bargaining agreements. The outcome of future enterprise bargaining agreements over and above amounts currently factored into the forward estimates will increase budgetary pressures.

As outlined earlier in this chapter, minimal capacity exists in the forward estimates to respond to budget pressures, over the capacity already factored into forward estimates.

Contingent Liabilities

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

undertakings made by the Territory or as a result of legislation containing a guarantee or indemnity.

Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential outcome of an actual liability should be quantified. Details of estimated amounts of material contingent liabilities as at 30 June 2011 resulting from guarantees or indemnities granted by the Territory, as published in the 2010-11 Treasurer's Annual Financial Report (TAFR), are presented in Table 2.11.

Table 2.11: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability as at 30 June 2011
	\$M NPV ¹
Pine Creek/McArthur River electricity purchase agreements	43
Public Trustee common funds	28

¹ Future values discounted at a nominal 5.3 per cent discount rate.

Source: Northern Territory Treasury

Material contingent liabilities of the Territory are defined as guarantees and indemnities with potential exposure greater than \$5 million and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable material contingent liabilities of the Territory are outlined below and remain unchanged since the 2010-11 TAFR, with an update to be provided as part of the 2011-12 TAFR.

Quantifiable Contingent Liabilities

Electricity, Gas and Water Supply

These contingent liabilities result from arrangements for the purchase and transportation of gas, and the purchase and sale of electricity by and for the Power and Water Corporation (PWC). Material contingent liabilities relating to these arrangements are reported below.

PWC has been a government owned corporation (GOC) since 1 July 2002. Under the *Government Owned Corporations Act*, a GOC is not within the shield of the Crown and the obligations of a GOC are not guaranteed by the Territory except where the Treasurer specifically agrees to this. The following Territory commitments were given prior to PWC (formerly the Power and Water Authority) becoming a GOC and will remain in place until the relevant contractual arrangements cease.

Electricity and Gas Supply to Pine Creek and McArthur River

PWC has entered into agreements for the provision of gas and wholesale supply of electricity for the Pine Creek region and the McArthur River mine. The agreement for the supply of gas contains three indemnities relating to the PWC supplying non-conforming gas.

Although PWC's total contingent liability is unquantifiable, a major portion of the value of the contingent liability is quantifiable, being the cost of overhauling turbine machinery, owned by the electricity producers, damaged by the provision of non-conforming gas. The Territory's maximum exposure is equivalent to the net present value of lease and operating charges under the purchase agreements.

Under PWC's current operating practices, the contingent events relating to each of the above indemnities are within the Corporation's control and are expected to be avoidable.

Statutory Contingent Liabilities

Public Trustee Act

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

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

Unquantifiable Contingent Liabilities

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

Transport

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

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

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

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

DPC has leased facilities at the Darwin Port to the concession holder, interfacing the port and the railway. There are contingent liabilities that arise out of the performance of the facilities.

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

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

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

The Territory Government has provided an indemnity to the DPC in relation to certain remedial works at East Arm Port. The indemnity covers third-party

claims that may be made against DPC as well as rectification of damage to the wharf or other DPC property caused by carrying out of the remedial works. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Health and Community Services

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

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

Government Administration

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

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

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

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

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

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

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

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

Secure Facilities

The Territory has contingent liabilities in this category that relate to indemnities and guarantees that have been provided in support of the new secure facilities project that will be conducted under a public private partnership agreement.

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

Finance

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

There are no reportable contingent liabilities in this category.

Property and Business Services

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

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

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

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

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

Chapter 3 Fiscal Strategy

The Territory's fiscal strategy is an essential element of budget planning and accountability, and outlines the Government's short and medium-term fiscal objectives in the context of prevailing economic conditions and provides the basis against which policy decisions can be assessed. The fiscal strategy is required to be based on the principles of sound financial management, thereby ensuring the ongoing economic prosperity and welfare of Territorians. The *Fiscal Integrity and Transparency Act* (FITA) requires a fiscal strategy to be prepared at the time of every budget. Adherence to the fiscal strategy is best assessed over time rather than at particular points in time.

The fiscal strategy, developed in 2009-10 in response to the effects of the global financial crisis (GFC), remains unchanged and incorporates both short-term and medium-term objectives. The strategy incorporates the ongoing requirement for fiscal discipline and is underpinned by the target of growth in untied expenditure not exceeding growth in untied revenue. The objective over the medium term is to provide a long-term, stable and resilient Territory economy and a sustainable financial position to provide the capacity and flexibility to respond to short-term, less favourable economic conditions and protect Territory jobs.

The continuation of subdued national economic conditions that had further affected the Territory's budget position at the time of the 2011-12 Budget shows no sign of abating. This, together with associated consumer caution, has further constrained the Territory's main source of revenue, GST revenue, as well as Territory own-source revenue. For 2011-12, GST revenue is expected to be \$163 million lower than estimated in May 2011. Despite an increase in the Territory's relative share from 2012-13, following the Commonwealth Grants Commission's 2012 Update, GST revenue is estimated to be \$125 million lower from 2012-13 and ongoing. In addition, royalty estimates have been revised in line with Territory miners' expectations of lower profitability due to declining commodity prices and currency fluctuations. This has resulted in royalty estimates being reduced by \$21 million in 2011-12 and \$45 million in 2012-13, with flow-on effects to the forward years.

The combined loss of GST and mining royalty revenue in excess of \$150 million per annum in all forward years has presented an additional challenge to the Territory Government in meeting its fiscal targets. Consequently, the Territory Government has committed to further reductions in both operational and capital spending in 2012-13 and the forward years. This includes a further round of ongoing budget improvement measures, including an increased efficiency dividend to 3 per cent and an additional 2 per cent reprioritisation of agency funding, which by the end of 2012-13 will have realised cumulative savings of around \$300 million. As a result of the revenue reductions, the cash and fiscal balance outcomes and associated net debt have worsened in all years. Notwithstanding, the Government remains committed to retiring debt and returning the budget to a surplus position as soon as it is economically prudent to do so.

Fiscal Principles

With each Budget, FITA requires the Treasurer to deliver a fiscal strategy statement that specifies the Government’s medium-term fiscal objectives and key financial targets. Under FITA, the fiscal strategy statement must be based on principles of sound fiscal management to:

- formulate and apply spending and taxation policies having regard to the effect of these policies on employment, economic prosperity and the development of the Territory economy;
- formulate and apply spending and taxing policies so as to give rise to a reasonable degree of stability and predictability;
- ensure that funding for current services is provided by the current generation; and
- prudently manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

These financial management principles underpin the Territory’s fiscal strategy.

The Government’s fiscal strategy consists of the following four components:

- sustainable service provision;
- infrastructure for economic and community development;
- competitive tax environment; and
- prudent management of debt and liabilities.

Sustainable Service Provision

Target: Expenditure growth not to exceed revenue growth, excluding tied Commonwealth funding

The Northern Territory Government is committed to improving services to Territorians and maintaining appropriate levels of investment in infrastructure to sustain jobs and contribute to economic growth. However, these policy objectives are to be achieved within a sound fiscal environment.

The Government’s overarching target of sustainable service delivery requires that growth in operating expenses is less than growth in operating revenue, excluding tied Commonwealth funding.

This strategy has been maintained in the 2012-13 Budget. On average untied expenditure increases by 3 per cent per annum compared to untied revenues of 5.4 per cent per annum over the forward estimates. In addition, net cash from operating activities in the Cash Flow Statement is positive in all years as shown in Table 3.1.

Table 3.1: General Government Sector – Net Cash Flows from Operating Activities

	2011-12 Estimate	2012-13 Budget	2013-14 Forward Estimates	2014-15 Forward Estimates	2015-16 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
Net cash flows from operating activities	453	145	147	148	128

Source: Northern Territory Treasury

Despite this, reductions in national GST collections, by far the Territory’s largest source of untied revenue, together with own-source revenue growth below long-term trends, have meant that the target of returning the Budget to surplus remains uncertain in the short term. In all years from 2012-13, lower

revenue than previously expected means the cash and operating deficits are higher than predicted in May 2011.

In order to maintain the Territory's commitment of limiting growth in expenditure, the Territory Government, as it did in the 2011-12 Budget, has required agencies to identify a further 2 per cent of output appropriation that can be redirected from 2012-13 to provide capacity for demand growth and new initiatives. In addition, the efficiency dividend has been increased by a further 2 per cent to 3 per cent in 2012-13 and the staffing cap that was in place for two years to 2012, will now continue. These measures, together with those previously announced, will have saved around \$300 million by the end of 2012-13.

Table 3.2 shows that the deficits have worsened by \$100 million less than the reduction in revenue over 2011-12 to 2014-15, demonstrating the Government's commitment to fiscal restraint.

Table 3.2: General Government Sector – Variation in Key Revenue Items and Underlying Cash Outcome between May 2011 and May 2012

	2011-12	2012-13	2013-14	2014-15	Total
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Mining royalties	- 21	- 45	- 32	- 32	- 130
GST revenue	- 163	- 125	- 131	- 120	- 539
Variation to 2011-12 Budget	- 184	- 170	- 163	- 152	- 669
Variation between May 2011 and May 2012 in underlying cash outcome	- 103	- 188	- 156	- 120	- 567

Source: Northern Territory Treasury

When the economy and associated revenue growth return to more normal conditions, the restriction on expenditure growth will enable the Territory Budget to return to operating and cash surpluses and will provide the capacity to meet both capital spending requirements and the retirement of additional debt accumulated during the economic downturn.

Tables 3.3 and 3.4 compare the updated net operating balance and cash positions for the general government sector since the 2011-12 Budget and Mid-Year Report.

Table 3.3: General Government Sector – Net Operating Balance

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2011-12 Budget	95	- 12	- 29	- 38	na
2011-12 Mid-Year Report	138	- 66	- 81	- 84	na
2012-13 Budget	166	- 163	- 158	- 154	- 147
Variation from 2011-12 Budget	71	- 151	- 129	- 116	na

Source: Northern Territory Treasury

Since the 2011-12 Budget, both GST and mining royalties have reduced by a combined amount in excess of \$150 million in all years. For 2011-12 these reductions have been offset by additional funding from the Commonwealth, including a higher proportion allocated to capital expenditure, and the timing of expenditure between years, resulting in an improved operating balance. From 2012-13 the operating balance has declined in all forward estimate years, although at a lower rate over the forward years. This is due

to the continued reduction in the GST, own-source revenues and a reduced level of Commonwealth funding for capital investment over the forward years, together with the timing of payments associated with Commonwealth revenue from earlier years. However, as indicated in Table 3.2, ongoing spending restraint has meant that the deterioration in the operating balance in all years is less than the reduction in Territory revenue.

Table 3.4: General Government – Cash Outcome

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2011-12 Budget	- 388	- 261	- 217	- 197	na
2011-12 Mid-Year Report	- 396	- 269	- 234	- 192	na
2012-13 Budget	- 491	- 449	- 373	- 317	- 278
Variation from 2011-12 Budget	- 103	- 188	- 156	- 120	na

¹ Darwin correctional facility not included.

Source: Northern Territory Treasury

Table 3.4 shows that for all years the cash outcome remains in a deficit position. While the deficits are projected to be higher than forecast in May 2011, the cash outcome continues to show an improving trend over the forward years. Notwithstanding, a return to surplus is not expected over the forward estimates without a significant turnaround in revenues.

For 2011-12 the cash outcome is projected to worsen, largely as a result of the loss in revenues, offset by additional funding by the Commonwealth that will be spent in future years. The cash outcome is projected to decline by \$103 million in 2011-12 whereas the operating balance is projected to improve by \$71 million. This variation of \$174 million in outcome represents additional Commonwealth and a greater proportion of Territory funding being applied to capital spending.

The variation from the May 2011 Budget for 2012-13 and the forward years predominantly represents the direct flow on effect of the worsened operating position, together with slightly higher capital spending. As with the decline in the operating result, when timing differences in 2012-13 are removed, in all years the increase in the cash deficit since May 2011 is less than the reduction in Territory revenues experienced over the same period. This reinforces the Territory Government's commitment to minimising the growth in operating expenditure.

Infrastructure for Economic and Community Development

Target: Maintain infrastructure investment at appropriate levels

Infrastructure investment plays a central role in the Government's budget strategy and is essential for the delivery of the Territory's social and economic requirements. The short-term strategy commits to spending at least twice the level of depreciation expense on capital infrastructure, on average, over the current economic cycle to support service delivery and business growth in the Territory. The economic outcomes for 2010-11 highlights that this policy has been successful, with public sector spending and investment resulting in economic growth of 1.6 per cent. Without it growth for 2010-11 would have been 0.2 per cent.

Private sector investment started to increase in 2011-12 and is set to increase significantly in 2012-13 on the back of a number of major resource

projects that have been announced. The most significant of these is the final investment decision by INPEX and Total on the \$34 billion Ichthys project. As foreshadowed in the 2011-12 Mid-Year Report, the confidence associated with new major projects has allowed the Territory Government to begin to reduce its infrastructure investment over the forward years, consistent with a counter-cyclical approach to capital spending. This will also ensure that the Government is not competing for scarce construction capacity and driving up construction costs. Notwithstanding, over the forward estimates the Territory Government will maintain investment above long-term historical averages but less than peak levels to achieve expenditure of at least twice the level of depreciation.

Once the national economy and resulting Government revenues return to more usual levels, the Territory's strategy is to reduce the level of infrastructure spending to an amount equivalent to depreciation charges to support medium-term economic growth, while trending towards the objective of a general government fiscal balance.

Table 3.5 presents the estimates for capital investment for 2011-12 to 2015-16 compared with the May 2011 Budget. The Government's capital investment comprises purchases of non financial assets (including construction and capital items) and capital grants to non-government organisations. It excludes repairs and maintenance.

Table 3.5: General Government Sector – Capital Investment

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2011-12 Budget					
Purchases of non financial assets	807	559	489	452	na
Capital grants	104	53	49	51	na
Total	911	612	538	503	na
2012-13 Budget					
Purchases of non financial assets	1 003	655	571	518	451
Capital grants	103	66	55	40	36
Total	1 106	721	626	558	487
Variation from 2011-12 Budget					
Purchases of non financial assets	196	96	82	66	na
Capital grants	- 1	13	6	- 11	na
Total	195	109	88	55	na

¹ Darwin correctional facility not included.

Source: Northern Territory Treasury

Table 3.6: General Government Sector – Capital Investment to Depreciation Ratio

	2011-12	2012-13	2013-14 ¹	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2011-12 Budget					
Total capital investment	911	612	538	503	na
Depreciation	204	207	210	213	na
Capital investment to depreciation ratio	4.5	3.0	2.6	2.4	na
2012-13 Budget					
Total capital investment	1 106	721	626	558	487
Depreciation	219	226	230	244	247
Capital investment to depreciation ratio	5.0	3.2	2.7	2.3	2.0
Variation from 2011-12 Budget					
Total capital investment	195	109	88	55	na
Depreciation	15	19	20	31	na
Capital investment to depreciation ratio	0.5	0.2	0.1	- 0.1	na

¹ Darwin correctional facility not included.

Source: Northern Territory Treasury

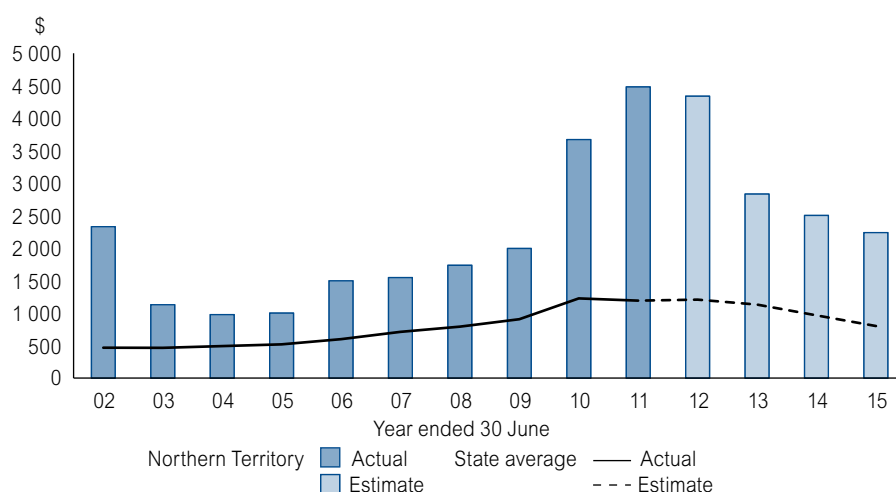
As shown in Table 3.6, investment in infrastructure continues to be in excess of the fiscal strategy target of spending twice depreciation levels over the current economic cycle, although reducing over the forward years as private sector investment rebounds.

Key projects announced since the 2011-12 Budget include additional Commonwealth and Territory Government co-investment in Remote Indigenous Housing, \$110 million for the Palmerston Hospital and \$80 million for remote health centres and regional hospitals. Territory-funded projects include the \$105 million Marine Supply Base and \$47.6 million for the delivery of affordable housing accommodation under the National Rental Affordability Scheme.

Not included in Government infrastructure spending is the \$495 million Darwin correctional facility that is being delivered under a public private partnership (PPP).

Chart 3.1 illustrates that the Northern Territory's capital investment per capita since 2001-02 is significantly higher than the average of the states. It also highlights the Territory's increased levels of investment, particularly since 2009, which demonstrates the Territory Government's commitment to increase infrastructure spending to maintain jobs and economic growth in the Territory at a time of substantial reductions in private investment. From 2011-12 this investment will begin to responsibly wind back as private sector investment rebounds.

Chart 3.1: General Government Sector – Territory Capital Investment Per Capita



Source: State and Territory budget and outcome reports. State forward estimates based on mid-year reports

Further information on capital works projects is included in *Budget Paper No. 4*.

The fiscal balance provides a more complete measure of the Territory's overall financial position (that is, whether it is a net lender or a borrower of funds) and includes the effects of all operating costs and the change in net physical assets. A fiscal balance deficit is expected for a developing jurisdiction such as the Territory.

Similar to the cash outcome, the fiscal balance remains in deficit over the budget cycle, with a deficit of \$546 million in 2011-12, although improving to a projected deficit of \$285 million in 2015-16, as shown in Table 3.7. The movement since the 2011-12 Budget is largely in line with the movement in the cash outcome.

Table 3.7 General Government Sector – Fiscal Balance

	2011-12 Estimate	2012-13 Budget	2013-14 ¹ Forward Estimates	2014-15 Forward Estimates	2015-16 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
2011-12 Budget	- 436	- 298	- 242	- 206	na
2011-12 Mid-Year Report	- 444	- 305	- 262	- 213	na
2012-13 Budget	- 546	- 490	- 408	- 349	- 285
Variation from 2011-12 Budget	- 110	- 192	- 166	- 143	na

¹ Darwin correctional facility not included.

Source: Northern Territory Treasury

Competitive Tax Environment

Target: Ensure Territory taxes and charges are competitive with the average of the states and territories

The Government is committed to maintaining taxation at levels that are competitive with the average of other jurisdictions and encourage increased levels of business activity in the Northern Territory.

Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. Chapter 6 describes the representative taxpayer model and compares the main Territory taxes using this model. Another measure of the competitiveness of the Territory's tax system is taxation effort as assessed by the Commonwealth Grants Commission (CGC).

The CGC's analysis of 'tax capacity and effort' assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below average and whether tax rates applied are above or below the states' average. Table 3.8 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2010-11, the latest year assessed by the CGC.

Table 3.8: Northern Territory Revenue-Raising Capacity and Effort 2010-11

	Capacity ¹	Effort ²
	%	%
Total taxation	86	78
Total own-source revenue	94	90

1 Northern Territory's capacity to raise revenue compared with the Australian average.

2 Northern Territory's revenue effort compared with the Australian average, given the capacity available.

Note: Australian average = 100 per cent.

Source: Commonwealth Grants Commission 2012 Update

Table 3.8 shows that the Territory's capacity to raise revenue is below the Australian average. That is, if the Territory applied the average rates of tax to its tax base, the revenue the Territory could raise would be less than the national average on a per capita basis.

The Territory is assessed as having lower than average effort for taxation (largely payroll tax, land tax, stamp duty on conveyances, insurance taxation and motor taxes), reflective of the Territory's fiscal strategy of ensuring taxes are competitive with the average of the jurisdictions. The lower than average taxation effort is mainly a result of the position adopted by the Territory not to impose a land tax and having the lowest total motor vehicle taxes in Australia.

In relation to total own-source revenue, the main reason that the Territory is assessed as having a higher effort compared to the taxation effort measure is due to mining revenues. The Territory was assessed as having a high effort for mining revenues as a result of the profitability of Territory miners and the application of the Territory's profit-based royalty scheme. Although the Territory's mining royalty scheme is profit-based, the CGC's assessment is based on an average *ad valorem* basis as operates in all other jurisdictions.

The Territory's profit-based scheme means that mining royalty revenue is highly variable in line with fluctuations in profit levels. When volatility associated with mineral royalties and mining profits is taken into account, levels of effort are in line with previous years and the Australian average.

Prudent Management of Debt and Liabilities

Target: Reduce debt to pre-GFC levels once the economy rebounds

This element of the fiscal strategy aims to ensure that debt is prudently managed, taking into consideration service delivery needs and capital investment in infrastructure to promote social wellbeing and economic growth.

Over the current economic cycle, the Territory's debt position is projected to worsen due to the effect of national and local economic conditions and the consequential effect of increased cash deficits.

Once the economy recovers and long-term revenue patterns return, the sustainable service provision target of limiting expenditure growth will provide the capacity to reduce debt over time. The target is to reduce debt by 5 per cent of the increase per annum.

The measures of net debt and net financial liabilities for the general government sector provide the means of assessing the Territory's performance against this element of the fiscal strategy.

Table 3.9: General Government Sector – Net Debt

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
Net debt (\$M)					
2011-12 Budget	1 530	1 825	2 091	2 254	na
2011-12 Mid-Year Report	1 595	1 900	2 682	2 843	na
2012-13 Budget	1 689	2 174	3 095	3 381	3 627
Variation from 2011-12 Budget	159	349	1 004	1 127	na
Net debt to revenue (%)					
2011-12 Budget	33	41	46	48	na
2011-12 Mid-Year Report	34	43	60	62	na
2012-13 Budget	35	48	66	71	74
Variation from 2011-12 Budget	2	7	20	23	na

Source: Northern Territory Treasury

The very substantial reduction in GST revenue in 2011-12, which reflects lower national collections than in 2010-11, has put this element of the strategy under considerable strain. The level of savings required to offset GST reductions since 2009-10 would have done significant damage to the Territory economy in the post-GFC period. The Government therefore decided to support the Territory economy by maintaining expenditure with the outcome being an increasing level of debt for the general government sector.

As Table 3.9 highlights, net debt for the general government sector is expected to increase over the budget and forward estimates period. Lower revenue combined with high levels of investment in infrastructure and ongoing demand pressures in key service delivery areas has resulted in a deteriorating fiscal position for the Territory.

The net debt figures also include the continuation of a series of debt for equity swaps for the Power and Water Corporation, originally announced in the 2010-11 Budget, and the liability associated with the \$495 million Darwin correctional facility that is financed through a PPP arrangement.

Table 3.9 shows that, in absolute terms, net debt is estimated to rise from \$1.7 billion in 2011-12 to around \$3.6 billion in 2015-16. When measured as a ratio to revenue, it is expected to rise from 35 per cent in 2011-12 to 74 per cent by 2015-16.

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation, a major liability for the Territory and most jurisdictions. The Territory cannot influence the level of its future superannuation liabilities. The schemes to which the liabilities relate are closed and any variation to the

liability is a result of factors outside the Territory's control such as longevity or long-term bond rates. The Territory will make no policy decisions that will increase its overall superannuation liabilities.

Table 3.10: General Government Sector – Net Financial Liabilities

	2011-12 Estimate	2012-13 Budget	2013-14 Forward Estimates	2014-15 Forward Estimates	2015-16 Forward Estimates
Net financial liabilities (\$M)					
2011-12 Budget	4 771	5 121	5 433	5 626	na
2011-12 Mid-Year Report	5 030	5 265	6 093	6 295	na
2012-13 Budget	5 444	5 760	6 525	6 864	7 137
Variation from 2011-12 Budget	673	639	1 092	1 238	na
Net financial liabilities to revenue (%)					
2011-12 Budget	103	114	120	121	na
2011-12 Mid-Year Report	108	120	137	137	na
2012-13 Budget	113	127	140	144	146
Variation from 2011-12 Budget	10	13	20	23	na

Source: Northern Territory Treasury

Table 3.10 highlights that the level of net financial liabilities both in absolute terms and as a percentage of revenue is set to increase over the forward estimates. The increase is largely a direct result of the increased net debt together with a marginal increase in superannuation liabilities, as a result of improved mortality rates and lower benefit payments as highlighted in the 2010-11 Treasurer's Annual Financial Report.

The Commonwealth ten-year bond rate used in calculating the superannuation liability is 4.25 per cent for 2011-12 and 5 per cent for 2012-13, consistent with current market conditions, and returns to 5.7 per cent over forward years in line with the anticipated return to the long-term average rate. The lower bond rates in 2011-12 and 2012-13 account for the higher liabilities in those years than projected at the time of the May 2011 Budget.

Conclusion

The further declines in Territory revenue, largely GST and mining royalties, in excess of \$150 million in all years since the 2011 Budget, have presented an additional challenge to the Territory Government in meeting its fiscal targets. This has necessitated a further round of ongoing budget improvement measures, including an increased efficiency dividend and an additional reprioritisation of agency funding that by the end of 2012-13 will have realised cumulative savings of around \$300 million. In addition, new recurrent spending initiatives have been largely contained to key service delivery areas and capital investment is being reduced responsibly over the forward years on the back of increased private sector activity in the Territory.

The deterioration in cash and fiscal balance outcomes and associated net debt is less than the fall in revenues over the forward estimates demonstrating ongoing spending restraint. Notwithstanding, without a significant rebound in revenues a return to a surplus position is likely to be delayed, however the Government remains committed to retire debt and return the budget to a surplus position as soon as is economically prudent to do so.

Chapter 4 Budget Initiatives

Overview This chapter summarises the Government's new and expanded initiatives for expenditure and revenue included in the 2012-13 Budget, along with significant new works on the 2012-13 Capital Works Program.

Table 4.1 provides an aggregate summary of expenditure initiatives across all agencies, with Table 4.2 outlining new expenditure initiatives and initiatives announced previously that commence or increase in 2012-13. Table 4.2 also presents the amounts identified by agencies available for reprioritisation that have been redirected towards the new and expanded expenditure initiatives set out in Table 4.2.

The Capital Works Program tables list new major works projects and capital grants. The amounts reflect the total project costs, not the cash allocation in the 2012-13 Budget. Table 4.3 provides an aggregate summary by agency, with Table 4.4 setting out the details by agency.

For more details about initiatives and capital projects, including capital works projects continuing from 2011-12, see *Budget Paper No. 3* and *Budget Paper No. 4*. *Budget Paper No. 3* also provides information on Commonwealth-funded projects not included in this chapter.

Table 4.5 presents the summary of tax measures, followed by a detailed discussion of these and other revenue policy changes.

Table 4.1: Overview Summary

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Northern Territory Electoral Commission	400	600			
Department of the Chief Minister	5 100	2 000	2 000	2 000	2 000
Northern Territory Police, Fire and Emergency Services	5 742	8 602	8 042	8 352	8 392
Northern Territory Treasury		2 000			
Department of Business and Employment		880	1 390	1 390	1 390
Department of Education and Training	2 000	2 640	2 640	2 640	2 640
Department of Housing, Local Government and Regional Services	3 646	25 829	2 500	2 500	2 500
Department of Health	44 575	70 345	70 845	70 845	70 845
Department of Children and Families	24 532	31 628	30 670	32 389	32 389
Department of Justice	13 779	26 393	32 576	29 736	29 736
Department of Natural Resources, Environment, the Arts and Sport	1 350	3 300	3 300	3 300	3 300
Department of Lands and Planning	30 000	775	300	350	150
Department of Construction and Infrastructure	7 000	4 000			
Total Initiatives	138 124	178 992	154 263	153 502	153 342

Table 4.2: Initiatives by Agency

	2011-12 Estimate \$000	2012-13 Budget \$000	2013-14 \$000	2014-15 \$000	2015-16 \$000
			Forward Estimates		
Auditor-General's Office					
Support for audit activities		62	62	62	62
Savings identified for reprioritisation ¹		- 62	- 62	- 62	- 62
Total		0	0	0	0
Northern Territory Electoral Commission					
Additional resources to conduct the 2012 General Election and to support ongoing electoral activities	400	635	35	35	35
Savings identified for reprioritisation ¹		- 35	- 35	- 35	- 35
Total	400	600	0	0	0
Department of the Chief Minister					
Development of the Marine Supply Base project	4 000				
Establishment of the Strategic Projects Implementation Office	1 100	858	858	858	858
Additional resources for the Department of the Chief Minister		1 920	1 920	1 920	1 920
Savings identified for reprioritisation ¹		- 778	- 778	- 778	- 778
Total	5 100	2 000	2 000	2 000	2 000
Department of the Legislative Assembly					
Additional funding to support the operations of the Legislative Assembly		225	225	225	225
Savings identified for reprioritisation ¹		- 225	- 225	- 225	- 225
Total		0	0	0	0
Northern Territory Police, Fire and Emergency Services					
Expand youth diversion programs in Katherine and Tennant Creek	300	300	300	300	300
Funding to support operational cost pressures for Northern Territory Police		1 317	1 317	1 317	1 317
Additional resources for the Northern Territory Fire and Rescue Service	5 442	8 302	7 742	8 052	8 092
Savings identified for reprioritisation ¹		- 1 317	- 1 317	- 1 317	- 1 317
Total	5 742	8 602	8 042	8 352	8 392
Northern Territory Treasury					
Expansion of the Indigenous Employment and Career Development Strategy		212	212	212	212
Expansion of the graduate employment program		420	420	420	420
Extension of the BuildBonus scheme to 30 June 2012		2 000			
Savings identified for reprioritisation ¹		- 632	- 632	- 632	- 632
Total		2 000	0	0	0

¹ Savings from discretionary costs including consultancy, advertising and travel.

(continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Business and Employment					
Funding to continue employer apprentice incentives		880	1 390	1 390	1 390
Establish an economic development projects facilitation unit		423	423	423	423
Additional funding to support small business development		1 010	1 010	1 010	1 010
Savings identified for reprioritisation ¹		- 1 433	- 1 433	- 1 433	- 1 433
Total		880	1 390	1 390	1 390
Department of Education and Training					
Additional funding for repairs and maintenance		640	640	640	640
Establish a re-engagement centre in Malak to co-locate a range of transition support programs and services for disengaged 12 to 17 year olds in the Darwin, Palmerston and remote Top End regions		3 811	3 811	3 811	3 811
Additional funding for Charles Darwin University	2 000	2 000	2 000	2 000	2 000
Savings identified for reprioritisation ¹		- 3 811	- 3 811	- 3 811	- 3 811
Total	2 000	2 640	2 640	2 640	2 640
Department of Housing, Local Government and Regional Services					
To provide municipal and essential services to outstations		15 000			
To continue municipal and essential services to town camps including Alice Springs and Darwin		2 500	2 500	2 500	2 500
Assistance for costs associated with natural disaster recovery expenditure	2 650				
Funding for Indigenous Essential Services projects in Lajamanu, Maningrida and Ntaria		7 000			
Funding for the continuation of the A Place to Call Home tenancy sustainability scheme	996	2 528	1 199	1 199	1 199
Savings identified for reprioritisation ¹		- 1 199	- 1 199	- 1 199	- 1 199
Total	3 646	25 829	2 500	2 500	2 500
Office of the Commissioner for Public Employment					
Funding to support the implementation of the updated <i>Public Sector Employment and Management Act</i> and develop a whole of government integrated Indigenous career pathway program		96	96	96	96
Savings identified for reprioritisation ¹		- 96	- 96	- 96	- 96
Total		0	0	0	0

¹ Savings from discretionary costs including consultancy, advertising and travel.

(continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Health					
Additional resources for the Patient Assistance Travel scheme	12 474	10 696	10 696	10 696	10 696
Increased funding for Individual Support Packages	12 526	12 725	12 725	12 725	12 725
Funding to support the Top End Aeromedical Service	4 600	13 596	12 902	12 902	12 902
Additional resources to meet increased cost and demand pressures		11 020	10 614	10 614	10 614
Additional resources for pensioner concessions		4 570	4 570	4 570	4 570
Additional funding to provide clinical service system enhancements for children and adolescent health services, and suicide prevention programs	1 600	3 000	3 200	3 200	3 200
Expanded funding for the Enough is Enough Alcohol Reform Package					
- Enhancement of urban and remote treatment and rehabilitation services	3 500	3 500	3 500	3 500	3 500
- Grant funding to provide remote community alcohol and other drug centres		800	800	800	800
- Non-government organisation grants for referral clinicians to support the SMART Court		900	1 900	1 900	1 900
- Community-based outreach case management and intervention services in urban and remote locations	700	1 600	2 000	2 000	2 000
- Grant funding for brief interventions delivered through primary health care providers	225	225	225	225	225
- Provision of withdrawal support services	500	1 500	1 500	1 500	1 500
- Development and assessment of services provided	230	230	230	230	230
Increased resources to enhance secure care services for young people and adults with complex care needs	8 220	9 220	9 220	9 220	9 220
Savings identified for reprioritisation ¹		- 3 237	- 3 237	- 3 237	- 3 237
Total	44 575	70 345	70 845	70 845	70 845
Department of Children and Families					
Funding to support out of home care services		1 520	1 520	1 520	1 520
Implementation of the Growing them Strong, Together Report recommendations	24 532	31 628	30 670	32 389	32 389
Savings identified for reprioritisation ¹		- 1 520	- 1 520	- 1 520	- 1 520
Total	24 532	31 628	30 670	32 389	32 389
Department of Resources					
Develop revised arrangements for various plant, animal and chemical services		150			
Expand horticultural and livestock market opportunities internationally		500	500	500	500
Continued administration and regulation of onshore energy resources and geothermal exploration		125	275	275	275
Establish an Indigenous Fisheries Science Mentoring Program		260	260	260	260
Savings identified for reprioritisation ¹		- 1 035	- 1 035	- 1 035	- 1 035
Total		0	0	0	0

¹ Savings from discretionary costs including consultancy, advertising and travel.

(continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Justice					
Resources for Consumer Affairs for the Residential Building Consumer Package		250	300	300	300
Increased support to Northern Territory Legal Aid Commission	900	900	900	900	900
Increased capacity for NT WorkSafe to implement National Uniform Work Health and Safety reforms		931	931	931	931
Establishment and new program funding for the Youth Justice Unit	217	1 700	1 700	1 700	1 700
Ongoing funding for the Office of the Commissioner for Public Interest Disclosure		300	300	300	300
Additional resources to manage increased prisoner numbers		1 960	2 840		
New Era in Corrections initiatives including enhanced community-based orders and treatment services	8 462	14 581	19 834	19 834	19 834
Enough is Enough Alcohol Reform Package including enforcement activities, the Substance Misuse Assessment and Referral for Treatment Court and Alcohol and Other Drugs Tribunal	4 200	6 702	6 702	6 702	6 702
Savings identified for reprioritisation ¹		- 931	- 931	- 931	- 931
Total	13 779	26 393	32 576	29 736	29 736

Aboriginal Areas Protection Authority

Increased demand for the protection of sacred sites		62	62	62	62
Savings identified for reprioritisation ¹		- 62	- 62	- 62	- 62
Total		0	0	0	0

Tourism NT

Increase Tourism NT's digital marketing activities and undertake initiatives to activate growth of the China market		694	694	694	694
Savings identified for reprioritisation ¹		- 694	- 694	- 694	- 694
Total		0	0	0	0

Department of Natural Resources, Environment, the Arts and Sport

Additional funding to establish the Defence of Darwin Experience	150				
Continued funding for community sports and recreation programs in remote communities		1 000	1 000	1 000	1 000
Funding to provide a grant to Darwin City Council for new and upgraded facilities on Nightcliff foreshore	1 000				
Funding for lease costs for Territory Parks and Reserves		1 527	1 527	1 527	1 527
Expand the Territory Eco-link		600	600	600	600
Additional resources for the ongoing management and maintenance of the Palmerston Water Park	200	2 300	2 300	2 300	2 300
Savings identified for reprioritisation ¹		- 2 127	- 2 127	- 2 127	- 2 127
Total	1 350	3 300	3 300	3 300	3 300

¹ Savings from discretionary costs including consultancy, advertising and travel.

(continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Lands and Planning					
Implementation of the Residential Building Consumer Package		75	150	150	150
Establishment of the Office of the Territory Valuer-General		100	150	200	
Additional funding for Community Service Obligation payments for repairs and maintenance of Stokes Hill Wharf		600			
Additional resources for road repairs and maintenance following natural disasters	30 000				
Additional resources for the Department of Lands and Planning		1 267	1 267	1 267	1 267
Savings identified for reprioritisation ¹		- 1 267	- 1 267	- 1 267	- 1 267
Total	30 000	775	300	350	150

Department of Construction and Infrastructure

Implementation of a new asset management system	7 000	4 000			
Funding to implement a Quality Improvement program for project management		201	201	201	201
Savings identified for reprioritisation ¹		- 201	- 201	- 201	- 201
Total	7 000	4 000	0	0	0

¹ Savings from discretionary costs including consultancy, advertising and travel.

Table 4.3: Summary of 2012-13 New Capital Works

	\$M
Department of the Chief Minister	76.0
Northern Territory Police, Fire and Emergency Services	3.3
Department of Education and Training	25.2
Department of Housing, Local Government and Regional Services	148.5
Department of Health	60.7
Department of Children and Families	1.0
Department of Justice	13.0
Department of Natural Resources, Environment, the Arts and Sport	1.0
Department of Lands and Planning	115.1
Land Development Corporation	65.2

Table 4.4: 2012-13 Capital Works by Agency

	\$M
Department of the Chief Minister	
Marine Supply Base – essential services headworks	6.0
Marine Supply Base – construction, stage 1	70.0
Northern Territory Police, Fire and Emergency Services	
Working Future	
Numbulwar Police Post – upgrade to police station	1.5
Police overnight facilities – Mt Liebig, Areyonga and Robinson River	1.8

(continued)

\$M

Department of Education and Training

Kintore Street School – primary school infrastructure upgrade	1.8
National Solar Schools Program	1.0
Palmerston Senior College – special education upgrade, stage 2	0.8
Working Future	
Child and Family Centres – Gunbalanya, Maningrida, Ngukurr and Yuendumu	16.1
Child Care Centre – Ntaria	1.9
Homeland Learning Centre – early learning centre on Elcho Island	1.0
Kalkarindji School – new classroom block	1.6
Walungurru School – replace administration block	1.1

Department of Housing, Local Government and Regional Services

Government Employee Housing

Working Future	
Construct additional housing in remote locations	3.0
Land servicing in remote locations	1.0
Upgrade housing in remote locations	3.0

Public Housing

A Place to Call Home – construct new public housing in Bellamack	4.6
A Place to Call Home – construct new public housing in Zuccoli	6.0
Redevelop existing unit complexes across all regions	4.0
Rosebery – construct seven two-bedroom units	2.4

Indigenous Housing and Infrastructure

Working Future – Strategic Indigenous Housing and Infrastructure Program including land servicing and essential services	111.5
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2012-13 Major Capital Grants – Indigenous Essential Services

Working Future	
Ntaria – water supply upgrades	2.2
Lajamanu – water supply upgrades	3.0
Maningrida – water supply upgrades	1.8

2012-13 Major Capital Grants – Other

Working Future	
Closing the Gap – community infrastructure grants	1.0
Municipal and Essential Services	5.0

(continued)

	\$M
Department of Health	
Alice Springs Hospital – remediation and upgrade	5.0
Gove District Hospital – continuation of fire upgrades	0.7
Katherine Hospital – patient accommodation	7.7
Palmerston Hospital – construction, stage 1	10.0
Royal Darwin Hospital – fire detection upgrade	1.6
Tennant Creek Hospital – emergency department upgrade	3.7
Working Future	
Construct new health centre at Elliott	6.2
Construct new health centre at Galiwin'ku	6.4
Construct new health centre at Milingimbi	4.5
Construct new health centre at Ngukurr	5.9
Construct new health centre at Ntaria	6.4
Upgrade health centre at Borroloola	0.8
Upgrade health centre at Papunya	1.8
Department of Children and Families	
Alice Springs Youth Hub	1.0
Department of Justice	
Alice Springs Correctional Centre:	
– new and upgraded infrastructure to support an additional 50 beds	4.6
– construct a 20-bed Supported Accommodation and Program Centre	5.8
Darwin Youth Justice Court renovations	1.0
New Era in Corrections – additional beds to support Alcohol and Other Drugs Services	1.6
Department of Natural Resources, Environment, the Arts and Sport	
Rural area swimming pool, stage 1	1.0

(continued)

\$M

Department of Lands and Planning

Arnhem Highway – upgrade	4.0
Black Spot Program	1.0
Green Heart of Darwin	1.0
Howard Springs/Gunn Point Road	8.5
Middle Arm Industrial Precinct – water supply headworks	15.5
National Network flood immunity improvements	6.0
National Network infrastructure road safety initiatives	11.0
National Network strengthening and widening	10.0
Palmerston East headworks	15.0
Red Centre Way (Mereenie)	5.0
Roads to Recovery Program	4.6
Secondary and local roads – pavement strengthening	1.0
Stuart Highway – Darwin to Katherine overtaking opportunities	3.0
Tiger Brennan Drive duplication – Dinah Beach Road to Woolner Road	9.0
Urban arterials – strengthen deficient pavement sections	2.0
Urban arterials – traffic management improvements	3.0
Urban roads landscaping	0.5
Working Future	
Canteen Creek airstrip – upgrade and seal	2.5
Central Arnhem Road passing opportunities	1.5
Tanami Road – upgrade and seal	2.0
Upgrade barge landing at Gapuwiyak	2.0
Upgrade barge landing at Wurrumiyanga (Nguiu)	2.0
Utopia airstrip – upgrade and seal	2.5
Yarralin airstrip – upgrade and seal	2.5

Land Development Corporation

Common user area, stage 3	3.2
Wishart Road development	14.4
Residential development including the delivery of affordable dwellings approved under the National Rental Affordability Scheme	47.6

Revenue Initiatives A number of revenue measures are included in the 2012-13 Budget. Revenue measures that affect the Budget are summarised in Table 4.5. This initiative and other policy variations are described later in this section.

Table 4.5: Summary of Revenue Measures

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Deferral of abolition of stamp duty on business property conveyances excluding land		8 650	8 866	9 088	9 315
Total		8 650	8 866	9 088	9 315

Source: Northern Territory Treasury

Deferral of Abolition of Stamp Duty on Business Property Conveyances Excluding Land

The 2009-10 Budget included, as part of National Tax Reform, the abolition of stamp duty on non-land business property in the Territory from 1 July 2012.

Since that time, states' and territories' own-source revenue receipts and funding from the goods and services tax (GST) have significantly deteriorated. Accordingly, Queensland, South Australia, New South Wales and Western Australia, which are the states that have remaining IGA taxes to abolish, have announced that they will further defer these tax reforms.

South Australia and Western Australia have announced that abolition of stamp duty on non-land business property will be deferred until 1 July 2013. Queensland has announced that it will defer the abolition of stamp duty on non-land business property until this measure can be accommodated in its Budget.

In the Territory, own-source revenue receipts in 2011-12 are significantly lower than forecast in Budget 2011-12 (see Chapter 6 for further details) with actual receipts lower than in 2010-11 and the lowest since 2007-08.

Accordingly, consistent with the approach in Queensland, the Territory has decided to defer the abolition of stamp duty on non-land business property until the Territory Budget situation permits the cost of that abolition. A review of the Budget's capacity to accommodate the abolition of this stamp duty will occur annually.

Equity, Efficiency and Administrative Enhancements

Payroll Tax

The *Payroll Tax Act* includes an exemption for up to 14 weeks of wages paid as maternity, adoption or paternity leave where certain conditions are met. It also provides that where leave is taken at less than full pay, the exemption extends to a period equivalent to 14 weeks leave at full pay.

However, the current wording of the exemption is unclear in respect of the treatment of part-time employees. To ensure that the policy intent of the parental leave exemptions is reflected in the legislation, the Government has approved amendments to clarify that the exemption for wages paid to part-time employees as parental leave also extends to a period equivalent to 14 weeks leave at full pay.

The amendments are based on model legislation drafted by Victoria and will be adopted by most Australian jurisdictions as part of payroll tax harmonisation arrangements.

Gambling Taxes

The *Gaming Control Act* and its Regulations provide for the Minister to license entities or enter into agreements for the conduct of lotteries in the Territory. However, although there are provisions in the Act to impose taxes or fees on casino licences, mail order lotteries and internet gaming, there are no provisions within the Act to impose taxes or fees on other agreements generally.

Currently, major bloc lotteries and instant lotteries are conducted under foreign lottery permits, meaning tickets are sold in the Territory for lotteries that are conducted in another state. The Territory has no power to control the tax rates set in those states.

Accordingly, the Government has approved minor amendments that will:

- enable the Territory to impose taxes and fees on lottery operators who enter into an agreement with the Territory under the *Gaming Control Act*;
- clarify and make consistent provisions relating to the payment of fees under the various licences and agreements under the *Gaming Control Act*; and
- better integrate the taxation administration provisions of the *Taxation Administration Act* with the *Gaming Control Act* to ensure that the taxation arrangements proposed are efficiently administered.

The amendments allowing the Territory to tax lottery agreements provide for the flexibility of offering Territory lottery agreements and, consistent with Territory 2030, facilitate further private sector investment to drive economic growth and expansion.

By better integrating the taxation administration provisions contained within the *Gaming Control Act* with the *Taxation Administration Act*, this provides a simpler, clearer and more efficient taxation administration framework for lottery operators and other licence holders.

Chapter 5 Intergovernmental Financial Issues

Overview

The distribution of tax powers in Australia between the Commonwealth and the states means that intergovernmental financial arrangements are critically important to all state jurisdictions and particularly so for the Northern Territory.

In 2012-13, the Territory is estimated to receive \$3683 million in Commonwealth funding. This comprises \$2704 million in goods and services tax (GST) revenue, \$433 million in National Partnership payments, \$270 million in Specific Purpose Payments (SPPs) and \$276 million in other payments.

GST revenue represents the largest fiscal transfer from the Commonwealth and in 2012-13 is expected to comprise about 60 per cent of the Territory's total revenue.

For 2011-12, GST revenue to the Territory is now estimated to be \$2494 million, which is \$163 million lower than estimated at the time of the 2011-12 Budget. The estimated GST revenue to the Territory for 2011-12 and forward years has been revised downwards due to a reduction in anticipated national GST collections associated with ongoing weakening of consumption expenditure, particularly on items subject to GST, and an increasing household savings to consumption ratio. Growth in the GST pool is well below the levels experienced prior to the global financial crisis (GFC) and is unlikely to return to those levels in the foreseeable future.

Prior to the GFC, the average annual growth rate of the GST pool was 8.2 per cent. Between 2007-08 and 2010-11, the average annual growth rate fell to 2.7 per cent. However, based on actual collections for the first nine months of 2011-12, current projections are that the GST pool will decline by 0.8 per cent compared with the 2010-11 GST pool. While growth in the GST pool from 2012-13 onwards is expected to recover, GST revenue in 2012-13 and over the forward estimates period is expected to be significantly lower than forecast at the time of the 2011-12 Budget.

In its February 2012 Update, the Commonwealth Grants Commission (CGC) recommended an increase in the Territory's GST relativity from 5.35708 in 2011-12 to 5.52818 in 2012-13, equivalent to an increase of \$83 million in the Territory's share of GST revenue. However, this significant improvement in the Territory's relativity is more than offset by the downward revision to the GST pool. After taking into account the updated 2012 relativity and the reduced GST pool, the Territory's GST revenue for 2012-13 is \$125 million less than estimated at the time of the 2011-12 Budget.

Tied Commonwealth revenue also continues to make a significant contribution to the Territory's total revenue (21.4 per cent in 2012-13). While the 2008 Intergovernmental Agreement on Federal Financial Relations (IGA) originally envisaged less Commonwealth prescription on service delivery associated with tied Commonwealth funding, this is only partially being realised, due to the proliferation of NP agreements in recent years. The introduction of National Health Reform (NHR) payments (predominantly made on an activity basis) and exploration by the Commonwealth of alternate

Federal Financial Relations

funding arrangements for school funding, also represent a further shift away from the IGA's intent of greater flexibility in the use of tied funding by states.

Australia's federal financial relations is characterised by a mismatch between the revenue-raising powers and service delivery responsibilities of the Commonwealth and the states, referred to as vertical fiscal imbalance. Vertical fiscal imbalance exists in Australia because the majority of government services including healthcare, education and law and order are delivered by states, however states have a limited and narrow range of taxes from which to raise revenues. The reverse is true for the Commonwealth, where its expenditure obligations are less than the revenue it collects.

The high level of vertical fiscal imbalance that exists in Australia means that financial transfers from the Commonwealth are a vital source of revenue for all states. These transfers are broadly in the forms of general revenue assistance, which are untied payments to be used in line with each state's policies and priorities; and tied funding, which has defined objectives, outcomes and outputs agreed between the Commonwealth and states.

In 2012-13, the Territory is estimated to receive \$3683 million in Commonwealth funding (Table 5.1). This represents about 80 per cent of the Territory's total revenue. In contrast, Commonwealth funding represents about 50 per cent of total revenue for other jurisdictions. The Territory's reliance on Commonwealth revenue is a function of its small own-source revenue base and, importantly, the above average costs of delivering services and infrastructure to the Territory's small but highly dispersed population, which comprises a relatively large share of Indigenous people.

Table 5.1: Components of Territory Revenue

	2010-11 Actual	2011-12 Estimate	2012-13 Budget
	\$M	\$M	\$M
General revenue assistance			
GST revenue ¹	2 345	2 494	2 704
Grants in lieu of uranium royalties	6	3	4
Tied revenue			
Specific Purpose Payments ²	275	272	270
National Partnership payments	867	812	433
Other Commonwealth payments ^{3,4}	323	343	272
Total Commonwealth revenue	3 816	3 924	3 683
Territory own-source revenue	907	894	867
Total revenue	4 723	4 818	4 550

1 Includes balancing adjustments for over/under payments of GST in the previous financial year.

2 This incorporates National Health Reform payments in 2012-13.

3 For consistency of reporting with the Commonwealth, funding under Natural Disaster Relief and Recovery Arrangements are reported as tied funding.

4 Includes payments 'through' the Territory for non-government schools.

Source: Northern Territory Treasury

Historically, states' attempts to maintain shares of national revenue have largely been unsuccessful due to constitutional barriers, relative size and resilience of tax bases as well as tax and expenditure policies by both levels of governments. As a result, states' capacities to raise own-source revenue have declined over time relative to the Commonwealth. This is evident in Table 5.2, which shows that the proportion of revenue collected under state

legislation has more than halved from 59.0 per cent at the start of Federation to 24.5 per cent in 2010-11.

Table 5.2: Proportion of Revenue Collected Under Commonwealth and State Legislation

	Proportion Collected under Commonwealth Legislation	Proportion Collected under State Legislation	Proportion of all State Revenue from Commonwealth Transfers
	%	%	%
1901-02	41.0	59.0	36.7
1938-39	46.6	53.4	13.9
1946-47	84.9	15.1	46.1
1980-81	78.3	21.7	62.0
2010-11	75.5	24.5	50.0

Source: Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities 2012 Update

Intergovernmental Agreement on Federal Financial Relations

The IGA provides the architecture for Commonwealth funding to the states. It also provides the framework for collaboration between governments on significant policy development and service delivery matters, as well as the implementation of nationally important economic and social reforms. The IGA's aspirations and principles provide a strong foundation for the Council of Australian Government's (COAG) reform agenda and were re-confirmed by the 2010 Heads of Treasuries Review of National Agreements, National Partnership Agreements and Implementation Plans (HoTs Review).

Six National Agreements have been established under the IGA. These address the key state service areas of healthcare, schools, skills and workforce development, disability, affordable housing, and Indigenous reform. The 2011 NHR Agreement is also subject to the IGA and its implementation necessitated a number of consequential changes to the IGA, notably the payment arrangements. The IGA was also revised during 2011-12 in response to the recommendations of the HoTs Review.

The IGA establishes NP agreements to implement projects of national importance and/or significant reforms. NP agreements have been agreed for initiatives in a broad range of state services. Some, but not all, NP agreements require Implementation Plans to outline state-specific arrangements. A new, simpler type of NP agreement, the Project Agreement, was introduced in 2011 (a recommendation of the HoTs Review). These agreements are predominantly for straightforward program or project delivery initiatives.

The Territory currently has about 50 NP agreements and Project Agreements agreed, with about another 20 under negotiation, including some that represent the continuation of previous funding. There are also over 65 Implementation Plans either agreed or under development. Although the IGA contemplated the streamlining and consolidation of funding agreements, there are now more agreements in place than at the time the IGA was initiated, with a consequential administrative burden predominantly borne by states.

National Agreements and significant NP agreements for the Territory are outlined later in this chapter and also in *Budget Paper No. 3*.

Goods and Services Tax Revenue

GST revenue represents the largest fiscal transfer from the Commonwealth, accounting for about 50 per cent of Commonwealth payments to the states. The arrangements in the IGA in relation to the transfer and distribution of GST revenue between states are that:

- the Commonwealth will make GST payments to the states equivalent to the revenue received from the GST. GST payments will be freely available for use by the states for any purpose; and
- the Commonwealth will distribute GST payments among the states in accordance with the principle of horizontal fiscal equalisation.

A state's GST entitlement is calculated by multiplying the state's share of the Australian population by its relativity to derive its weighted population, which is then multiplied by national GST collections to determine the state's GST entitlement.

Table 5.3 shows the parameters used to estimate the Territory's GST revenue in the 2012-13 Budget.

**Table 5.3: Territory GST Revenue
Parameter Estimates**

	2010-11 Actual	2011-12 Estimate	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
National GST collections (\$M)	45 887	45 500	48 000	50 500	53 000	55 500
Territory GST relativity	5.07383	5.35708	5.52818	5.52818	5.52818	5.52818
Territory share of national population (%)	1.0228	1.0157	1.0170	1.0246	1.0353	1.0483
Territory GST revenue (\$M) ¹	2 345	2 494	2 704	2 867	3 040	3 223

¹ Includes balancing adjustments for the over/underpayment of GST revenue to the Territory.
Source: Northern Territory Treasury

In 2011-12, the Territory is expected to receive \$2494 million in GST revenue (Table 5.3). While this represents an increase from 2010-11 (\$2345 million), the estimate is \$163 million lower than the original 2011-12 Budget forecast of \$2657 million. The variation is predominantly due to lower than anticipated national GST collections, resulting in a \$3.1 billion downward revision to the estimate of the 2011-12 national GST pool.

It is estimated that the Territory will receive \$2704 million in GST revenue in 2012-13, a decrease of \$125 million from the estimate in the 2011-12 Budget. Table 5.4 shows the contributions of changes in each GST parameter to the Territory's GST estimates between the 2011-12 and 2012-13 Budgets. It shows that the change to the estimate of the 2012-13 GST pool since the 2011-12 Budget contributed to a \$197 million decrease to the Territory's 2012-13 GST revenue. This was only partly offset by the higher Territory GST relativity which, all other things being equal, would have otherwise increased the Territory's GST revenue by \$83 million.

Table 5.4: Estimate of the Territory's 2011-12 and 2012-13 GST Revenue and Contribution to Change in the Estimate

	2011-12 GST Revenue	2012-13 GST Revenue
	\$M	\$M
As at 2011-12 Budget	2 657	2 829
As at 2012-13 Budget	2 494	2 704
Change	- 163	- 125
Change caused by new:		
National GST collections	- 169	- 197
Relativities ¹		83
Population	- 7	- 12
Balancing adjustment ²	13	
Total³	- 163	- 125

1 The estimated impact of the change in relativity as sourced from CGC 2012 Update.

2 Balancing adjustment is related to underpayment of GST in 2010-11.

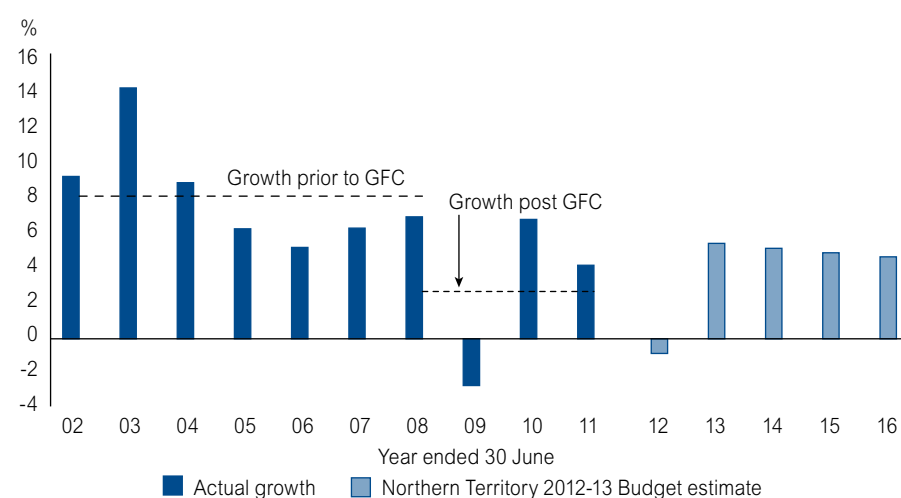
3 Figures do not add due to the effects of interactions between parameters.

Source: Northern Territory Treasury

National Goods and Services Tax Collections

Since the GFC, there has been a marked decline in the growth of the GST pool. Chart 5.1 shows that prior to the GFC, the average annual growth rate of the GST pool was 8.2 per cent, falling to 2.7 per cent between 2007-08 and 2010-11. The GST pool is expected to decrease by 0.8 per cent between 2010-11 and 2011-12 and grow by between 4.7 and 5.5 per cent over the forward estimates period.

Chart 5.1: Annual Growth in National GST Collections

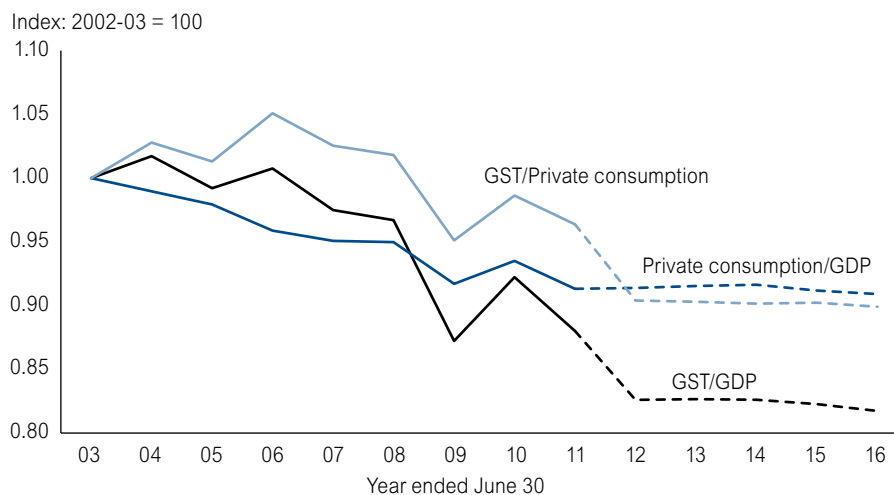


Source: Northern Territory Treasury

The weakness in the growth of the GST pool since the GFC is largely attributable to changes in consumption patterns and moderating consumption growth. The economic conditions following the GFC have led to more cautious consumer spending as households reduce discretionary spending and divert a larger portion of household budgets towards essential items such as health, education and housing, that generally do not attract GST. This has resulted in a decline in the ratio of GST to private consumption expenditure as shown in Chart 5.2. Consistent with a more cautious consumer outlook following the GFC, households are diverting a higher proportion of incomes towards paying down debt and increasing savings. As a result, growth in private consumption expenditure has declined, resulting in a decreasing private consumption to gross domestic product (GDP) ratio (Chart 5.2).

The combined impact of lower growth in consumption expenditure and changes in consumption patterns has led to a decrease in GST as a proportion of GDP. The introduction of the GST was intended to provide states with access to a broad-based tax that grew in line with the economy. However, since 2002-03, the average annual growth in the GST pool has not kept pace with growth in GDP. In 2002-03, the ratio of GST to GDP was 3.9 per cent, falling, to 3.2 per cent in 2011-12, and is not anticipated to change over the forward estimates period (Chart 5.2).

Chart 5.2: Index of GST and Private Consumption as Proportion of GDP



Source: ABS, Deloitte Access Economics and Northern Territory Treasury

In the first three quarters of 2011-12, household consumption on goods and services that attract GST was weaker than anticipated at the time of the 2011-12 Budget. This is reflected in lower than expected year-to-date GST collections. The Territory has factored a continuation of this trend in its estimates of GST collections through to the June quarter 2012. As a result, the 2011-12 GST pool estimate has been revised downwards from \$48.6 billion in the 2011-12 Budget to \$45.5 billion in the 2012-13 Budget. This represents a 0.8 per cent decline from 2010-11 and, if realised, will be the second year since the introduction of the GST that the GST pool has decreased in annual terms, the other being in 2008-09.

From 2012-13, growth in the GST pool is expected to improve, although from a lower base, supported by anticipated growth in household consumption on GST items. However, the GST pool is still expected to be significantly lower than the levels forecast at the time of the 2011-12 Budget, as shown in Table 5.5.

Table 5.5: Revisions to Estimated National GST Collections for 2011-12 and 2012-13

	2011-12	2012-13	2013-14	2014-15
	\$M	\$M	\$M	\$M
Territory 2011-12 Budget	48 600	51 600	54 500	57 250
Commonwealth 2011-12 Budget	48 350	51 750	54 700	57 400
Territory 2011-12 Mid-Year Report	47 500	50 432	53 266	55 954
Commonwealth 2011-12 Mid-Year Economic and Fiscal Outlook	47 500	51 050	54 000	56 650
Territory 2012-13 Budget	45 500	48 000	50 500	53 000
Change between the Territory 2011-12 and 2012-13 Budgets	- 3 100	- 3 600	- 4 000	- 4 250

Source: Northern Territory Treasury, Commonwealth 2011-12 Budget and Commonwealth 2011-12 Mid-Year Economic and Fiscal Outlook

The constrained growth of the GST pool since the GFC has put considerable pressure on the Territory's budget position, due to its reliance on GST revenue. Estimates of the GST pool over the budget and forward estimates period have been consistently revised downwards following the GFC.

GST Relativities

The CGC is responsible for recommending to the Commonwealth Treasurer the per capita relativities to be used to distribute GST revenue between the states. The CGC calculates per capita relativities in accordance with the principle of horizontal fiscal equalisation, which is defined as:

State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency. (CGC 2012 Update)

The current form of equalisation supports the principle that all Australians should have access to comparable standards of services no matter where they live. The current form of equalisation is critical to the Territory because it recognises the significantly higher costs of delivering the average level of services and infrastructure in the Territory compared with other states. This is mainly due to the Territory's 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. Without equalisation, Territorians would not have reasonable access to the services afforded to other Australians.

In February 2012, the CGC released its Report on GST Revenue Sharing Relativities 2012 Update (2012 Update). The 2012 Update report contains the CGC's recommendations on the relativities to be applied to the GST revenue pool for 2012-13. Table 5.6 shows that the CGC has recommended an increase in the Territory's relativity from 5.35708 in 2011-12 to 5.52818 in 2012-13. The 2012 Update report also resulted in an increase in relativities for Victoria, Queensland, South Australia and the Australian Capital Territory.

Table 5.6: Comparisons of Relativities for 2011-12 and 2012-13

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Relativities								
2011-12	0.95776	0.90476	0.92861	0.71729	1.27070	1.59942	1.11647	5.35708
2012-13	0.95312	0.92106	0.98477	0.55105	1.28472	1.58088	1.19757	5.52818
Impact¹								
\$ million	- 77.2	188.3	538.7	- 821.3	46.9	- 20.5	62.8	82.5
\$ per capita	- 10.51	33.25	116.46	- 347.57	28.17	- 40.08	170.46	352.62

¹ The CGC's estimated notional impact on the distribution of 2011-12 GST revenue using the Commonwealth's 2011-12 Mid-Year Economic and Fiscal Outlook GST parameters.

Source: Commonwealth Grants Commission 2012 Update

Table 5.7 shows the main influences on the GST redistribution from the 2012 Update. The increase in the Territory's GST relativity is largely attributable to below average growth in mining value of production in the Territory relative to Western Australian and Queensland, which decreased the Territory's assessed capacity to raise mining revenue, and a fall in the Territory's overall share of Commonwealth payments between 2007-08 to 2010-11. This was partly offset by above average growth in grants for Aboriginal and Torres Strait Islander community health services, which reduced the assessed need for Territory Government funding.

Table 5.7: Main Influences on Changes in the Distribution of GST, 2012 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Mining	263.9	378.1	- 74.8	- 719.5	65.3	27.3	24.2	35.4	794.3
Conveyance	- 210.6	- 286.2	413.9	141.6	- 25.1	0.2	- 24.1	- 9.7	574.6
Commonwealth payments	6.9	96.5	72.5	- 62.1	- 28.4	- 114.6	- 3.6	32.8	208.7
Community and other health	- 145.1	62.9	96.4	5.2	- 7.7	10.2	18.6	- 40.5	193.3
Interstate wages	- 52.2	- 79.5	11.2	121.8	- 11.6	- 1.8	2.4	9.7	145.0
Other	59.8	16.4	19.5	- 308.3	54.4	58.1	45.4	54.7	308.3
Total	- 77.2	188.3	538.7	- 821.3	46.9	- 20.5	62.8	82.5	926.8

Source: Commonwealth Grants Commission 2012 Update

Changes in states' relativities over time reflect changes in state economic and social circumstances, and act to re-distribute some of the revenue associated with differences in economic performance between the states so that capacity is available to all jurisdictions to deliver services at a comparable level across Australia.

More recently, volatility in relativities has been pronounced as a result of the commodities boom. Over the last decade, revenue from mining royalties has increased as a proportion of total state revenue. Because Australia's natural endowments are unevenly distributed between states, this leads to significant disparities between states' capacities to raise mining royalty revenue. As a result, the commodities boom has had differing impacts on each state's fiscal capacity. For example, it is estimated that in 2012-13, Western Australia will raise nearly 50 per cent of total mining revenue in Australia while Queensland raises a further 29 per cent. On a per capita basis Western Australia raises 8.3 times more mining revenue than the average for the seven other states.

Table 5.8: Estimated Revenue from Mining Royalties by States in 2012-13

	NSW	Vic	Qld	WA ¹	SA	Tas	ACT	NT ¹	Total
\$ million	2 128	47	3 374	5 730	223	53	0	118	11 673
\$ per capita	286.6	8.2	715.5	2 375	132.6	102.3	0.0	495.7	504.9
Share %	18.2	0.4	28.9	49.1	1.9	0.5	0.0	1.0	100.0

¹ Includes mining royalty payments from the Commonwealth.

Source: Various state budget papers

In 2012-13, the Territory is expected to receive about the same share of GST revenue as Western Australia, despite the fact that the Territory has about one-tenth of Western Australia's population. However, the amount of mining revenue Western Australia is estimated to raise in 2012-13 is 49 times greater than the Territory, or 4.8 times higher on a per capita basis. The amount of mining revenue that Western Australia is expected to raise in 2012-13 (\$5.7 billion) is more than the Territory's estimated total revenue from all sources (\$4.5 billion).

Share of National Population

The Territory's population growth is expected to moderate in 2011-12. This is largely due to negative net interstate migration associated with the relocation of the 1st Brigade's 7th Battalion Royal Australian Regiment, the completion of major projects and a number of large mining projects in Western Australia and Queensland drawing construction industry-related labour away from the Territory. As a result, the Territory's share of the national population is expected to fall from 1.023 per cent in 2010-11 to 1.016 per cent in 2011-12.

The outlook for 2012-13 and forward years is an increased population growth rate for the Territory, supported by the commencement of a number of major construction projects including the INPEX workers' village and processing facilities, the Marine Supply Base and the Darwin Correctional Centre. The Territory's share of the national population is expected to increase over this period from 1.017 per cent in 2012-13 to 1.048 per cent in 2015-16. Chapter 5 in the 2012-13 *Northern Territory Economy* book provides further details on the outlook for the Territory's population.

Review of GST Distribution

The Review of GST Distribution was announced by the Prime Minister in March 2011. The review is being conducted by an independent panel and will have regard to how alternative approaches to the current system of GST distribution could achieve:

- efficiency, including the effects on the allocation of resources in the national economy and on states' reform, service delivery and investment decisions;
- equity, including the abilities of states to provide constituents with access to government services regardless of where they reside;
- simplicity, including reduced complexity and increased transparency; and
- predictability and stability in the determination of states' GST shares.

Importantly, the Terms of Reference recognise that the practice of fiscal equalisation between states is a key feature in Australia's federal system, and that GST will continue to be distributed to ensure states have the same capacity to provide infrastructure and services and that the GST will continue to be provided on an untied basis.

The Territory considers that the equalisation process provides vital financial support to the small states while having a minimal impact on national economic efficiency. In the context of the national economy, the amount of GST redistributed from an equal per capita distribution only equates to about 0.3 per cent of Australia's GDP. Further, since the introduction of the GST, the amount of GST revenue redistributed between states each year as a proportion of the total GST pool has remained reasonably stable and small, at about 8 per cent, compared to an equal per capita distribution.

The current form of equalisation has been in place since 1983-84. The Australian economy has experienced several shocks over the past 30 years and importantly, has been able to do so without significant dislocation of any particular state or regional community because of the equalisation arrangements that exist. Over the last 30 years, equalisation has been refined to respond appropriately and consistently to changes in economic circumstances. Equalisation provides a stabiliser within the Australian economy. It responds to divergence between states' economic circumstances by distributing the effects of economic booms or burdens across states.

In November 2011, the Commonwealth expanded the terms of reference for the Review to include consideration of the impacts of equalisation on state revenue policies and the interactions between the Commonwealth's Mineral Resource Rent Tax and Petroleum Resource Rent Tax, and state mineral royalty regimes.

In the Territory's view, any disincentives for states to undertake tax reform imposed through the equalisation process are at the margins and are not in any way material determinants of states' tax policies. Rather, states' taxation policies are primarily driven by a range of factors including budgetary and economic growth objectives. Altering the GST distribution to encourage states to adopt particular policies would stretch beyond the scope of equalisation, which was designed such that states' maintain autonomy over expenditure decisions and revenue policy.

The Review Panel has completed its first round of public consultations, with public submissions guided by the Review Panel's Issues Paper (released in July 2011) and Supplementary Issues Paper (released in December 2011). The Territory has provided a submission in response to each of the Review Panel's papers and is available on the GST Distribution Review website (<http://www.gstdistributionreview.gov.au>). The Review Panel's Interim Report was released on 23 April 2012. The Interim Report will be followed by a second round of public consultation, with a Final Report due to the Commonwealth Treasurer in the third quarter of 2012. The recommendations from the Review are expected to be submitted to COAG for approval by the end of 2013 with any changes applied from 2014-15 onwards.

Specific Purpose Payments and National Partnership Payments

Specific Purpose Payments

SPPs are provided by the Commonwealth to support states to achieve the outputs and outcomes in the National Agreements that deal with major service areas, agreed by COAG. There are five SPPs associated with the six National Agreements and, although spending is tied to the relevant sector, the funds are untied within the sector. SPP funding is ongoing and indexed annually. Each SPP is also intended to contribute to the relevant outputs and outcomes of the National Indigenous Reform Agreement. By contrast, NPs are tied funding agreements, with the aim of achieving particular outcomes as agreed between the Commonwealth and those states that are signatories to the NP agreement.

In 2012-13, the Territory expects to receive \$270.4 million in SPPs for healthcare, government schools, skills and workforce development, affordable housing and disability. Table 5.9 provides estimates of SPPs to be received by the Territory in 2011-12 and 2012-13.

Table 5.9: Specific Purpose Payments

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
National Schools	60.0	60.3
National Skills and Workforce Development	14.0	14.5
National Affordable Housing	31.2	25.6
National Disability	12.6	13.4
National Disability – budget neutral adjustment	2.1	2.4
National Healthcare ¹	151.6	154.2
Total	271.5	270.4

¹ This incorporates National Health Reform Payments in 2012-13.

Source: Northern Territory Treasury

The adjustment to the Disability SPP, shown above, is to ensure budget neutrality of the realigned Commonwealth and state responsibilities for aged care and disability services agreed under the NHR Agreement.

Under the NHR Agreement, it is expected that NHR payments will commence during 2012-13, replacing the Healthcare SPP. In 2012-13 and 2013-14, NHR payments will be equivalent to the Healthcare SPP, if it was to continue. From 2014-15, NHR payments will be based on hospital activity (or block funding where this is more appropriate) as well as including funding for public health activities, training, teaching and research.

Under the IGA, each SPP is transitioning to an allocation based on a state's share of the national population. Historically, the Territory has received a higher than population share of the SPPs, and therefore the transition results in the Territory receiving a reduced share of the national funding. The lower SPP will be offset by a higher relativity as part of the CGC's assessment of GST relativities.

The Disability SPP and NHR payments will be fully transitioned to population share in 2013-14, with the remaining SPPs being fully transitioned in 2014-15.

National Partnership Payments

NP payments are now the major source of tied Commonwealth funding, with the Territory estimated to receive NP revenue of \$812.3 million in 2011-12 and \$433.0 million in 2012-13. Table 5.10 provides estimates of NP revenue by the agency responsible for implementing the NP agreement in the Territory.

Table 5.10: National Partnership Payments

Agency	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Northern Territory Police, Fire and Emergency Services	48.5	6.1
Northern Territory Treasury	0.2	
Department of Business and Employment	7.0	2.8
Department of Education and Training	96.9	94.4
Department of Housing, Local Government and Regional Services	407.9	154.1
Department of Health	92.9	81.6
Department of Children and Families	21.3	9.9
Department of Resources	6.2	1.5
Department of Justice	7.8	4.3
Department of Natural Resources, Environment, the Arts and Sport	4.6	4.1
Department of Lands and Planning	119.0	74.2
Total	812.3	433.0

Source: Northern Territory Treasury

NP revenue included in the Territory's Budget represents funding that has been agreed. As additional agreements are finalised through the year, the Territory's NP revenue for 2012-13 and the forward estimates will vary accordingly.

The majority of the decrease in NP revenue from 2011-12 to 2012-13 is due to a reduction in the Remote Indigenous Housing NP of \$268.4 million, resulting from significant subdivision works in major communities being completed in 2011-12. The majority of the remaining decrease is due to the expiry of some time-limited NP agreements, particularly the Nation Building and Jobs Plan NP (included the Building the Education Revolution initiative). The timing of NP payments is linked to achievement of agreed milestones, or performance benchmarks, and may not be uniform across the years.

Expiring National Partnership Agreements

While the expiry of NP agreements that focus on discrete initiatives (such as infrastructure) can be relatively easily managed by states, it is more problematic where the NP agreement creates expectations of ongoing service delivery, or increases service activity, therefore requiring continued funding. If Commonwealth funding is ceased, then additional demands may be placed on state finances, which may or may not accord with state priorities.

Under the IGA, the Standing Council on Federal Financial Relations (comprising all state, territory and Commonwealth treasurers) may make recommendations as to the treatment of funding under expiring NP agreements, however the final decision about this funding remains a Commonwealth budgetary matter. The effect of expiring NP agreements

on the Territory's Budget remains a risk and will continue to be closely monitored.

Reward Payments

NP revenue includes reward payments made under reform NP agreements for achievement of performance benchmarks. Payments are made following an assessment by the COAG Reform Council (CRC) and subsequent determination by the relevant Commonwealth Minister on the basis of the CRC's report.

In 2011-12, the CRC assessed state performance under the following NP agreements: Elective Surgery Waiting List Reduction Plan, Essential Vaccines, Teacher Quality, Literacy and Numeracy, Youth Attainment and Transitions and Seamless National Economy. Details of reward payments received in 2011-12 are provided in *Budget Paper No. 3*.

In 2012-13, the Territory's performance will be assessed by the CRC for the following NP agreements: Essential Vaccines, Teacher Quality and Seamless National Economy.

Performance Reporting

A central tenet of the IGA is enhanced accountability through simpler, standardised and more transparent performance reporting, to both governments and the public. Performance measures are required to be outcome and/or output focused in both National Agreements and NP agreements, and reported in a timely fashion. As well as considering the performance of jurisdictions for NP agreements with reward payments outlined above, the CRC annually assesses and publicly reports on the performance of states for each National Agreement.

Performance reports have been issued by the CRC for the baseline and first year of all National Agreements. Second year performance reports under the National Education Agreement and the National Agreement on Skills and Workforce Development were publicly released in November 2011. The remaining second year National Agreement performance reports are anticipated to be released in June 2012.

The reports issued to date indicate overall an incremental improvement in Territory performance, reflecting the enhancement of service delivery arising from the significant investments made in recent years by both the Northern Territory and Commonwealth governments.

Reviews of the performance frameworks of all National Agreements to ensure that progress is appropriately measured and reported are being undertaken. The reviews have focused on the conceptual adequacy of the performance measures and data availability and quality. The use of data sourced from national surveys, which do not fully sample the diversity of the Territory's population and thus do not fully reflect the Territory's circumstances, is a particular data quality concern of the Territory. This issue is generally acknowledged in relevant CRC publications.

National Health Reform Agreement

On 2 August 2011, COAG signed the NHR Agreement, which provides a framework for reforms to the way public hospitals are funded and governed in Australia.

Under the NHR Agreement, the Commonwealth and states will fund public hospital services on an activity basis. However, the NHR Agreement recognises that activity-based funding is not practical under all circumstances, stating:

The Commonwealth will fund hospital services provided to patients in public hospitals better funded through block grants, including relevant services in rural and regional communities. (COAG 2011)

This is an important component of the NHR Agreement, which recognises the existence of diseconomies of small scale in small and regional hospitals as well as hospital services and functions provided in non-remote hospitals with low levels of throughput. These hospitals and hospital services would be inadequately funded under an activity-based funding model.

To implement the new funding arrangements, the Commonwealth and each state will enact common legislation to establish the National Health Funding Pool (NHFP) and the Administrator of the NHFP. The NHFP will consist of eight individual state pool accounts held with the Reserve Bank of Australia. The Administrator will be one officer appointed under legislation in each state.

State and Commonwealth activity-based funding and all other Commonwealth health reform-related funding will flow through the NHFP. The Administrator will disburse the funds throughout health and hospital systems. The Administrator will also be responsible for publicly reporting on what funds were provided to each hospital network and on what basis.

The Territory is currently taking the necessary steps to implement the NHR Agreement. This includes enacting legislation establishing the two hospital networks in the Territory (the Top End Hospital Network and the Central Australian Hospital Network); the Territory state pool account; and the Administrator, and developing the service level agreements between the Department of Health and the two hospital networks in the Territory. As the relevant legislation is yet to be enacted, the fiscal arrangements are not incorporated in the 2012-13 Budget Papers.

Emerging Issues

In 2011-12, two issues have arisen that have potentially significant intergovernmental funding implications which are yet to be fully explored. These are school funding reform and the National Disability Insurance Scheme (NDIS). In both instances, the Commonwealth commissioned an initial inquiry/review, which subsequently proposed major reforms to existing service/funding arrangements with consequential requirements for significant additional funding. In the case of school funding, this was estimated in the review's report to be in the order of \$5 billion per annum, while for the NDIS, it was reported to be around \$6.5 billion per annum.

The Commonwealth has indicated its interest in progressing work on both issues. However, states have primary responsibility for the delivery of school education and disability services and are concerned that any new

arrangements could result in a disproportionate financial burden being borne by states, with reduced state and territory autonomy to allocate funds to meet state policy priorities.

It is envisaged that there will be considerable work undertaken to better understand the key elements of any proposed reforms, their costs and any reallocation of roles and responsibilities between governments before an agreed position can be reached.

Indigenous Expenditure Report

The Indigenous Expenditure Report (IER) is a biennial publication produced by the Steering Committee for the Review of Government Service Provision. The IER progresses a COAG commitment for transparent reporting on expenditure on Indigenous services by all governments. The objective of the national reporting framework is to facilitate, over time, an understanding of the link between expenditure and outcomes for Indigenous people and to inform government policy, particularly in relation to Closing the Gap targets in COAG's National Indigenous Reform Agreement.

The inaugural IER was released in February 2011 (referred to as the 2010 IER) and pertains to general government expenditure on services related to Indigenous people in 2008-09. The key findings from the 2010 IER for the Territory were:

- in 2008-09, the Territory spent \$2.16 billion on services related to Indigenous people. This equates to 53.9 per cent of the Territory's total general government expenditure. In comparison, Indigenous people comprise 30.4 per cent of the Territory's population;
- on a per capita basis, Territory expenditure on services related to Indigenous people was 2.7 times higher than that related to non-Indigenous people; and
- the per capita expenditure on services related to Indigenous people in the Territory was \$32 230. This was the highest of all states and 17.4 per cent higher than Western Australia, the second highest jurisdiction.

The second edition of the IER is expected to be released in the third quarter of 2012 and will report on Commonwealth and state government expenditure on services related to Indigenous people in 2010-11.

Chapter 6 Territory Taxes and Royalties

Overview

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

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

This chapter provides details of the Territory's own-source revenue categories of taxes and royalties, information on revenue collection forecasts and a comparison of the Territory's taxes revenue with other jurisdictions. It also includes a statement of the Territory's forecast tax expenditure as a result of concessions and exemptions for 2012-13 through to 2015-16, as required by the *Fiscal Integrity and Transparency Act*.

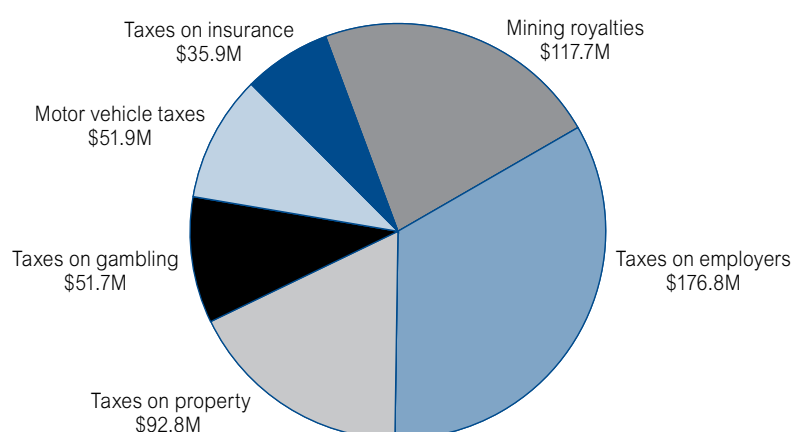
Full details of all the Territory's own-source revenues are set out in *Budget Paper No 3*.

Analysis of Territory Taxes and Royalties

The projected revenue for 2012-13 from taxes and royalties totals \$526.9 million and the main contributors are taxes on employers (payroll tax) at \$176.8 million or 33.6 per cent, mining royalties at \$117.7 million or 22.3 per cent, and taxes on property (stamp duties on capital transactions) at \$92.8 million or 17.6 per cent.

Chart 6.1 shows the Territory's estimated main own-source revenues in 2012-13 according to the classification used in the Uniform Presentation Framework adopted for the Territory's reporting requirements.

Chart 6.1: Main Own-Source Revenue Categories, 2012-13



Note: Excludes payroll tax from general government entities.

Source: Northern Territory Treasury

The estimated revenue in 2011-12 from taxes and royalties totals \$526.6 million, compared to the forecast total of \$551.8 million. The reduction of \$25.2 million from the original forecast is primarily due to lower revenue from property and mining royalties, offset somewhat by an increase in taxes

on employers. Estimates for 2011-12 and 2012-13 are shown in Table 6.1 below.

Table 6.1: Main Own-Source Revenue Categories

	2011-12 Budget	2011-12 Estimate	2012-13 Budget
	\$000	\$000	\$000
Mining royalties	162 293	141 327	117 732
Taxes on employers	163 736	165 984	176 814
Taxes on property	93 319	84 428	92 828
Taxes on gambling	51 287	50 538	51 746
Motor vehicle taxes	47 950	50 186	51 910
Taxes on insurance	33 222	34 185	35 894
Total	551 807	526 647	526 924

Source: Northern Territory Treasury

Mining and Petroleum Revenue

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

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

Mineral royalties are collected in the Territory from mining and quarrying for gold, silver, bauxite, manganese, lead, zinc, sand, gravel, laterite, vermiculite and lime. The Territory is unable to impose royalties in respect of uranium mined in the Territory as, unlike the states, the Commonwealth retains the ownership of this uranium. Nonetheless, the Territory receives a grant in lieu of uranium royalty from the Commonwealth. The only uranium mine in the Territory is the Ranger Project, which has an *ad valorem* royalty scheme settled by the Commonwealth. The Territory receives grant payments reflecting the royalty regime that applied at the time the Ranger Project arrangements were settled.

However, new Commonwealth legislation provides that royalty on any future uranium mines in the Territory will be based on the Territory's *Mineral Royalty Act*. The royalties will continue to be paid to the Territory as a grant in lieu of royalty.

A key feature of the Territory's *Mineral Royalty Act* is that both prices and mining costs, including mine set-up costs carried forward to profitable years, are taken into account in royalty calculations. If commodity prices, production costs or the value of the Australian dollar rise or fall, royalty

liabilities vary accordingly. This variability produces stronger growth in royalty revenues in times of high mineral prices than under *ad valorem* royalties.

In 2011-12, it is expected that the Territory will receive \$141.3 million in mining revenue, \$21 million less than forecast in the 2011-12 Budget. This is a result of lower than estimated receipts due to industry profitability moderating slightly since the estimates were prepared, due largely to the combined effect of the strength of the Australian dollar and lower commodity prices in respect of the minerals mined by the Territory's largest royalty payers.

Mining revenue forecasts are reliant on advice from mining companies of estimated liability and related company estimates of commodity price movements, production levels and the value of the Australian dollar. The forecast for royalty revenue in 2012-13 is \$117.7 million and is based on advice from royalty payers that profitability will continue to be affected by the strength in the Australian dollar and lower relevant commodity prices.

Taxation Revenue

The Territory's taxation revenue for 2011-12 is expected to total \$385.3 million. In 2012-13, taxation revenue is expected to increase by 6.2 per cent to \$409.2 million, largely as a result of higher conveyance stamp duty and payroll tax receipts.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. Table 6.2 shows the estimate of the Territory's taxation revenue for 2011-12 and forecast for 2012-13.

Table 6.2: Northern Territory
Taxation Revenue

	2011-12 Estimate	2012-13 Budget
	\$000	\$000
Taxes on employers		
Payroll tax ¹	165 984	176 814
Taxes on property		
Conveyance duty	83 951	92 347
Other duty	477	482
Taxes on the provision of goods and services		
Taxes on gambling	50 538	51 746
Taxes on insurance	34 185	35 894
Taxes on use of goods and performance of activities		
Motor vehicle taxes	50 186	51 910
Total	385 320	409 193

¹ Payroll tax from public financial corporations, public non-financial corporations and the private sector.

Source: Northern Territory Treasury

Payroll Tax

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

employer above the \$1.5 million threshold. This means that an employer who pays wages of \$7.5 million or more does not receive a deduction.

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

In 2011-12, payroll tax revenue is expected to be \$166.0 million, an increase of \$2.3 million from the estimate in the 2011-12 Budget. This reflects employment and wages growth in the Territory during 2011-12.

In 2012-13, payroll tax receipts are expected to increase by 6.5 per cent to \$176.8 million, reflecting a further increase in revenue from employment growth and growth in average weekly earnings, particularly among the larger employers forming the Territory's payroll tax base. Over the forward estimates period, payroll tax revenue is expected to increase by the long-term growth rate of 5 per cent.

Stamp Duty

Conveyance Duty

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

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

In 2011-12, the Territory is expected to collect \$83.9 million in stamp duty on conveyances, compared with \$92.5 million estimated in the 2011-12 Budget. The reduction in conveyance duty collections is mainly due to a significant moderation in the number of residential and commercial transactions over the first half of 2011-12 along with some reduction in the average value of those transactions, offset by a moderate level of recovery of transaction numbers over the second half of 2011-12.

In 2012-13, conveyance duty is estimated to increase by \$8.4 million to \$92.3 million, reflecting expectations that residential and commercial property sales numbers will continue to recover. Forward estimates for stamp duty are based on a growth rate of 2.5 per cent per annum.

Stamp Duty on Insurance

Insurance duty is imposed on general and life insurance policies, with general insurance contributing to the majority of the revenue collected from this duty. Stamp duty on general insurance is calculated at a rate of 10 per cent of the premium paid on all general insurance products that relate to property or risk in the Territory. Where the policy also relates to a risk or property outside the Territory, the premium is apportioned. Stamp duty on life insurance is levied on life insurance policies for people residing in the Territory and is calculated at a rate of 10 cents per \$100 or part thereof of the sum insured.

Revenue from insurance duty is forecast to be \$34.2 million in 2011-12. Based on historical growth rates, insurance duty is forecast to grow by 5 per cent to \$35.9 million in 2012-13.

Motor Vehicle Taxes

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

Generally, stamp duty is levied on the purchase price of the vehicle at a rate of \$3 per \$100 or part thereof. Revenue from this source in 2011-12 is estimated to be \$20.5 million. In 2012-13, it is expected to increase to \$21 million, which includes the long-term growth rate that has been applied to the forward estimates of 2.5 per cent per annum.

Motor vehicle registrations comprise heavy vehicle and light vehicle registrations. Heavy vehicle registration fees are determined by the Standing Council on Transport and Infrastructure. Light vehicle registration fees are determined by each state. In the Territory, the light vehicle fee is calculated by reference to a differential rate scale based on the engine capacity of the vehicle. In 2011-12, the Territory is forecast to receive \$29.6 million in motor vehicle registration fees, increasing to \$30.8 million in 2012-13. The increase in 2012-13 revenue reflects long-term growth rates plus the expected consumer price index adjustments to light vehicle registration fees as these fees are expressed in revenue units that are indexed annually.

Gambling Taxes

Gambling taxes constitute a significant, although reducing, proportion of state revenues. In 2012-13, gambling tax revenue is forecast to be \$51.7 million, or the fourth largest contributor to own-source revenue. The components of gambling taxes in the Territory are community gaming machine tax, lotteries tax, wagering tax, bookmaker turnover tax, casino/internet tax and the community benefit levy.

In 2011-12, the Territory is estimated to receive \$50.5 million in gambling taxes, about \$0.7 million below the 2011-12 Budget. This is largely due to a reduction in the growth of casino and community gaming machine taxes that may be attributable to indoor smoking reforms rolled out in 2010 and 2011.

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

Table 6.3: Estimated Revenue from Gambling Taxes

Tax/Duty	2011-12	2012-13
	\$000	\$000
Wagering taxes	4 328	3 974
Casino/Internet tax	10 653	10 919
Bookmakers – racing and sports betting	2 580	2 702
Community gaming machines	16 192	17 001
Lotteries	14 571	14 935
Community benefit levy	2 214	2 214
Total	50 538	51 746

Source: Northern Territory Treasury and Department of Justice

In 2012-13, bookmaker tax is expected to remain largely constant, increasing slightly to reflect the increase in the tax threshold from \$255 000 to \$262 500 as a result of the increase in the value of revenue units from 1 July 2012.

Lotteries tax and wagering tax for 2012-13 is expected to increase reflecting the growth rates of 2.5 per cent used in the forward estimates. Similarly, casino and community gaming machine taxes are expected to record moderate growth in 2012-13, reflecting the experience in other states as venues adjust to smoking reforms.

Wagering taxes are expected to moderate as consumers continue to switch from betting with totalisators to utilising fixed odds betting services provided by TABs and corporate bookmakers.

Interstate Tax Comparison

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

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

Commonwealth Grants Commission

Revenue Effort

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

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

Table 6.4 provides a comparison of CGC's assessment of own-source revenue-raising effort in 2010-11 (the latest year that an assessment is available). The total own-source revenue figure includes taxation, mining revenue, contributions by trading enterprises and public safety user charges. The table shows that the Territory's own-source revenue-raising effort is the second lowest of the states behind Tasmania and is significantly below the national average of 100 per cent, with the taxation effort of the Territory being the lowest of all the states.

Table 6.4: 2010-11 Revenue Effort by Jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	107	99	89	97	113	87	114	78
Total own-source revenue	100	98	104	91	108	84	155	90

Source: Commonwealth Grants Commission 2012 Update

The Territory's low total taxation and own-source revenue effort reflects the position adopted by the Territory not to impose a land tax and to levy significantly lower than average motor vehicle taxes.

Revenue Capacity

States are constrained from growing their own-source revenue by either replacing current taxes with a new growth tax or by expanding existing tax bases. This is evident as nationally, state own-source revenue comprises only about 50 per cent of total state revenue. However, the Territory's taxation

and royalty own-source revenue is much lower, comprising about 13 per cent of total revenue.

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

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

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

Table 6.5: Assessed Revenue Raising Capacity, 2010-11

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	105	100	90	132	76	68	90	84
Land tax	98	103	107	134	63	46	60	70
Conveyance duty	105	115	88	101	68	55	125	79
Insurance duty	110	93	96	99	100	78	90	85
Motor vehicle taxes	89	104	101	125	101	105	88	92
Total taxation	102	104	95	117	82	74	96	86
Mining revenue	43	2	141	506	42	27	0	126

Source: Commonwealth Grants Commission 2012 Update

For all the major state taxes, the Territory is assessed as having a relatively low capacity to raise revenue, with all categories, especially land tax, conveyance duty and payroll tax, being significantly below the national average of 100 per cent. This reflects the Territory's different circumstances such as:

- the Territory's industry structure, which is characterised by a large proportion of small and medium businesses that are generally exempt from payroll tax; and
- a relatively small number of very high value commercial and residential properties, although average land prices in the Territory are higher than the national average.

The Territory is compensated for its relatively small own-source revenue base by the CGC's equalisation process through a higher share of goods and services tax (GST) revenue. The Territory's low capacity to raise own-source revenue increases its reliance on funding from the Commonwealth.

Representative Taxpayer Model

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

Payroll Tax

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

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

	NSW	Vic	Qld ¹	WA	SA	Tas	ACT	NT ²	Average
Threshold (\$M)	0.68	0.55	1.00	0.75	0.60	1.01	1.50	1.50	0.95
Rate (%)	5.45	4.90	4.75	5.50	4.95	6.10	6.85	5.50	5.50

1 Queensland's threshold reduces as an employer's wages increase, so that no exemption is provided for employers with wages over \$5 million.

2 The Northern Territory's threshold reduces as an employer's wages increase, so that no exemption is provided for employers with wages over \$7.5 million.

Source: State legislation and information available at 30 March 2012

Since 2001, the Territory Government has provided significant payroll tax relief for Territory businesses by reducing the payroll tax rate from 6.5 per cent to 5.5 per cent and by increasing the annual threshold from \$0.6 million to \$1.5 million. These changes have maintained the competitiveness of the Territory's payroll tax regime with other jurisdictions, particularly for small to medium-sized businesses.

This is illustrated in Table 6.7, which provides the effective payroll tax rate at various wage levels for each jurisdiction after taking into consideration individual state thresholds and the payroll tax rates. For businesses with wages below \$5 million, the Territory has a very competitive payroll tax scheme as it has an effective tax rate that is below the national average and has the third lowest (or better) effective payroll tax rate at a given wage level. For larger businesses with wage costs of \$10 million or more, the Territory has a more favourable effective payroll tax rate than the Australian Capital Territory and is broadly comparable to Western Australia and New South Wales.

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

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
\$M	%	%	%	%	%	%	%	%	%
1	1.75	2.21	0.00	1.38	1.98	0.00	0.00	0.00	0.91
2	3.60	3.55	2.97	3.44	3.47	3.02	1.71	1.72	2.93
3	4.22	4.00	3.96	4.13	3.96	4.05	3.43	3.44	3.90
4	4.53	4.23	4.45	4.47	4.21	4.56	4.28	4.30	4.38
5	4.71	4.36	4.75	4.68	4.36	4.87	4.79	4.81	4.67
10	5.08	4.63	4.75	5.09	4.65	5.48	5.82	5.50	5.13
20	5.27	4.77	4.75	5.29	4.80	5.79	6.34	5.50	5.31

Source: State legislation and information available at 30 March 2012

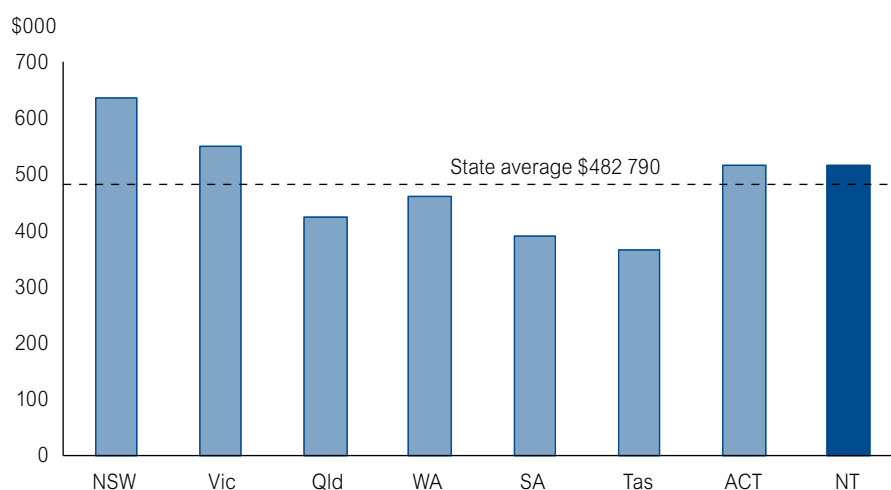
Stamp Duty on Conveyances

Territory first homebuyers pay no stamp duty on the first \$540 000 of their purchase of a home valued up to \$750 000, a total saving of up to \$26 730. In addition, seniors (persons aged 60 years or older) and Northern Territory Pensioner and Carer Concession cardholders receive a concession of \$8500 on the purchase of a principal place of residence for property values up to \$750 000. This is equivalent to a stamp duty concession on the first \$252 970 of the value of the residence.

For other homebuyers, a rebate of \$3500 is provided on the purchase of a principal place of residence, which is equivalent to a stamp duty concession on the first \$143 350 of the value of the residence.

The median house price in each capital city is used to compare stamp duty payable in each state. Chart 6.2 shows that Darwin has the fourth highest median house price behind Canberra, Sydney and Melbourne.

Chart 6.2: Median House Prices

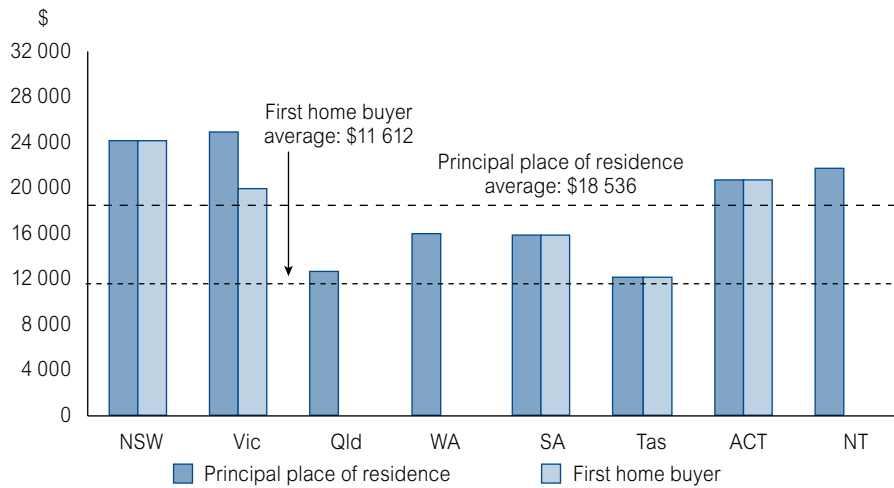


Note: Median house prices as at December 2011.

Source: Real Estate Institute of Australia

Chart 6.3 provides an interjurisdictional comparison of the amount of stamp duty levied on principal places of residence and first homes valued at the median house price of the relevant capital city. For first homebuyers, no stamp duty is payable in the Territory, which is significantly below the national average and is the equal lowest with Queensland and Western Australia. However, as a result of the Territory having the third highest median house price, stamp duty on a median-priced home is above the national average for purchasers of a principal place of residence.

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



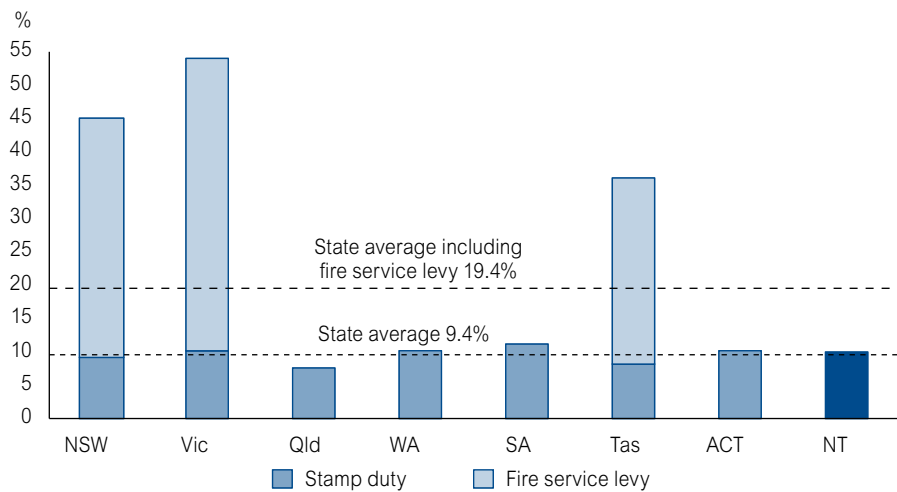
Note: Median house prices as at December 2011.
 Source: Real Estate Institute of Australia; state legislation and information available at 30 March 2011

Insurance Duty

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

All states impose taxes on general insurance premiums at rates between 7.5 per cent and 11 per cent, with New South Wales, Queensland and Tasmania having special rates on particular classes of general insurance business. All states apart from Western Australia also impose taxes on life insurance policies at different rates. In addition, New South Wales, Tasmania and Victoria collect a portion of their fire services levies through a charge on insurers. Although Tasmania raises a levy on insurance, similar to Queensland, South Australia and Western Australia, a large proportion of the levy is from a charge on property owners through local councils. The Territory does not impose any emergency or fire services levies on the general public, although, like the states, it does charge for commercial fire alarm monitoring.

Chart 6.4: Average State Tax Rate on General Insurance Premiums

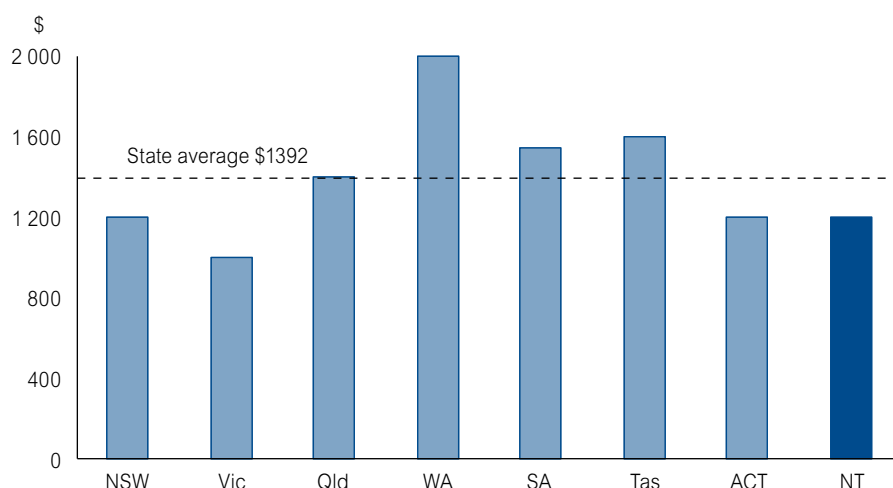


Source: State legislation and information available at 30 March 2012

Stamp Duty on Motor Vehicles

Chart 6.5 compares the stamp duty applicable for a new motor vehicle valued at \$39,990. The chart shows that the stamp duty payable in the Territory is below the national average and the equal second lowest in Australia.

Chart 6.5: Stamp Duty on Purchase of \$39 990 Motor Vehicle

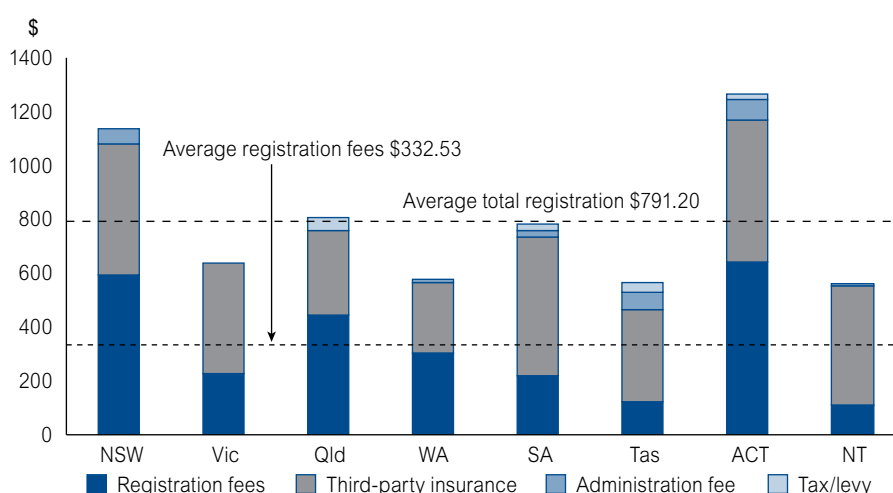


Source: State legislation and information available at 30 March 2012

Motor Vehicle Registration

Motor vehicle registration fees comprise registration, compulsory third party and other fees and, as such, vary significantly between jurisdictions. Chart 6.6 compares the costs of registering a medium-sized passenger vehicle in each jurisdiction. At \$562, the Territory has the lowest total registration cost in Australia.

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



Note: Based on six-cylinder, Holden Commodore Omega.

Source: State legislation and information available at 30 March 2012

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

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

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

Land tax is an important source of income for states, estimated to generate about \$5.5 billion in revenue in 2011-12. Land tax is levied on the total holding of commercial land and investment residential property, although generally an exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However, in its 2012 Update, CGC assessed that the Territory could raise about \$42.9 million if it adopted the average state policies on land tax.

Tax Expenditure

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

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

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

The tax expenditure identified in this statement relates to the more important and material concessions available in the Territory. In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides an estimate of expenditure in 2011-12 and forecast information for 2012-13 and the following three financial years.

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

Measuring tax expenditure requires the identification of:

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

The establishment of a benchmark tax base provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to

determine which concessions are tax expenditure rather than structural elements of the tax.

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

Payroll Tax

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

Table 6.8: Payroll Tax Expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
Tax expenditure (\$M)	138.9	147.7	154.6	161.8	169.4

Source: Northern Territory Treasury

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

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

Small Business Exclusion	Employers with wages below \$1.5 million are not required to pay tax, a saving of up to \$82 500. Employers with payrolls exceeding \$1.5 million receive a deduction of up to \$1.5 million, which reduces by \$1 for every \$4 in wages paid by the employer where the wages paid by the employer exceeds \$1.5 million. This means employers with wages of \$7.5 million or more will not receive a deduction and will pay tax on the total wages paid by the employer.
Charities and Other Exempt Bodies	Non-profit organisations having a sole or dominant purpose, that is, charitable, benevolent, philanthropic or patriotic, are exempt from payroll tax to the extent that wages are paid for an employee's services that relate directly to the purpose for which the organisation was established. In addition, employment agencies providing temporary staff to exempt organisations are able to claim payroll tax exemption for these wages.
Apprentices, Graduates and Others	Businesses receive payroll tax exemptions for apprentices, graduates of approved tertiary institutions and employees receiving wages funded under the Community Development Employment Projects program.
Other Exemptions	From 1 July 2009, several new exemptions were introduced as part of national payroll tax harmonisation: <ul style="list-style-type: none"> • wages paid to employees participating in voluntary work for bushfires and emergency relief; and • wages paid as paternity, maternity and adoption leave for a maximum of 14 weeks.

Stamp Duty on Conveyances

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

Table 6.9: Stamp Duty on Conveyances Expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
Tax expenditure (\$M)	26.7	29.4	30.1	30.9	31.6

Source: Northern Territory Treasury

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

Corporate Reconstructions Exemption

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

First Homeowner Concession

First homebuyers are eligible for a stamp duty concession on the first \$540 000 of the value of a home, a saving of up to \$26 730. Tax expenditure is estimated by actual collections in relation to the concession.

Principal Place of Residence Rebate

Other homebuyers were entitled to a rebate of \$3500 when purchasing a principal place of residence to a maximum value of \$750 000. Tax expenditure is estimated by actual collections in relation to the rebate.

Seniors, Pensioner and Carers Concession

A concession of \$8500 is provided for seniors (aged 60 years and over) and Northern Territory Pensioner and Carers Concession cardholders when purchasing a principal place of residence. Tax expenditure is estimated by actual collections in relation to the rebate.

Other Conveyance Duty Exemptions

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

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

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

Stamp Duty on General Insurance Policies

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

Table 6.10: Stamp Duty on General Insurance

	2011-12	2012-13	2013-14	2014-15	2015-16
Tax expenditure (\$M)	17.9	18.9	19.7	20.6	21.5

Source: Northern Territory Treasury

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

Motor Vehicle Registration Fees

Motor vehicle registration concessions are available to Northern Territory Pensioner and Carer Concession or Northern Territory Seniors cardholders to an annual value of up to \$154 and \$50, respectively. Table 6.11 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.11: Motor Vehicle Registration Fees Expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
Tax expenditure (\$M)	1.9	1.9	1.9	1.9	1.9

Source: Northern Territory Treasury

Mineral Royalties

The benchmark tax base is assumed to be all profitable mining operations in the Territory and the benchmark tax rate is 20 per cent.

Table 6.12: Mineral Royalties Expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
Tax expenditure (\$M)	1.3	1.4	1.4	1.4	1.4

Source: Northern Territory Treasury

The first \$50 000 of profit is not subject to royalty and royalty payers are able to reduce the amount of royalty they pay in the Territory for eligible exploration expenditure (EEE) incurred in their mining operations in the Territory. However, the amount by which royalty may be reduced through the use of EEE is limited to a maximum of 25 per cent of the amount that would otherwise be payable.

The estimated cost of this concession as outlined in Table 6.12 is based on projected future mineral royalty collections, assuming that royalty payers will seek to maximise their royalty deduction by using EEE.

Chapter 7 The Territory Economy

Overview The drivers of economic activity in the Northern Territory economy are markedly different to other Australian jurisdictions, reflecting the abundance of natural resources, large public sector and significant defence presence but relatively smaller professional, financial and insurance sectors.

The Territory's economic base is relatively concentrated compared to other jurisdictions, with the top four industries accounting for 45.8 per cent of Territory gross state product (GSP) compared to 32.8 per cent for the top four industries nationally.

Due to the Territory's small size, large commodity base and industry concentration, economic growth can be volatile from year to year.

Economic growth in the Territory strengthened to 1.6 per cent in 2010-11, up from 1.3 per cent in 2009-10, reflecting continuing strong counter-cyclical public sector consumption and investment, while private sector investment fell significantly following completion of a number of major projects and the flow-on effects from the global financial crisis (GFC). Private sector consumption contributed to growth, although at levels weaker than longer term averages.

2011-12 Following growth of 1.6 per cent in 2010-11, growth in the Territory economy is estimated to strengthen by 2.4 per cent to \$16.7 billion in 2011-12, reflecting increased private sector investment, which is expected to more than offset a decline in public investment and a smaller trade surplus. Private sector investment is anticipated to contribute 7.1 percentage points to growth in 2011-12.

State final demand (SFD) is a major component of GSP and is a measure of the aggregate demand for goods and services in an economy. In 2011-12, SFD is estimated to increase by 3.7 per cent.

Several projects will contribute to private investment including the new Darwin correctional facility, the Marine Supply Base and the INPEX liquefied natural gas (LNG) plant at Blaydin Point and associated work camp at Howard Springs.

On 13 January 2012, joint partners INPEX (76 per cent) and Total (24 per cent) announced the Final Investment Decision for the \$34 billion Ichthys gas project. The field is located 820 kilometres south-west of Darwin and is expected to have an operational life of more than 40 years. A subsea pipeline will transport gas and condensate 890 kilometres to Blaydin Point on Middle Arm Peninsula, where it will be processed for export. INPEX has estimated that LNG, liquefied petroleum gas (LPG) and condensate will be ready for production by the end of 2015-16. An estimated 3000 workers will be required for the INPEX project in the Darwin region during peak construction period, with a further 1000 estimated offshore. Once the facility is completed, about 700 workers will be required to operate and maintain the onshore facility during its operational life of approximately 40 years.

Chart 7.1: Territory Gross State Product and State Final Demand¹
(year-on-year percentage change)



e: estimate; f: forecast

¹ Inflation adjusted.

Source: ABS Cat. No. 5220.0 and NT Treasury

Total investment in the Territory is estimated to increase by 14.9 per cent to \$5.7 billion, contributing 4.5 percentage points to growth in 2011-12, as increased private sector investment more than offsets lower investment by the public sector.

Private sector investment is expected to increase by 35.5 per cent to \$4.4 billion, reflecting increases in expenditure for new machinery and equipment, new dwellings, new non-residential and engineering expenditures and mineral and energy exploration.

Public sector investment is estimated to decline by 24.3 per cent, to \$1.3 billion in 2011-12, as the Capital Works program retreats from historic counter-cyclical highs, and Commonwealth stimulus measures are completed.

The Territory's international trade surplus is estimated to decrease by 44.0 per cent to \$1.1 billion in 2011-12. The decline reflects a 14.8 per cent decrease in goods exports, largely reflecting the scheduled maintenance shutdown of the Darwin LNG plant and the Bayu-Undan offshore processing facility in April 2012. In addition, services imports are estimated to increase as more Territorians take advantage of the favourable exchange rate and travel overseas.

Population

The Territory has the smallest population and the third largest land mass among the states, making the Territory the most sparsely populated jurisdiction in Australia. The Territory is also highly urbanised, despite its low population density, with more than half the population living in the Darwin region and a further quarter living in the five main regional centres (Alice Springs, Katherine, Tennant Creek, Jabiru and Nhulunbuy). Compared to other jurisdictions, the Territory's population is relatively young, highly mobile and comprises a greater proportion of Indigenous persons and defence personnel than other jurisdictions.

Population and economic growth are highly interdependent in the long term through the impact of population growth on aggregate demand, employment and construction. Natural increase (births minus deaths) is the largest

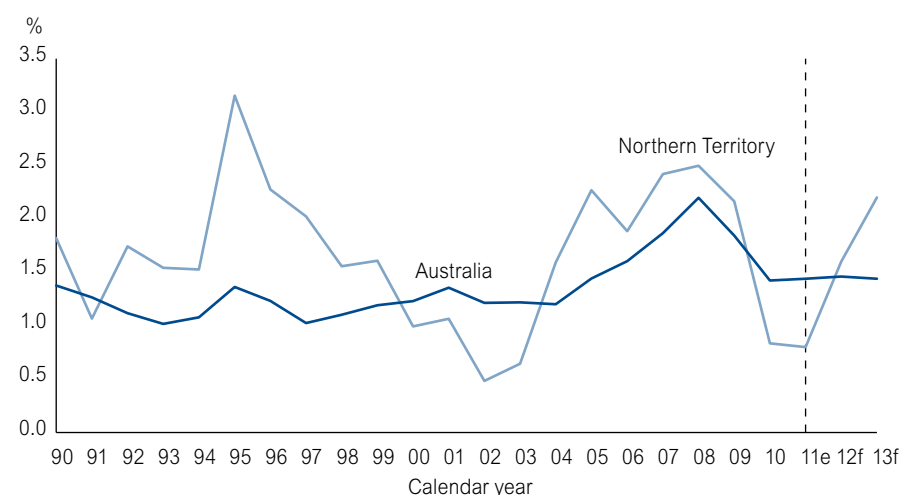
component of population growth in the Territory. However, net interstate migration drives changes in growth.

Treasury estimates population growth of 0.8 per cent in 2011. The modest rate reflects in part the relocation of the 7RAR and dependants to South Australia, as well as the completion of several projects in 2010-11.

Treasury forecasts the Territory's annual population growth to increase to 1.6 per cent in 2012 and to strengthen further to 2.2 per cent in 2013.

The increased growth in 2012 and continuing in 2013 is largely impacted by the commencement of a number of major construction projects, including the INPEX LNG plant, and a variety of other projects (including the Darwin correctional facility, Marine Supply Base, redevelopment of the Montara oilfield platform and maintenance of both the ConocoPhillips Darwin LNG plant and Bayu-Undan oilfield) and the associated increased demand for construction labour.

Chart 7.2: Population Growth Rate, Northern Territory and Australia



e: estimate; f: forecast

Source: ABS Cat. No. 3101.0

Labour Market

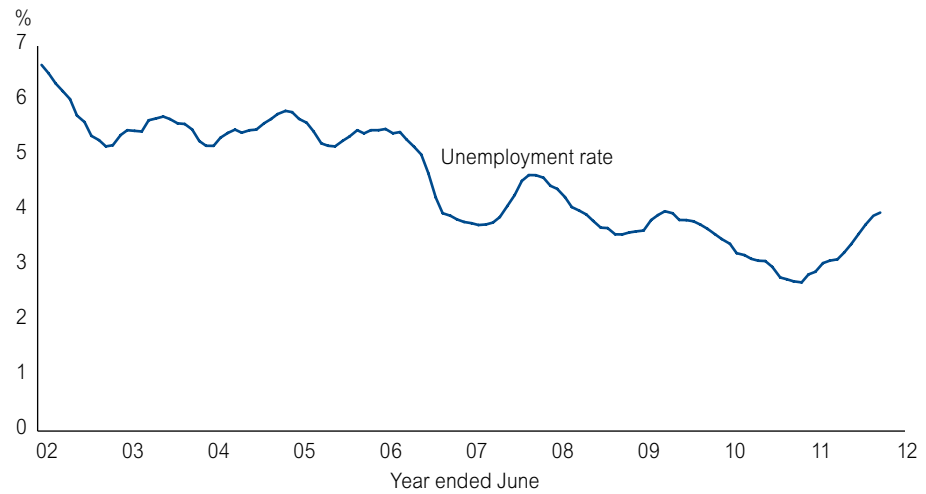
The largest employing industries in the Territory are public administration and safety, health care and social assistance, construction, and retail trade. The large services sector is a key characteristic of the Territory's labour market, which accounted for 91.7 per cent of employment in the Territory in 2010-11, compared to 86.6 per cent nationally. In addition, the Territory has a relatively young, mobile workforce, and there are significant differences in labour market characteristics between non-Indigenous and Indigenous persons in the Territory.

Employment growth is expected to moderate from 2.0 per cent in 2010-11 to an estimated 0.8 per cent growth in 2011-12 as the Territory economy experiences a lull between major projects. However, the commencement of major projects such as INPEX, the Marine Supply Base and the Darwin correctional facility will strengthen employment growth from 2012-13.

Between 2008-09 and 2010-11, both employment growth and the unemployment rate fell (Chart 7.3). The decline in the unemployment rate occurred as employment growth remained strong, although slowing from the very high growth experienced with major projects and the Commonwealth emergency response into Indigenous communities in 2007-08 and 2008-09.

However, as employment growth has slowed to 0.8 per cent, the average unemployment rate is estimated to increase to an average of 3.7 per cent in 2011-12. Also impacting unemployment has been a minor increase in the participation rate.

Chart 7.3: Territory Average Annual Unemployment Rate



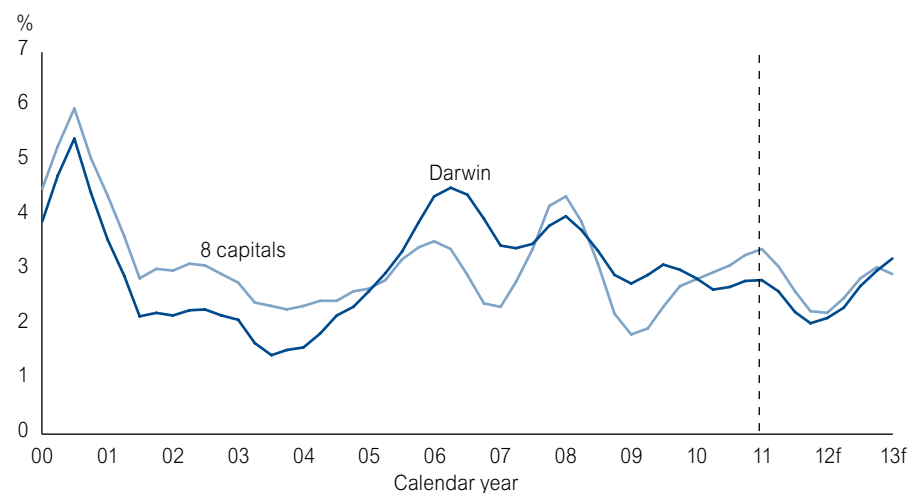
Source: ABS Cat. No. 6202.0

Prices

Inflation in Darwin was constrained in 2011 by subdued private consumption, investment, labour market conditions and population growth, with the Territory between major projects. In addition, lower import prices, primarily due to a sustained high Australian dollar, also constrained Darwin CPI growth in 2011.

Year-on-year growth in Darwin's CPI remained at 2.8 per cent as higher tobacco and alcohol, financial services, transportation and food, and non-alcoholic beverages prices exerted upward pressure on Darwin's inflation rate, while lower prices for household contents and services and recreation and culture partially offset growth. Darwin CPI is estimated to moderate to 2.1 per cent in 2012.

Chart 7.4: Consumer Price Index, Darwin and Eight Capitals (year-on-year percentage change)



f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 6401.0, ABARES

Wages

Growth in the Territory wage price index (WPI) in 2010-11 strengthened to 4.0 per cent, mainly reflecting private sector wages growth of 4.4 per cent,

Outlook for 2012-13

while public sector WPI growth moderated to 3.2 per cent. Wage restraint is expected to continue in the public sector.

The WPI is estimated to rise by 4.0 per cent in 2011-12, increasing to 4.3 per cent in 2012-13, reflecting increased competition for labour from the range of private sector projects across northern Australia.

The International Monetary Fund estimates global growth fell to 3.3 per cent in 2012. Growth is expected to moderate for both developing Asian economies (7.3 per cent) and advanced economies (1.2 per cent) in 2012.

The Australian economy is expected to grow further in 2012 (3.3 per cent) and 2013 (3.4 per cent) driven by strong growth in China.

The Economy

In 2012-13, economic growth in the Territory is forecast to strengthen further to 3.9 per cent, reflecting additional growth in private business investment and improved household confidence and consumption on the back of stronger jobs growth, despite weaker public sector activity.

The Territory's SFD is forecast to increase by 9.3 per cent in 2012-13 following more modest growth of 3.7 per cent estimated for 2011-12. SFD is expected to be driven by private business investment for large projects and supported by growth in household consumption expenditure in 2012-13.

Consumption expenditure is forecast to increase modestly by 0.5 per cent to \$13.9 billion in 2012-13 due to increasing private consumption, up by 2.9 per cent, offsetting a decline in public sector consumption as consumer confidence continues to rebuild in the aftermath of the GFC, supported by solid employment and population growth.

Similar to 2011-12, the Territory's international trade surplus is forecast to decrease by around 40 per cent mainly reflecting the import in 2012-13 of key machinery and equipment and pre-assembled modules for the construction of the INPEX LNG plant at Blaydin Point. The trade surplus is forecast to decline in 2012-13 despite forecast increases in oil exports as the Montara and Kitan fields ramp up production.

Population

The Territory's population is forecast to grow by 1.6 per cent in 2012 before strengthening to 2.2 per cent in 2013. The increase in 2013 reflects the direct and indirect contribution to the resident population of key major projects.

Labour Market

Employment growth is forecast to increase to 2.0 per cent in 2012-13 as economic activity strengthens with the commencement of major projects. The average unemployment rate is anticipated to decline to 3.2 per cent in 2012-13.

Prices

Territory inflation is expected to moderate to 2.1 per cent in 2012 and strengthen to 3.2 per cent in 2013, reflecting higher levels of aggregate demand and higher population, wage and employment growth, as work on major projects intensifies.

Wages

WPI in the Territory is forecast to grow by 4.3 per cent in 2012-13, reflecting strengthening economic activity in the Territory and emerging skill shortages. Strengthening economic activity in 2012-13 may result in private sector wages increasing to levels seen pre-GFC, with the primary driver being increased activity in the mining and energy industry. The magnitude of major projects and the numbers of workers required to be sourced from competitive markets suggests private sector wage pressures will continue.

Potential Future Developments

The following key projects are expected to contribute to the Territory economy over the next few years. The new Marine Supply Base to be completed in 2013, in addition to the INPEX project, will have the capacity to service potential oil and gas developments including:

- Shell's Prelude floating LNG project, currently under construction and will be moored off the north-west coast of Australia for 25 years;
- a 2 to 3 million tonne per annum floating LNG processing facility in the Bonaparte basin led by the French company GDF Suez;
- the Crux liquids project, led by Nexus Energy and Shell, involving a floating condensate processing facility, located 700 kilometres west of Darwin in the Timor Sea. The project is expected to produce 38 000 barrels of condensate per day; and
- development of the Greater Sunrise gas field, which has the potential to produce 4 million tonnes of LNG per annum. Although an agreement has been reached between the governments of Australia and Timor-Leste regarding the sharing of revenues from the anticipated development of the field, approvals from both governments for the development of a floating LNG facility and establishment of fiscal arrangements need to be obtained before funding arrangements can proceed.

Other significant potential onshore projects include:

- Minemakers would like to begin production of phosphate from the Wonarah deposit, subject to securing finance and buyers. The Wonarah project is expected to initially produce around 1 million tonnes of phosphate per annum, ramping up to 3 million tonnes per annum;
- the \$600 million Nolan's Bore rare earths mine north-west of Alice Springs is expected to produce 20 000 tonnes of rare earths per annum over a 30-year period. It includes \$530 million for a proposed chemical processing plant;
- Vista Gold would like to reopen the Mt Todd Gold Mine located 50 kilometres north of Katherine;
- the Sherwin Iron proposed \$180 million Roper River iron ore project located 475 kilometres south-east of Darwin along the Roper Highway. The mine is expected to produce around 5 million tonnes of iron ore per annum;
- the Western Desert Roper Bar iron ore project, which is expected to produce around 10 million tonnes of iron ore per annum; and

- construction of an \$800 million condensate processing facility by Darwin Clean Fuels in Middle Arm. The company is currently looking to commence its feasibility study and environmental impact statement. The facility is expected to produce 60 000 barrels of petroleum per day as well as diesel, LPG and jet fuel. Feedstock for the plant will be shipped from the Timor Sea, North West Shelf and other regional fields.

Risk to the Outlook

There are several risks to the Territory's economic growth outlook. The combination of a very large resource project, relatively high exchange rate and credit constraints, means that growth will be uneven across sectors of the economy. Strong growth will be reported in the construction industry, providing the infrastructure for future growth in mining and manufacturing. Tourism and other sectors exposed to the external economic environment will face continuing challenges. Risks include:

- the high level of the Australian dollar relative to the currencies of key trading partners and source markets for tourism;
- skills shortages in businesses not directly involved in major projects;
- the risk to credit markets associated with the continuing sovereign debt issue in Europe;
- the complexities around measuring the interstate trade flows associated with major projects, which are reported by the ABS in the balancing item of GSP; and
- timing lags between when actual capital expenditures take place by private companies and when they are reported to the ABS, and therefore included in official economic statistics.

Chapter 8 Uniform Presentation Framework

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

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

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

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

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

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

- taxes;
- grant revenue and expenses;
- dividend and income tax equivalent income;
- expenses and purchases of non financial assets by function; and
- a revised 2012-13 Loan Council Allocation.

The financial statements for the general government, public non financial corporation and non financial public sectors include the revised 2011-12 Estimate, 2012-13 Budget and 2013-14 to 2015-16 Forward Estimates. The statements for the public financial corporation sector and total public sector present the 2011-12 Estimate only, with the remaining supplementary tables presenting both the 2011-12 Estimate and the 2012-13 Budget.

Table 8.1

General Government Sector Comprehensive Operating Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	385 320	409 193	425 087	441 786	458 854
Current grants	3 459 887	3 474 483	3 597 523	3 711 863	3 909 180
Capital grants	464 571	208 992	162 117	130 068	60 786
Sales of goods and services	207 923	197 077	207 204	211 623	199 207
Interest income	62 994	58 778	60 124	62 075	64 101
Dividend and income tax equivalent income	38 517	49 280	48 176	47 351	44 995
Other	199 014	152 620	163 977	163 251	163 071
TOTAL REVENUE	4 818 226	4 550 423	4 664 208	4 768 017	4 900 194
<i>less</i> EXPENSES					
Employee benefits expense	1 756 950	1 788 665	1 820 500	1 851 777	1 883 366
Superannuation expenses					
Superannuation interest cost	129 803	122 007	135 312	156 320	157 804
Other superannuation expenses	161 871	177 449	175 541	163 601	172 718
Depreciation and amortisation	219 356	226 102	230 341	244 224	247 257
Other operating expenses	1 185 750	1 212 208	1 255 073	1 303 085	1 352 012
Interest expenses	165 173	182 472	214 022	264 795	281 006
Other property expenses					
Current grants	791 707	796 843	791 784	748 632	761 481
Capital grants	103 460	65 852	54 859	40 330	35 915
Subsidies and personal benefit payments	138 477	141 720	144 898	149 314	155 266
TOTAL EXPENSES	4 652 547	4 713 318	4 822 330	4 922 078	5 046 825
<i>equals</i> NET OPERATING BALANCE	165 679	- 162 895	- 158 122	- 154 061	- 146 631
<i>plus</i> Other economic flows – included in operating result	- 321 526	245 895	228 462	24 910	19 695
<i>equals</i> OPERATING RESULT	- 155 847	83 000	70 340	- 129 151	- 126 936
<i>plus</i> Other economic flows – other non-owner changes in equity	107 657	117 011	102 305	104 828	96 164
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	- 48 190	200 011	172 645	- 24 323	- 30 772
NET OPERATING BALANCE	165 679	- 162 895	- 158 122	- 154 061	- 146 631
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	1 003 022	654 659	570 784	517 830	451 342
Sales of non financial assets	- 71 905	- 78 372	- 69 478	- 72 478	- 65 978
<i>less</i> Depreciation	219 356	226 102	230 341	244 224	247 257
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets		- 23 313	474 054	- 5 739	
<i>equals</i> Total net acquisition of non financial assets	711 762	326 872	745 019	195 389	138 107
<i>equals</i> FISCAL BALANCE	- 546 083	- 489 767	- 903 141	- 349 450	- 284 738

Table 8.2
General Government Sector Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	112 639	115 742	87 023	86 541	110 389
Advances paid	159 781	171 672	172 063	172 454	172 845
Investments, loans and placements	1 055 115	672 243	691 225	708 900	749 286
Receivables	147 370	156 496	155 000	154 025	151 765
Equity					
Investments in other public sector entities	2 624 682	2 805 498	2 989 803	3 094 631	3 190 795
Investments – other	100	100	100	100	100
Other financial assets					
Total financial assets	4 099 687	3 921 751	4 095 214	4 216 651	4 375 180
Non financial assets					
Inventories	10 194	10 194	10 194	10 194	10 194
Property, plant and equipment	10 268 530	10 608 036	11 367 189	11 582 562	11 734 803
Investment property	53 273	49 416	44 059	38 702	33 345
Other non financial assets	4 133	3 749	3 365	2 981	2 597
Total non financial assets	10 336 130	10 671 395	11 424 807	11 634 439	11 780 939
TOTAL ASSETS	14 435 817	14 593 146	15 520 021	15 851 090	16 156 119
LIABILITIES					
Deposits held	604 986	130 291	118 213	123 435	134 033
Advances received	268 583	270 272	261 456	252 096	232 148
Borrowing	2 142 534	2 733 465	3 665 842	3 973 795	4 293 332
Superannuation	3 098 756	2 916 245	2 742 455	2 768 494	2 784 716
Other employee benefits	517 867	536 473	546 325	554 325	560 325
Payables	173 390	173 718	176 393	190 141	190 063
Other liabilities	112 494	115 464	119 474	123 264	126 734
TOTAL LIABILITIES	6 918 610	6 875 928	7 630 158	7 985 550	8 321 351
NET ASSETS/(LIABILITIES)	7 517 207	7 717 218	7 889 863	7 865 540	7 834 768
Contributed equity					
Accumulated surplus/(deficit)	1 304 454	1 387 454	1 457 794	1 328 643	1 201 707
Reserves	6 212 753	6 329 764	6 432 069	6 536 897	6 633 061
NET WORTH	7 517 207	7 717 218	7 889 863	7 865 540	7 834 768
NET FINANCIAL WORTH ¹	- 2 818 923	- 2 954 177	- 3 534 944	- 3 768 899	- 3 946 171
NET FINANCIAL LIABILITIES ²	5 443 605	5 759 675	6 524 747	6 863 530	7 136 966
NET DEBT³	1 688 568	2 174 371	3 095 200	3 381 431	3 626 993

¹ Net financial worth equals total financial assets minus total liabilities.

² Net financial liabilities equals the sum of total liabilities less total financial assets excluding investments in other public sector entities.

³ Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.3

General Government Sector Cash Flow Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	383 221	409 103	424 956	441 511	458 704
Receipts from sales of goods and services	269 980	242 138	252 265	256 684	244 268
Grants and subsidies received	3 924 458	3 683 475	3 759 640	3 841 931	3 969 966
Interest receipts	62 994	58 747	60 096	62 057	64 093
Dividends and income tax equivalents	24 688	40 275	49 831	48 619	47 413
Other receipts	414 986	368 621	379 926	379 768	379 666
Total operating receipts	5 080 327	4 802 359	4 926 714	5 030 570	5 164 110
Cash payments for operating activities					
Payments for employees	- 1 978 678	- 2 020 096	- 2 081 309	- 2 134 245	- 2 188 330
Payment for goods and services	- 1 450 331	- 1 474 286	- 1 516 111	- 1 559 059	- 1 613 500
Grants and subsidies paid	- 1 033 095	- 981 057	- 970 550	- 932 492	- 952 617
Interest paid	- 164 948	- 182 144	- 211 347	- 256 331	- 281 174
Other payments	- 500				
Total operating payments	- 4 627 552	- 4 657 583	- 4 779 317	- 4 882 127	- 5 035 621
NET CASH FLOWS FROM OPERATING ACTIVITIES	452 775	144 776	147 397	148 443	128 489
Cash flows from investments in non financial assets					
Sales of non financial assets	71 905	78 372	69 478	72 478	65 978
Purchases of non financial assets	- 1 003 022	- 654 659	- 570 784	- 517 830	- 451 342
Net cash flows from investments in non financial assets	- 931 117	- 576 287	- 501 306	- 445 352	- 385 364
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 478 342	- 431 511	- 353 909	- 296 909	- 256 875
Net cash flows from investments in financial assets for policy purposes ¹	- 40 707	- 75 696	- 82 391	- 391	- 391
Net cash flows from investments in financial assets for liquidity purposes	- 203 720	392 385	- 8 902	- 6 997	- 29 073
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 175 544	- 259 598	- 592 599	- 452 740	- 414 828
Net cash flows from financing activities					
Advances received (net)	22 159	1 689	- 8 816	- 9 360	- 19 948
Borrowing (net)	321 281	590 931	437 377	307 953	319 537
Deposits received (net)	305 680	- 474 695	- 12 078	5 222	10 598
Other financing (net)	22				
NET CASH FLOWS FROM FINANCING ACTIVITIES	649 142	117 925	416 483	303 815	310 187
NET INCREASE/DECREASE IN CASH HELD	- 73 627	3 103	- 28 719	- 482	23 848
Net cash flows from operating activities	452 775	144 776	147 397	148 443	128 489
Net cash flows from investments in non financial assets	- 931 117	- 576 287	- 501 306	- 445 352	- 385 364
CASH SURPLUS (+)/DEFICIT (-)	- 478 342	- 431 511	- 353 909	- 296 909	- 256 875
Future infrastructure and superannuation contributions/earnings ²	- 13 064	- 17 801	- 18 867	- 19 999	- 21 199
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 491 406	- 449 312	- 372 776	- 316 908	- 278 074
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 478 342	- 431 511	- 353 909	- 296 909	- 256 875
Acquisitions under finance leases and similar arrangements			- 495 000		
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 478 342	- 431 511	- 848 909	- 296 909	- 256 875

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

2 Contributions for future infrastructure and superannuation requirements.

Table 8.4

Public Non Financial Corporation Sector Comprehensive Operating Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Current grants	126 466	132 092	134 670	137 929	141 271
Capital grants	11 002	23 450	16 861	17 282	17 714
Sales of goods and services	582 716	625 185	667 749	687 556	698 512
Interest income	6 032	3 602	3 167	3 043	2 869
Other	27 951	39 714	39 123	40 295	41 553
TOTAL REVENUE	754 167	824 043	861 570	886 105	901 919
<i>less</i> EXPENSES					
Employee benefits expense	82 577	94 304	105 971	110 679	120 474
Superannuation expenses	13 140	13 443	13 755	14 072	14 072
Depreciation and amortisation	130 848	141 846	155 311	166 201	176 952
Other operating expenses	491 900	510 188	523 218	529 463	530 465
Interest expenses	79 520	89 383	101 756	113 200	127 523
Other property expenses	1 443	3 108	3 296	2 791	1 879
Current grants					
Capital grants					
Subsidies and personal benefit payments	19 572	19 965	15 909	16 387	17 796
TOTAL EXPENSES	819 000	872 237	919 216	952 793	989 161
<i>equals</i> NET OPERATING BALANCE	- 64 833	- 48 194	- 57 646	- 66 688	- 87 242
<i>plus</i> Other economic flows – included in operating result	17 510	- 1 549	- 1 858	- 1 227	- 1 289
<i>equals</i> OPERATING RESULT	- 47 323	- 49 743	- 59 504	- 67 915	- 88 531
<i>plus</i> Other economic flows – other non-owner changes in equity	138 285	150 639	146 935	157 985	168 933
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	90 962	100 896	87 431	90 070	80 402
NET OPERATING BALANCE	- 64 833	- 48 194	- 57 646	- 66 688	- 87 242
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	312 847	354 708	294 780	277 612	304 884
Sales of non financial assets	- 197	- 126	- 126	- 126	- 126
<i>less</i> Depreciation	130 848	141 846	155 311	166 201	176 952
<i>plus</i> Change in inventories	19 513	- 661	- 4 208	- 8 195	- 19 163
<i>plus</i> Other movements in non financial assets	10 000	12 000	12 300	12 608	12 923
<i>equals</i> Total net acquisition of non financial assets	211 315	224 075	147 435	115 698	121 566
<i>equals</i> FISCAL BALANCE	- 276 148	- 272 269	- 205 081	- 182 386	- 208 808

Table 8.5
Public Non Financial Corporation Sector Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	100 604	47 722	51 321	59 292	67 395
Advances paid					
Investments, loans and placements					
Receivables	85 021	95 185	102 939	108 034	111 478
Equity	3	3	3	3	3
Other financial assets					
Total financial assets	185 628	142 910	154 263	167 329	178 876
Non financial assets					
Inventories	104 606	103 945	99 737	91 542	72 379
Property, plant and equipment	3 325 402	3 721 349	4 011 548	4 286 747	4 581 530
Investment property	56 406	60 806	69 306	76 106	91 106
Other non financial assets	25 906	28 431	28 430	28 429	31 609
Total non financial assets	3 512 320	3 914 531	4 209 021	4 482 824	4 776 624
TOTAL ASSETS	3 697 948	4 057 441	4 363 284	4 650 153	4 955 500
LIABILITIES					
Deposits held	6 148	4 239	4 239	4 239	4 239
Advances received					
Borrowing	1 258 337	1 450 077	1 599 353	1 800 340	2 027 015
Superannuation					
Other employee benefits	41 069	41 797	45 219	47 078	49 015
Payables	67 904	66 882	56 159	57 427	60 943
Other liabilities	12 081	22 362	23 082	22 166	20 378
TOTAL LIABILITIES	1 385 539	1 585 357	1 728 052	1 931 250	2 161 590
NET ASSETS/(LIABILITIES)					
Contributed equity	564 537	628 342	710 342	710 342	710 342
Accumulated surplus/(deficit)	616 422	561 653	495 866	421 552	327 626
Reserves	1 131 450	1 282 089	1 429 024	1 587 009	1 755 942
TOTAL EQUITY	2 312 409	2 472 084	2 635 232	2 718 903	2 793 910
NET FINANCIAL WORTH ¹	- 1 199 911	- 1 442 447	- 1 573 789	- 1 763 921	- 1 982 714
NET DEBT²	1 163 881	1 406 594	1 552 271	1 745 287	1 963 859

¹ Net financial worth equals total financial assets minus total liabilities.

² Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.6

Public Non Financial Corporation Sector Cash Flow Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Receipts from sales of goods and services	546 203	620 318	669 398	686 394	699 407
Grants and subsidies received	136 880	161 142	151 531	155 211	158 985
Interest receipts	6 029	3 598	3 164	3 040	2 869
Other receipts	23 698	22 407	21 114	21 827	22 567
Total operating receipts	712 810	807 465	845 207	866 472	883 828
Cash payments for operating activities					
Income tax equivalents paid	- 224	- 496	- 2 961	- 3 467	- 2 792
Payments for employees	- 102 753	- 115 646	- 125 076	- 131 686	- 141 561
Payment for goods and services	- 466 796	- 529 271	- 518 908	- 510 811	- 501 860
Grants and subsidies paid	- 19 572	- 19 965	- 15 909	- 16 387	- 17 796
Interest paid	- 79 186	- 89 072	- 103 689	- 112 562	- 126 804
Other payments		- 1 868	- 5 623	- 102	- 369
Total operating payments	- 668 531	- 756 318	- 772 166	- 775 015	- 791 182
NET CASH FLOWS FROM OPERATING ACTIVITIES	44 279	51 147	73 041	91 457	92 646
Cash flows from investments in non financial assets					
Sales of non financial assets	197	126	126	126	126
Purchases of non financial assets	- 312 847	- 354 708	- 294 780	- 277 612	- 304 884
Net cash flows from investments in non financial assets	- 312 650	- 354 582	- 294 654	- 277 486	- 304 758
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 268 371	- 303 435	- 221 613	- 186 029	- 212 112
Net cash flows from investments in financial assets for policy purposes ¹					
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 312 650	- 354 582	- 294 654	- 277 486	- 304 758
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	135 634	191 740	149 276	200 987	226 675
Deposits received (net)	- 1 406	- 1 909			
Dividends paid	- 262	- 3 083	- 6 064	- 6 987	- 6 460
Other financing (net)	20 886	63 805	82 000		
NET CASH FLOWS FROM FINANCING ACTIVITIES	154 852	250 553	225 212	194 000	220 215
NET INCREASE/DECREASE IN CASH HELD	- 113 519	- 52 882	3 599	7 971	8 103
Net cash flows from operating activities	44 279	51 147	73 041	91 457	92 646
Net cash flows from investments in non financial assets	- 312 650	- 354 582	- 294 654	- 277 486	- 304 758
Dividends paid	- 262	- 3 083	- 6 064	- 6 987	- 6 460
CASH SURPLUS (+)/DEFICIT (-)	- 268 633	- 306 518	- 227 677	- 193 016	- 218 572
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 268 633	- 306 518	- 227 677	- 193 016	- 218 572
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 268 633	- 306 518	- 227 677	- 193 016	- 218 572

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

Table 8.7

Non Financial Public Sector Comprehensive Operating Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	376 775	400 454	416 149	432 644	449 712
Current grants	3 459 887	3 474 483	3 597 523	3 711 863	3 909 180
Capital grants	464 571	208 992	162 117	130 068	60 786
Sales of goods and services	759 113	790 809	843 860	868 085	866 825
Interest income	63 054	58 838	60 124	62 075	64 101
Dividend and income tax equivalent income	35 391	41 146	38 597	38 161	37 721
Other	223 881	189 750	200 464	200 858	201 936
TOTAL REVENUE	5 382 672	5 164 472	5 318 834	5 443 754	5 590 261
<i>less</i> EXPENSES					
Employee benefits expense	1 839 527	1 882 969	1 926 471	1 962 456	2 003 840
Superannuation expenses					
Superannuation interest cost	129 803	122 007	135 312	156 320	157 804
Other superannuation expenses	172 542	188 358	186 710	175 035	184 152
Depreciation and amortisation	350 204	367 948	385 652	410 425	424 209
Other operating expenses	1 636 964	1 682 154	1 738 210	1 792 262	1 842 391
Interest expenses	238 721	268 313	312 611	374 952	405 660
Other property expenses					
Current grants	739 867	743 527	737 073	692 489	703 868
Capital grants	92 458	42 402	37 998	23 048	18 201
Subsidies and personal benefit payments	83 423	82 909	80 848	83 915	89 404
TOTAL EXPENSES	5 283 509	5 380 587	5 540 885	5 670 902	5 829 529
<i>equals</i> NET OPERATING BALANCE	99 163	- 216 115	- 222 051	- 227 148	- 239 268
<i>plus</i> Other economic flows – included in operating result	- 304 016	244 346	226 604	23 683	18 406
<i>equals</i> OPERATING RESULT	- 204 853	28 231	4 553	- 203 465	- 220 862
<i>plus</i> Other economic flows – other non-owner changes in equity	156 663	171 780	168 092	179 142	190 090
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	- 48 190	200 011	172 645	- 24 323	- 30 772
NET OPERATING BALANCE	99 163	- 216 115	- 222 051	- 227 148	- 239 268
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	1 315 869	1 009 367	865 564	795 442	756 226
Sales of non financial assets	- 72 102	- 78 498	- 69 604	- 72 604	- 66 104
<i>less</i> Depreciation	350 204	367 948	385 652	410 425	424 209
<i>plus</i> Change in inventories	19 513	- 661	- 4 208	- 8 195	- 19 163
<i>plus</i> Other movements in non financial assets	10 001	- 11 313	486 354	6 869	12 923
<i>equals</i> Total net acquisition of non financial assets	923 077	550 947	892 454	311 087	259 673
<i>equals</i> FISCAL BALANCE	- 823 914	- 767 062	- 1 114 505	- 538 235	- 498 941

Table 8.8

Non Financial Public Sector Balance Sheet

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	113 206	116 309	87 590	87 108	110 956
Advances paid	159 781	171 672	172 063	172 454	172 845
Investments, loans and placements	1 055 115	672 243	691 225	708 900	749 286
Receivables	216 563	231 206	236 776	241 879	244 888
Equity					
Investments in other public sector entities	312 273	333 414	354 571	375 728	396 885
Investments – other	103	103	103	103	103
Other financial assets					
Total financial assets	1 857 041	1 524 947	1 542 328	1 586 172	1 674 963
Non financial assets					
Inventories	114 800	114 139	109 931	101 736	82 573
Property, plant and equipment	13 593 932	14 329 385	15 378 737	15 869 309	16 316 333
Investment property	109 679	110 222	113 365	114 808	124 451
Other non financial assets	30 039	32 180	31 795	31 410	34 206
Total non financial assets	13 848 450	14 585 926	15 633 828	16 117 263	16 557 563
TOTAL ASSETS	15 705 491	16 110 873	17 176 156	17 703 435	18 232 526
LIABILITIES					
Deposits held	511 097	87 375	71 698	68 949	71 444
Advances received	268 583	270 272	261 456	252 096	232 148
Borrowing	3 400 871	4 183 542	5 265 195	5 774 135	6 320 347
Superannuation	3 098 756	2 916 245	2 742 455	2 768 494	2 784 716
Other employee benefits	558 936	578 270	591 544	601 403	609 340
Payables	231 625	230 927	222 876	237 886	241 321
Other liabilities	118 416	127 024	131 069	134 932	138 442
TOTAL LIABILITIES	8 188 284	8 393 655	9 286 293	9 837 895	10 397 758
NET ASSETS/(LIABILITIES)	7 517 207	7 717 218	7 889 863	7 865 540	7 834 768
Contributed equity					
Accumulated surplus/(deficit)	1 920 876	1 949 107	1 953 660	1 750 195	1 529 333
Reserves	5 596 331	5 768 111	5 936 203	6 115 345	6 305 435
NET WORTH	7 517 207	7 717 218	7 889 863	7 865 540	7 834 768
NET FINANCIAL WORTH ¹	- 6 331 243	- 6 868 708	- 7 743 965	- 8 251 723	- 8 722 795
NET FINANCIAL LIABILITIES ²	6 643 516	7 202 122	8 098 536	8 627 451	9 119 680
NET DEBT³	2 852 449	3 580 965	4 647 471	5 126 718	5 590 852

1 Net financial worth equals total financial assets minus total liabilities.

2 Net financial liabilities equals the sum of total liabilities less total financial assets excluding investments in other public sector entities.

3 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.9

Non Financial Public Sector Cash Flow Statement

	2011-12	2012-13	2013-14	2014-15	2015-16
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	376 775	400 454	416 149	432 644	449 712
Receipts from sales of goods and services	784 780	831 003	890 570	911 984	912 781
Grants and subsidies received	3 923 870	3 689 075	3 759 640	3 841 931	3 969 966
Interest receipts	63 054	58 807	60 096	62 060	64 096
Dividends and income tax equivalents	24 201	36 694	40 806	38 165	38 161
Other receipts	438 069	390 978	400 990	401 545	402 183
Total operating receipts	5 610 749	5 407 011	5 568 251	5 688 329	5 836 899
Cash payments for operating activities					
Payments for employees	- 2 074 983	- 2 127 091	- 2 197 578	- 2 257 064	- 2 320 899
Payment for goods and services	- 1 885 110	- 1 972 054	- 2 003 876	- 2 038 726	- 2 084 416
Grants and subsidies paid	- 915 199	- 845 480	- 834 928	- 793 668	- 811 428
Interest paid	- 238 165	- 267 678	- 311 872	- 365 856	- 405 112
Other payments	- 500	- 1 868	- 5 623	- 102	- 369
Total operating payments	- 5 113 957	- 5 214 171	- 5 353 877	- 5 455 416	- 5 622 224
NET CASH FLOWS FROM OPERATING ACTIVITIES	496 792	192 840	214 374	232 913	214 675
Cash flows from investments in non financial assets					
Sales of non financial assets	72 102	78 498	69 604	72 604	66 104
Purchases of non financial assets	- 1 315 869	- 1 009 367	- 865 564	- 795 442	- 756 226
Net cash flows from investments in non financial assets	- 1 243 767	- 930 869	- 795 960	- 722 838	- 690 122
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 746 975	- 738 029	- 581 586	- 489 925	- 475 447
Net cash flows from investments in financial assets for policy purposes ¹	- 19 821	- 11 891	- 391	- 391	- 391
Net cash flows from investments in financial assets for liquidity purposes	- 203 720	392 385	- 8 902	- 6 997	- 29 073
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 467 308	- 550 375	- 805 253	- 730 226	- 719 586
Net cash flows from financing activities					
Advances received (net)	22 159	1 689	- 8 816	- 9 360	- 19 948
Borrowing (net)	456 915	782 671	586 653	508 940	546 212
Deposits received (net)	417 793	- 423 722	- 15 677	- 2 749	2 495
Other financing (net)	22				
NET CASH FLOWS FROM FINANCING ACTIVITIES	896 889	360 638	562 160	496 831	528 759
NET INCREASE/DECREASE IN CASH HELD	- 73 627	3 103	- 28 719	- 482	23 848
Net cash flows from operating activities	496 792	192 840	214 374	232 913	214 675
Net cash flows from investments in non financial assets	- 1 243 767	- 930 869	- 795 960	- 722 838	- 690 122
CASH SURPLUS (+)/DEFICIT (-)	- 746 975	- 738 029	- 581 586	- 489 925	- 475 447
Future infrastructure and superannuation contributions/earnings ²	- 13 064	- 17 801	- 18 867	- 19 999	- 21 199
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 760 039	- 755 830	- 600 453	- 509 924	- 496 646
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/DEFICIT (-)	- 746 975	- 738 029	- 581 586	- 489 925	- 475 447
Acquisitions under finance leases and similar arrangements			- 495 000		
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 746 975	- 738 029	- 1 076 586	- 489 925	- 475 447

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

2 Contributions for future infrastructure and superannuation requirements.

Table 8.10

Public Financial Corporation Sector Comprehensive Operating Statement

	2011-12 Estimate
	\$000
REVENUE	
Current grants	
Capital grants	
Sales of goods and services	195 676
Interest income	272 164
Other	1 957
TOTAL REVENUE	469 797
<i>less</i> EXPENSES	
Employee benefits expense	15 297
Superannuation expenses	1 829
Depreciation and amortisation	3 300
Other operating expenses	150 607
Interest expenses	251 283
Other property expenses	15 578
Current grants	3 468
Capital grants	
Subsidies and personal benefit payments	
TOTAL EXPENSES	441 362
<i>equals</i> NET OPERATING BALANCE	28 435
<i>plus</i> Other economic flows – included in operating result	14 892
<i>equals</i> OPERATING RESULT	43 327
<i>plus</i> Other economic flows – other non-owner changes in equity	- 79
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	43 248
NET OPERATING BALANCE	28 435
<i>less</i> Net acquisition of non financial assets	
Purchases of non financial assets	3 872
Sales of non financial assets	- 143
<i>less</i> Depreciation	3 300
<i>plus</i> Change in inventories	
<i>plus</i> Other movements in non financial assets	
<i>equals</i> Total net acquisition of non financial assets	429
<i>equals</i> FISCAL BALANCE	28 006

Table 8.11
Public Financial Corporation Sector Balance Sheet

	2011-12 Estimate
	\$000
ASSETS	
Financial assets	
Cash and deposits	574 585
Advances paid	85 025
Investments, loans and placements	4 587 370
Receivables	143 027
Equity	
Other financial assets	
Total financial assets	5 390 007
Non financial assets	
Inventories	
Property, plant and equipment	47 674
Investment property	
Other non financial assets	1 251
Total non financial assets	48 925
TOTAL ASSETS	5 438 932
LIABILITIES	
Deposits held	506 111
Advances received	252 899
Borrowing	3 719 560
Superannuation	
Other employee benefits	4 521
Payables	74 059
Other liabilities	569 509
TOTAL LIABILITIES	5 126 659
NET ASSETS/(LIABILITIES)	312 273
Contributed equity	58 054
Accumulated surplus/(deficit)	234 867
Other reserves	19 352
TOTAL EQUITY	312 273
NET FINANCIAL WORTH ¹	263 348
NET DEBT²	- 768 410

1 Net financial worth equals total financial assets minus total liabilities.

2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.12

Public Financial Corporation Sector Cash Flow Statement

	2011-12 Estimate \$000
Cash receipts from operating activities	
Receipts from sales of goods and services	220 110
Grants and subsidies received	
Interest receipts	271 408
Other receipts	6 403
Total operating receipts	497 921
Cash payments for operating activities	
Income tax equivalents paid	- 7 743
Payments for employees	- 18 670
Payment for goods and services	- 127 515
Grants and subsidies paid	- 3 468
Interest paid	- 247 192
Other payments	- 2 357
Total operating payments	- 406 945
NET CASH FLOWS FROM OPERATING ACTIVITIES	90 976
Cash flows from investments in non financial assets	
Sales of non financial assets	143
Purchases of non financial assets	- 3 872
Net cash flows from investments in non financial assets	- 3 729
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	87 247
Net cash flows from investments in financial assets for policy purposes ¹	
Net cash flows from investments in financial assets for liquidity purposes	- 541 980
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 545 709
Net cash flows from financing activities	
Advances received (net)	- 5 664
Borrowing (net)	884 188
Deposits received (net)	7 637
Dividends paid	- 16 458
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	869 703
NET INCREASE/DECREASE IN CASH HELD	414 970
Net cash flows from operating activities	90 976
Net cash flows from investments in non financial assets	- 3 729
Distributions paid	- 16 458
CASH SURPLUS (+)/DEFICIT (-)	70 789
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/DEFICIT (-)	70 789
Acquisitions under finance leases and similar arrangements	
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	70 789

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

Table 8.13
Total Public Sector Comprehensive Operating Statement

	2011-12 Estimate
	\$000
REVENUE	
Taxation revenue	375 739
Current grants	3 459 637
Capital grants	464 571
Sales of goods and services	950 884
Interest income	102 726
Dividend and income tax equivalent income	
Other	223 212
TOTAL REVENUE	5 576 769
<i>less</i> EXPENSES	
Employee benefits expense	1 854 824
Superannuation expenses	
Superannuation interest cost	129 803
Other superannuation expenses	174 338
Depreciation and amortisation	353 504
Other operating expenses	1 780 037
Interest expenses	257 512
Other property expenses	2 357
Current grants	743 085
Capital grants	92 458
Subsidies and personal benefit payments	83 423
TOTAL EXPENSES	5 471 341
<i>equals</i> NET OPERATING BALANCE	105 428
<i>plus</i> Other economic flows – included in operating result	- 289 124
<i>equals</i> OPERATING RESULT	- 183 696
<i>plus</i> Other economic flows – other non-owner changes in equity	135 506
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	- 48 190
NET OPERATING BALANCE	105 428
<i>less</i> Net acquisition of non financial assets	
Purchases of non financial assets	1 319 741
Sales of non financial assets	- 72 245
<i>less</i> Depreciation	353 504
<i>plus</i> Change in inventories	19 513
<i>plus</i> Other movements in non financial assets	10 001
<i>equals</i> Total net acquisition of non financial assets	923 506
<i>equals</i> FISCAL BALANCE	- 818 078

Table 8.14
Total Public Sector Balance Sheet

	2011-12 Estimate \$000
ASSETS	
Financial assets	
Cash and deposits	239 074
Advances paid	155 555
Investments, loans and placements	2 168 980
Receivables	313 737
Equity	
Investments in other public sector entities	
Investments – other	103
Other financial assets	
Total financial assets	2 877 449
Non financial assets	
Inventories	114 800
Property, plant and equipment	13 641 606
Investment property	109 679
Other non financial assets	31 290
Total non financial assets	13 897 375
TOTAL ASSETS	16 774 824
LIABILITIES	
Deposits held	568 491
Advances received	248 673
Borrowing	3 830 484
Superannuation	3 098 756
Other employee benefits	563 457
Payables	295 372
Other liabilities	652 384
TOTAL LIABILITIES	9 257 617
NET ASSETS/(LIABILITIES)	7 517 207
Contributed equity	
Accumulated surplus/(deficit)	2 155 743
Reserves	5 361 464
NET WORTH	7 517 207
NET FINANCIAL WORTH ¹	-6 380 168
NET DEBT²	2 084 039

1 Net financial worth equals total financial assets minus total liabilities.

2 Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 8.15
Total Public Sector Cash Flow Statement

	2011-12 Estimate
	\$000
Cash receipts from operating activities	
Taxes received	375 739
Receipts from sales of goods and services	1 000 985
Grants and subsidies received	3 923 620
Interest receipts	102 526
Other receipts	441 879
Total operating receipts	5 844 749
Cash payments for operating activities	
Payments for employees	- 2 092 617
Payment for goods and services	- 2 006 127
Grants and subsidies paid	- 918 417
Interest paid	- 253 421
Other payments	- 2 857
Total operating payments	- 5 273 439
NET CASH FLOWS FROM OPERATING ACTIVITIES	571 310
Cash flows from investments in non financial assets	
Sales of non financial assets	72 245
Purchases of non financial assets	- 1 319 741
Net cash flows from investments in non financial assets	- 1 247 496
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 676 186
Net cash flows from investments in financial assets for policy purposes ¹	- 19 821
Net cash flows from investments in financial assets for liquidity purposes	- 265 517
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 532 834
Net cash flows from financing activities	
Advances received (net)	- 5 664
Borrowing (net)	883 079
Deposits received (net)	3 300
Other financing (net)	22
NET CASH FLOWS FROM FINANCING ACTIVITIES	880 737
NET INCREASE/DECREASE IN CASH HELD	- 80 787
Net cash flows from operating activities	571 310
Net cash flows from investments in non financial assets	- 1 247 496
CASH SURPLUS (+)/DEFICIT (-)	- 676 186
Future infrastructure and superannuation contributions/earnings ²	- 13 064
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 689 250
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/DEFICIT (-)	- 676 186
Acquisitions under finance leases and similar arrangements	
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 676 186

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

² Contributions for future infrastructure and superannuation requirements.

Table 8.16

General Government Sector Taxes

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Taxes on employers' payroll and labour force	166	177
Payroll taxes	166	177
Taxes on property	84	93
Stamp duties on financial and capital transactions	84	93
Taxes on the provision of goods and services	85	88
Taxes on gambling	51	52
Taxes on insurance	34	36
Taxes on the use of goods and performance of activities	50	52
Motor vehicle registration fees	50	52
TOTAL TAXES	385	409

Table 8.17

State and Territory General Government Sector Grant Revenue

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Current grant revenue		
Current grants from the Commonwealth (including for on-passing)		
National partnership payments	375	232
Specific purpose payments	357	356
General purpose grants	2 728	2 886
Total current grant revenue	3 460	3 474
Capital grant revenue		
Capital grants from the Commonwealth (including for on-passing)		
National partnership payments	437	201
Specific purpose payments		
General purpose grants	27	8
Total capital grant revenue	464	209
TOTAL GRANT REVENUE	3 924	3 683

Table 8.18

State and Territory General Government Sector Grant Expense

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Current grant expense including subsidies and personal benefit payments		
Local Government	124	113
Private and not-for-profit sector (including for on-passing)	583	596
Grants to other sectors of Government	52	52
Other	172	177
Total current grant expense including subsidies and personal benefit payments	930	938
Capital grant expense		
Local Government	4	7
Private and not-for-profit sector (including for on-passing)	87	11
Grants to other sectors of Government	11	23
Other	1	25
Total capital grant expense	104	66
TOTAL GRANT EXPENSE	1 034	1 004

Table 8.19

General Government Sector Dividend and Income Tax Equivalent Income

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
Dividend and income tax equivalent income from PNFC sector	3	8
Dividend and income tax equivalent income from PFC sector	36	41
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	39	49

Table 8.20
General Government Sector Operating Expenses

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
General public services	98	92
Public order and safety	550	576
Education	972	1 023
Health	1 122	1 173
Social security and welfare	323	337
Housing and community amenities	500	457
Recreation and culture	177	170
Fuel and energy	120	117
Agriculture, forestry, fishing and hunting	62	59
Mining, manufacturing and construction	24	22
Transport and communications	244	213
Other economic affairs	142	143
Other purposes	320	332
TOTAL OPERATING EXPENSES	4 653	4 713

Table 8.21
General Government Sector Purchases of Non Financial Assets by Function

	2011-12 Estimate	2012-13 Budget
	\$M	\$M
General public services	18	8
Public order and safety	75	57
Education	83	73
Health	97	81
Social security and welfare	4	3
Housing and community amenities	442	197
Recreation and culture	66	34
Fuel and energy	4	4
Agriculture, forestry, fishing and hunting	4	4
Mining, manufacturing and construction	36	83
Transport and communications	162	108
Other purposes	12	3
TOTAL PURCHASES OF NON FINANCIAL ASSETS	1 003	655

Table 8.22

2012-13 Loan Council Allocation

	Loan Council Allocation	Budget-time Estimate
	\$M	\$M
General government sector cash deficit (+)/surplus (-)	251	432
Public non financial corporations sector cash deficit (+)/surplus (-)	245	307
Non financial public sector cash deficit (+)/surplus (-)	496	738
Acquisitions under finance leases and similar arrangements		
equals		
ABS GFS cash deficit (+)/surplus (-)	496	738
less		
Net cash flows from investments in financial assets for policy purposes		- 12
plus		
Memorandum items		
2012-13 LOAN COUNCIL NOMINATION	496	750
Tolerance limit (2% of non financial public sector cash receipts from operating activities)	108	
Change in loan council allocation	254	

Note: This table sets out the Territory's 2012-13 Loan Council Allocation (LCA) Budget update of \$750 million as compared to that nominated and endorsed with the Loan Council of \$496 million. Nominations for 2012-13 were provided by all jurisdictions on the basis of policies commenced up to and included in their Mid-Year budget updates. The budget-time estimate of \$750 million reflects the prevailing economic conditions affecting the Territory together with the continuing significant investment in infrastructure. Jurisdictions must publicly announce to the Loan Council where it is likely to exceed the tolerance limit. The Territory's 2012-13 LCA is outside the tolerance limit of 2 per cent of non financial public sector operating cash receipts of \$108 million that applies between the LCA and budget-time nomination.

Appendix Classification of Entities in the Northern Territory

Total Public Sector

Non Financial Public Sector

General Government

Aboriginal Areas Protection Authority
 Auditor-General's Office
 AustralAsia Railway Corporation¹
 Batchelor Institute of Indigenous Tertiary Education¹
 Central Holding Authority
 Construction Division²
 Darwin Waterfront Corporation¹
 Data Centre Services²
 Department of Business and Employment
 Department of the Chief Minister
 Department of Children and Families
 Department of Construction and Infrastructure
 Department of Education and Training
 Department of Health
 Department of Housing, Local Government and Regional Services
 Department of Justice
 Department of Lands and Planning
 Department of the Legislative Assembly
 Department of Natural Resources, Environment, the Arts and Sport
 Department of Resources
 Desert Knowledge Australia¹
 Government Printing Office²
 Nominal Insurer's Fund¹
 Northern Territory Electoral Commission
 Northern Territory Legal Aid Commission¹
 Northern Territory Major Events Company Pty Ltd¹
 Northern Territory Police, Fire and Emergency Services
 Northern Territory Treasury
 NT Build Statutory Corporation¹
 NT Fleet²
 NT Home Ownership²
 Office of the Commissioner for Public Employment
 Ombudsman's Office
 Territory Discoveries²
 Territory Wildlife Parks²
 Tourism NT

Public Non Financial Corporations

Darnor Pty Ltd¹
 Darwin Bus Service²
 Darwin Port Corporation²
 Gasgo Pty Ltd¹
 Indigenous Essential Services Pty Ltd¹
 Land Development Corporation²
 Power and Water Corporation^{1,3}

Public Financial Corporations

Northern Territory Treasury Corporation²
 Territory Insurance Office¹

¹ Non budget sector entity.

² Government business division.

³ Government owned corporation.

Glossary

Advances/Advances Paid	Loans acquired for policy rather than liquidity management purposes. Included are long-term and short-term loans, non-marketable debentures and long-term and short-term promissory agreements (bonds and bills) issued to public sector units for achieving government policy objectives.
Agency	A unit of government administration, or office or statutory corporation, nominated in an Administrative Arrangements Order for the purposes of the <i>Financial Management Act</i> and including, where the case requires, a part or division (by whatever name called) of an agency.
Australian Accounting Standards	Statements of accounting standards that can be applied in the preparation and presentation of financial statements.
Capital Grants	Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, in which cash is transferred to enable the recipient to acquire another asset, or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.
Cash Surplus/Deficit	Reported in the Cash Flow Statement that measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid less value of assets acquired under finance leases and similar arrangements.
Commonwealth Own-purpose Expenses	Payments by the Commonwealth for goods and services and associated transfer payments for the conduct of its general government activities.
Comprehensive Result	The net result of all items of income and expense recognised for the period. It is the aggregate of the operating result and other movements in equity, other than transactions with owners as owners.
Consumer Price Index	A general indicator of the prices paid by household consumers for a specific basket of goods and services.
Contingent Liability	A potential financial obligation arising out of a condition, situation, guarantee or indemnity, the ultimate effect of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.
Current Grants	Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.
Finance Lease	Lease agreements that transfer substantially all the risks and benefits relating to ownership of an asset from the lessor (legal owner) to the lessee (party using the asset).

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

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

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

- Generally Accepted Accounting Principles (GAAP)** A term used to describe broadly the body of principles that governs the accounting for financial transactions underlying the preparation of a set of financial statements.

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

- Goods and Services Tax Revenue** On 1 July 2000, the Commonwealth introduced the goods and services tax (GST). Payments from the Commonwealth return the GST revenue to the states and territories, replacing the previous general purpose grants.

- Government Business Division (GBD)** A Territory-controlled trading entity that follows commercial practices and is required to comply with competitive neutrality principles.

Government Finance Statistics (GFS)	Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. Government Finance Statistics in Australia are developed by the Australian Bureau of Statistics in conjunction with all governments and are mainly based on international statistical standards, developed in consultation with member countries by the International Monetary Fund.
Government Owned Corporation (GOC)	An entity whose objectives are to operate at least as efficiently as any corporate business and maximise sustainable return to government. The <i>Government Owned Corporations Act</i> adopts the shareholder model of corporate governance and the Power and Water Corporation became the Territory's first GOC on 1 July 2002.
Government Purpose Classification	Classifies outlays or expenditure transactions by the purpose served, for example, health or education.
Grants	<p>Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be of a current or capital nature (see current grants and capital grants).</p> <p>Grants can be paid as general purpose grants, which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.</p>
Grants for On-Passing	All grants paid to one institutional sector (for example, a state general government) to be passed on to another institutional sector (for example, local government or a non-profit institution).
Gross Domestic Product	The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by summing total output, total income or total expenditure.
Gross State Product	Similar to gross domestic product, except that it measures the total value of goods and services produced in a jurisdiction. It is the sum of all income, namely wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks and a balancing item.
Guarantee	An undertaking to answer for the debt or obligations of another person or entity.
Indemnity	A written undertaking to compensate, protect or insure another person or entity against future financial loss, damage or liability.
Loan Council	The Australian Loan Council coordinates borrowing by Australian and state governments. Current arrangements seek to emphasise transparency of public sector finances, through financial market scrutiny of proposed borrowing to restrict borrowing to prudent levels.

Loan Council Allocation	The nomination to the Loan Council of the level of financing required.
Memorandum Items – Loan Council	Memorandum items are used to adjust the cash surplus/deficit to include in the Loan Council Allocation certain transactions that may have the characteristics of public sector borrowings but do not constitute formal borrowings.
National Partnership Agreement	An agreement defining the objectives, outputs and performance benchmarks related to the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.
Net Acquisition/ (Disposal) of Non Financial Assets from Transactions	<p>Purchases (or acquisitions) of non financial assets less sales (or disposals) of non financial assets less depreciation plus changes in inventories and other movements in non financial assets.</p> <p>Purchases and sales (or net acquisitions) of non financial assets generally include accrued expenses and payables for capital items. Purchases exclude non-produced assets and valuables that are included in other movements in non financial assets.</p>
Net Actuarial Gains	Includes actuarial gains and losses on defined benefit superannuation plans.
Net Cash Flows from Investments in Financial Assets (Liquidity Management purposes)	Cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.
Net Cash Flows from Investments in Financial Assets (Policy Purposes)	Cash receipts from the repayment and liquidation of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disasters.
Net Debt	<p>Net debt measures a government's net stock of selected gross financial liabilities less financial assets.</p> <p>Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements.</p>
Net Financial Liabilities	Total liabilities less financial assets, other than equity in Public Non Financial Corporations (PNFCs) and Public Financial Corporations (PFCs). This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net Financial Worth	A measure of a government's net holdings of financial assets. It is calculated from the Uniform Presentation Framework Balance Sheet as financial assets minus liabilities. Net financial worth is a broader measure than net debt, in that it incorporates provisions (such as superannuation, but excludes depreciation and doubtful debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities.
Net Operating Balance	The revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations and excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.
Net Worth	Provides a relatively comprehensive picture of a government's overall financial position. It is calculated as total assets less total liabilities less shares and other contributed capital. It includes a government's non financial assets such as land and other fixed assets, which may be sold and used to repay debt, as well as its financial assets and liabilities including debtors, creditors and superannuation liabilities. Net worth also shows asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.
Non Financial Assets	Assets that are not financial assets, predominantly land and other fixed assets.
Non Financial Public Sector	The sector formed through a consolidation of the general government and public non financial corporation subsectors.
Other Economic Flows	Changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Other Superannuation Expense	Includes all superannuation expenses from transactions except superannuation interest cost. It generally includes current service cost, which is the increase in entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are considered other economic flows.
Payables	Government-controlled entities that perform central bank functions, and/or have the authority to incur liabilities and acquire financial assets in the market on their own account.
Public Financial Corporations (PFC)	The Australian Loan Council coordinates borrowing by Australian and state governments. Current arrangements seek to emphasise transparency of public sector finances, through financial market scrutiny of proposed borrowing to restrict borrowing to prudent levels.
Public Non Financial Corporations (PNFC)	Public enterprises primarily engaged in the production of goods or services of a non financial nature, for sale in the market place, at prices that aim to recover most of the costs involved.
Receivables	Includes short-term and long-term trade credit and accounts receivable, grants, taxes and interest receivable.

Sale of Goods and Services	Revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rental income from the use of non-produced assets such as land. User charges include sale of goods and services revenue.
Specific Purpose Payments	A Commonwealth financial contribution to support state delivery of services in a particular sector. Payments are made from the Commonwealth Treasury to state treasuries, and are appropriated to the relevant Northern Territory agency.
State Final Demand	Final consumption expenditure plus gross fixed capital formation in each jurisdiction. It represents the total expenditure on consumption and investment in a jurisdiction.
Superannuation Interest Cost	The expense resulting from the increase in the liability due to the fact that, for all participants in the scheme, retirement (and death) is one year nearer, and so one fewer discount factors must be used to calculate the present value of the benefits for each future year. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement, as per the relevant accounting standard. The cost is measured net of the actuarial return on plan assets of defined benefit schemes calculated using an actuarially determined long-term rate of return.
Tax Equivalents Regime	The mechanism to ensure that GBDs and GOCs incur tax liabilities similar to privately owned organisations. Thus, greater parity exists between the cost structures of government-controlled trading entities and the private sector, aiding in the achievement of competitive neutrality.
Treasurer's Advance	An appropriation purpose of that name as specified in an <i>Appropriation Act</i> , which provides a pool of funds specifically set aside in each budget to meet operational contingencies that arise during the year.
Uniform Presentation Framework	A uniform reporting framework (UPF) agreed by the Australian Loan Council in 2000, which is a revision of the agreement reached at the 1991 Premiers' Conference. The UPF was further updated and reissued in April 2008 to incorporate accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting. The UPF specifies that the Commonwealth, state and territory governments will present a minimum set of budget and financial outcome information on the Government Finance Statistics basis, according to an agreed format and specified Loan Council reporting arrangements.