NORTHERN TERRITORY

BUDGET 2020-21

Budget Paper No. 2

BUDGET STRATEGY AND OUTLOOK

Contents

Under Treasurer's Certification

In accordance with provisions of the *Fiscal Integrity and Transparency Act 2001*, I certify that the financial projections included in the November 2020 Budget documentation were based on Northern Territory Government decisions that I was aware of or that were made available to me by the Treasurer before 4 November 2020. The projections presented here are in accordance with the Uniform Presentation Framework.

Craig Graham
Under Treasurer

4 November 2020

Chapter 1

Executive summary

Budget Paper No. 2 presents whole of government financial information and consolidates information from other budget papers. It also meets the requirements of the *Fiscal Integrity and Transparency Act 2001* (FITA) and the Uniform Presentation Framework (UPF), as agreed by all Australian jurisdictions.

The Northern Territory 2020-21 Budget was scheduled to be tabled in the Legislative Assembly in May 2020. However, given the nation's uncertain economic circumstances and the extreme difficulty of making economic and fiscal forecasts at that time, all states and territories agreed to suspend the delivery of their budgets until after delivery of the Commonwealth budget on 6 October 2020.

In light of the delay of the Territory Budget, the Legislative Assembly passed the *Supply (2020-2021) Act 2020* in March 2020 to provide for interim agency expenditure to enable the continued delivery of essential government services in 2020-21.

The *Supply Act* will be replaced by the 2020-21 Appropriation Bill, when it is enacted, as it incorporates all policy decisions as identified in this budget paper and will provide authority for government expenditure for the full 2020-21 financial year.

Fiscal outlook

The 2020-21 Budget incorporates the economic impact of COVID-19, with all fiscal projections deteriorating when compared to the estimates in the 2019-20 Budget. COVID-19 has prompted significant interventions to protect the health of Territorians, support local businesses and jobs, and accelerate the Territory's economic rebound.

GST revenue, the Territory's single largest revenue source, has been affected by the broader economic effects of COVID-19. The disruption to consumer spending arising from the closure of many industries and businesses, combined with border closures and some state restrictions still in place, has substantially affected growth in the national GST pool. For the Territory, this is expected to result in an average loss in revenue of $334 million per annum from 2020-21 compared to the 2019-20 Budget.

In response to COVID-19, the Territory Government approved $383 million for a range of assistance measures aimed at supporting businesses and individuals, and stimulating economic activity including $108 million for the Business Hardship Package, $103 million for the Home Improvement Scheme, $50 million for the Small Business Survival Fund and $15 million for Immediate Work grants. These measures, combined with having lifted restrictions earlier than the rest of Australia, will accelerate the Territory's economic rebound from COVID-19.

Updated fiscal projections in the 2020-21 Budget include:

- total revenue for the non financial public sector of $6.38 billion in 2020-21 and operating expenditure of $8.04 billion
- general government net operating balance deficits projected to improve across the forward estimates period, following a deficit of $1.68 billion in 2020-21
- a non financial public sector fiscal balance deficit of $2.45 billion in 2020-21
- net debt at the non financial public sector forecast to increase to $8.4 billion in 2020-21 with the net debt to revenue ratio projected to be 132 per cent.

Table 1.1 provides the key fiscal aggregates for the general government sector and the non financial public sector for the 2020-21 Budget.

Table 1.1: Key fiscal indicators and aggregates

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance	- 766	- 1 676	- 774	- 819	- 739
Non financial public sector					
Fiscal balance	- 821	- 2 450	- 1 713	- 1 136	- 938
Net debt	5 777	8 404	10 084	11 149	12 004
Net debt to revenue (%)	89	132	148	167	179

Further discussion on the comparison between the estimates contained in the 2020-21 Budget and those projected at the time of the 2019-20 Budget is provided in Chapter 2, *Fiscal outlook*.

Economic outlook

Table 1.2 details the outlook for the Territory's key economic indicators, including actuals for 2018-19 and 2019-20, estimates where applicable, and forecasts for 2020-21 and the forward estimates period.

Table 1.2: Territory key economic indicators (%)

	2018-19a	2019-20a	2020-21f	2021-22f	2022-23f	2023-24f
Gross state product[1]	- 1.5	4.8e	- 0.1	1.5	2.1	- 0.8
State final demand[1]	- 16.2	- 4.5	0.0	0.5	1.0	1.4
Population[2]	- 0.4	- 0.3e	0.2	0.4	0.7	0.9
Employment[1]	- 3.4	- 0.7	- 0.7	1.3	1.6	1.8
Unemployment rate[3]	4.5	5.6	6.3	6.1	5.6	5.1
Consumer price index[1]	0.9	0.2	0.5	1.1	1.4	1.8
Wage price index[1]	2.1	2.3	1.6	1.6	1.3	1.2

a: actual; e: estimate; f: forecast
1 Year-on-year percentage change.
2 June quarter growth compared with June quarter of the previous year.
3 Year average.
Source: Department of Treasury and Finance, ABS

Over the past 20 years the Territory economy has expanded from a succession of major projects, with the most recent contributor being the globally significant Ichthys liquefied natural gas (LNG) project, which added an average $5 billion of private investment per annum to the Territory economy during its construction and generated significant employment growth.

Since the construction phase of the Ichthys LNG project came to an end in 2018, employment and population growth have moderated in line with weaker domestic economic conditions, while at the same time the large increase in LNG exports has made a significant contribution to economic output. The domestic economy is still recalibrating from this project and was showing early signs of recovery when COVID-19 spread in early 2020.

COVID-19 has resulted in ongoing shocks to global, national and regional economies as governments have implemented strict measures to slow the transmission of the virus. The industries most affected in the Territory are those reliant on direct consumer contact, and interstate and international visitors, even though the early and sustained easing of restrictions in the Territory has enabled Territorians to return to more normal consumption patterns.

Despite the impact COVID-19 has had on the Territory economy, Territory gross state product (GSP) is expected to have increased by 4.8 per cent in 2019-20 to $27.4 billion, supported by increased LNG exports. The GSP outlook in the forecast period reflects the Ichthys LNG project reaching full production from 2020-21 and COVID-19 affecting a broad range of industries through consumer confidence, household spending, access to finance, business sentiment and investment.

In 2020-21, GSP is forecast to decrease by 0.1 per cent as exports plateau, and domestic consumption and investment activity underpin economic conditions. State final demand (SFD), the measure of domestic activity, is forecast to stabilise in 2020-21, before returning to modest growth in 2021-22 as investment for major projects supports employment and population growth.

After contracting by 0.3 per cent in 2019-20, population growth is expected to gradually strengthen over the outlook period. COVID-19 is expected to cause a reduction in interstate population movements in the short term, as border restrictions and uncertainty arising from the pandemic have disrupted usual migration flows, assisting the Territory's population growth to strengthen to 0.2 per cent in 2020-21.

After declining by 0.7 per cent in 2019-20, employment is expected to decline by a further 0.7 per cent in 2020-21. The unemployment rate is estimated to average 6.3 per cent, influenced by the Commonwealth's JobKeeper payment ending in March 2021, though the JobMaker plan will support the creation of new jobs. Employment is expected to recover over the outlook period, supported by recovery in the labour-intensive tourism sector as border restrictions are lifted and consumer and business confidence recovers.

Inflation is expected to gradually strengthen over the outlook period, but remain below longer term rates. This reflects the modest forecasts for consumption, investment, employment and population growth over the forecast period, meaning there are limited domestic inflationary pressures. Wages growth in both the public and private sectors is expected to be below longer term rates over the outlook period, also contributing to the subdued inflation outlook, as it flows through to weaker household demand for goods and services.

There is significant potential upside in the Territory economy with a pipeline of major projects that have not yet reached final investment decision. As these projects remain subject to the usual regulatory approval processes or final investment decisions, these economic contributions are not included in the economic forecasts. If these projects commence over the forward estimates, it will have a positive impact on the economic outlook.

Intergovernmental financial relations outlook

GST revenue is the Territory's primary revenue source, representing an estimated 39 per cent of the Territory's total revenue in 2020-21. This compares with GST as a proportion of total revenue ranging from 57.4 per cent in 2003-04 to 40.8 per cent in 2019-20. The amount of GST received by the Territory each year reflects the combined impact of the Territory's GST relativity, the size of the national GST pool and the Territory's share of the national population. Table 1.3 details the outlook for the Territory's GST revenue for the 2020-21 Budget.

Table 1.3: Territory GST revenue

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
Territory GST revenue[1] ($M)	2 659	2 517	2 800	2 887	2 990
Annual change in Territory GST revenue (%)	- 3.0	- 5.4	11.2	3.1	3.6

1 GST revenue for 2019-20 and 2020-21 includes balancing adjustments for the over or under payment of GST revenue to the Territory in the preceding year.

GST revenue to the Territory has declined year on year since 2015-16, and this trend is expected to continue in 2020-21 with it forecast to decline by 5.4 per cent. Over the forward estimates GST revenue is estimated to grow by 11.2 per cent in 2021-22 before returning to rates of between 3.1 per cent and 3.6 per cent, respectively, reflecting anticipated positive growth in the GST pool.

In 2018, in recognition of the significant drop in the Territory's GST revenue, the Commonwealth committed to providing GST top-up payments to the Territory in the form of untied general revenue, from 2019-20 to 2021-22. These payments are linked to the Territory's GST relativity, and ensure at a minimum the Territory receives an equivalent of a GST relativity of 4.66024. While the Territory received a GST top-up of $252 million in 2019-20, given its current relativity of 4.76893 is above the guarantee, it will not receive a GST top-up in 2020-21. The same is assumed for 2021-22.

There is substantial uncertainty around the future of the Territory's GST revenue as the impacts of changes in states' expenditure and revenue patterns in response to COVID-19 begin to enter the system, the minimum relativity guarantee from the Commonwealth ceases and the new legislated GST distribution system increasingly comes into effect, as discussed in Chapter 5, *Intergovernmental financial relations issues*.

Territory taxes and royalties outlook

As shown in Table 1.4, taxation and mining royalties are estimated at $816 million in 2020-21, a reduction from the 2019-20 outcome largely due to lower mining royalty forecasts, reflecting a more challenging global commodity market outlook. Payroll and property taxes are expected to remain subdued into 2020-21 due to the impacts of COVID-19 on wage and employment growth, and a likely smaller number of large one-off commercial property transactions.

Own-source revenues are expected to slowly recover from 2021-22 and over the forward estimates, with tax revenues gradually returning to long-term average growth. The Department of Treasury and Finance has taken a cautious outlook in relation to mining royalties, informed by estimates provided by royalty payers as well as taking into account a continuation of ongoing softness in global demand for key commodities over the forward estimate period. Also, there are no royalty revenue estimates from new onshore gas developments included in the forward estimates.

Table 1.4: Main taxes and royalties category estimates

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Mining royalties	372	317	303	295	250
Taxes on employers	204	198	223	237	253
Taxes on property	100	85	100	108	116
Taxes on gambling	75	86	95	98	101
Motor vehicle taxes	74	74	76	78	81
Taxes on insurance	55	56	57	58	61
Total	880	816	853	874	862

Chapter 2

Fiscal outlook

Overview

The information provided in this chapter meets the requirements of section 10(1)(a) of the FITA for each fiscal outlook report to contain updated financial projections for the budget year and following three financial years, along with the financial result for the year preceding the budget year for the general government and non financial public sectors.

The full set of financial statements are presented in Chapter 8, *Uniform presentation framework*, with this chapter providing a comparison of the projections in the 2020-21 Budget with those provided in the 2019-20 Budget and 2019-20 Mid-Year Report.

Due to the unprecedented impact of COVID-19 on the community and economy, all states and territories agreed to suspend the publication of their 2020-21 budgets until after the delivery of the Commonwealth Budget on 6 October 2020. In usual circumstances, the 2020-21 Budget would have occurred in May 2020 and provided updated budget estimates for 2019-20.

In the absence of these updated projections and to comply with FITA requirements, the 2019-20 outcome, as published in the 2019-20 Treasurer's Annual Financial Report (TAFR) is reported as the financial result for the year preceding the budget.

In the 2020-21 Budget, total revenue in the non financial public sector is estimated to be $6.38 billion in 2020-21, rising to $6.69 billion in 2023-24 with total expenditure estimated to be $8.04 billion and $7.44 billion respectively. This chapter discusses the forward estimates and assumptions that underpin them.

General government sector net operating balance

Table 2.1 highlights the movements in the general government sector net operating balance and compares the updated projections with those published in the 2019-20 Budget and 2019-20 Mid-Year Report.

Table 2.1: General government sector – net operating balance

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2019-20 Budget	- 632	- 615	- 512	- 383	n.a.
2019-20 Mid-Year Report	- 787	- 420	- 386	- 438	n.a.
2020-21 Budget[1]	- 766	- 1 676	- 774	- 819	- 739
Variation from 2019-20 Budget	- 134	- 1 061	- 262	- 436	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget and 2019-20 Mid-Year Report
1 2019-20 outcome reflects actual outcome as per the 2019-20 TAFR.

The net operating balance represents total revenue less total operating expenses, with capital spending only recognised in the fiscal balance. As shown in Table 2.1, the general government sector net operating balance deficits are greater in all years than forecast at the time of the 2019-20 Budget.

For 2019-20, the net operating balance outcome was a deficit of $766 million, $134 million higher than projected in the 2019-20 Budget, predominantly due to lower GST revenue and additional costs associated with COVID-19 response measures, partially offset by the revised timing of expenses from 2019-20 to 2020-21 and forward years.

For 2020-21 the net operating balance deficit is now projected to be $1.68 billion, reducing to $739 million by 2023-24. The larger net operating balance deficits since the 2019-20 Budget, are predominantly due to:

- further reductions in the Territory's GST revenue as a result of the significant downward revisions to forecast growth in the national GST pool
- declines in own-source revenue
- the effect of government policy decisions, predominantly to counter the health, financial, economic and employment hardship arising from COVID-19
- timing variations from 2019-20 to 2020-21 and forward years.

Further analysis of government policy decisions is provided later in this chapter.

Non financial public sector fiscal balance

The fiscal balance is influenced by the same factors affecting the general government sector net operating balance, however the fiscal balance includes net capital investment and excludes depreciation. The general government sector excludes public non financial corporations, such as the Power and Water Corporation, Territory Generation and Jacana Energy. Therefore the fiscal balance measure is reported at the non financial public sector to ensure the financial performance of these entities is incorporated in government's fiscal targets and outcomes.

Table 2.2: Non financial public sector – fiscal balance

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2019-20 Budget	- 1 054	- 859	- 604	- 530	n.a.
2019-20 Mid-Year Report	- 1 049	- 1 003	- 883	- 620	n.a.
2020-21 Budget[1]	- 821	- 2 450	- 1 713	- 1 136	- 938
Variation from 2019-20 Budget	233	- 1 591	- 1 109	- 606	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget and 2019-20 Mid-Year Report
1 2019-20 outcome reflects actual outcome as per the 2019-20 TAFR.

As shown in Table 2.2, the fiscal balance, which includes net investment in capital spending, in 2019-20 was a deficit of $821 million, an improvement of $233 million when compared to the 2019-20 Budget. The improvement to the fiscal balance incorporates the flow-on effect of the net operating balance, the revised timing of capital expenditure from 2019-20 to forward years and improved operating and capital results of government owned corporations.

The updated projection for 2020-21 and the forward estimates have worsened from that estimated in the 2019-20 Budget, with a projected fiscal balance deficit of $2.45 billion.

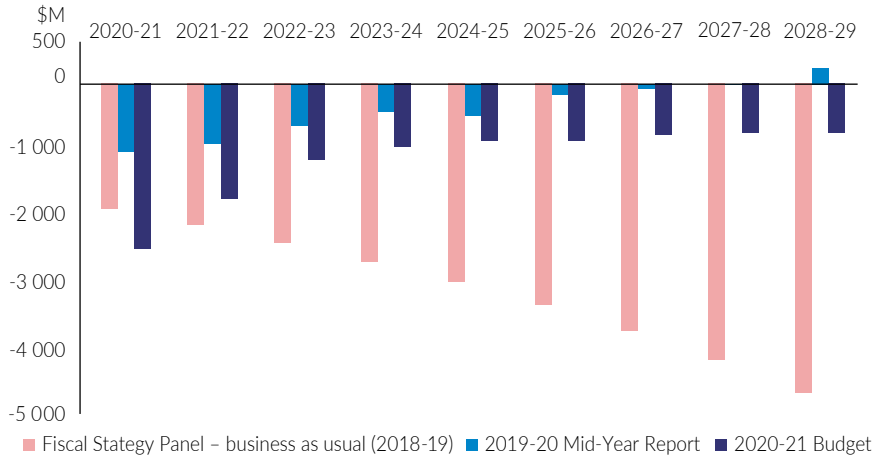
Medium-term fiscal outlook

This section provides an assessment of the Territory's updated medium-term fiscal projections consistent with the Territory Government's *A plan to fix the budget*.

Chart 2.1 below compares the updated projections in the 2020-21 Budget for the non financial public sector's fiscal balance with those reported in the 2019-20 Mid-Year Report and the business-as-usual projections of the Fiscal Strategy Panel's interim report. The chart illustrates that the economic impact of COVID-19 has deteriorated the non financial public sector's fiscal balance deficit, which is no longer projected to return to surplus by 2027-28 as reported in the 2019-20 Mid-Year Report. Despite the worsening, the fiscal balance projections are significantly lower than the Fiscal Strategy Panel's projections and demonstrate that, if not for lower revenues, approved savings measures would have returned the Territory to a surplus position.

Consistent with economic forecasts, the fiscal outlook does not factor in the impact of potential or planned projects that are yet to reach final investment decision. To the extent that these projects proceed over the coming years, the fiscal outlook will improve through increased economic activity and additional own-source revenues. Similarly, the GST pool growth rates adopted by the Territory over the forward estimates are more conservative than those forecast by the Commonwealth in its 2020-21 Budget. Any increase in national economic activity and subsequent GST collections above the Territory estimates will have a positive impact on the fiscal balance projections.

Chart 2.1: Non financial public sector fiscal balance – medium-term fiscal outlook



Given the uncertainty around the impacts of COVID-19 on the national economy, there is a high degree of unreliability and volatility associated with 10-year projections. Based on current projections, net debt is estimated to be $16 billion by 2029-30, with the net debt to revenue ratio projected to be 216 per cent by 2029-30. This compares to the Fiscal Strategy Panel's forecast for net debt to reach $30 billion by 2029-30, under a business-as-usual approach. As stated previously, the forecasts do not factor in the impact of potential or planned projects. Any improvement in the economic and fiscal outlook as a result of projects proceeding, or upturn in the national economy, would also improve the net debt position. The current forecasts also do not factor in any further budget repair measures in the future.

All Australian jurisdictions have been impacted by COVID-19 and have incurred additional borrowings to support the economy and the public health response. The Commonwealth Government's 2020-21 Budget forecast net debt to revenue ratio in the general government sector to peak at 183 per cent in 2022-23, compared to the Territory's estimate of 167 per cent by 2022-23.

Reconciliation with previous fiscal projections

This section addresses the requirements of section 10(1)(f) of FITA that each fiscal outlook report is to contain an explanation of the factors and considerations contributing to any material differences between the updated financial projections and the equivalent projections published in the last fiscal outlook report.

Although the most recent fiscal outlook report published under FITA is the 2019-20 Mid-Year Report, for completeness, the analysis in the remainder of the chapter reflects policy and non-policy changes since the 2019-20 Budget. Policy variations are the result of government decisions to implement new or expand existing agency programs and savings, revenue and contingency measures. Non-policy variations are the result of influences outside government's control, such as the timing of receipts from the Commonwealth or changes in external economic conditions.

Policy and non-policy changes since 2019-20 Budget

Table 2.3 summarises the effect of policy and non-policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget and 2019-20 Mid-Year Report.

Table 2.3: Non financial public sector fiscal balance – policy and non-policy changes since 2019-20 Budget and 2019-20 Mid-Year Report

	2019-20	2020-21	2021-22	2022-23
	Outcome	Budget	Forward estimate	
	$M	$M	$M	$M
2019-20 Budget	- 1 054	- 859	- 604	- 530
Policy changes	12	- 86	- 241	- 46
Non-policy changes	- 6	- 58	- 38	- 45
2019-20 Mid-Year Report	- 1 049	- 1 003	- 883	- 620
Policy changes	- 72	- 320	27	- 7
Non-policy changes	300	- 1 127	- 857	- 509
2020-21 Budget[1]	- 821	- 2 450	- 1 713	- 1 136

1 2019-20 outcome reflects actual outcome as per the 2019-20 TAFR.

As shown in Table 2.3, the major cause of the deterioration in the fiscal balance from 2019-20 to 2022-23 is the effect of non-policy changes, largely the further reductions in GST revenue and own-source revenues.

Details on policy and non-policy changes are discussed in further detail below.

Policy changes since 2019-20 Budget

Table 2.4 outlines the effect of policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget. The policy changes over the budget and forward estimates relate to government's COVID-19 response measures, capital and operational commitments, offset by new savings, revenue and contingency measures.

Table 2.4: Non financial public sector fiscal balance – policy changes since 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Outcome	Budget	Forward estimate	
	$M	$M	$M	$M
Recurrent				
Operational commitments	- 53	- 241	- 75	- 83
COVID-19 response measures	- 108	- 183		
COVID-19 reprioritisation	24	73		
Savings, revenue and contingency measures	77	115	112	170
Net recurrent	- 60	- 236	37	87
Capital commitments		- 171	- 251	- 140
Total policy changes	- 60	- 407	- 214	- 53

The effect of policy changes over 2019-20 and 2020-21 largely reflects government's decision to implement a number of response measures to counter the economic effects of COVID-19, combined with additional resources to support COVID-19 quarantine, prevention and detection. Additional funding was also provided to support the delivery of government's infrastructure program as well as accelerate the Territory's economic rebound. Policy decisions are discussed in more detail below.

Operational commitments

Key commitments include:

- initiatives aimed at protecting Territorians:
  - $19 million in 2019-20, $32 million in 2020-21 and increasing to $56.4 million ongoing from 2023-24 to contribute towards the National Disability Insurance Scheme
  - $26.6 million in 2020-21 to provide additional resources for border controls and support community safety in response to COVID-19
  - $59.5 million in 2020-21 to support operational and maintenance costs of running quarantine facilities at Howard Springs and Alice Springs
  - $26 million in 2020-21 to maintain the Territory's public health response to and preparedness for COVID-19
- initiatives to support local businesses and create jobs:
  - $7.8 million in 2020-21 to supplement the Commonwealth's JobMaker hiring credit to provide top-up wages for new employees
  - $5.2 million over two years to support school leavers through the 'Get SET in the NT' program
  - $5 million in 2020-21 to assist the tourism industry and small businesses to improve the visitor and customer experience
  - $5 million grant program to assist local small businesses to reduce their ongoing costs
  - $2 million for business financial sustainability training including $1 million for peak industry bodies to develop industry-specific training programs and $1 million for businesses to directly apply for funding to undertake accredited training
  - $2 million grant pool for small businesses to address supply chain issues

- initiatives to support economic rebound:
  - $10 million in 2020-21 to digitise business approval processes and support regulation reform to improve user experience
  - $6.6 million in 2020-21 for a pilot program to supplement power supply at Wurrumiyanga with a renewable power system
  - $4 million in 2020-21 for a grant program to improve customer experience at roadhouses
  - $3.7 million in 2020-21 to accelerate current preparatory works for securing Darwin water supply
  - $1.2 million for feasibility studies into high voltage direct current transmission links between Darwin and Alice Springs.

COVID-19 response measures

In response to COVID-19, the Territory Government approved $383 million for a range of assistance measures aimed at supporting businesses and individuals, and stimulating economic activity, including $108 million for the Business Hardship Package, $103 million for the Home Improvement Scheme, $50 million for the Small Business Survival Fund and $15 million for Immediate Work grants.

Swift actions and the ability to lift business restrictions earlier than the rest of Australia has resulted in lower than expected uptake of utility tariff subsidies and payroll tax waivers as part of the Business Hardship Package, and consequently total expenditure measures are lower than originally reported in the COVID-19 Financial Report in both 2019-20 and 2020-21.

COVID-19 reprioritisation

To offset the impact of COVID-19 response measures on the Territory's budget position, the Territory Government identified savings across a number of projects and programs by deferring or reducing expenditure commitments to be reprioritised.

Savings and contingency measures

In addition, the 2020-21 Budget incorporates savings, revenue and contingency measures to offset the impact of other policy commitments. Key savings and contingency measures include:

- reducing the government's wages policy and associated indexation in agency budgets from 2 per cent to a four-year freeze from 2021-22, with a $1000 lump sum payment on 1 August each year for those employees who have been continuously employed since 1 September the previous year. This measure supports budget repair without significantly reducing government services and jobs
- reducing the consumer price index (CPI) indexation in agency budgets to 1.1 per cent in 2021-22, 1.4 per cent in 2022-23, 1.8 per cent in 2023-24 and 2.5 per cent thereafter, consistent with updated economic forecasts
- reducing the repairs and maintenance program by $15 million in 2020-21, $10 million in 2021-22 and $5 million in 2022-23
- using contingency previously set aside for the purpose of funding the Territory's contribution to the National Disability Insurance Scheme of $51 million in 2020-21 and $54 million ongoing.

Revenue measures

The other revenue-related policy changes since the 2019-20 Budget include:

- amendments to the *Racing and Betting Act 1983* from 1 July 2021 to reduce the tax rate from 10 per cent to 5 per cent, and increase the tax cap from 500 000 revenue units to 1 000 000 revenue units per annum
- reducing community gaming machine tax rates to 2017 levels from 1 April 2020 to assist clubs and hotels in reopening following mandatory closures
- waiving community gaming machine and casino taxes in March 2020, to provide relief following venue closures.

Further information on taxation revenue measures is outlined in Chapter 6, *Territory taxes and royalties*.

Capital commitments

In April 2020, the Territory Government committed an additional $157 million in capital works cash for 2020-21 to support the timely delivery of projects on the 2020-21 capital works program and stimulate economic recovery. In addition, capital works commitments include $400 million over the forward estimates for the construction of the ship lift facility.

Non-policy changes since 2019-20 Budget

Table 2.5 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2019-20 Budget.

Table 2.5: Non financial public sector fiscal balance – non-policy changes since 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Outcome	Budget	Forward estimate	
	$M	$M	$M	$M
GST revenue	- 104	- 341	- 203	- 459
Commonwealth financial assistance payment		- 259	- 274	
Taxation and mining royalties	- 15	- 98	- 91	- 74
Interest variations	21	- 14	- 23	- 15
Government owned corporations	60	- 61	- 68	47
Leases	- 13	- 205	- 111	- 10
Commonwealth and agency-related adjustments	346	- 207	- 124	- 44
Total non-policy changes	293	- 1 185	- 895	- 553

The non-policy variations since the 2019-20 Budget improved the non financial public sector fiscal balance deficit in 2019-20 largely due to the revised timing of Commonwealth and Territory-funded programs from 2019-20 to 2020-21 and forward years. Non-policy changes are set to significantly worsen the fiscal projections over the budget and forward estimates, predominantly due to lower GST revenue. Key variations include:

- a further deterioration in GST revenue forecasts averaging $334 million per annum from 2020-21 compared to the 2019-20 Budget, largely as a result of a decrease in the national GST pool and decrease in the Territory's share of the national population, partially offset by an increase in the Territory's GST relativity
- removal of the Commonwealth financial assistance payment in both 2020-21 and 2021-22 that provided the Territory a GST top-up payment equivalent to a GST relativity of 4.66024. As the Territory's GST relativity is higher at 4.76893 in 2020-21, with the same assumed for 2021-22, the financial assistance payments will no longer be provided

- decreases in taxation and mining royalty revenue across all years, as a result of lower estimates for payroll tax and stamp duty on conveyances, and revised estimates from miners
- an improvement to net interest variations in 2019-20 due to greater than anticipated interest received on investments. From 2020-21 interest expenses are higher than previously forecast due to increased borrowing requirements to maintain government services following the GST revenue reductions
- revised revenue and expense assumptions and capital requirements incorporated in the government owned corporations' statements of corporate intent
- a worsening of $339 million from 2019-20 and over the budget cycle due to the upfront recognition of office accommodation leases, in accordance with accounting standards, as part of the Territory Government's Leased Property Stimulus Scheme. The scheme's aim is to stimulate private capital investment in exchange for an extension of lease terms
- Commonwealth and other agency-related adjustments, resulting in an improvement in 2019-20 and a worsening across the budget and forward estimates. These are largely related to the carryover of expenses from 2019-20 and revised timing of milestone payments for information and communications technology (ICT) systems, road projects, remote housing and other infrastructure projects.

2020-21 Budget and forward estimates

Basis of forward estimates

In accordance with FITA, five years of forward estimates are maintained and used by government, both as a policy and an operational tool. The budget and forward estimates provide the framework within which agencies plan and also form the basis for the government's fiscal strategy.

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

- wages – inflator
- CPI – inflator
- efficiency dividend – deflator.

To support budget repair, the wage indexation for government's 2021-24 wages policy was amended from 2 per cent per annum to a wages freeze for four years from 2021-22, plus a $1000 lump sum payment on 1 August each year for full-time employees (or pro-rated for part-time employees) who have been continuously employed since 1 September the previous year. The policy changes and associated indexation in agency budgets will come into full effect from 2021-22.

A CPI factor of 1.1 per cent has been applied to operational costs in 2021-22, consistent with the year-on-year to December 2019 CPI outcome, with 1.4 per cent estimated for 2022-23, 1.8 per cent in 2023-24, and 2.5 per cent thereafter. Property management, undertaken on behalf of government by the Department of Corporate and Digital Development, receives a parameter of 3 per cent, in line with contractual arrangements.

An additional growth parameter of 4 per cent in 2020-21 is applied to wage and non-wage expenditure for hospital and primary health services in recognition that hospital services and primary health care costs are generally demand driven. From 2021-22, the growth parameter will reduce to 1.4 per cent and be applied across the entire health network: the Department of Health, Top End Health Service and Central Australia Health Service.

An efficiency dividend is applied to operational costs, employee costs and recurrent grants and subsidies premised on improving processes and technology, and delivering services more efficiently over time, as is the case with private sector enterprises. An efficiency dividend of 3 per cent has been applied in 2020-21, reducing to 1 per cent ongoing from 2021-22.

For the following departments, a two-thirds discount is applied to the efficiency dividend in recognition that a majority of their costs relate to frontline services, which are fixed in nature:

- Department of Education
- Northern Territory Police, Fire and Emergency Services
- the correctional services component of the Department of the Attorney-General and Justice
- the children and families component of the Department of Territory Families, Housing and Communities
- the hospital services.

For Territory-funded operating grants and subsidies, a composite indexation factor is applied based on 75 per cent of the wages factor and 25 per cent of the CPI factor, less the applicable efficiency dividend for that year.

Operating revenue – forward estimates

Table 2.6 shows the composition of Territory revenue for the 2019-20 outcome and 2020-21 Budget and forward estimates. As shown in Table 2.6 below, Territory revenue is projected to show average annual growth over the budget cycle from 2020-21 of 1.7 per cent.

Table 2.6: Non financial public sector – revenue

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Revenue					
Taxation revenue	508	499	551	579	612
GST revenue	2 659	2 517	2 800	2 887	2 990
Commonwealth financial assistance payment	252				
Current grants	1 177	1 237	1 169	1 064	977
Capital grants	206	372	537	359	338
Sales of goods and services	1 079	1 226	1 225	1 281	1 319
Interest income	105	83	79	81	84
Dividend and income tax equivalent income	40	23	31	28	29
Mining royalties income	372	317	303	295	250
Other	114	107	100	93	94
Total revenue	6 512	6 380	6 793	6 668	6 694
Year-on-year percentage increase (%)		- 2.0	6.5	- 1.8	0.4

Taxation revenue

Taxation revenue is a significant component of the Territory's own-source revenue and comprises payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. In 2020-21 taxation revenue is projected to decline marginally by 1.7 per cent to $499 million, predominantly as a result of an estimated decrease in conveyance and related duty following a large one-off transaction in 2019-20 and lower payroll tax estimates. These reductions are partially offset by an anticipated increase in gambling taxes following waivers of community gaming machine and casino taxes in March 2020.

From 2020-21, taxation revenue is projected to grow by an average 7.1 per cent per annum reflecting an expected return to normal growth levels, albeit from a lower base.

GST revenue

GST revenue represents the Territory's single largest revenue source and comprises around 39 per cent of total revenue for 2020-21 at the non financial public sector. The parameters that influence the amount of GST revenue the Territory receives are growth in national GST collections, GST relativities as assessed by the Commonwealth Grants Commission (CGC), and the Territory's share of the national population.

In 2020-21, the Territory's GST revenue is expected to decrease to $2.52 billion, a reduction of $142 million, or 5.4 per cent, compared to the 2019-20 outcome. The decrease is largely driven by the Commonwealth's balancing adjustment of $216 million relating to overpaid GST revenue in 2019-20 to be recovered in 2020-21, partially offset by an increase in the Territory's GST relativity between 2019-20 and 2020-21, from 4.26735 to 4.76893.

In recognition of the significant drop in the Territory's relativity in recent years, the Commonwealth committed to providing the Territory with a GST top-up guarantee in the form of untied financial assistance payments equivalent to the Territory having a GST relativity of 4.66024 until 2021-22. Following an increase to the Territory's GST relativity above this rate for 2020-21, a GST top-up payment will not be received in 2020-21 and 2021-22. The same is assumed for 2021-22.

Commonwealth funding

During each budget year there are significant changes in tied and untied Commonwealth funding estimates as funding agreements are finalised. The increase in current grants revenue from 2019-20 to 2020-21 of $60 million predominantly reflects one-off funding for COVID-19 quarantine arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians, and funding for the Darwin city education and community precinct.

The variation in capital grants across the forward estimates largely reflects the timing of delivery of Commonwealth roads and remote housing projects.

Sales of goods and services

Sales of goods and services include fees and charges, rent and tenancy income collected by various government agencies with the most significant component relating to gas sales, electricity, water and sewerage charges collected by government owned corporations. Revenue growth from 2019-20 to 2020-21 of 13.6 per cent largely reflects a projected increase in gas sales by the Power and Water Corporation. From 2021-22, sales of goods and service revenue growth remains relatively constant with an average growth of 2.5 per cent per annum.

Interest revenue

Interest revenue reflects returns on short term and fixed interest investments combined with realised gains on Conditions of Service Reserve investments. Interest revenue growth from 2020-21 to 2023-24 is projected to remain largely flat with an average annual growth of 0.6 per cent.

Mining royalties

Mining and petroleum revenue forecasts are reliant on advice from mining companies and petroleum producers for estimated liability and related company estimates of commodity price movements, production levels and the value of the Australian dollar. Based on advice from royalty payers, mining and petroleum receipts are forecast to decrease in all years across the forward estimates compared to the 2019-20 outcome, reflecting a more challenging commodity market outlook and uncertainty with the pace of global economic recovery following COVID-19. Hence, it is expected mining royalties will decline by 14.7 per cent to $317 million in 2020-21 from a strong result realised in 2019-20, with further reductions across the forward estimates.

Other revenue

Other revenue comprises miscellaneous revenue including reimbursements and research funding from non-government organisations and is expected to decline by an average 4.2 per cent per annum from 2019-20.

Operating expenses – forward estimates

Table 2.7 sets out the revised expense projections for total expenditures from the 2019-20 outcome, and 2020-21 Budget and forward estimates.

Table 2.7: Non financial public sector – expenditure

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	2 714	2 778	2 749	2 671	2 617
Superannuation expenses	326	414	420	417	417
Depreciation and amortisation	775	757	743	735	740
Other operating expenses	1 903	2 284	2 102	2 089	2 120
Interest expenses	369	398	434	476	511
Current grants	992	1 076	994	976	942
Capital grants	145	236	60	22	19
Subsidies and personal benefit payments	104	100	74	72	70
Total expenses	7 329	8 043	7 575	7 458	7 436
Year-on-year percentage increase (%)		9.7	- 5.8	- 1.6	- 0.3
Net capital	800	1 300	1 528	1 037	912
Total expenditure	8 129	9 343	9 104	8 495	8 348
Year-on-year percentage increase (%)		14.9	- 2.6	- 6.7	- 1.7

Total expenses are expected to increase by 9.7 per cent in 2020-21 in line with increased tied Commonwealth funding and Territory Government COVID-19 response measures and is expected to decline per annum by an average 2.6 per cent over the forward estimates.

Employee and related expenses continue to account for about 40 per cent of total expenses and are estimated to decline by an average of 1.7 per cent per annum from 2020-21. This decline largely reflects one-off expenditure to maintain the Territory's public health response to and preparedness for COVID-19 in 2020-21, combined with amendments to government's wages policy from a 2 per cent per annum increase to a wages freeze for four years from 2021-22, plus an annual $1000 lump sum payment per full-time employee.

Growth in other operating expenses also decreases by an average of 2.4 per cent per annum from 2020-21, reflecting one-off operational and maintenance costs of running quarantine facilities in 2020-21, combined with a reduction in CPI indexation in agency budgets to 1.1 per cent in 2021-22, 1.4 per cent in 2022-23, 1.8 per cent in 2023-24 and 2.5 per cent thereafter, consistent with updated economic forecasts.

While projected fiscal balance deficits have worsened, resulting in higher overall borrowing requirements when compared to the 2019-20 Budget, interest expenses are lower than forecast in the 2019-20 Budget due to lower cost of borrowings.

Table 2.8: Non financial public sector – interest expenses

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2019-20 Budget	371	409	447	482	n.a.
2020-21 Budget[1]	369	398	434	476	511
Variation from 2019-20 Budget	- 2	- 11	- 13	- 6	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget
1 2019-20 outcome reflects actual outcome as per the 2019-20 TAFR.

The fluctuation in current and capital grants expense across the forward estimates period reflects COVID-19 stimulus measures in 2020-21 and the timing of tied Commonwealth funding agreements.

The revised timing of a number of key projects, including milestone payments for the Health Core Clinical Systems Renewal Program, remote Indigenous housing and Commonwealth road programs have resulted in variations to net capital spending across the forward estimates. Overall net capital spending is higher than projected in the 2019-20 Budget, reflecting increased capital investment across all years and is set to peak in 2021-22 with the ship lift project.

Key fiscal indicators – balance sheet

The key measures for the balance sheet are net debt and the resulting net debt to revenue ratio. As a result of continuing fiscal deficits, net debt is projected to be $8.4 billion in 2020-21, increasing to $12 billion by 2023-24 (Table 2.9). The net debt to revenue ratio is projected to be 132 per cent in 2020-21, increasing to 179 per cent by 2023-24.

Table 2.9: Non financial public sector – net debt and net debt to revenue ratio

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2019-20 Budget	6 206	6 988	7 524	8 021	n.a.
2019-20 Mid-Year Report	5 927	6 893	7 715	8 308	n.a.
2020-21 Budget[1]	5 777	8 404	10 084	11 149	12 004
Variation from 2019-20 Budget	- 429	1 416	2 560	3 128	n.a.
Net debt to revenue (%)					
2019-20 Budget	93	105	109	114	n.a.
2019-20 Mid-Year Report	90	102	111	120	n.a.
2020-21 Budget[1]	89	132	148	167	179
Variation from 2019-20 Budget	- 4	27	39	53	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget and the 2019-20 Mid-Year Report
1 2019-20 outcome reflects actual outcome as per the 2019-20 TAFR.

Factors impacting net debt are the consequence of the projected fiscal balance deficits and the net result of policy and non-policy changes. Policy changes outlined earlier in this chapter include government's COVID-19 response measures, capital and operational commitments, offset by new savings, revenue and contingency measures. Non-policy changes include lower GST and taxation and mining royalty revenue, the effect of renewed and extended leases of office accommodation and timing of Commonwealth and agency payments. Table 2.10 summarises the effect of policy and non-policy variations on net debt since the 2019-20 Budget and demonstrates that non-policy changes are the main contributor to the increase in net debt.

Table 2.10: Non financial public sector – cumulative variations to net debt since 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Outcome	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative variations				
Policy	61	467	681	734
Non-policy	- 489	949	1 879	2 394
Net impact	- 428	1 416	2 560	3 128

Table 2.11 provides details on the cumulative factors that have contributed to the increase in net debt over the forward estimates since the 2019-20 Budget.

Table 2.11: Non financial public sector – detailed cumulative variations to net debt since 2019-20 Budget

	2019-20	2020-21	2021-22	2022-23
	Outcome	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative variations				
Operational commitments	53	294	369	452
COVID-19 response measures	108	291	291	291
COVID-19 reprioritisation	- 24	- 96	- 96	- 96
Savings, revenue and contingency measures	- 77	- 192	- 304	- 474
Capital commitments		171	422	562
GST revenue	104	445	649	1 107
Commonwealth financial assistance payment		259	533	533
Taxation and mining royalties	15	113	204	278
Interest variations	- 21	- 7	16	31
Government owned corporations	- 60	1	69	22
Leases	13	218	330	339
Commonwealth and agency-related adjustments	- 541	- 81	78	83
Net impact	- 428	1 416	2 560	3 128

Chapter 3

Economic outlook

Overview

The information provided in this chapter meets the requirements of section 10(1)(b) and 10(1)(c) of FITA that each fiscal outlook report contains an account of the economic assumptions and analysis of the effects of their changes on the updated financial projections.

This chapter provides a summarised assessment of the Territory economy, including a brief description of recent economic performance and the outlook across a number of key indicators, including economic growth, population, labour market, prices and wages, as well as a description of the structure of the economy and the external economic environment. More detailed commentary is provided in the Northern Territory Economy book and on the website at nteconomy.nt.gov.au. The website content is updated regularly as new data becomes available and should be read in conjunction with budget papers.

The Territory's key economic forecasts for the 2020-21 Budget are detailed in Table 3.1.

Table 3.1: Territory key economic indicators (%)

	2018-19a	2019-20a	2020-21f	2021-22f	2022-23f	2023-24f
Gross state product[1]	- 1.5	4.8e	- 0.1	1.5	2.1	- 0.8
State final demand[1]	- 16.2	- 4.5	0.0	0.5	1.0	1.4
Population[2]	- 0.4	- 0.3e	0.2	0.4	0.7	0.9
Employment[1]	- 3.4	- 0.7	- 0.7	1.3	1.6	1.8
Unemployment rate[3]	4.5	5.6	6.3	6.1	5.6	5.1
Consumer price index[1]	0.9	0.2	0.5	1.1	1.4	1.8
Wage price index[1]	2.1	2.3	1.6	1.6	1.3	1.2

a: actual; e: estimate; f: forecast
1 Year-on-year percentage change.
2 June quarter change compared with June quarter the previous year.
3 Year average.
Source: Department of Treasury and Finance, ABS

COVID-19 has resulted in a significant ongoing shock to global, national and regional economies as governments have implemented strict measures to slow the transmission of the virus. The scale of the restrictions, the fiscal response and the impacts on economies are unprecedented with significant deterioration in most indicators of economic activity. However, strong Territory gross state product (GSP) growth is estimated for 2019-20, mainly due to increased exports from the Ichthys LNG project as it approaches full production.

The GSP growth outlook in the forward estimates period is heavily influenced by the Ichthys LNG project reaching full production from 2020-21 onwards and the impacts of COVID-19. The outlook essentially sees a post-Ichthys recalibration of the Territory economy. In 2020-21, GSP is forecast to decrease by 0.1 per cent as exports plateau, and domestic consumption and investment activity underpins economic activity.

The Territory's population growth is expected to gradually strengthen over the outlook period, with growth in 2023-24 forecast to be 0.9 per cent. Employment is expected to decline by a further 0.7 per cent in 2020-21, increasing to positive growth of 1.8 per cent in 2023-24. The Territory's unemployment rate, consistently amongst the lowest of Australia's jurisdictions, is projected to average 5.8 per cent over the forward estimates.

There is significant potential upside in the Territory economy with a pipeline of major projects that have not yet reached final investment decision. The economic contributions arising from these projects are not yet included in the economic forecasts. If these projects commence over the forward estimates, it will have a positive impact on the economic outlook.

COVID-19

COVID-19 has caused significant disruption to economic activity in the Territory, though the impact is being felt differently across industries. The industries most affected are those that rely on direct consumer contact, and interstate and international visitors. Physical distancing rules had an immediate impact on domestic economic activity as retail and hospitality activities essentially ceased for a short time.

Physical distancing remains in place but the successful health response and early and sustained easing of restrictions in the Territory, supported by the absence of community transmission, has meant Territorians have been able to return to more normal consumption patterns (with some minor impacts on confidence) and support economic activity.

However, the effect of interstate and international border closures has been significant and sustained on industries that rely on in-bound visitation for customers or supply of labour, notably tourism (transport, accommodation and restaurants), recreation and those industries that rely on 'foot traffic'. These impacts have been exacerbated as border closures occurred during the Territory's peak tourism season, though since July the government's Territory Tourism voucher initiative has supported tourism-related activity.

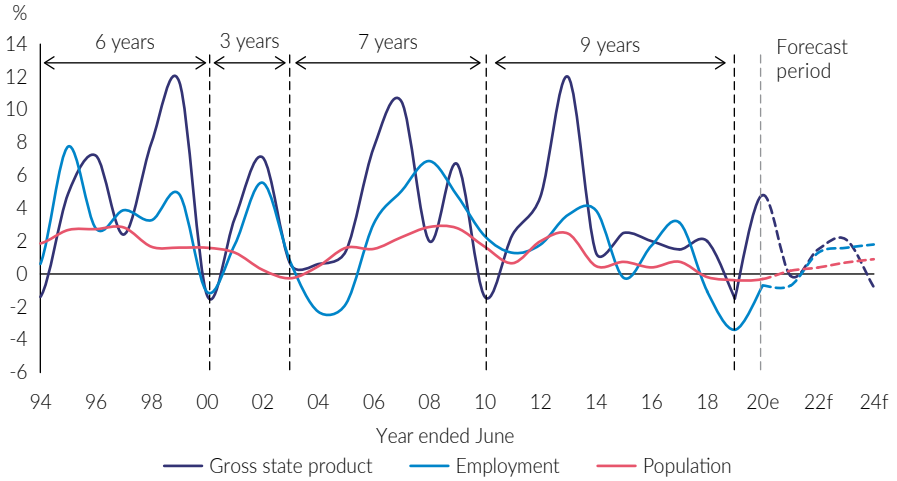
Structure of the economy

All economies are subject to business cycles (fluctuations between growth and contraction), with the frequency, magnitude and length of cycles influenced by the structure of the economy, reliance on key industries and vulnerability to external factors such as commodity prices and exchange rates. The characteristics of the Territory economy result in economic cycles being more pronounced compared with other jurisdictions in Australia.

Over the past 25 years the Territory has experienced business cycles that average six to seven years, and are driven by major projects, where domestic conditions are impacted by construction and new resource exploration, and production cycles. The Territory's employment and population generally tend to move in line with GSP growth, though not to the same extent. This is due to the capital-intensive nature of investment in the Territory and higher productivity per worker that results. Therefore, employment and population growth have accompanied GSP growth but without reaching the extreme highs seen in recent cycles (Chart 3.1).

In the absence of major private investment projects in the short term, domestic economic growth is likely to be driven by more fundamental factors such as population growth, household consumption and confidence, public sector expenditure and small to medium-scale private investment that relies on domestic demand or niche interstate and international trade opportunities.

Chart 3.1: Economic cycles in the Territory



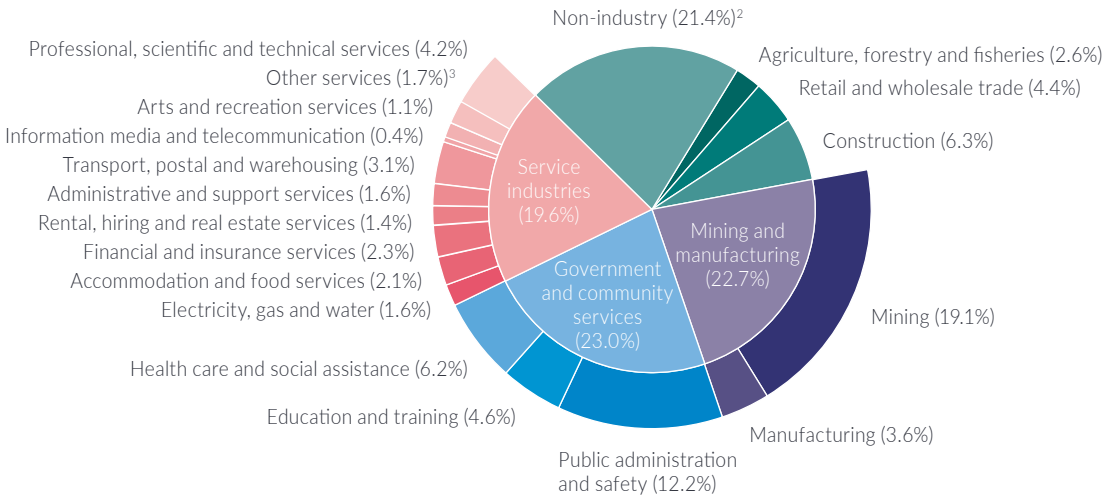
e: estimate f: forecast
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6202.0, *Australian Demographic Statistics*, Cat. No. 3101.0

The Territory economy has experienced significant growth over the past decade, largely supported by investment for the Ichthys LNG project. The Australian Bureau of Statistics (ABS) will release data for the Territory's 2019-20 GSP in November 2020, and the Department of Treasury and Finance estimates the Territory's GSP in 2019-20 at $27.4 billion. In 2018-19, the Territory's GSP was $26.1 billion, a 28 per cent increase from $20.4 billion in 2008-09. Over the same period, the Territory's population increased by around 20 000 to over 246 000 people, or 9 per cent, while the Territory's employment increased by around 15 800 to over 132 000 people, or 13 per cent.

Mining, manufacturing, construction and tourism are significant industries that together accounted for almost one-third of economic activity in 2018-19, while government and community services accounted for a further 23 per cent (Chart 3.2). Tourism represents around 4.2 per cent of economic output in the Territory but is not reported as an industry due to the nature of its output.

The share of industry contributions to Territory economic output can be volatile in the short term, while changes in the underlying structure of the economy tend to occur over longer time periods and reflect comparative economic advantages.

Chart 3.2: Contributions to gross state product, 2018-19[1]



1 Data on contributions to 2019-20 GSP not yet available.
2 Non-industry components of GSP include ownership of dwellings, taxes less subsidies and statistical discrepancy.
3 Other services components of GSP include personal services and general repair and maintenance activities.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Economic growth

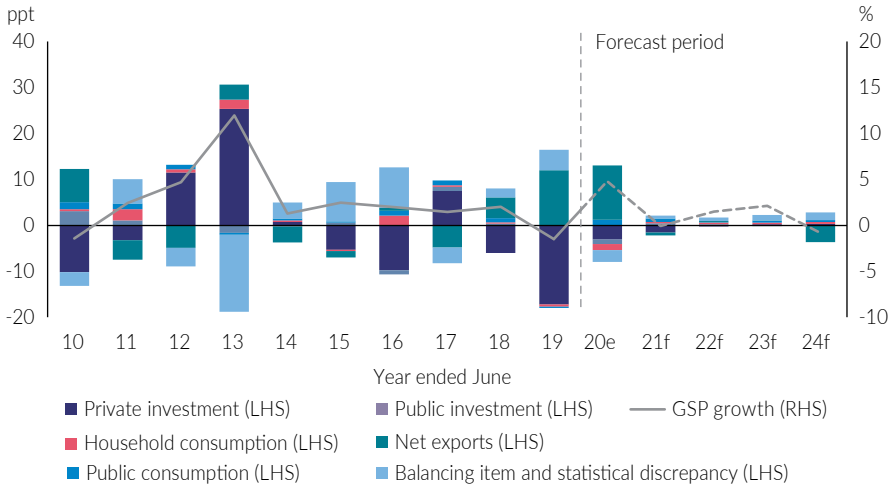
The Territory recorded a 1.5 per cent decrease in economic output in 2018-19, falling to $26.1 billion. The decline followed completion of construction of the global scale Ichthys LNG project, which saw record levels of investment in the economy. Ichthys is the largest project to ever proceed in the Territory, and over the past two decades economic growth in the Territory has been heavily influenced by major project-related construction activity, notably for the mining industry (including energy), though also for economic and social infrastructure.

Territory GSP is expected to have increased by 4.8 per cent in 2019-20 to $27.4 billion, supported by increased LNG exports. In 2020-21, GSP is forecast to decrease by 0.1 per cent as exports plateau, and domestic consumption and investment support economic activity.

New business investment is likely to be heavily impacted by uncertainty in domestic and overseas markets, and household confidence. Income and expenditure will be affected by JobSeeker and JobKeeper payments coming to an end in December 2020 and March 2021, respectively. Conversely, bringing forward income tax cuts scheduled for 2022, backdated to 1 July 2020 by the Commonwealth, will support household confidence and consumption, and the Territory Government's Jobs First Plan and the Commonwealth's JobMaker hiring credit (along with the Territory Government's top-up to that scheme) will also incentivise businesses to hire additional employees.

Domestic economic conditions are expected to improve over the outlook period, with modest population growth increasing the demand for goods and services. The forecast for weakening exports to detract from growth in 2023-24 (Chart 3.3) reflects that there was no final investment decision on the Barossa project to provide backfill gas for the Darwin LNG plant at the time of preparing these forecasts. The estimated $6.5 billion Barossa project will have a significant impact on SFD and GSP.

Chart 3.3: Contribution to Territory economic growth



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast; ppt: percentage point
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Public investment will continue to support economic activity in the outlook period, underpinned by a number of projects currently underway or due to commence, while private investment is expected to be less of a detractor from growth as the Territory economy slowly recovers from COVID-19.

Opportunities

On 22 May 2020, the Territory Government established the Territory Economic Reconstruction Commission to provide recommendations to accelerate the economic rebound post-COVID-19 and position the Territory for growth.

The commission delivered its first report on 20 July and will deliver its final report in November 2020. In its first report, the commission recommended the Territory Government focus on growing five key sectors: energy (renewables and gas); manufacturing (gas and non-gas); agribusiness; resources; and tourism, and improving government regulatory processes to reduce compliance costs and timeframes to support business investment.

The commission has also recognised the need to expedite private sector investment to support economic activity in the short term, and recommended the government focus on projects that could start in the next three to 18 months.

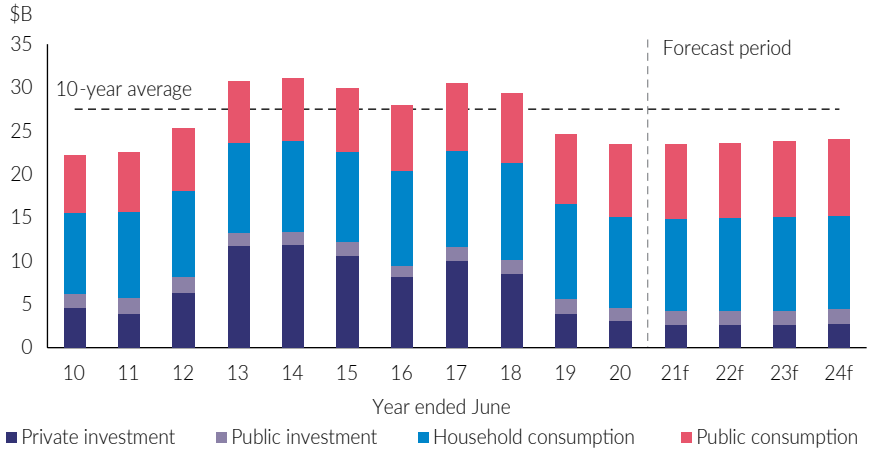
State final demand

SFD is forecast to stabilise in 2020-21, as the economy continues to adjust from historically high levels of private investment and transition to LNG exports (Chart 3.4).

SFD was showing early signs of recovery prior to COVID-19 but declined by 4.5 per cent to $23.4 billion in 2019-20, as restrictions in the last four months of the year impacted household consumption (which decreased by 7.6 per cent in the June quarter and by 3.3 per cent in 2019-20). Private investment continued to detract from growth, falling by 20.4 per cent, as the Ichthys LNG project was completed and COVID-19-related uncertainty weighed on business investment decisions.

SFD is expected to return to modest growth in 2021-22, as investment for new major projects supports employment and population growth.

Chart 3.4: Territory state final demand



f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Investment

Private investment has been in decline in recent years following completion of the Ichthys LNG project-related construction, falling by 15.5 per cent in 2017-18, 53.5 per cent in 2018-19 and, most recently by 20.4 per cent in 2019-20. In 2019-20, business investment decreased by 24 per cent and dwelling investment decreased by 6.1 per cent. The main contributor to the decline in business investment was non-dwelling construction, which was down 42.2 per cent in the year.

Private investment is forecast to decline by 13.5 per cent in 2020-21 as the economy continues to adjust. In the absence of stimulus activity from major, export-focused investment in the short term, private sector investment is expected to be modest, driven by underlying demand in the local economy. Over the medium term, the level of private investment will be heavily influenced by global demand for Territory resources, the Territory's cost competitiveness in producing resources and the risk appetite of investors.

In 2019-20, public investment decreased by 14.7 per cent to $1.5 billion, with declines across all levels of government in the June quarter, and work being delayed due to COVID-19 restrictions.

Public investment is forecast to increase by 8.5 per cent in 2020-21. With economic uncertainty impacting business investment in the short to medium term, there will be a greater reliance on publicly funded and facilitated projects in the outlook period.

This will be supported by continued Territory Government infrastructure investment, Commonwealth defence-related expenditure, and also co-investment between the Territory and Commonwealth governments on Jabiru and Kakadu future developments, and the remote housing investment package. Public investment is forecast to average $1.6 billion per annum over 2021-22 to 2023-24.

Consumption

COVID-19 is impacting household consumption patterns even though, to date, consumption in the Territory has been relatively resilient, declining by 3.3 per cent in 2019-20 and 7.5 per cent in the June quarter 2020 (compared to 12.1 per cent nationally). To some extent, this reflects the Territory's early easing of physical distancing and other restrictions, despite undoubtedly being impacted by the uncertain employment outlook.

Household consumption is forecast to increase by 0.8 per cent in 2020-21 and by an average of 0.9 per cent per annum to 2023-24, reflecting subdued economic, employment and population growth in the Territory.

Public consumption is forecast to increase by 2.5 per cent in 2020-21, following strong growth of 3.9 per cent in 2019-20 as health and defence-related spending increased in response to COVID-19.

Beyond 2020-21, public consumption is expected to provide a modest contribution in each of the outlook years compared with the recent past. This reflects the Territory Government's commitment to fiscal repair measures detailed in its *A plan to fix the budget*.

External economic environment

National and international economic activity influences the Territory economy through changes to exchange rates, commodity prices, population flows, interstate trade volumes, tourism activity and the availability of workers to meet the Territory's labour requirements. Additionally, monetary policy set by the Reserve Bank of Australia (RBA) influences household consumption, business confidence and investment in the Territory.

Following growth of 2.8 per cent in 2019, the International Monetary Fund expects world economic growth to decline by 4.4 per cent in 2020, before recovering to 5.2 per cent in 2021. The 2020 estimate has been revised down by 1.4 percentage points from the April outlook as global economic activity has been more negatively impacted by COVID-19 than anticipated, with a more gradual recovery than previously forecast.

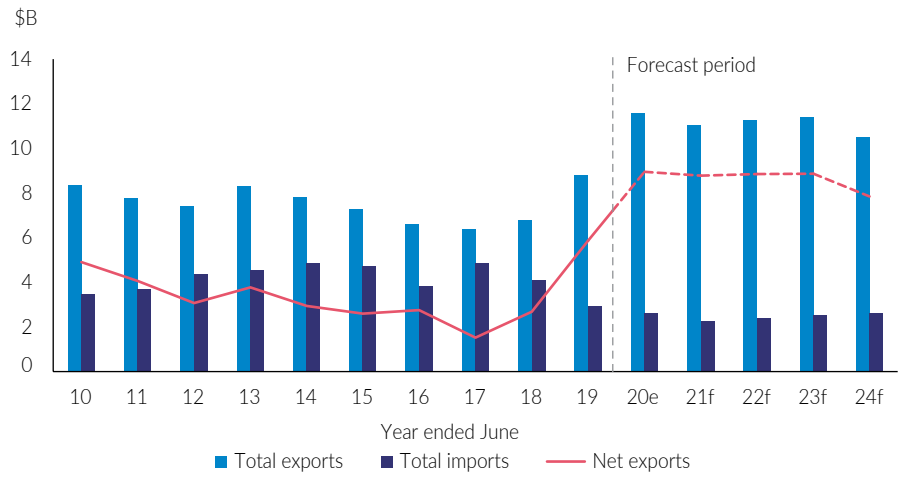
For the first time in almost 30 years the Australian economy is in recession, as weakening growth since mid-2018 was exacerbated by the onset of COVID-19 in early 2020. Output decreased by 7 per cent in the June quarter 2020, the largest quarterly fall on record, reflecting travel restrictions and containment measures, as well as record declines in consumer and business confidence. The Commonwealth expects output to decline by a further 1.5 per cent in 2020-21 before recovering with growth of 4.75 per cent in 2021-22, as the easing of restrictions and support through significant fiscal stimulus contributes to improved consumer confidence, business sentiment and investment.

International trade

In 2019-20, the Territory's net exports increased by 52.7 per cent to $9 billion, reflecting a 31.3 per cent increase in exports as the Ichthys LNG project reached a steady state of production of LNG, liquefied petroleum gas and condensate.

Net exports are forecast to decrease by 2 per cent in 2020-21, primarily due to closed international borders impacting tourism and defence-related service exports, with goods exports expected to stabilise as LNG production plateaus, live cattle exports moderate and iron ore exports recommence. After averaging $3.4 billion per annum over the past decade, net exports are expected to average $8.7 billion per annum over the forecast period (Chart 3.5).

Chart 3.5: Territory net exports



e: estimate; f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Population

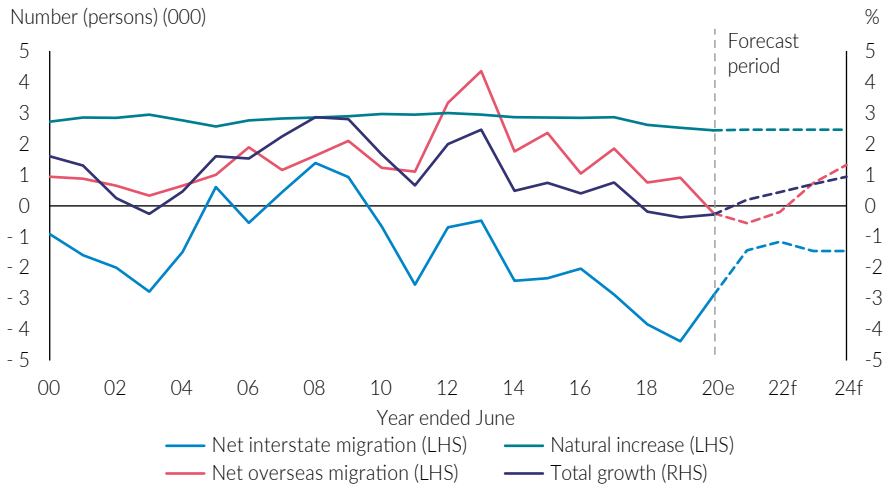
The Territory's population of 245 000 persons accounts for about 1 per cent of the Australian population. The majority (around 60 per cent) of the Territory's population resides in the greater Darwin area, with the remainder dispersed over remote and very remote areas. At 30 June 2016 (ABS Census 2016), the Aboriginal population was estimated at 74 546, which represents about 30 per cent of the Territory's population, many of whom reside in remote and very remote areas.

Traditionally, population movements into and out of the Territory are heavily influenced by economic and labour market conditions relative to elsewhere in Australia and around the world. Population growth in the Territory has declined over the past three years, most recently by an estimated 0.3 per cent in 2019-20, mainly due to large net outflows of interstate migrants and weaker inwards migration from overseas.

The impact of COVID-19 border restrictions imposed by the Commonwealth, state and territory governments, as well as uncertainty arising from the pandemic, has caused significant disruption to usual migration flows. As net interstate migration typically detracts from population growth, lower levels of interstate movement will reduce the overall negative impact on population growth. Weaker interstate migration is contributing to the Territory's population growth strengthening to 0.2 per cent in 2020-21 (Chart 3.6).

Looking forward from 2020-21, the outlook for overseas migration is highly uncertain and dependent on international borders reopening, and any nation-specific restrictions. The total level of interstate migration is expected to decline, but the quantum is also highly uncertain. As the economy recovers from the negative impacts of COVID-19 and new projects commence, population growth is expected to strengthen. Growth in the Territory's population over the five years to 2023-24 is estimated to be around 5000 people, increasing on average by 0.4 per cent per annum.

Chart 3.6: Components of Territory population growth



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0; Department of Treasury and Finance

Labour market

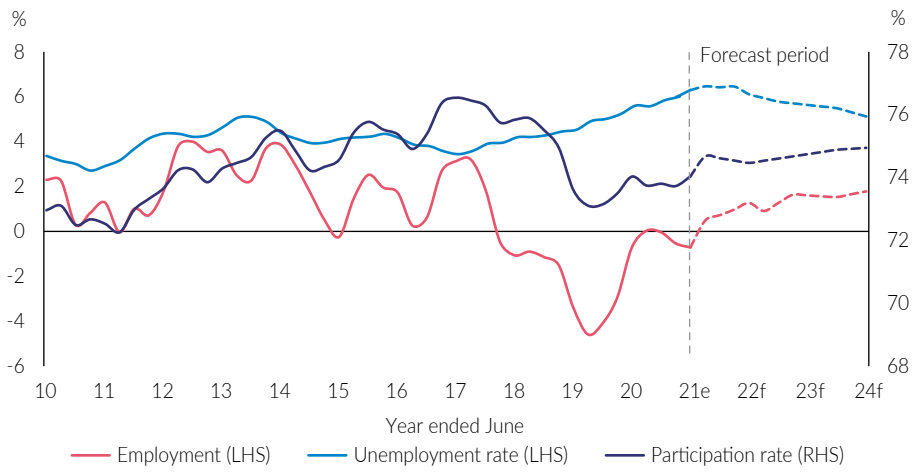
Historically, the Territory has recorded a lower unemployment rate and higher labour force participation rate compared to other Australian jurisdictions. This demonstrates the Territory's reliance on interstate and overseas workers to meet workforce requirements associated with major projects and other economic activity.

COVID-19-related restrictions were a major factor in the Territory's employment, declining by 0.7 per cent in 2019-20. Despite the restrictions, the 2019-20 outcome is a significant improvement on the 3.4 per cent decline in employment reported in 2018-19, following completion of construction of the Ichthys LNG project.

The ABS reports that between March and June 2020 almost 9000 people (7 per cent of employed people) ceased work. The loss of jobs resulted in a rise in unemployment and the unemployment rate. In the June quarter 2020, the unemployment rate averaged 6.1 per cent, compared with 5.4 per cent in the preceding three quarters of the financial year. Over 2019-20 the unemployment rate averaged 5.6 per cent, up from 4.5 per cent in 2018-19.

Territory employment is expected to decline by 0.7 per cent in 2020-21 as uncertain economic conditions translate to reduced demand for labour, with the unemployment rate estimated to average 6.3 per cent (Chart 3.7). The employment outlook is influenced by the Commonwealth's JobKeeper payment ending on 28 March 2021, but is supported by the Territory Government's Jobs First Plan initiatives and the Commonwealth's JobMaker hiring credit, which will support businesses to hire additional employees. Employment is expected to recover over the outlook period, supported by recovery in the labour-intensive tourism sector as international travel and interstate border restrictions are lifted, and consumer and business confidence recovers from the recent lows.

Chart 3.7: Territory labour market conditions



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast
Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0; Department of Treasury and Finance

Prices and wages

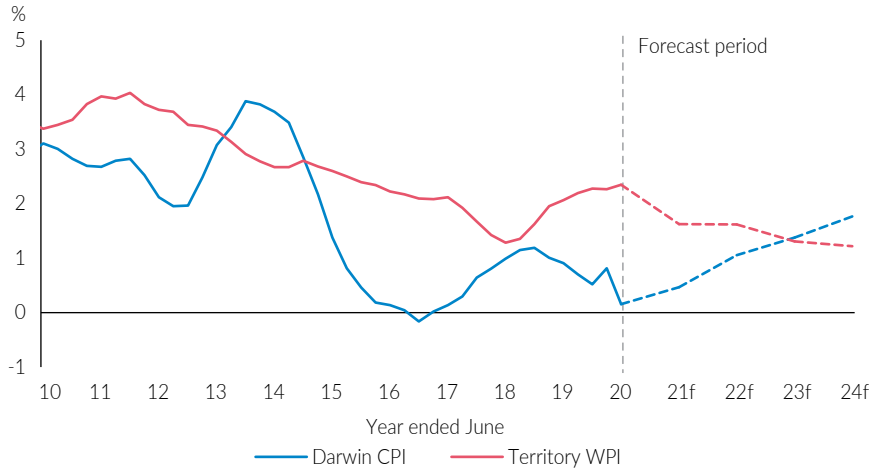
Darwin's inflation rate, as measured by the CPI, was 0.2 per cent in 2019-20. The main detractors from inflation were housing (including rents and repairs and maintenance works) and transport (mainly fuel prices), while the main contributors to inflation were alcohol and tobacco, consistent with recent years.

The Darwin CPI is expected to increase to 0.5 per cent in 2020-21 (Chart 3.8). This is well below the long-term trend, and reflects both domestic and international factors. Darwin CPI growth is expected to remain subdued in the short to medium term in line with a general lack of inflationary pressures and the uncertain global outlook.

In 2019-20, the Territory recorded a 2.3 per cent increase in the wage price index (WPI), below the 10-year average of 2.6 per cent, and largely consistent with the national WPI growth of 2.1 per cent.

The outlook for wage growth across the forecast period is modest. Public sector wage growth will be constrained under the next Territory Government wages policy and private sector wage growth is expected to be subdued given the weak economic conditions, modest employment growth and business sentiment in the context of an uncertain global outlook.

Chart 3.8: Darwin consumer price index and Territory wage price index, year-on-year change



f: forecast
Source: Department of Treasury and Finance; ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0

Chapter 4

Fiscal strategy statement

Overview

The 2020-21 Budget and outlook has been significantly influenced by the economic effects of COVID-19 including lower GST and own-source revenue, combined with government's policy measures aimed at supporting businesses and individuals, and stimulating economic activity.

The government's fiscal strategy

A fiscal strategy is an essential element of budget planning and accountability, and provides the basis against which policy decisions can be assessed.

Section 5(1) of the FITA requires the Territory Government to publish a fiscal strategy, based on the principles of sound fiscal management, where the government must:

- formulate and apply spending and taxation policies, having regard to the effect of these policies on employment, economic development and growth of the Territory economy
- formulate and apply spending and taxing policies to give rise to a reasonable degree of stability and predictability
- ensure funding for services is provided by the current generation
- 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 that consists of the following five components:

- sustainable service provision
- infrastructure for economic and community development
- competitive tax environment
- prudent management of debt and liabilities
- commercial management of government owned corporations.

2020-21 Fiscal strategy

In response to substantial reductions in GST revenue and deteriorating economic conditions, a new fiscal strategy was adopted for the 2019-20 Budget. The fiscal strategy was substantially revised to a medium-term focus in recognition of the level and duration of reform required to return the budget to balance. Furthermore, the principles were expanded to incorporate the government owned corporations given their impact on key public sector fiscal targets. The fiscal strategy objectives and targets in the 2020-21 Budget remain unchanged from those set in the 2019-20 Budget.

Assessment of the strategy against FITA's fiscal principles

This section addresses the requirement under section 9(1)(e) of FITA by explaining how the government's fiscal objectives and strategic priorities relate to the principles of sound fiscal management. This section also complies with section 10(1)(g) of FITA that each fiscal outlook report is to contain an explanation of the factors and considerations contributing to any material differences between the updated financial projections and the government's fiscal objectives and targets.

Principle 1: Sustainable service provision

The government's principle of sustainable service provision satisfies FITA principles of formulating and applying spending and taxing policies to give rise to a reasonable degree of stability and predictability, and ensure funding for current services is provided by the current generation.

Stability and predictability are attainable only when the Territory's finances are sustainable. Operating surpluses indicate government can finance the services it provides using the revenue generated in that financial year. Conversely, operating deficits indicate operating revenues are insufficient to fund current operations. While in the short term, cyclical operating deficits may be considered during periods of economic downturn, persistent or structural operating deficits subsequently pass debt relating to current services to future generations to service and are unsustainable. Operating deficits also provide no capacity for investment in infrastructure beyond depreciation levels, without further borrowings.

Due to the Territory's small own-source revenue base, the Territory has limited ability to influence the level of revenue it can generate, however, it is able to directly influence expenditure growth. Accordingly, the fiscal strategy objectives in pursuit of sustainable service provision aim to contain expenditure growth, maintain a financially sustainable public sector and achieve general government net operating surpluses to ensure debt is not passed on to future generations.

While there is not one explicit time period in the definition of a generation, the Territory Government's fiscal strategy focuses on the medium-term target of 10 years to achieve an operating surplus and reduce debt to ensure current services are met by the current generation. Consequently, the overarching principle within each fiscal strategy objective is to achieve fiscal balance surpluses in order to reduce debt within 10 years.

Ongoing objective and target: Territory-funded expense growth to be lower than total own-source and untied revenue growth in the general government sector over the budget cycle from the budget year

This objective specifically targets Territory controllable expenditure growth and excludes time-limited external funding that can distort growth rates over the forward estimates and ultimately tends not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. Lower growth in Territory-funded expenses than growth in total Territory own-source and untied revenues indicates the budget is on a path to achieving a general government operating balance surplus.

As shown in Table 4.1, Territory-funded expenses, excluding depreciation, are projected to decline by 8.4 per cent in aggregate over the forward estimates when compared to a 9.2 per cent anticipated growth in own-source and untied revenue over the same period. The decline in Territory-funded expenses is largely driven by one-off COVID-19 stimulus measures ceasing in 2020-21 combined with the reduction in the government's wages policy from a 2 per cent per annum increase to a wages freeze for four years from 2021-22, with an annual $1000 lump sum payment per full-time employee. Growth in untied revenue has also been affected by the one-off GST revenue balancing adjustment of $216 million in 2020-21 to recover GST overpayments from 2019-20.

When excluding the effects of COVID-19 stimulus measures, net of reprioritised funds and related operational support costs totalling $202 million in 2020-21, underlying Territory-funded expense growth is projected to decline in aggregate by 5 per cent over the forward estimates. When excluding the effect of the 2019-20 GST revenue balancing adjustment of $216 million in 2020-21, underlying own-source and untied revenue growth is estimated to increase in aggregate by 3.9 per cent. These underlying growth rates demonstrate that the current higher levels of expenditure compared to revenues will converge and facilitate a general government net operating surplus at some stage.

Table 4.1: Territory-funded expense growth, and own-source and untied revenue growth

	2020-21	2021-22	2022-23	2023-24	
	Budget	Forward estimate			Growth
	$M	$M	$M	$M	%
Territory-funded expenses[1]	5 647	5 132	5 164	5 174	- 8.4
Own-source and untied revenue	4 239	4 370	4 521	4 628	9.2

1 Excludes expenses carried over from prior years.

Ongoing objective and target: Maintain a sustainable public service by ensuring annual growth in Territory-funded employee expenses does not exceed the wages policy parameter plus the Territory's long-term annual population growth in any year over the budget and forward estimates period

Given the Territory's public service employee expenses account for approximately 40 per cent of the general government sector's total expenses, maintaining a financially sustainable public service is critical in containing expenditure growth to ensure the achievement of net operating balance surpluses.

As the Territory Government is a major contributor to the Territory economy and the single largest employer in the Territory, the fiscal strategy objective to maintain a financially sustainable public service takes a balanced approach to fiscal repair. This objective is premised on the economic principle of supply and demand by ensuring service provision does not outpace population growth. Accordingly, the target of general government Territory-funded employee expense growth is not to exceed the wages policy parameter, net of efficiency dividends, plus the Territory's long-term annual population growth of 1.4 per cent in any year over the budget and forward estimates period has been set to ensure this.

To assist in meeting this objective and to support budget repair, the wage indexation for Government's 2021-24 wages policy was amended from 2 per cent per annum to a wages freeze for four years from 2021-22, with a $1000 lump sum payment on 1 August each year for full-time employees (or pro-rated for part-time employees) who have been continuously employed since 1 September the previous year.

Table 4.2 highlights that Territory-funded employee expense growth is well below the sum of the wages policy parameter and the Territory's 1.4 per cent long-term population growth, and demonstrates government is containing growth in the general government sector's single largest expenditure item.

Table 4.2: Territory-funded expense growth and wages growth

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	%	%	%	%
Territory-funded employee expense growth	2.1	- 1.1	- 0.2	- 0.5
Wages policy parameter plus long-term population growth	2.2	0.8	0.8	0.8
Variation	- 0.2	- 1.9	- 1.0	- 1.3

Medium term objective: Achieve a net operating balance surplus in the general government sector and maintain an improving net operating balance over the budget cycle

Target: Achieve a general government net operating balance surplus by 2027-28

While 2020-21 Budget projections to 2023-24 do not achieve a general government sector net operating balance surplus, they are trending towards an improvement. The extent to which this target can be achieved will depend on the Territory and national economic recovery from COVID-19 over the forward estimates to 2027-28, and ongoing restraint in expenditure growth.

Table 4.3 shows the net operating balance has deteriorated on average by $587 million per annum from the budget year when compared to the 2019-20 Budget, highlighting the effect of lower GST and own-source revenue.

Table 4.3: General government sector – net operating balance

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$M	$M	$M	$M
2019-20 Budget	- 615	- 512	- 383	n.a.
2019-20 Mid-Year Report	- 420	- 386	- 438	n.a.
2020-21 Budget[1]	- 1 676	- 774	- 819	- 739
Variation from 2019-20 Budget	- 1 061	- 262	- 436	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget and 2019-20 Mid-Year Report

One of the key objectives of government's *A plan to fix the budget* was to return the budget to an operating balance surplus over a 10-year period. This was previously forecast to be achieved by 2027-28. However, given the further deterioration of the Territory's revenue base, this will no longer be achieved, with operating and fiscal deficits forecast to continue across the medium term.

Principle 2: Infrastructure for economic and community development

The government's principle of infrastructure for economic and community development directly satisfies FITA principle of economic development and growth of the Territory economy.

Capital investment is essential to meet the Territory's social and economic needs. This is particularly relevant in periods of economic downturn, where short-term, counter-cyclical increases in infrastructure spending provide a stimulus to support economic recovery and sustain jobs in the Territory.

Ongoing objective and target: Average general government sector infrastructure investment not to fall below the level of average depreciation over the budget cycle and Territory-funded investment not to exceed twice the level of depreciation in any year

This fiscal balance objective aims at striking an appropriate balance between maintaining public assets, supporting the economy and restraining expenditure growth.

As shown in Table 4.4, projected general government infrastructure investment, inclusive of Commonwealth-funded projects (comprising capital works, minor new works, and repairs and maintenance expenses) is consistent with the first element of this objective, with annual average infrastructure investment over the budget cycle of $1.1 billion well above annual average depreciation of $541 million.

This measure differs from total infrastructure payments of $1.75 billion, as reported in Budget Paper No. 4 as it excludes capital-related grants and is presented for the general government sector only.

The second element of this objective supports the government's primary agenda of budget repair by restraining growth by ensuring Territory-funded infrastructure investment does not exceed twice the level of depreciation in any single year. Table 4.4 highlights that this element of the strategy is also being achieved, with the ratio of Territory-funded infrastructure to depreciation falling from 1.2 in 2020-21 to 1.0 by 2023-24.

Table 4.4: General government sector – infrastructure investment to depreciation ratio

	2020-21	2021-22	2022-23	2023-24	
	Budget	Forward estimate			Average
Total infrastructure investment ($M)	1 099	1 335	1 042	904	1 095
Depreciation ($M)	555	542	535	532	541
Territory-funded infrastructure investment ($M)	675	751	636	541	651
Depreciation ($M)	555	542	535	532	541
Territory-funded infrastructure investment to depreciation ratio	1.2	1.4	1.2	1.0	1.2

Further information on infrastructure investment is included in Chapter 2, *Fiscal outlook* and Budget Paper No. 4.

Short to medium-term objective: General government sector debt-funded infrastructure to be limited to projects with a positive economic return on investment

Target: 100 per cent of general government capital works projects (excluding ICT) with a value exceeding $30 million progressed in accordance with the Northern Territory Project Development Framework

This fiscal strategy objective links both FITA principles of prudent debt management and economic development, and growth of the Territory economy by restricting new borrowings in the short to medium term to projects with demonstrated positive economic return on investment.

This will be achieved through ensuring all infrastructure investments exceeding $30 million are progressed in accordance with the Northern Territory Project Development Framework. The framework aims to ensure government-facilitated and funded projects are developed, evaluated and progressed through a consistent framework that enhances transparency and public accountability, and maximises the outcomes and public benefit of government expenditure. The framework was adopted by government in October 2019. There were no new capital works projects exceeding $30 million during 2019-20.

Once fiscal surpluses are achieved, it is intended that all infrastructure projects will be funded through revenues as per long-term objectives of sustainable service provision.

Principle 3: Competitive tax environment

While the Territory's revenue base is small in comparison to other jurisdictions, taxation and own-source revenues provide the government with a reasonable degree of stability and predictability, which are key principles of FITA. This stability provides consistent revenue streams to fund service delivery, unlike the volatility experienced with GST revenue in past years.

Furthermore, taxing policies can significantly influence private business investment and employment decisions. Consequently, competitive taxing policies play a critical role in pursuing the FITA principle of maintaining employment, economic development and growth of the Territory economy.

Ongoing objective: Maintain a competitive tax environment that encourages investment, creates jobs and attracts business to the Territory, while raising sufficient revenue to contribute to funding government's service delivery requirements

Target: Territory taxation effort for the last assessed year by the Commonwealth Grants Commission at least 90 per cent of the state average of 100 per cent

This fiscal strategy objective aims to maintain taxation at levels that are competitive with the other jurisdictions and encourage increased levels of business activity in the Territory while ensuring sufficient levels of own-source revenue are generated to contribute to funding government's service delivery.

Relative tax competitiveness is complex to assess due to the inherent differences in respective economies and taxation regimes across states. A nationally recognised measure of the competitiveness of each jurisdiction's tax system is taxation effort, as assessed by the CGC. This measure is a lagging indicator as the CGC updates the information annually based on the actual outcome of the previous year.

Taxation effort assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below the national average of 100 per cent. A ratio of 100 suggests the state has the capacity to raise revenue at the average level. A ratio greater than 100 suggests the state has a capacity to raise revenue above the average and conversely a ratio below 100 suggests below average capacity. The fiscal strategy aims to achieve assessed taxation effort of at least 90 per cent in order to maximise revenue generation but remain competitive when compared to other states.

Table 4.5: 2018-19 taxation effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
Total taxation	102.8	103.1	90.7	97.4	93.3	92.4	149.0	81.1	100.0

Source: CGC 2020 Update.

Table 4.5 shows the Territory's taxation effort has decreased to 81.1 per cent in 2018-19, the latest year assessed by the CGC, compared with 90 per cent in 2017-18. The below-average taxation effort largely reflects the fact the Territory does not impose a land tax and levies lower than average motor vehicle taxes. On this basis, this fiscal strategy target has not been achieved.

The effects of COVID-19 will impact future assessments due to reductions in Territory's taxation revenue in 2019-20 and lower estimates of taxation revenue across the forward estimates.

Ongoing objective: Generate own-source revenue efficiently

Target: Territory Revenue Office expenditure as a percentage of non financial public sector taxes and royalties less than 1 per cent

As discussed above, own-source revenue generation is critical in providing stability and predictability. However, in order to maximise the capacity to allocate to service delivery and new initiatives, the collection of own-source revenue must be efficient through maintaining low direct operating costs. Accordingly, the fiscal strategy aims for the Territory Revenue Office's operating expenditure to be less than 1 per cent of total taxes and royalties collected to ensure efficient revenue collection.

Table 4.6 demonstrates this element of the fiscal strategy has been achieved with Territory Revenue Office operating expenditure projected to be half of the target 1 per cent of total taxation and royalty revenue across the budget and forward estimates.

Table 4.6: Territory Revenue Office expenditure to taxation revenue raised

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
Territory Revenue Office expenditure ($M)	4	5	5	5
Territory taxes and royalties ($M)	816	853	874	862
Expenditure to revenue (%)	0.5	0.5	0.5	0.5

Principle 4: Prudent management of debt and liabilities

The fiscal strategy principle of prudent management of debt and liabilities directly satisfies FITA principles of managing financial risks faced by the Territory (having regard to economic circumstances), including maintaining Territory debt at prudent levels and ensuring funding for services is provided by the current generation.

During periods of low economic growth and constrained revenues, it may be considered prudent to maintain higher levels of debt in order to maintain government expenditure and stimulate the economy. When economic growth and own-source revenues are strong, lower debt levels may be considered prudent as they present an opportunity for government to pay down debt while there is strong revenue growth and private sector investment. Consequently, prudent debt management cannot be explicitly defined but rather is an assessment made in developing a budget in light of the economic and fiscal conditions faced by the Territory.

Persistent operating deficits result in government being required to borrow to fund its operations and subsequently may result in burdening future generations with debt relating to current periods. Similarly, fiscal balance deficits indicate a government's level of capital spending is in excess of its saving, requiring additional borrowings.

Ongoing objective: Maintain or improve the Territory's credit rating

Target: Territory's credit rating of Aa2 (negative) or better

Excessive debt can lead to restrictions on government's capacity to maintain appropriate levels of service through increased borrowing costs and can impact investor confidence resulting in negative effects on the Territory economy.

Moody's Investors Service (Moody's) assigns long-term issuer and debt ratings to the Northern Territory Treasury Corporation (NTTC), the entity that issues debt on behalf of the Territory and its government owned corporations. NTTC's debt is guaranteed by the Territory and the rating reflects the Territory's credit quality.

Credit ratings reflect an independent assessment of a government's fiscal strength and ability to fulfil its financial commitments and repay debt. Higher ratings indicate a strong fiscal and economic position, and result in the ability to borrow at lower interest rates. Lower ratings indicate credit challenges, such as revenue or policy weaknesses and increasing debt levels, and result in higher interest rates on borrowings. Negative outlooks reflect a potential downgrade within the next six months to two years.

The Territory's credit rating was last assessed by Moody's on the 2019-20 Budget in June 2019. Despite the budget repair and savings measures identified in the Territory Government's *A plan to fix the budget*, Moody's issued a downgrade to the Territory's credit rating from Aa2 to Aa3. The outlook on the ratings also changed to 'stable' from 'negative'. Moody's recognised the main cause of the Territory's weakened fiscal position was the cumulative effect of lower GST revenue from the Commonwealth. Accordingly, this fiscal strategy target has not been met.

In May 2020, Moody's published an updated credit opinion for the Territory stating the Territory's current credit quality is reflective of the significant support of the Commonwealth, however, given its considerable reliance on grants, the Territory is more exposed than other states to potential changes to the system. The updated credit opinion highlighted the Territory's financial performance is forecast to deteriorate over the forward estimates, largely due to lower GST distributions from the Commonwealth leading to anticipated fiscal deficits that are projected to grow the Territory's debt burden.

Subsequent to this assessment, Moody's issued a report in July 2020 on the debt burden arising from the COVID-19 pandemic. In this report, Moody's anticipates a material deterioration in budgetary outcomes for all states and territories in 2020-21 and 2021-22 as a result of economic disruption and funding COVID-19 economic stimulus measures. The effect of COVID-19 on the Territory's future credit ratings is uncertain and, given the Territory's strong reliance on GST and Commonwealth funding, is highly dependent on how quickly the national economy recovers.

Net debt to revenue is a recognised measure to assess a jurisdiction's ability to repay its borrowings, with a high ratio indicating a lower ability to repay debt and a low ratio indicating a strong ability to repay debt. Historically, the Territory has maintained a long-term average net debt of 40 per cent. Due to the implementation of new accounting standards on leases, this long-term average has been adjusted to 50 per cent, and has been retained as a long-term objective of the fiscal strategy.

Given the continued reductions in GST revenue and need to protect Territorians and support local businesses through COVID-19, increases to the Territory's net debt to revenue ratio are unavoidable. As shown in Table 4.7 the non financial public sector's net debt to revenue ratio is projected to increase in line with increased fiscal deficits, with a net debt to revenue ratio of 132 per cent in 2020-21, increasing to 179 per cent by 2023-24.

Table 4.7: Non financial public sector – net debt to revenue ratios

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	%	%	%	%
2019-20 Budget	105	109	114	n.a.
2020-21 Budget[1]	132	148	167	179
Variation from 2019-20 Budget	27	39	53	n.a.

n.a.: not available at the time of publishing the 2019-20 Budget

Principle 5: Commercial management of government owned corporations

Government owned corporations operate on a commercial basis with the ability to recover most of their costs through charging consumers for the use of services. The Territory's government owned corporations are the Power and Water Corporation, Territory Generation and Jacana Energy. Government owned corporations are governed under the *Government Owned Corporations Act 2001* and make up most of the public non financial corporation sector.

The Territory's debt levels and fiscal targets are materially impacted by the financial performance of government owned corporations. Consequently, this fiscal strategy principle aims at strengthening their commercial sustainability, increasing accountability for financial and non-financial performance, and reducing their reliance on government support. It directly satisfies FITA principles of ensuring funding for services is provided by the current generation and prudent debt management, and assists in the overarching principle that government owned corporations as commercial entities are meant to be self-supporting and largely autonomous.

Ongoing objective and target: Ensure government owned corporation operating expenditure growth does not increase at a rate greater than operating revenue growth

Similar to the general government sector's fiscal strategy principle of sustainable service provision, this fiscal strategy objective aims at improving profitability and restraining expenditure growth specifically in government trading entities. Table 4.8 shows that two of the three government owned corporations will meet this element of the fiscal strategy, with Power and Water Corporation's projected operating expense growth greater than revenue growth over the same period.

The Power and Water Corporation's operating expenditure growth has been materially impacted by its business transformation project that requires additional expenditure over the statement of corporate intent (SCI) period. The Power and Water Corporation anticipates that this project will, however, provide ongoing benefit and efficiencies beyond the forward estimates period and allow it to improve its performance and sustainability over the medium term.

Table 4.8: Government owned corporation growth rates over the statement of corporate intent period

	Power and Water Corporation growth	Territory Generation growth	Jacana Energy growth
	%	%	%
Revenue	21.6	- 0.4	1.8
Operating expenses[1]	24.6	- 9.6	1.1
Target met	no	yes	yes

1 Excludes depreciation, impairments, interest and tax expenses.

Ongoing objective: Adopt agreed commercial operational benchmarks in the statement of corporate intent

Target: 100 per cent of appropriate targets as agreed with the shareholding minister reported

An SCI represents an annual performance agreement between the shareholding minister and the government owned corporation's board, and includes financial and non-financial performance targets. SCIs are prepared annually and form part of the Territory's budget development process. Agreed targets must be reported in each respective SCI.

This element of the fiscal strategy has been achieved with each government owned corporation reporting their respective agreed targets in their 2020-21 SCIs.

Ongoing objective: Debt ratios should improve annually

Target: Debt to equity ratio (where applicable) maintained or improved over the statement of corporate intent period

The debt to equity ratio measures the degree to which government owned corporation assets are financed by debt and government's contributions. Low ratios are more favourable and indicate less risk while high ratios indicate government owned corporations rely more on external lenders and therefore present higher risk. The fiscal strategy objective aims to improve these ratios over the SCI period to support the principle of prudent management of debt and liabilities.

As demonstrated in Table 4.9, the government owned corporations met this fiscal strategy objective with debt to equity projected to marginally improve over the forward estimates.

Territory Generation's improved debt to equity position forecast over the period is being driven by repayment of borrowings related to the construction of the Darwin Katherine Battery Energy Storage System (BESS) with savings realised from the project and general improvements in profitability forecast over the forward estimates.

Table 4.9: Government owned corporations 2020-21 statement of corporate intent debt to equity ratios

	2020-21	2021-22	2022-23	2023-24	
	Budget	Forward estimate			Target met
Power and Water Corporation	1.2	1.2	1.2	1.1	yes
Territory Generation	1.7	1.6	1.5	1.4	yes
Jacana Energy[1]	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.: not applicable

1 Jacana Energy does not have any borrowings and therefore this fiscal measure is not reportable.

Ongoing objective: Reduce controllable costs and improve operating efficiencies

Target: Operating costs (less cost of sale) maintained or reduced over the SCI period

Many government owned corporations have costs related to contractual obligations or directly determined by demand for services (wholesale generation, energy, network services and other regulatory fees). Although these corporations have largely limited control over these main costs, they can be mitigated to some extent through efficient management and maintenance of assets. They are also able to directly influence expenses such as personnel, ICT, training, travel and property expenses to improve profitability and increase returns to government.

Table 4.10 shows only Territory Generation met this fiscal strategy objective and reduced controllable costs over the SCI period. As detailed earlier, the Power and Water Corporation's operating expenditure has been impacted by its investment in its business transformation project, which is anticipated to reduce costs beyond the forward estimates period. It is noted that Jacana Energy's controllable costs in 2023-24 are expected to be marginally higher than 2020-21.

Table 4.10: Government owned corporations 2020-21 statement of corporate intent controllable[1] costs

	2020-21	2021-22	2022-23	2023-24	
	Budget	Forward estimate			Target met
	$M	$M	$M	$M	
Power and Water Corporation	207	220	207	227	no
Territory Generation	100	87	77	78	yes
Jacana Energy	19	18	19	19	no

1 Controllable costs exclude costs of sales, depreciation, impairments, interest and tax expenses.

Medium-term objective: Increased returns for government in the form of dividends

Target: Dividends paid/payable greater than zero

Returns to government from the corporations support the delivery of essential social services including health, education and community safety. Increased returns also indicate a corporation's profitability has improved, increasing capacity to retire debt and subsequently leading to improvements in government debt targets.

Table 4.11 shows all government owned corporations, with the exception of Jacana Energy, meet this element of the fiscal strategy with dividends projected to be paid across the SCI period. No dividend has been declared by Jacana Energy for payment in 2020-21 as the corporation incurred a net loss in the 2019-20 financial year. The net loss in 2019-20 was the result of a correction of charges from previous years and increased costs associated with bad and doubtful debts and the impact of COVID-19. Jacana Energy forecasts marginal profitability and dividends payable across the remainder of the SCI period.

Table 4.11: Government owned corporations 2020-21 statement of corporate intent dividends paid

	2020-21	2021-22	2022-23	2023-24	
	Budget	Forward estimate			Target met
	$M	$M	$M	$M	
Power and Water Corporation	20.4	22.2	41.9	32.3	yes
Territory Generation	4.2	3.7	8.7	6.9	yes
Jacana Energy	nil	0.6	0.6	0.7	no

Conclusion

Prior to COVID-19, the Territory was on a path to return the budget to a sustainable position and achieve a fiscal balance surplus by 2027-28 following the significant reforms and savings implemented as part of the Territory Government's *A plan to fix the budget*.

COVID-19 has disrupted the global economy and called for unprecedented interventions to mitigate community transmission, contain the impacts on public health resources, ameliorate the economic consequences of restrictions and support the economy as it rebounds from this health and economic crisis.

The 2020-21 Budget has significantly deteriorated as a result of the economic impact of COVID-19 and associated response measures, with the fiscal projections across all other Australian states and territories also worsening following the pandemic. The extent to which the Territory can return to its path to a sustainable position is dependent on the Territory and national economic recoveries from COVID-19 over the forward estimates to 2027-28, and the achievement of fiscal strategy targets.

In the interim, the Territory Government is committed to protecting Territorians through its public health response to COVID-19, supporting local businesses and creating jobs, and accelerating the Territory's economic rebound.

Chapter 5

Intergovernmental financial relations issues

Overview

Total Commonwealth funding to the Territory in 2020-21 is estimated at $4.13 billion, representing about 65 per cent of the Territory's total non financial public sector revenue. This comprises $2.52 billion in general revenue assistance payments, largely GST revenue, and $1.61 billion in tied funding.

GST revenue is the largest single fiscal transfer from the Commonwealth, representing about 39 per cent of the Territory's total revenue. The Territory is expected to receive $2.52 billion in GST revenue in 2020-21, which is $142 million lower than 2019-20 GST revenue of $2.68 billion. This decrease represents a year-on-year decline of 5.4 per cent.

The estimated GST revenue decrease between years is largely driven by a Commonwealth balancing adjustment of $216 million for the overpayment of GST revenue in 2019-20, partially offset by an increase in the Territory's GST relativity between 2019-20 and 2020-21, from 4.26735 to 4.76893.

The balancing adjustment results from the way states receive GST revenue from the Commonwealth. In the latter half of 2019-20, GST payments to the states were based on the Commonwealth's Mid-Year Economic Fiscal Outlook estimate of the GST pool. As the final GST pool outcome for 2019-20 was substantially lower than this estimate, states received an overpayment in GST revenue, which will be recouped by the Commonwealth in 2020-21.

The decline does not include the GST top-up payment of $252 million in 2019-20, which will not apply for 2020-21. Including this payment, untied general revenue is estimated to decline by $395 million or 13.6 per cent between 2019-20 and 2020-21. The GST top-up payment ensures the Territory receives revenues equivalent to having a GST relativity of 4.66024. As the Territory's latest GST relativity is higher than this, a top-up will not be provided in 2020-21.

The increase in the Territory's GST relativity is the result of the CGC's Report on GST Revenue Sharing Relativities 2020 Review, which sets out changes to the methodology used to distribute GST revenue among the states for the next five years, and the recommended state and territory GST relativities for distributing GST in 2020-21. Changes in methodology and the costs of providing justice, health and welfare services to Aboriginal people, and rural roads were the main contributors to the Territory's higher relativity in 2020-21.

Tied Commonwealth revenue is estimated to contribute $1.61 billion or 25 per cent of the Territory's total revenue in 2020-21, compared to $1.38 billion in 2019-20. The higher tied revenue estimate for 2020-21 is primarily attributable to an increase of about $246 million in national partnership (NP) payments for infrastructure and COVID-19 quarantine arrangements.

Federal financial relations

Australia's federal system is characterised by a high level of vertical fiscal imbalance, whereby the expenditure requirements of states and territories (states) under the Australian Constitution far outweigh their capacities to raise revenue, while the opposite applies for the Commonwealth, requiring significant revenue transfers from the Commonwealth to the states.

Commonwealth funding to the Territory includes both untied general revenue assistance, comprising GST revenue, GST top-up payments and grants in lieu of uranium royalties arising from the Commonwealth's ownership of uranium (likely to cease in 2020-21 with the closure of the Ranger uranium mine), and tied funding to be used for specific purposes. General revenue is discretionary, allowing states to determine how to spend this funding according to their specific priorities, as sovereign governments. Tied funding includes specific purpose payments (SPPs), NP payments, National Health Reform (NHR) funding, National Housing and Homelessness Agreement (NHHA) funding and Quality Schools funding, and is to be spent in the relevant sector or on specific programs.

Table 5.1 shows total Commonwealth payments to the Territory are estimated at $4.13 million in 2020-21, of which 61 per cent is general revenue assistance funding and the remaining 39 per cent is tied funding.

Compared with 2019-20, total revenue from the Commonwealth is expected to decrease by $169 million, or about 3.9 per cent, in 2020-21.

Table 5.1: Components of Territory revenue, 2019-20 to 2020-21[1]

	2019-20 Outcome	2020-21 Budget
	$M	$M
General revenue assistance	2 914	2 518
GST revenue[2]	2 659	2 517
GST top-up payment[3]	252	
Grants in lieu of uranium royalties	3	2
Tied revenue	1 380	1 607
Specific purpose payments[4]	15	15
Major funding arrangements[5]	748	723
National partnership payments[6]	432	678
Other Commonwealth payments[7]	185	191
Total Commonwealth revenue	4 294	4 125
Territory own-source revenue	2 218	2 255
Total revenue	6 512	6 380

1 Includes non financial public sector.
2 Includes balancing adjustments for over or under payment of GST in the previous financial year.
3 GST top-up payments reflect the Commonwealth's guarantee that the Territory will have a minimum GST relativity from 2019-20 to 2021-22.
4 SPP on National Skills and Workforce Development.
5 Includes NHR, Quality Schools (including payments 'through' the Territory for non-government schools) and NHHA funding.
6 Includes NP on COVID-19 response.
7 Includes funding under the Disaster Recovery Funding Arrangements and COPE.
Note: Numbers may not add due to rounding.

GST revenue

GST revenue is the largest revenue transfer from the Commonwealth, representing an estimated 48 per cent of total Commonwealth payments to the states. For the Territory, GST revenue is estimated to account for about 61 per cent of total Commonwealth payments in 2020-21.

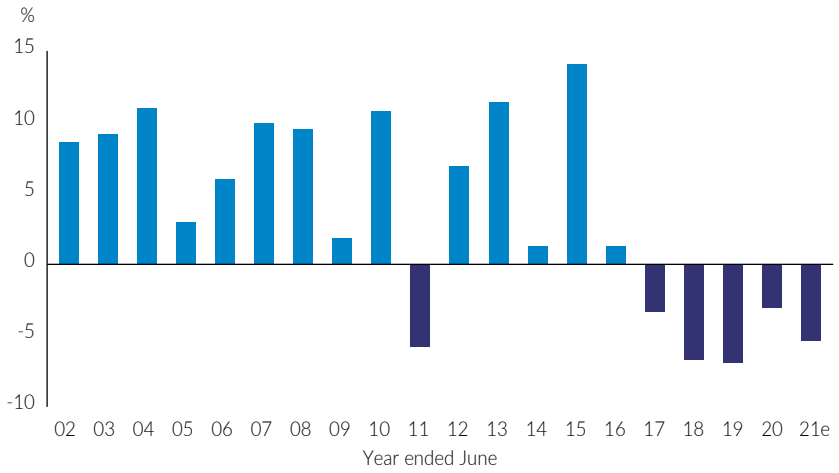
A state's GST revenue entitlement is dependent on three parameters: its GST relativity as determined by the Commonwealth Treasurer, the total amount of GST revenue available for distribution to the states, referred to as the GST pool, and the state's share of the national population.

Since 2000, the Territory's GST revenue has averaged annual growth of about 3.9 per cent. However, as Chart 5.1 shows, the amount of GST revenue the Territory receives can be highly volatile year on year, with annual growth rates ranging between -6.9 and 14 per cent across the period 2001-02 to 2019-20.

This volatility is due to the combined changes in GST relativities, the size of the GST pool and shares of the national population between financial years. This illustrates the challenging nature of attempting to forecast GST revenues.

Since 2015-16, the Territory has experienced negative year-on-year growth in GST revenue. This has been primarily driven by decreases to the Territory's GST relativity in each financial year until 2018-19, lower rates of growth in the GST pool, and to a lesser extent a decreasing share of the national population. In 2019-20, the Territory's GST relativity increased for the first time since 2014-15, however this was more than offset by a decrease in the GST pool. The estimated decrease in GST revenue in 2020-21 is discussed below and presented in Table 5.2.

Chart 5.1: Territory GST revenue, annual growth, 2001-02 to 2020-21[1]



e: estimate
1 GST revenue amounts include balancing adjustments for the over or under payment of GST revenue to the Territory in the preceding financial year.
Source: Commonwealth Final Budget Outcome publications and Department of Treasury and Finance estimate for 2020-21.

The Territory's GST revenue for 2019-20 of $2.66 billion was $83 million or 3 per cent less than 2018-19. This was driven by a decline in the Territory's share of the national population from 0.9766 to 0.9592 per cent and a reduction in the growth of the GST pool from 3.2 per cent in 2018-19 to -7.6 per cent in 2019-20. The 2019-20 outcome incorporates a balancing adjustment of $26.4 million, recognising an equivalent overpayment of GST to the Territory in 2018-19, and includes the overpayment of $216 million in 2019-20 that will be recouped by the Commonwealth in 2020-21.

In 2020-21, the Territory's GST revenue is expected to decrease by $142 million, or 5.4 per cent, to $2.52 billion. The estimated decrease is driven by the balancing adjustment for the 2019-20 overpayment, a further 0.5 per cent decrease in the GST pool and a decrease in the Territory's share of the national population to 0.9549 per cent, partially offset by an 11.8 per cent increase in the Territory's GST relativity.

Table 5.2 shows how each of the GST parameters have contributed to the difference in the Territory's GST revenue estimates between 2019-20 and 2020-21.

Table 5.2: Estimated drivers of change in the Territory's GST revenue from 2019-20 to 2020-21

	$M
GST revenue for 2019-20	2 659
Change caused by:	
GST relativities	290
GST pool	- 13
Population share	- 11
Interaction between GST parameters[1]	- 408
Estimated GST revenue for 2020-21	2 517

1 Primarily driven by the inclusion of the $216 million overpayment in the 2019-20 figure and the corresponding reduction of $216 million in 2020-21.
Note: Numbers may not add due to rounding.

As shown in Table 5.3, the Territory's GST revenue for 2019-20 was $104 million lower than estimated in the 2019-20 Budget, primarily due to a lower than estimated GST pool, partially offset by the overpayment of GST revenue by the Commonwealth. Similarly, reductions in the GST pool estimate for 2020-21 combined with the balancing adjustment for the overpayment in 2019-20, partially offset by an increase to the Territory's relativity, have reduced the 2020-21 GST revenue estimate between the 2019-20 and 2020-21 Budgets by $341 million.

Table 5.3: Factors contributing to revisions in the Territory's GST revenue estimates

	2019-20	2020-21
	$M	$M
GST revenue		
As at 2019-20 Budget	2 763	2 858
As at 2020-21 Budget	2 659	2 517
Difference	- 104	- 341
Change caused by:		
GST relativities	0	335
GST pool	- 286	- 412
Population share	- 8	- 1
Overpayment by the Commonwealth	216	0
Balancing adjustment[1]	- 26	- 216
Interactions between GST parameters[2]	1	- 48
Total	- 104	- 341

1 Balancing adjustments recognise the recovery of overpaid GST revenue by the Commonwealth from the preceding year.
2 Impact of the interaction between the updated parameters in the calculation of states' GST shares.
Note: Numbers may not add due to rounding.

A detailed discussion on each of the GST parameters, outcomes of the CGC's 2020 review of GST revenue-sharing relativities and current Territory-specific issues with GST follows.

GST relativities

The GST relativity is one of the three parameters used to determine a state's GST revenue. This, combined with a state's population, determines whether a state will receive more or less than its population share of the GST pool.

Relativities are calculated by the CGC, the independent body responsible for recommending to the Commonwealth Treasurer how GST revenue should be distributed between the states each year, in accordance with horizontal fiscal equalisation (HFE). The principle of HFE is designed to provide each state with the fiscal capacity to deliver the same standard of services and associated infrastructure, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

In the 2020 Review, the CGC recommended the Territory has a relativity of 4.76893 in 2020-21. This recognises that the Territory is assessed as having the lowest fiscal capacity in Australia, reflecting its:

- above average expenditure needs due to relatively high shares of disadvantaged population groups, including people living in remote areas, diseconomies of scale in administration and above average infrastructure requirements, primarily for roads
- below average capacity to raise revenue, partly offset by its above average capacity to raise mining revenue and payroll tax
- above average share of Commonwealth payments.

There is uncertainty around how changes in larger states' revenue and expenditure patterns, particularly given the disruptions in normal activities resulting from COVID-19-related border and industry closures and stimulus measures, will impact the Territory's GST relativity in the short to medium term. Therefore, it is difficult to reliably forecast the Territory's GST relativities over the forward estimates.

The Territory's budget adopts the 2020 Review GST relativity for 2020-21. The GST relativity estimate for 2021-22 updates the financial year data used to determine the 2020-21 GST relativity and holds this relativity constant over the forward estimates period.

GST pool

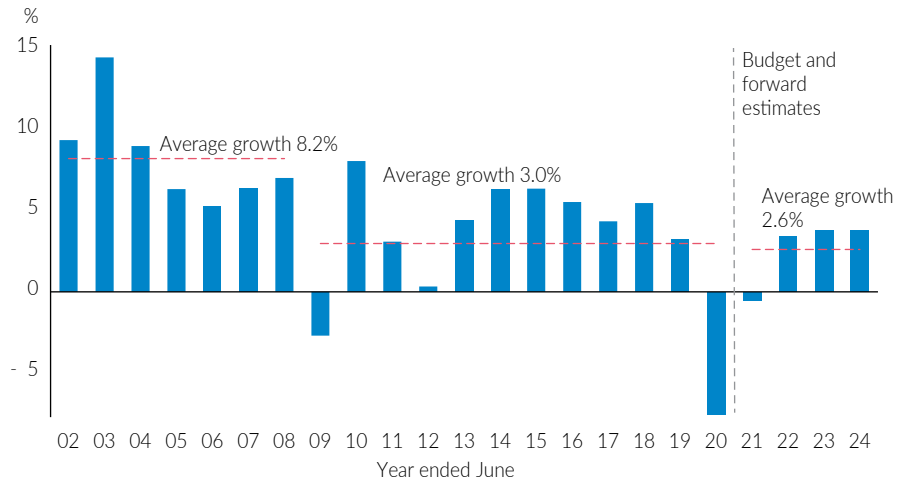
Consumers' discretionary spending on goods and services that attract GST drives the size of the GST pool. Forecasts of the GST pool and its growth rates are also affected by changes in GST policy, which may include the broadening of the scope of GST exemptions.

The 2019-20 GST pool aligns with the Commonwealth's 2019-20 Final Budget Outcome and the estimate for 2020-21 aligns with the Commonwealth's 2020-21 Budget estimate. The Territory has not adopted the Commonwealth's budget estimates of GST pool growth over the forward estimate years, given the significant level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative growth rates over this period.

The GST pool experienced negative growth of 7.6 per cent in 2019-20 and is estimated to decline by 0.5 per cent in 2020-21 before growing by 3.4 per cent in 2021-22, increasing to 3.8 per cent growth by 2023-24. The 2019-20 growth rate is the lowest since the introduction of GST in 2000 and significantly below the average annual actual growth rate of 4.9 per cent. The negative growth in 2019-20 resulted from the significant disruptions to consumer spending arising from the summer bushfires and closure of many industries and businesses during COVID-19. The impact of COVID-19 on consumer spending is anticipated to continue in 2020-21, although not to the same extent, as border closures and some state restrictions remain in place.

Since the global financial crisis in 2008-09, GST pool growth has been subdued, averaging about 3 per cent per annum, compared to an average annual growth of 8.2 per cent in the first seven years of the GST. As Chart 5.2 shows, the GST pool is not expected to return to pre-global financial crisis growth over the forward estimates. The low GST pool growth in recent years reflects an increase in the share of household consumption spent on items that are GST-free, primarily dwelling rent, education and health. Further, consumer expenditure has been restrained due to recent economic conditions including rising unemployment and subdued wages growth and the continuing effects of COVID-19 impacting consumer confidence, with the above trend in household consumption likely to continue.

Chart 5.2: Growth in the GST pool, 2001-02 to 2023-24



Source: Commonwealth Final Budget Outcome, 2001-02 to 2019-20, Department of Treasury and Finance estimates for 2020-21 to 2023-24

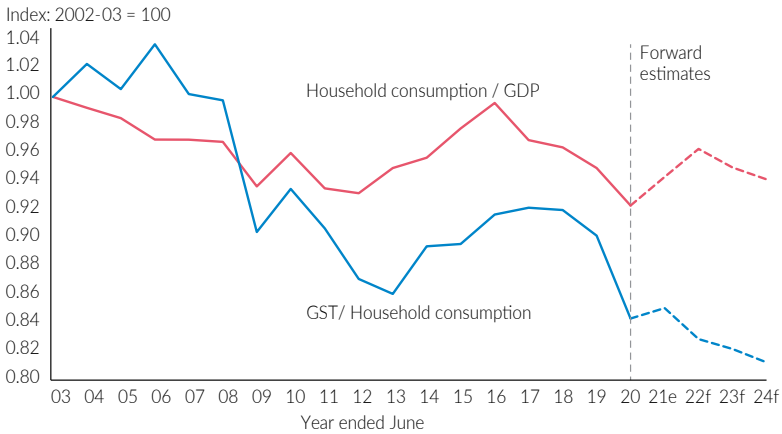
Chart 5.3 demonstrates consumption of items attracting GST as a proportion of total household consumption has tracked downwards since the introduction of the GST, indicating a decline in consumer spending on discretionary items that attract GST, an increase in consumption of non-discretionary items, or both.

One of the largest components of household consumption is rent, accounting for an average of around 20 per cent of consumption over the past three years. Since the introduction of GST, the proportion of consumption attributed to rent has increased by 3.4 percentage points and, as rent does not attract GST, this increase is one of the key drivers in the reduction of the proportion of spending attracting GST. If expenditure on rent continues to grow at a faster rate than other household expenditure, then GST as a proportion of household consumption will continue to decrease. In addition, consumption itself experienced negative growth in 2019-20, and a number of independent forecasters including the Commonwealth Government[1], Deloitte Access Economics[2] and the RBA[3] are estimating negative growth in 2020-21 before recovering over the forward estimates as consumer confidence grows with the recovery of the economy from COVID-19.

The RBA has indicated that economic recovery is likely to be volatile and it will be some time before gross domestic product (GDP) returns to its pre-COVID-19 level. Household consumption as a proportion of GDP over the short term will continue to fluctuate with changes in mining exports, exchange rates and household savings.

1 Commonwealth Budget 2020-21, BP1, Table 1: Domestic economy – detailed forecasts, pg 7.
2 Deloitte Access Economics – Business Outlook: Down, but not out, September 2020.
3 RBA Statement on Monetary Policy, August 2020.

Chart 5.3: Index of GST and household consumption



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat No. 5206.0, *Taxation Revenue, Australia*, Cat. No. 5506.0; Deloitte Access Economics, Business Outlook: Down, but not out, September 2020

Population

A state's share of the national population affects the share of GST revenue it receives. That is, the distribution of GST revenue is influenced by the population growth rate in all states, not just the individual state's actual population growth.

The Territory's share of the national population is estimated to decline over the budget and forward estimates period from 0.9592 per cent in 2019-20 to 0.9510 per cent in 2023-24. This recognises that the Territory's population growth forecasts are substantially below long-term trends and forecast national population growth rates.

After experiencing negative population growth in 2019-20, the Territory's population is expected to gradually increase over the forward estimates period, influenced by improving economic and labour market conditions. In the short term, COVID-19 border restrictions imposed by the Commonwealth and state governments have caused significant disruption to usual interstate and overseas migration flows.

Chapter 4 of the Northern Territory Economy book provides more detail on the Territory's population characteristics and forecast growth patterns.

Estimates of other states' populations are based on the Commonwealth's 2020-21 Budget.

Commonwealth Grants Commission's report on GST revenue-sharing relativities

Every five years the CGC, in collaboration with states, undertakes a review of the methodology and data used to calculate GST relativities recommended to the Commonwealth Treasurer, for distributing the GST pool among the states.

Since 2017, the Territory has engaged extensively with the CGC across all aspects of the 2020 review work program, which resulted in the release of the Report on GST Revenue Sharing Relativities 2020 Review (report) in March 2020. The report contains the new GST distribution methodology for the next five years, applying from 2020-21, and the CGC's recommended relativities for the distribution of GST among states and territories in 2020-21, using the new methodology. The report recommended a relativity of 4.76893 for the Territory in 2020-21.

The 2020-21 relativity is an increase from the 2019 GST relativity of 4.26735, although still below the Territory's annual average relativity of 5.

The increase in the relativity is driven by the application of the new methodology changes and changes in state circumstances between 2015-16 and 2018-19, as data for the 2015-16 financial year rolled out of the CGC's assessment and data for the 2018-19 financial year rolled in. Specific contributors include:

- an increase to the Territory's assessed investment need for health and rural roads
- an increase to the Territory's assessed health costs through changes to the measurement of the effects of remoteness on hospital and community health services
- discontinuing the assessment of interstate non-wage costs
- an increase to the minimum costs faced by states in preparing to deliver services
- an increase in the costs of providing justice, health and welfare services to Aboriginal people
- an increase in the level of investment in rural roads.

Given the zero-sum nature of GST distribution, changes in the circumstances of other states can have an impact on the Territory's GST share.

Current Territory issues with GST

GST relativities

The 2021-22 GST relativities for the states, anticipated to be released by the CGC in February 2021, will be calculated based on updated data likely to show some changes in states' expenditure and revenue patterns in response to COVID-19. States introduced multiple measures targeted at supporting economic recovery including stimulus expenditure as well as tax waivers and deferrals. These changes are anticipated to impact the assessed average expenditure needs and revenue capacities that drive the GST relativities of the states.

GST top-up payment

The Territory received a guarantee of GST top-up payments from 2019-20 to 2021-22 to effectively ensure it receives, at a minimum, untied funding equivalent to having a GST revenue-sharing relativity of 4.66024, the same GST relativity it had in 2017-18. This guarantee provides a level of financial certainty to the Territory in the short term. While the Territory received a GST top-up in 2019-20 of $252 million, given the Territory's current relativity is above this guarantee it will not receive a GST top-up in 2020-21. This guarantee expires after 2021-22.

New GST distribution system

Following the Productivity Commission's Inquiry into HFE, the Commonwealth legislated changes to the GST distribution system through the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

These changes represent a move away from full equalisation of states' GST requirements towards equalising states to the fiscal capacity of either New South Wales or Victoria, whichever is highest, over a six year transition period from 2021-22. Given Western Australia currently has a greater fiscal capacity than both New South Wales and Victoria, the new system will effectively set a lower equalisation benchmark compared to the current system, which ensures all states, including the fiscally strongest state, Western Australia, have the same capacity to provide the average standard of services.

The Commonwealth has guaranteed that states will receive the greater of the current distribution system and the new legislated GST distribution system over the transition period, 2021-22 to 2026-27, and is currently estimating this will require no-worse-off transition payments totalling around $25.2 million in 2021-22, increasing to $1.92 billion in 2023-24.

Discussion on GST revenue risks is found in Chapter 7 *Risks and contingent liabilities*.

Tied Commonwealth revenue

The majority of tied Commonwealth funding is provided under the Intergovernmental Agreement on Federal Financial Relations (IGA) through SPPs, major funding arrangements and NP payments. Tied funding is also provided outside the IGA payment arrangements through Commonwealth own-purpose expenses (COPE).

SPPs are provided by the Commonwealth to the states to support the achievement of outputs and outcomes agreed under the relevant sector's national agreement. Under the IGA, SPP funding is ongoing, indexed annually, untied within the relevant sector and distributed among the states on a population-share basis. The National Skills and Workforce Development SPP is the last remaining SPP, with SPPs in other key service delivery areas having been phased out in recent years and replaced with alternative funding arrangements.

Major funding arrangements between the Commonwealth and states have been negotiated in relation to the NHR Agreement, Quality Schools and the NHHA. These arrangements are ongoing and indexed annually on a sector-specific basis, providing a degree of certainty for states' budgeting, similar to SPPs.

The IGA established NP agreements to implement projects of national importance, involving significant reform or service delivery initiatives. NP agreements have been developed for initiatives across a broad range of state services, including where the initiatives relate to reform directions outlined in national agreements. Project agreements, simpler forms of NP agreements, are for initiatives that require relatively less funding than NP agreements and are considered low risk.

In May 2020, National Cabinet tasked the Council on Federal Financial Relations (CFFR) with responsibility for coordinating all Commonwealth-state funding agreements, including conducting a review of existing agreements with a view to potential consolidation and rationalisation. Following this directive, CFFR developed the new Federation Funding Agreement framework, establishing CFFR as the gatekeeper of all Commonwealth funding agreements and supporting the consolidation of a majority of existing NP and project agreements under several new overarching head agreements covering key service delivery sectors.

Table 5.5 sets out tied Commonwealth revenue recognised by the Territory in 2019-20 and 2020-21, for key agreements.

Table 5.5: Tied Commonwealth revenue 2019-20 and 2020-21

	2019-20 Outcome	2020-21 Budget
	$M	$M
Specific purpose payments	14.7	14.8
National Skills and Workforce Development	14.7	14.8
Major funding arrangements	747.6	722.5
National Health Reform	299.5	318.5
Quality Schools	428.2	384.6
National Housing and Homelessness Agreement	19.9	19.5
National partnership payments	432.4	678.3
Northern Territory Remote Aboriginal Investment	107.8	133.2
Rum Jungle mine site	5.3	1.3
Remote housing	62.5	106.6
Land transport infrastructure projects	139.8	207.6
Barkly Regional Deal		8.4
Darwin City Deal	25.0	45.0
COVID-19 Response (health)	17.5	21.3
COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians		54.7
COVID-19 Domestic and Family Violence Responses	1.3	0.5
COVID-19 Legal Assistance Funding	1.7	2.0
Other national partnership payments[1]	71.5	97.7
Other Commonwealth revenue[2]	185.4	191.0
Total tied Commonwealth revenue	**1 380.1**	**1 606.6**

1 Includes all other NP payments.
2 Includes funding under the Disaster Recovery Funding Arrangements and COPE.
Note: Numbers may not add due to rounding.

NP payments included in the Territory's budget represents funding agreed by the Territory and Commonwealth governments. As additional agreements are finalised throughout the year, the Territory's NP payments for 2020-21 and forward estimates will be adjusted accordingly. The timing and quantum of funding over the life of an agreement may vary subject to the achievement of agreed milestones or performance benchmarks, and the nature of the initiative.

Details on tied revenue expected to be recognised by the Territory in 2020-21 are provided in the following sections.

Specific purpose payments

In 2020-21, the Territory expects to receive a total of $14.8 million in SPPs, solely through the National Skills and Workforce Development SPP. The existing National Agreement on Skills and Workforce Development, which supports the SPP, is currently under review by the Productivity Commission with the final report due to the Commonwealth in late 2020.

In July 2020, the Territory signed the Heads of Agreement on Skills Reform, which requires jurisdictions to develop a new national skills agreement by August 2021. The agreement will include a new funding model that is linked to efficient pricing and will replace the existing SPP.

National Health Reform Agreement

In May 2020, the Territory signed the 2020-25 Addendum to the NHR Agreement, which continues the Commonwealth NHR funding arrangements for public hospitals over five years from 2020-21. The addendum provides an activity-based funding framework and arrangements aimed at delivering safe, high quality care, a focus on prevention, driving best practice and increasing public hospital efficiencies by funding agreed services based on a national efficient price.

Between 2020-21 and 2024-25, the Commonwealth will continue to cap its total funding contribution growth for NHR payments at 6.5 per cent nationally per annum. Further, in recognition of the Territory's higher annual health costs the Commonwealth has also extended its commitment of up to an additional $15 million per annum, should there be a gap between the Territory's hospital activity and the Commonwealth's cap over the same period.

In 2019-20, the Territory received $299.5 million under the NHR Agreement and expects to receive $318.5 million in 2020-21.

Quality Schools

In December 2018, the Territory signed the National School Reform Agreement 2019-23 and corresponding bilateral agreement. The agreement sets out national education reforms aimed at driving improved student outcomes and requirements for school funding contributions consistent with the Commonwealth's Quality Schools package. Under the Quality Schools package, the Commonwealth will transition funding for schools to a consistent rate across jurisdictions and introduce funding targets for states in relation to a set percentage of the Schooling Resource Standard by 2023.

The Territory's bilateral agreement sets out the Territory's agreed transitional funding path from 2019 to 2023, including an increase in the Territory's share of the Schooling Resource Standard for government schools from 54.4 per cent to 59 per cent, and maintaining the share for non-government schools at a consistent 15.1 per cent over this period.

Under the Quality Schools package, the Territory estimates to receive $384.6 million in 2020-21, a decrease of $43.7 million from 2019-20. This is due to the Commonwealth bringing forward a portion of the Territory's 2020-21 estimated Quality Schools funding allocation into the 2019-20 year to assist with the impacts of COVID-19.

National Housing and Homelessness Agreement

The NHHA seeks to improve outcomes across the housing spectrum, including outcomes for Australians who are homeless or at risk of homelessness, while maintaining funding levels provided under the previous National Affordable Housing SPP and NP agreement on homelessness.

Under the NHHA, the Territory estimates receiving $19.5 million in 2020-21 compared to $19.9 million in 2019-20.

National partnership payments

The Territory currently has around 40 NP and project agreements with the Commonwealth, and recognised associated revenue of $432.4 million in 2019-20, and anticipates $678.3 million in revenue in 2020-21, an increase of $246 million. This variance is largely driven by increased infrastructure investment under the NP Agreement on Land Transport Infrastructure Projects and funding under the recently signed agreement on COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians.

The following provides commentary on significant NPs to the Territory.

National Partnership on Northern Territory Remote Aboriginal Investment

The NP on Northern Territory Remote Aboriginal Investment (NTRAI) aims to improve Aboriginal outcomes through funding programs in the areas of health; schooling; community safety and justice; tackling alcohol abuse; child, youth, family and community wellbeing; housing; municipal and essential services; and remote engagement and coordination. Under the NTRAI, the Territory will be eligible to receive up to $1.03 billion between 2015-16 and 2021-22, including funding for non-government schools of around $42.6 million. Commonwealth and Territory own-purpose funding also contributes to achieving the intended outcomes of this NP.

In 2020-21, the Territory expects Commonwealth NP payments of $133.2 million, an increase of $25 million in comparison to actual 2019-20 revenue of $107.8 million.

The Child and Family Schedule under the NTRAI Community Safety Implementation Plan expired in 2019-20. Funding for initiatives under the schedule has been replaced by Commonwealth funding under the Indigenous Advancement Strategy until 2021-22, to align with the expiry of the NP on NTRAI. The Territory expects $9.5 million in Indigenous Advancement Strategy funding for the continuation of the Remote Family Support Service and Remote Women's Safe House Service in 2020-21.

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

The Territory recognised $5.3 million in 2019-20 to support the delivery of the Rum Jungle mine site rehabilitation project under the stage 2a agreement, which has since expired.

The Territory expects $1.3 million in 2020-21 for land management, hazard reduction works and engagement activities under a new agreement, in accordance with measures in the Commonwealth's 2020-21 Budget.

National Partnership for Remote Housing Northern Territory

In March 2019, the Territory and Commonwealth signed the NP Agreement for Remote Housing in the Northern Territory, aimed at improving remote housing by addressing overcrowding, homelessness, poor housing conditions and severe housing shortages. The agreement will deliver up to $550 million in Commonwealth funding over five years from 2018-19, with $110 million available per year. This effectively matches the Territory's Remote Housing Investment Package, which provides $1.1 billion over 10 years to improve the housing standards of Aboriginal people in remote communities.

The Territory recognised $62.5 million in 2019-20 and anticipates $106.6 million in 2020-21, an increase of $44.1 million, in line with the Territory's expectations around meeting the performance obligations under the NP.

National Partnership Agreement on Land Transport Infrastructure Projects

In October 2019, the Territory signed a new five-year NP Agreement on Land Transport Infrastructure Projects, which contributes to a national transport system that is safe, sustainable, drives economic growth and supports a competitive infrastructure market. The agreement encompasses a number of components, including Roads Investment, Roads of Strategic Importance (ROSI), black spot projects, heavy vehicle safety, bridges renewal and the Developing Northern Australia roads programs.

In 2020-21, the Territory anticipates $207.6 million under the agreement, $67.7 million more than in 2019-20.

In November 2019, the Commonwealth announced funding for critical infrastructure upgrades for all states would be brought forward under the NP. For the Territory, this includes around $147 million for upgrades to the Alice Springs to Darwin and Adelaide River to Wadeye road corridors, and the Outback Way. A large portion of the Commonwealth funding brought forward under the agreement in 2020-21 is for works under the ROSI component. Under ROSI, the Territory expects $72.2 million in 2020-21, an increase of $70.9 million from 2019-20.

The Developing Northern Australia programs remain a significant component of the agreement. Territory-specific projects include works for the Adelaide River floodplain upgrade to the Arnhem Highway and Keep River Plains Road upgrades. In 2020-21, the Territory anticipates $39.3 million in revenue, a decrease of $60.2 million from 2019-20, mainly due to projects being completed under the program.

Funding under the Road Investment component of the NP agreement includes a number of large-scale projects, including COVID-19 stimulus works. Key projects under this component include upgrades to the Territory's national network highways, Carpentaria and Buntine highways, Tanami and Central Arnhem roads, the Stuart Highway intersection at Coolalinga, and the Tiwi and Jabiru road projects. In 2020-21, the Territory expects $81.2 million in road investment component funding, an increase of $64.4 million compared with 2019-20 revenue of $16.7 million.

Barkly Regional Deal

The Barkly Regional Deal came into effect in April 2019 and aims to improve the productivity and liveability of the Barkly region by stimulating economic growth and improving social outcomes, including reducing overcrowding and improving child safety.

In December 2019, the Territory signed the project agreement for the Barkly Regional Deal, which supports the delivery of seven initiatives under the deal, including the construction of a visitor park and commencement of work to inform a new student accommodation facility in Tennant Creek. The agreement will provide an estimated Commonwealth contribution of $10.7 million from 2019-20 to 2021-22, with the Territory Government and Barkly Regional Council also required to contribute $5 million and $3 million, respectively, under the deal.

The Territory expects $8.4 million in 2020-21 under the deal.

Darwin City Deal: Education and Community Precinct

In November 2018, the Darwin City Deal was signed by the Commonwealth, Territory and Darwin City Council to help revitalise the city centre. The deal contains a number of initiatives, including the development of an iconic new education and community precinct on Cavenagh Street that will house a new city campus for Charles Darwin University, as well as other commercial and retail spaces.

In June 2020, the Territory signed the project agreement for the Darwin City Deal: Education and Community Precinct, which supports the construction of the new education and community precinct under the deal and commits up to $97.3 million in Commonwealth funding from 2019-20 to 2023-24, with funding to be provided through the Territory Government to Charles Darwin University. The Territory recognised $25 million towards the deal in 2019-20 and expects $45 million in 2020-21, consistent with the deal performance milestones.

Funding agreements in response to COVID-19

During COVID-19, a number of targeted funding agreements have been developed aimed at supporting Australia's economic recovery, assisting states to meet anticipated increased demand in key service delivery areas, and providing quarantine facilities for repatriated Australian citizens and permanent residents.

The following provides commentary on key funding agreements developed in response to COVID-19.

National Partnership on COVID-19 Response

The Territory signed the NP on COVID-19 Response in April 2020, which is separate from but complements the NHR Agreement. The NP was established with the aim of providing additional funding to assist the states in managing their public health responses to the COVID-19 outbreak, including in the diagnosis or treatment of patients with, or suspected of having COVID-19, and efforts to minimise the spread of COVID-19 in the community. The NP will remain in place for the period of the activation of the Australian Health Sector Emergency Response Plan for Novel Coronavirus 2019.

The Territory recognised $17.5 million in revenue under the NP in 2019-20 and expects $21.3 million in 2020-21, contingent on demand for in-scope services.

COVID-19 Quarantine Arrangements at the Northern Territory National Centre for National Resilience for Organised National Repatriation of Australians

The agreement puts in place a short-term governance and funding framework for the delivery of increased quarantine capacity at the Howard Springs quarantine facility to enable the repatriation of Australian citizens and permanent residents back to Australia. Under the agreement, the capacity at the Howard Springs quarantine facility will be increased to 500 individuals per fortnight until the agreement's expiry in March 2021, with all funding to be provided in 2020-21.

The Territory expects to receive $54.7 million under the agreement in 2020-21 for capital expenditure, in-scope health services and facility operating costs.

JobTrainer fund schedule to the National Partnership for Streamlined Agreements

The JobTrainer schedule establishes the shared funding arrangements between the Commonwealth and states for the $1 billion JobTrainer Fund. JobTrainer is a short-term, targeted initiative that will provide funding for the 2020-21 year to support the national delivery of up to 340 000 low or no-fee training places for job seekers and young people, as part of Australia's COVID-19 response.

The Territory is eligible to receive up to $4.8 million in Commonwealth funding under JobTrainer in 2020-21, with the Territory to match the Commonwealth's investment.

National Partnership on COVID-19 Domestic and Family Violence Responses

The NP on COVID-19 Domestic and Family Violence Responses is a short-term funding agreement with the aim of enabling states to provide an immediate response to increases in domestic, family and sexual violence as a result of COVID-19, and to ensure a continuation of services for vulnerable population groups. Funding under the agreement is available between 2019-20 and 2020-21, and will be distributed subject to demand for services and emerging priorities and need.

The Territory received $1.3 million in funding under the NP in 2019-20 for the delivery of various projects, including providing emergency accommodation, counselling and outreach services, a men's behaviour change program and support for evacuation of victims from select communities. In 2020-21 the Territory expects to receive $0.5 million, with any remaining funding allocation to be driven by demand for services.

Project Agreement for COVID-19 Legal Assistance Funding

This agreement supports the delivery of efficient and effective legal assistance services and family violence prevention legal services to respond to increased demand as a result of COVID-19, and the transition to virtual service delivery by frontline legal assistance providers. Funding under the agreement is provided over 2019-20 and 2020-21, with the agreement scheduled to expire on 30 September 2021.

Under the agreement, the Territory received $1.7 million in 2019-20 and expects to receive $2 million in 2020-21.

Other tied Commonwealth revenue

The Territory also receives other tied revenue from the Commonwealth, including COPE, primarily fee-for-service arrangements payable to either government or non-government entities, financial assistance to local governments through the financial assistance grant program, and funding under the Disaster Recovery Funding Arrangements. It is estimated revenue for these agreements will total $191 million in 2020-21, $5.6 million more than in 2019-20.

Chapter 6

Territory taxes and royalties

Overview

The Territory raises its own-source revenue from a range of activities and transactions. Predominantly, this comprises mining royalties and taxes, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

The Territory's sources of revenue are comparable to the other Australian jurisdictions. However, the Territory is more reliant on Commonwealth grants, with own-source revenue at the non financial public sector contributing 34 per cent of total revenue in 2020-21 compared to an average of 50 per cent in other jurisdictions. This is due to a relatively lower own-source revenue capacity and a proportionately higher cost of service delivery when compared to other states. Nonetheless, own-source revenue provides the Territory with a degree of fiscal autonomy to support the delivery of infrastructure and services.

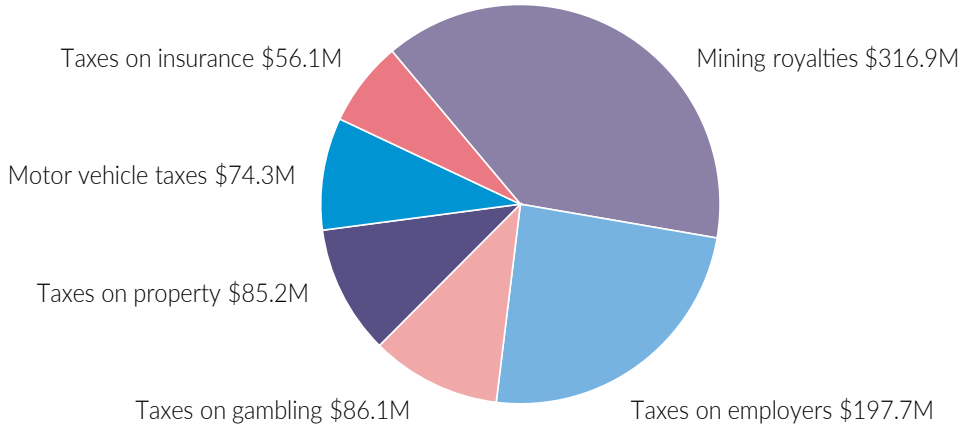
This chapter sets out the details of the Territory's own-source revenues from taxes and royalties, representing around 14 per cent of total revenue, and includes forecasts and a comparison with other jurisdictions. It also includes a statement of the Territory's tax expenditure arising from concessions and exemptions for 2019-20 through to 2023-24, as required by section 10(1)(d) of FITA.

Analysis of Territory taxes and royalties

The own-source revenue from taxes and royalties for 2020-21 is expected to total $816.3 million, with the single largest contributor being mining royalties at $316.9 million (or 39 per cent of total taxes and royalties), followed by taxes on employers (payroll tax) at $197.7 million (or 24 per cent), and taxes on gambling at $86.1 million or 11 per cent. The remaining share of own-source revenue is raised from taxes on property (stamp duty), motor vehicles and insurance.

Chart 6.1 shows the Territory's main own-source revenues for 2020-21 according to the classification used in the UPF adopted for the Territory's reporting requirements.

Chart 6.1: Main taxes and royalties categories, 2020-21



Note: Excludes payroll tax from the non financial public sector.

As shown in Table 6.1, taxation and mining royalties totalled $880 million in 2019-20. Own-source revenue is expected to decline to $816 million in 2020-21 largely due to lower mining royalty forecasts, reflecting a more challenging global commodity market outlook. Payroll and property taxes are expected to remain subdued into 2020-21 due to the impacts of COVID-19 on wage and employment growth, and likely a smaller number of large one-off commercial property transactions.

Own-source revenues are expected to slowly recover from 2021-22 and over the forward estimates, with tax revenues gradually returning to long-term average growth. The Department of Treasury and Finance has taken a cautious outlook in relation to mining royalties, informed by estimates provided by royalty payers as well as taking into account a continuation of ongoing softness in global demand for key commodities over the forward estimate period. There are also no royalty revenue estimates from new onshore gas developments included in the forward estimates.

Table 6.1: Main taxes and royalties category estimates

	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcome	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Mining royalties	372	317	303	295	250
Taxes on employers	204	198	223	237	253
Taxes on property	100	85	100	108	116
Taxes on gambling	75	86	95	98	101
Motor vehicle taxes	74	74	76	78	81
Taxes on insurance	55	56	57	58	61
Total	880	816	853	874	862

Revenue initiatives

During 2020, a number of revenue policy initiatives were delivered to provide economic support to businesses, households and employers, following the onset of COVID-19. These measures include:

- waivers and deferrals of payroll tax in 2019-20 and 2020-21 for businesses experiencing hardship
- payroll tax waivers for Commonwealth JobKeeper payments
- a waiver of community gaming machine and casino taxes in March 2020, to provide relief following venue closures
- a reduction in community gaming machine tax rates to 2017 levels from 1 April 2020 to assist clubs and hotels in reopening following mandatory closures
- a freeze on the indexation of government fees and charges in 2020-21
- an extension of the hiring resident employees payroll tax exemption for one year, to 30 June 2021
- property activation levy waivers for lots that are vacant or unoccupied as a result of COVID-19.

The Territory's stamp duty homeowner assistance schemes have also been extended from their scheduled cessation date of 30 November 2020 to 30 June 2021 to continue providing assistance to Territorians during the recovery from COVID-19.

These schemes are the Territory home owner discount and the senior, pensioner and carer concession. Further information on these initiatives is provided later in this chapter.

Mining and petroleum revenue

The Territory levies royalties on the extraction of mineral commodities from mining activities and onshore petroleum production. Mining and petroleum royalties are a charge for resource extraction, payable to the Territory as the owner of the resources.

Mining royalties are collected in the Territory from mining gold, silver, bauxite, manganese, lead, zinc and limestone. Mining royalties have also been imposed in the past on commodities such as copper and iron, and the Territory is prospective for several other minerals, including phosphate and rare earths. The Territory imposes a royalty based on 20 per cent of the net value from mining activities after allowing deductions for the costs of mining, subject to a minimum royalty rate of 1 to 2.5 per cent of the gross value of commodities extracted.

In 2020-21, mining royalty revenues are estimated to be $310.3 million, a decline of $55.1 million from 2019-20. This reflects a continued moderation following record high royalty collections in 2018-19 and the expected negative impact of COVID-19 on global demand for key commodities. Mining royalties are expected to remain subdued across the forward estimates as a result of conservative estimates on global demand, and uncertainty in key commodity production volumes and values during the recovery from COVID-19.

A key feature of the Territory's *Mineral Royalty Act 1982* is that both prices and mining costs, including mine setup 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 volume-based royalty schemes.

In terms of petroleum royalties, the Territory's *Petroleum Act 1984* imposes an ad valorem royalty on the value of production at the wellhead, which is generally consistent with the position across Australia, except for Queensland, which moved to a volumetric royalty model from 1 October 2020.

In 2020-21, petroleum royalty revenues are estimated to be $6.6 million, a marginal increase from the 2019-20 outcome of $6.3 million. Petroleum royalties are levied at 10 per cent of the wellhead value of petroleum produced in the Territory. Petroleum royalty estimates are based on producers' expectations of the volume and value from existing onshore petroleum production fields, and are expected to remain largely stable over the forward estimates. Although the Territory has significant potential for further petroleum production, with several exploration projects currently underway, petroleum royalty forecasts do not include estimates of new onshore development fields due to uncertainty in the timing and scale of production that may eventuate from that exploration activity.

Mining and petroleum royalty forecasts utilise a range of information from mining companies and petroleum producers, including estimates of commodity price movements, production levels and the value of the Australian dollar. This is complemented and tested by Department of Treasury and Finance's own commodity price and market outlook.

Taxation revenue

The Territory's taxation revenue for 2020-21 is $499 million, a decrease of 2 per cent compared to the 2019-20 outcome of $507 million.

The components of the Territory's taxation revenue largely relate to payroll tax, stamp duty on conveyances, taxes on gambling, insurance and motor vehicles, as well as registration fees. Table 6.2 reports the 2019-20 outcome and forecast taxation revenue for 2020-21.

Table 6.2: Territory taxation revenue

	2019-20 Outcome	2020-21 Budget
	$000	$000
Taxes on employers		
Payroll tax	203 630	197 653
Taxes on property		
Conveyance and related duty	99 562	83 166
Property activation levy		2 000
Taxes on the provision of goods and services		
Taxes on gambling	75 286	86 061
Taxes on insurance	55 037	56 137
Taxes on use of goods and performance of activities		
Motor vehicle taxes	72 239	72 251
Passenger service levy	2 095	2 000
Total	507 848	499 268

Payroll tax

Payroll tax is payable in the Territory when the total annual Australian wages of an employer (or group of employers) exceeds $1.5 million. Payroll tax is calculated at the rate of 5.5 per cent based on taxable wages (minus a deduction for the tax free threshold) paid by an employer for services rendered by employees in the Territory.

The amount of the deduction is based on a sliding scale starting at $1.5 million and reducing by $1 for every $4 in wages paid by an employer over $1.5 million. This means an employer paying wages of $4.5 million receives a deduction of $0.75 million, whereas an employer paying wages of $7.5 million or more does not receive a deduction and payroll tax is calculated on the full taxable wages paid by that employer.

In 2020-21, payroll tax revenue is forecast to be $197.7 million, slightly lower than 2019-20 collections. This lower estimate reflects continued weakness in broader economic conditions and the economic impact of COVID-19.

In 2019-20, payroll tax revenue decreased from the original budget estimate as businesses and Territory borders were required to close as part of the health response to COVID-19. In addition, stimulus measures implemented in March 2020 provided payroll tax waivers or deferrals until June 2021 for eligible businesses, to assist short-term economic recovery.

COVID-19 and the resulting economic softness, and impacts on employment and wages growth, are anticipated to persist throughout 2020-21 with continued impacts on household, business and investor confidence. This subdued economic activity is expected to flow through to payroll tax revenue.

While a significant degree of uncertainty surrounds COVID-19 and its duration, the relaxation of border restrictions is likely to facilitate economic recovery in the medium term. Payroll tax revenue is expected to stabilise during the recovery phase before returning to slightly above historical average growth rates from 2021-22.

Stamp duty and other property revenue

Conveyance and related duty

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

Conveyance and related duty in the Territory is calculated using a formula that determines a rate applicable based on the value of dutiable property conveyed. This is different from 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 at Chart 6.3.

In 2019-20, the Territory recognised $99.6 million in conveyance and related duty. The 2019-20 result was supported by a small number of very large commercial transactions, but anticipates a general decline in overall stamp duty revenue in 2020-21 owing to softness in the residential and commercial real estate markets. While economic conditions in the real estate markets had softened prior to the significant economic shock from COVID-19, overall collections in 2019-20 remained largely in line with longer-term trend duty collections, due to the large commercial transactions.

In 2020-21, conveyance and related duty collections are estimated to moderate to $83.2 million. This estimate has not factored in any large one-off transactions, but anticipates some improvement in underlying residential and commercial real estate market conditions. Duty revenue is expected to recover from these subdued levels and gradually return to long-term averages over the forward estimates.

Property activation levy

The property activation levy came into effect from 1 July 2019. The levy imposes a charge on vacant land and unoccupied buildings in the Darwin central business district (CBD) at a rate of 1 per cent of unimproved capital value for vacant buildings and 2 per cent for vacant land. The levy incentivises investment in underutilised land and buildings, and aims to revitalise the Darwin CBD.

The property activation levy will first be payable in 2020-21. The levy is estimated to raise up to $2 million per annum from 2020-21, but this is expected to reduce over time as property owners 'activate' their properties.

Stamp duty on insurance

Insurance duty is imposed on general insurance policies. Stamp duty on general insurance is calculated at a rate of 10 per cent of the premium paid on all general insurance products relating to property or risk in the Territory. Where the policy also relates to a risk or property outside the Territory, the premium is apportioned.

Revenue from insurance duty is expected to increase from $55 million in 2019-20, to grow to $56.1 million in 2020-21, and by 2 per cent per annum over the forward estimates.

Motor vehicle taxes

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

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 is expected to remain constant at $19.6 million in 2020-21. The subsequent forward estimates are based on a moderate growth rate of up to 2 per cent per annum in this revenue source.

Motor vehicle registrations comprise heavy vehicle and light vehicle registrations. Heavy vehicle registration fees are determined by the National Transport and Infrastructure Council. Light vehicle registration fees are determined by each state. In the Territory, the light vehicle registration fee is calculated by a differential rate scale based on the engine capacity of the vehicle. Fees are expressed in revenue units and therefore are adjusted each year in line with movements in CPI or by a minimum of 3 per cent. However, the indexation of revenue units was frozen in 2019-20 as a COVID-19 stimulus measure. As a result, registration fees will not increase until at least 1 July 2021.

In 2019-20, the Territory received $52.8 million in motor vehicle fees. Receipts in 2020-21 are not expected to change materially and are estimated at $52.7 million as a consequence of the revenue unit indexation freeze. Over the forward estimates, revenue from motor vehicle fees is anticipated to revert to long-term growth rates of 3 per cent, consistent with the indexation of government fees and charges.

Revenue from the passenger service levy was $2.1 million in 2019-20 and is expected to remain constant at $2 million in 2020-21.

Gambling taxes

Gambling tax revenue is a significant contributor to Territory own-source revenue. Gambling taxes in the Territory comprise community gaming machine tax, lotteries tax, the community benefit levy, bookmaker tax, casino/internet tax, wagering tax and betting exchange tax.

In 2020-21, the Territory expects to collect $86.1 million in gambling taxes reflecting a return to normal activity levels following reduced activity in 2019-20 as a result of venue closures due to COVID-19.

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

Table 6.3: Revenue from gambling taxes

	2019-20 Outcome	2020-21 Budget
	$000	$000
Community gaming machine tax	28 087	34 789
Lotteries tax	27 495	28 840
Community benefit levy	9 684	11 635
Bookmaker tax – racing and sports betting tax	5 988	5 988
Casino/internet tax	3 257	4 034
Betting exchange tax	605	605
Wagering tax	170	170
Total	75 286	86 061

Community gaming machine tax is based on gross profits (that is, net player losses) from gaming machines, and is expected to increase materially from $28.1 million to $34.8 million between 2019-20 and 2020-21. Receipts from casinos and community venues in 2019-20 were reduced due to the forced closure of venues between March and June 2020 as part of the COVID-19 public health response. In addition, a waiver of community gaming machine and casino taxes in March 2020, and the reduction of community gaming machine tax rates to lower pre-1 July 2017 levels as a result of COVID-19 stimulus measures, contributed to a reduction in receipts.

The community benefit levy, which is contingent upon the imposition of community gaming machine tax, reduced to $9.7 million in 2019-20. This levy is directed to the Community Benefit Fund, and is expected to recover in 2020-21 and over the forward estimates in line with community gaming machine tax revenues.

In 2019-20, bookmaker and betting exchange tax revenue was not adversely impacted by COVID-19 and $6.6 million in taxes were collected. Bookmaker and betting exchange taxes are subject to an annual maximum cap that is indexed annually. Consequently, tax revenue from these sources is not expected to change in 2020-21 due to the indexation freeze in place during that year.

Lotteries tax revenue increased in 2019-20 following increased purchases linked to several large jackpots. Lottery taxes were not as adversely impacted by COVID-19 as other tax lines, and moderate growth is expected to continue into 2020-21 and over the forward estimates.

Casino/internet tax revenue of $3.3 million was received in 2019-20. As discussed above, the forced closure of certain venues (including casinos) between March and June 2020, and the waiver of March 2020 casino tax as part of the COVID-19 response, resulted in lower receipts for 2019-20. This tax line is expected to recover and remain stable from 2020-21 and over the forward estimates.

Wagering tax revenue is expected to remain stable with moderate growth over the forward estimates.

Interstate tax comparison

The composition of state and territory taxes is broadly similar between jurisdictions, however there are differences in the application of particular taxes. These differences primarily relate to rates, exemptions and thresholds. The ability of states and territories to modify their rates and tax bases promotes competition between these jurisdictions, providing autonomy and capacity to structure tax systems to accommodate the jurisdiction's specific fiscal, economic and social circumstances.

Various approaches to measuring tax competitiveness can be adopted. Two common approaches are the 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 compared to the amount of tax revenue the CGC assesses could be raised if the state applied national average tax rates to its tax base.

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

Table 6.4 provides a comparison of the CGC's assessment of taxation and own-source revenue-raising effort in 2018-19 (the latest year an assessment is available). The total own-source revenue figures include taxation, mining revenue, contributions by trading enterprises and user charges for some government services, such as environmental waste management levies, road charges such as tolls, fines and licence fees, and legal services such as land titles, and birth and marriage certificates. The table reports the Territory's taxation effort is the lowest of all states and territories. However, total own-source revenue effort remains well above the national average (driven by mining royalties) and second only to the Australian Capital Territory.

The decline in the Territory's taxation effort from 2017-18 (90 per cent) is due to weaker payroll tax receipts relative to the Territory's assessed capacity in 2018-19. This decline was expected, and is in line with economic factors experienced in 2018-19, following the completion of the construction phase of the INPEX project. The Territory's increasing total revenue effort from 2017-18 (121 per cent) reflects sustained growth in mineral royalty receipts compared to expected receipts under the national average policy. The Territory's total taxation effort remains below the national average largely due to the position adopted by the Territory to not impose a land tax and to impose lower than average motor vehicle taxes.

Table 6.4: 2018-19 Revenue effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	102.8	103.1	90.7	97.4	93.3	92.4	149.0	81.1
Total own-source revenue	98.1	102.5	99.2	100.7	86.3	95.4	148.1	123.6

Source: CGC 2020 Review

The CGC assessment is a lagging indicator and, as such, does not yet reflect the impacts of COVID-19. COVID-19 will impact future assessments of revenue effort due to reductions in the Territory's tax receipts, and changes in the national average tax collections in other states from 2019-20. This leads to uncertainty in predicting movements in taxation effort, however total own-source revenue effort may remain above the national average due to continued strength in mineral royalty receipts.

Revenue capacity

States are limited to growing their own-source revenues either by replacing current taxes with a new growth tax or expanding existing tax bases.

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 and GST.

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 limited by its relatively small revenue base. This is illustrated in Table 6.5, which reports the CGC's assessments of 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 actual per capita average revenue raised on the national tax base. This measure removes differences in state policies.

Table 6.5: 2018-19 Assessed revenue-raising capacity

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	107.5	95.9	90.8	125.4	78.9	65.4	96.4	113.5
Land tax	132.6	123.7	59.3	81.9	42.6	31.4	44.0	84.6
Stamp duty	120.7	116.3	81.3	65.0	63.0	59.3	106.1	84.2
Insurance tax	107.1	93.1	97.7	95.4	116.7	80.0	86.3	96.6
Motor tax	90.6	99.8	105.0	115.2	105.9	119.2	84.3	91.4
Total taxation	110.3	104.7	88.5	99.2	80.2	72.8	90.8	97.8
Mining revenue	47.3	5.1	157.5	461.4	31.6	21.9	0.0	157.5

Source: CGC 2020 Review

The main difference from the assessed 2017-18 capacity is an increase in stamp duty capacity from 42 per cent to 84.2 per cent, reflecting a small number of very large commercial transactions increasing receipts in 2018-19.

Other than payroll tax and mining royalties, the Territory is assessed as having a relatively low capacity to raise taxes, particularly land tax and conveyance duty, where the Territory's capacity is significantly below the national average of 100 per cent.

Representative taxpayer model

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

Payroll tax

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

Table 6.6: 2020-21 State and territory payroll tax rates and annual thresholds

	NSW	Vic[1]	Qld[2]	WA[3]	SA[4]	Tas[5]	ACT	NT[6]	Average
Threshold ($M)	1.00	0.65	1.30	1.00	1.50	1.25	2.00	1.50	1.21
Rate (%)	5.45	4.85	4.75	5.50	4.95	4.00	6.85	5.50	5.23

1 Rate is 2.02 per cent for regional Victorian employers, or is 1.2125% for regional employers based in bushfire-affected areas.
2 Threshold reduces as an employer's wages increase, so no exemption is provided for employers with wages over $6.5 million. Regional employers may be entitled to a 1 per cent discount on the rate until 30 June 2023. Employers paying less than $6.5 million in Australian taxable wages are subject to 4.75 per cent rate. Employers paying more than $6.5 million in Australian taxable wages are subject to 4.95 per cent rate.
3 Threshold reduces as an employer's wages increase, so no exemption is provided for employers with wages over $7.5 million. A higher tax rate of up to 6.5 per cent applies for businesses with annual Australian taxable wages of more than $1.5 billion.
4 Rate increases from 0 to 4.95 per cent for employers with annual Australian taxable wages of less than $1.7 million.
5 Rate is 4 per cent for wages between $1.25 million and $2 million, and 6.1 per cent for payrolls over $2 million.
6 Threshold reduces as an employer's wages increase, with no exemption for employers with wages over $7.5 million.
Source: State legislation and information available at 14 October 2020

Table 6.7 provides the effective payroll tax rate at various wage levels for each jurisdiction after considering individual state thresholds and the payroll tax rates. For businesses with wages of $3 million and below, the Territory has a competitive payroll tax scheme with effective tax rates either around or below the national average and no tax payable when taxable wages are $1.5 million or less. As Table 6.7 reports, the Territory's effective payroll tax rate is progressive up to total wages of $10 million, where it reaches its maximum of 5.5 per cent. For very large businesses with wage costs of $20 million or more, the Territory has a more favourable effective payroll tax rate than the Australian Capital Territory and Tasmania, and is comparable to Western Australia.

Table 6.7: 2020-21 Effective state and territory payroll tax rates at various wage levels

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
$M	%	%	%	%	%	%	%	%	%
1	0.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.2
2	2.7	3.3	2.1	3.2	1.2	1.5	0.0	1.7	2.0
3	3.6	3.8	3.4	4.2	2.5	3.0	2.3	3.4	3.3
4	4.1	4.1	4.0	4.8	3.1	3.8	3.4	4.3	3.9
5	4.4	4.2	4.4	5.1	3.5	4.3	4.1	4.8	4.3
10	4.9	4.5	5.0	5.5	4.2	5.2	5.5	5.5	5.0
20	5.2	4.7	5.0	5.5	4.6	5.6	6.2	5.5	5.3

Source: State legislation and information available at 14 October 2020

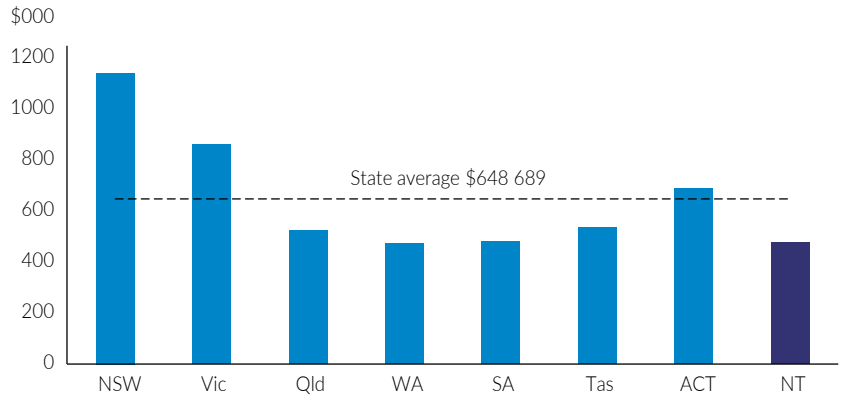
Stamp duty on conveyances in the Territory

Stamp duty on residential properties is impacted by the value of houses, rate of stamp duty and availability of stamp duty concessions. The Territory currently provides two stamp duty concessions to assist home ownership: the Territory home owner discount and the senior, pensioner and carer concession. These schemes were scheduled to expire on 30 November 2020 but have been extended to 30 June 2021 as part of the 2020-21 Budget.

Overall it is difficult to compare stamp duty on homes in each state, given the significant variation in median house and unit prices. Darwin has one of the lowest median house prices of all states and territories (Chart 6.2). However, one method is to compare the stamp duty that would be payable in each state for similarly priced housing. Chart 6.3 provides an interjurisdictional comparison of the amount of stamp duty levied on the purchase of a new or established home to be used as a principal place of residence, at the median house price in Darwin ($477 500) rather than at the median house price applying in each capital city, without any discount applied for first home owners.

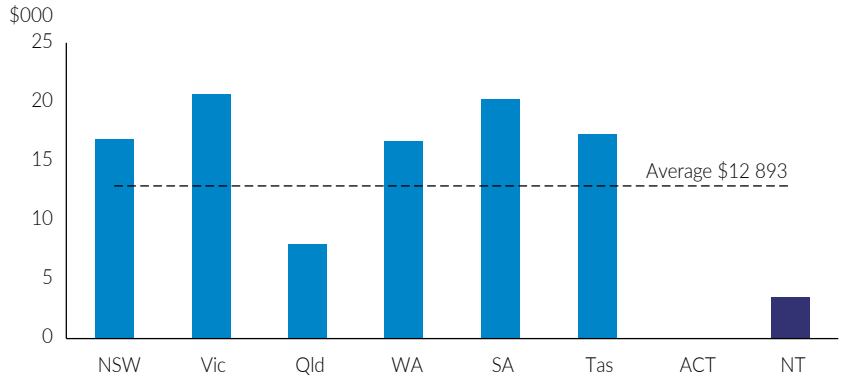
It indicates that stamp duty in the Territory on the reference property is by far the lowest in Australia for the purchase of a new or established home and is significantly below the national average.

Chart 6.2: Median house prices



Note: Median capital city house prices in the June 2020 quarter.
Source: Real Estate Institute of Australia

Chart 6.3: Stamp duty payable on purchase of Darwin median-priced house



Source: Real Estate Institute of Australia; state legislation and information available at 14 October 2020. Excludes first home buyer concessions, but includes other residential duty concessions.

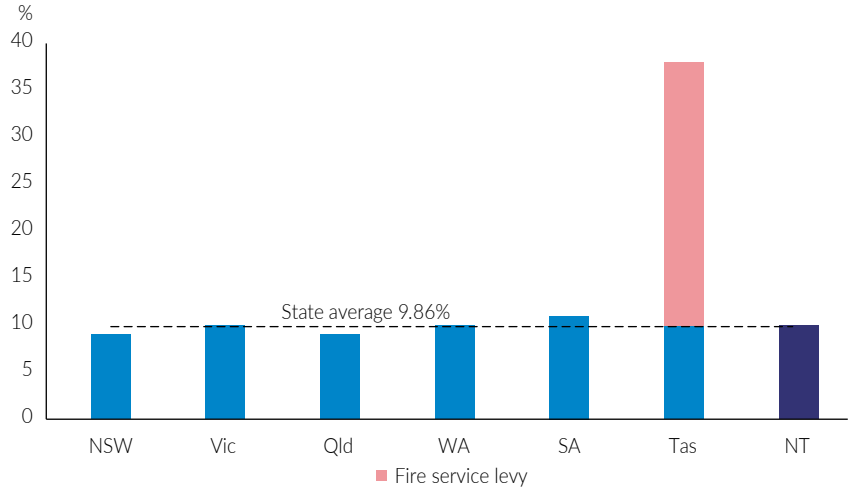
Insurance duty

All states and territories impose taxes on general insurance premiums at rates between 9 and 11 per cent, with New South Wales, Queensland and Tasmania imposing special rates on particular classes of general insurance. The only exception is the Australian Capital Territory where insurance duty was abolished on 1 July 2016. The Australian Capital Territory, Victoria, Western Australia and the Northern Territory do not collect taxes on life insurance policies.

Tasmania collects a portion of its fire service levies through a charge on insurers. While Tasmania raises a levy on insurance, a large proportion of the levy is sourced from a charge on property owners through local councils, which is similar to Victoria, Queensland, South Australia, Western Australia and New South Wales. The Territory does not impose any emergency or fire service levies on the general public, although, like the states, it does charge for commercial fire alarm monitoring.

As shown in Chart 6.4, compared to the other states (excluding the Australian Capital Territory as it does not impose stamp duty on insurance), the Territory is an average taxing jurisdiction.

Chart 6.4: Average state tax rate on general insurance premiums

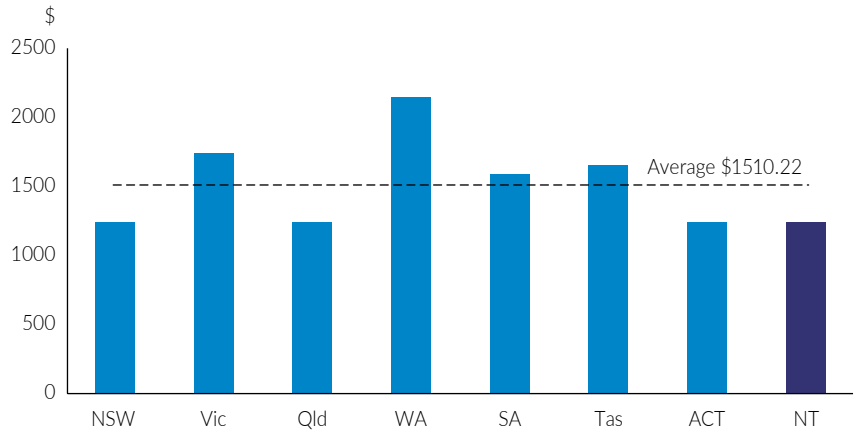


Source: State legislation and information available at 14 October 2020

Stamp duty on motor vehicles

Chart 6.5 compares the stamp duty applicable for a new motor vehicle, represented by a 4-cylinder 2020 Toyota Camry SL sedan 2.5L automatic valued at $41 290. The chart illustrates the stamp duty payable in the Territory is below the national average and equal lowest in Australia.

Chart 6.5: Stamp duty on purchase of a medium-sized passenger vehicle

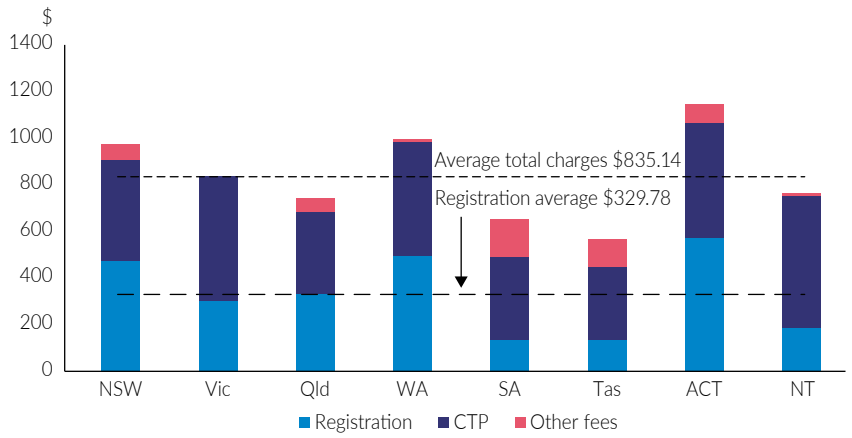


Source: State legislation and information available at 14 October 2020

Motor vehicle registration fees

Motor vehicle registration fees comprise registration, compulsory third-party insurance (or equivalent contributions to statutory schemes) and other fees, and therefore vary significantly between jurisdictions. Chart 6.6 compares the costs of registering a 4-cylinder 2020 Toyota Camry SL sedan 2.5L automatic. A registration fee of $188 and total registration cost of $766.55 demonstrates the Territory registration fees and total registration costs are below average in Australia.

Chart 6.6: Annual registration fees and charges for a medium-sized passenger vehicle



Source: State legislation and information available at 14 October 2020

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

Despite this, total registration and administrative costs in the Territory remain below the national average. This is due to relatively low registration fees and because the Territory does not, unlike some jurisdictions, 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 assessed on the unimproved value of the land. It also includes any metropolitan land planning, development, and fire and emergency service levies included in the land tax base of some states.

Land tax is an important source of income for the other states and territories, generating more than $10.5 billion in revenue in 2018-19. Land tax is levied on the landowner's total holdings of commercial land and investment residential property, although generally an exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However, in its 2020 Review, the CGC assessed that the Territory could raise about $87 million if it adopted the average state policies on land tax.

From 1 July 2019, the Territory introduced a property activation levy on vacant and unoccupied properties in the Darwin CBD. Payment of this levy is first required in 2020-21 and is estimated to raise up to $2 million per annum.

Tax expenditure statement

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

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

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

The tax expenditure identified in this statement relates to the more important and material concessions available in the Territory. In accordance with FITA, the tax expenditure statement provides an estimate of expenditure in 2019-20, and estimates information for 2020-21 and the following three financial years.

Table 6.8 details the total tax expenditure across payroll tax, stamp duty and motor vehicle fees.

Table 6.8: Total tax expenditure

	2019-20	2020-21	2021-22	2022-23	2023-24
Tax expenditure ($M)	239.1	234.3	197.2	194.7	199.2

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 certain or highly likely to affect assumed tax bases or tax rates have been considered in estimating future tax expenditure. Otherwise, existing taxation arrangements are 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
- 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 expenditures rather than structural elements of the tax.

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

Payroll tax

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

Table 6.9: Payroll tax expenditure

	2019-20	2020-21	2021-22	2022-23	2023-24
Tax expenditure ($M)	182.5	176.0	155.5	150.9	156.6

As data is not generally collected by the Territory Revenue Office from employers with no payroll tax liability, tax expenditure in relation to many payroll tax concessions must be estimated. The tax expenditure in Table 6.9 has been calculated by adding actual tax concessions to an estimate of concessions. The estimate is derived by comparing the average of the Australian Taxation Office (ATO) data reporting wages paid by employers in the Territory and ABS data on employment and wages 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 employers not subject to Territory payroll tax because of the small business exclusion (detailed below) or being an exempt body.

COVID-19 has impacted the calculation of tax expenditure from 2019-20 and over the forward estimates. An increase in payroll tax expenditure in 2019-20 is the combined result of reduced payroll tax receipts due to the onset of COVID-19 and stronger than expected employment and wages data in the same period. The stronger than expected wages and employment data may reflect the COVID-19 support from the Commonwealth JobKeeper wage subsidy and other COVID-19-related business support from both the Commonwealth and Territory governments. The increased tax expenditure is consistent with an increase in exempt wages (such as JobKeeper payments to small business), but may also be partly attributable to data quality issues and methodology changes arising from interruptions in ABS data collection and quality in the last quarter of 2019-20, leading to more volatile Territory employment data. The impacts of COVID-19 are expected to persist into 2020-21 before payroll tax expenditure returns to long-term trends over the forward estimates.

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 payroll tax, a saving for them of up to $82 500 per annum. The payroll tax liability for employers with payroll above $1.5 million a year is calculated based on taxable wages minus a deduction based on a sliding scale of up to $1.5 million.

Local employment package

Until 30 June 2021, wages paid to new Territory resident employees who either increase a business' total number of employees compared to May 2018 or replace an interstate resident employee are exempt from payroll tax for up to two years. A total of 411 businesses have utilised the exemption.

Charities and other exempt bodies

Certain charitable and not-for-profit organisations receive payroll tax exemptions for wages paid to employees who engage in non-commercial activities that support the organisation's charitable purpose. In addition, employment agencies providing temporary staff to exempt organisations are able to claim payroll tax exemptions for these wages.

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 conveying other dutiable property. The benchmark tax scale is the currently applicable stamp duty scale.

Table 6.10: Stamp duty on conveyances expenditure

	2019-20	2020-21	2021-22	2022-23	2023-24
Tax expenditure ($M)	27.5	28.2	10.4	11.2	12.1

Tax expenditure estimates in Table 6.10 are based on actual stamp duty data. Forecast expenditure declines over the forward estimates in line with the scheduled cessation date of home owner concessions. The tax expenditure estimates 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.

Senior, pensioner and carer concession

A concession of $10 000 is provided for senior, pensioner and carer concession cardholders when purchasing a principal place of residence to the value of $750 000. Tax expenditure is estimated by actual transactions receiving the concession, which ceases 30 June 2021.

Territory home owner discount

A Territory home owner discount of up to $18 601 is available to home buyers purchasing homes valued up to $650 000, where the home buyer has not owned a home in the Territory in the previous 24 months. Tax expenditure is estimated by transactions receiving the discount, which ceases 30 June 2021.

Other conveyance duty exemptions

Several other conveyance stamp duty exemptions are provided that together result in significant revenue 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
- an exemption under the Commonwealth *Family Law Act 1975* for instruments made pursuant to a court order that alter the interests of the parties to a marriage or de facto partnership
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship
- exemptions for certain conveyances involving the administration of deceased estates
- conveyances from trustees to beneficiaries and to give effect to a mere change in trustees.

The estimated tax expenditure for these concessions is based on actual historical data collected in relation to the various exemptions 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 6.11: Stamp duty on general insurance

	2019-20	2020-21	2021-22	2022-23	2023-24
Tax expenditure ($M)	26.9	28.0	29.2	30.5	28.3

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 reported in Table 6.11 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 under the Northern Territory Pensioner and Carer's Concession Scheme and to Northern Territory Seniors cardholders. Table 6.12 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.12: Motor vehicle registration fees expenditure

	2019-20	2020-21	2021-22	2022-23	2023-24
Tax expenditure ($M)	2.2	2.2	2.2	2.2	2.2

Chapter 7

Risks and contingent liabilities

As required under section 5(1)(d) and 10(1)(e) of FITA, each fiscal outlook report is required to contain a statement of the risks, quantified as far as practicable, that could materially affect updated financial projections, including any contingent liabilities and related agreements that have yet to be finalised.

This chapter outlines the potential effect of risks to the budget due to changes in revenue and expenditure estimates, and the likelihood of contingent liabilities becoming actual liabilities. Risks have been categorised in accordance with section 5(2) of FITA: risk of excessive debt; risk from the ownership of trading entities; risk of erosion of the Territory's revenue base; risk arising from the management of assets and liabilities; and other risks.

For more information on the Territory's risks and contingent liabilities refer to 2019-20 TAFR Note 39: Contingent assets and liabilities.

Sound fiscal management of risks

Risk of excessive debt

Debt can restrict government's capacity to maintain appropriate levels of service due to increased borrowing costs and the impacts on investor and consumer confidence, resulting in negative effects on the Territory's economy. In accordance with the fiscal strategy, the Territory aims to mitigate these risks by constraining expenditure growth, achieving a competitive revenue effort ratio, improving the Territory's credit rating and increasing the government's return on investment from the government owned corporations.

Credit ratings reflect an independent assessment of a government's credit worthiness and ability to fulfil its financial commitments and repay debt. Higher ratings indicate a strong fiscal and economic position, and result in the ability to borrow at lower interest rates, while lower ratings indicate credit challenges, and result in higher interest rates on borrowings. Negative outlooks signal a potential downgrade within the next six months to two years.

The Territory's credit rating was last assessed by Moody's for the 2019-20 Budget in June 2019 and issued a downgrade to the Territory's credit rating from Aa2 (negative) to Aa3 (stable).

Subsequent to this assessment, the Territory's financial projections have significantly deteriorated as a result of economic disruption and funding COVID-19 economic stimulus measures. The effect of COVID-19 on the Territory's future credit ratings is uncertain and, given the Territory's strong reliance on GST and Commonwealth funding, is highly dependent on how quickly the national economy recovers.

The risks posed by excessive debt can affect the Territory's ability to raise funds when required, or at a cost substantially higher than could be achieved under normal market conditions. To mitigate this risk, the Territory Government diversifies its borrowing and investment activities across a maturity spectrum, utilising a variety of funding sources to meet its requirements.

For more detailed information refer to Chapter 4, *Fiscal strategy statement*.

Risks from the ownership of trading entities

Low profitability and high capital requirements in commercial entities can pose risks to government in the form of lower returns or increased requirement for financial support, with the potential to materially affect the Territory's debt levels and fiscal targets.

The Territory's fiscal strategy incorporates government owned corporations, with targets aimed at strengthening commercial sustainability and reducing reliance on government support. Risks are also mitigated through compliance with the Corporate Governance and Reporting Framework together with the *Government Owned Corporations Act 2001*, the enabling legislation for each government owned corporation, and the Territory's Policy Statement on Competitive Neutrality, all of which establish the operating and accountability framework for government owned corporations in the Territory.

The government owned corporations are the Power and Water Corporation, Territory Generation and Jacana Energy. Each corporation has a SCI, which is an annual performance agreement between the board and the shareholding minister.

Decreasing demand growth and increasing generation and retail competition requires greater focus on efficiency and business responsiveness from the three corporations. Each corporation has incorporated future efficiencies through operational and business improvements as part of their respective 2020-21 SCIs. Failure to achieve their SCI targets presents a risk to the budget through reduced dividends and tax equivalent payments.

The Government Owned Corporations Corporate Governance and Reporting Framework includes processes for the monitoring and reporting of performance targets set in the government owned corporations' SCIs, including targets established for greater financial and performance accountability as incorporated into the government's *A plan to fix the budget*.

The Territory's gas market is now connected to the east coast wholesale gas market following the commissioning of the Northern Gas Pipeline. The Territory is subject to the National Gas Law and Natural Gas Rules. Any gas industry reforms considered by the Council of Australian Governments' Energy Council and implemented through changes to the National Gas Law or Natural Gas Rules could apply to the Territory and may affect the Power and Water Corporation's gas market-related risks. To mitigate this risk, the Territory examines any reforms stemming from reviews on a case-by-case basis for appropriateness in the context of the Territory's circumstances.

A financial risk to the Territory budget is Power and Water Corporation's long-term gas purchase, sales and transportation agreement. The fixed price nature of the contracts, volatility of the market price of gas, uncertainty in relation to both pricing and volume from as yet unsecured sales contracts are risks to the Corporation's ability to sell the gas at a competitive price. To mitigate these risks, the Corporation's Board oversees a gas sales strategy to ensure all costs are covered by revenue and any risks are appropriately mitigated.

Risk of erosion of the Territory's revenue base

The Territory's revenue base comprises Commonwealth grants, including GST revenue, along with own-source revenues such as mining royalties, fees and charges, rent and tenancy income, interest and dividend revenue and profit and loss on the disposal of assets.

The Territory's own-source revenue base is small in comparison to other jurisdictions, but nonetheless provides the government with a reasonable degree of stability and predictability to contribute towards funding service delivery through consistent revenue streams.

The fiscal strategy addresses the risk of erosion of the Territory's revenue base by adopting taxing policies that maintain taxation at levels competitive with other jurisdictions and encourage increased levels of business activity in the Territory while ensuring sufficient levels of own-source revenue are generated to contribute to government service delivery.

For more detailed information refer to Chapter 4, *Fiscal Strategy Statement* and Chapter 6, *Territory taxes and royalties*.

GST revenue

Volatility in GST revenue represents the largest revenue risk for the Territory, as GST revenue accounts for about 39 per cent of the Territory's total revenue in 2020-21.

The Territory's GST entitlement is dependent on three parameters: national GST collections (GST pool), the Territory's share of the national population, and the Territory's GST relativity as determined by the Commonwealth Treasurer based on the recommendation of the CGC. There are several variables that influence each of these parameters, adding to the complexity of forecasting GST revenue over the budget and forward estimates period, as discussed in Chapter 5, *Intergovernmental financial relations issues*.

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

GST pool

The 2019-20 GST pool aligns with the Commonwealth's 2019-20 Final Budget Outcome and the estimate for 2020-21 aligns with the Commonwealth's 2020-21 Budget estimate. The Territory has not adopted the Commonwealth's estimates of GST pool growth over the forward estimate years, given the assumptions the Commonwealth adopted around progress of Australia's economic recovery from COVID-19 and the significant level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative estimates of growth rates over this period.

The Territory's GST revenue is directly affected by variations in the GST pool. A ±1 percentage point change in the GST pool growth rate is estimated to have a ±$27 million impact on the Territory's GST revenue in 2020-21. If variations of ±1 percentage point were applied to the GST pool growth rates in the budget and forward estimate years, the cumulative impact on Territory GST revenue would be about ±$115 million.

Territory's share of national population

Estimates of the Territory's population growth relative to the national rate influence the Territory's share of the national population and therefore affect forecasts of the Territory's GST revenue. The Territory's population is expected to grow at a slower rate than the national population over the budget and forward estimates period.

The effect of a ±1 percentage point variation in the Territory's forecast population growth is estimated to have a ±$26 million impact in 2020-21, all else being equal. The cumulative impact of a ±1 percentage point variation in the estimate of the Territory's population growth rate over the budget and forward estimates period would be about ±$109 million.

GST relativities

The CGC is responsible for recommending GST relativities, which are updated each year to incorporate new data and changes in states' fiscal capacities. In its 2020 Review, the CGC recommended an increase in the Territory's GST relativity from 4.26735 in 2019-20 to 4.76893 in 2020-21.

The impact of a ±1 per cent variation in the Territory's GST relativity is around ±$26 million in 2020-21. A ±1 per cent variation in the Territory's GST relativity in each of the budget and forward estimate years would have a cumulative effect of around ±$109 million.

Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018

Commonwealth legislated changes to the GST distribution system through the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* to reflect a move away from full equalisation of state and territory GST requirements towards equalising states to the fiscal capacity of either New South Wales or Victoria, whichever is highest, over a six year transition period from 2021-22 to 2026-27. This change will result in a redistribution of GST revenue towards the fiscally strongest jurisdiction, which is currently Western Australia, giving it the capacity to provide above average services compared to all other states.

This Act also includes an in-system GST relativity floor of 0.7 for 2022-23 and 2023-24, increasing to 0.75 from 2024-25 onwards, to be funded on a per capita basis by those states with a relativity above the floor, a permanent boost to the GST pool of $600 million each year from 2021-22 and a further $250 million each year from 2024-25, to be funded by the Commonwealth from general revenues and indexed annually in line with growth in the general GST pool. A no-worse-off guarantee is to be provided to states over the transition period, with the Commonwealth currently estimating payments totalling $25.2 million in 2021-22, increasing to $1920.1 million by 2023-24, will be required to honour the guarantee. There is a substantial risk to states in 2027-28 upon completion of the transition, when the guarantee ceases, given most states are anticipated to access no-worse-off transition payments between 2022-23 and 2026-27.

Minimum relativity guarantee

The Commonwealth has provided the Territory a GST relativity guarantee of 4.66024 for 2020-21 and 2021-22. While the guarantee is not expected to be triggered in 2021-22, there is substantial uncertainty around the future of the Territory's GST revenue from 2022-23 when this guarantee ceases, the impacts of changes in states' expenditure and revenue patterns in response to COVID-19 begin to enter the system, and the new legislated distribution system increasingly comes into effect.

Other Commonwealth grants and subsidies

Tied Commonwealth funding is provided under the IGA, through SPPs, major funding arrangements and NP payments. Tied funding can also be provided outside the IGA payment arrangements through COPE.

SPPs support the achievement of outputs and outcomes agreed under the relevant sector's national agreement. SPPs are indexed annually on a sector-specific basis and are provided to states without the imposition of restrictive conditions such as co-investment or maintenance of effort requirements. The Skills and Workforce Development SPP is the last remaining SPP. In accordance with the Heads of Agreement on Skills Reform, jurisdictions are to develop a new national skills agreement by August 2021, including a new funding model that is linked to efficient pricing, which will replace the existing SPP.

In recent years, funding agreements with the Commonwealth have posed a significant risk to states' autonomy and reducing budget flexibility through the inclusion of budget benchmarks and quasi-maintenance of effort provisions, often coupled with financial penalties where effort is not maintained.

In 2020, under the direction of National Cabinet, the CFFR established itself as the gatekeeper of all Commonwealth funding agreements through the introduction of the new Federation Funding Agreements (FFA) framework. As part of the FFA framework, CFFR has the capacity to set the strategic direction, drive negotiations and provide general oversight and direction for the development of all funding agreements. It is expected this increased involvement by CFFR will help to mitigate some of the risks posed to states through tied funding arrangements by giving Treasurers greater input into their development.

It is also expected CFFR's new role will lessen the potential risk to the Territory's budget, which flows from the expiry of NP agreements, particularly where funding has raised service delivery expectations. In the past, the timing of Commonwealth decisions regarding the treatment of expiring NP agreements and their funding has been critical to ensure appropriate planning and continuity of service delivery, or to allow for consideration of alternative approaches where funding is no longer available. Under the FFA framework, CFFR will now consider all expiring funding agreements and decide which should be renewed, at least 12 months before expiry.

Nonetheless, the NP on NTRAI is due to expire in 2021-22. Under this NP the Territory is eligible to receive up to $1028.7 million between 2015-16 and 2021-22, aimed at improving Aboriginal outcomes. Its expiry represents a significant financial risk to the Territory's Budget due to increased service delivery expectations established over the life of the agreement and exposes the community to risk of service reduction or withdrawal.

Own-source revenue

The Territory raises own-source revenue from a range of sources. This mainly comprises taxes and revenue from mining royalties, but also includes fees and charges, rent and tenancy income, interest and dividend revenue, and profit and loss on the disposal of assets.

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 to be made about the performance of various economic factors and indicators that directly affect Territory taxes and royalties, such as growth in wages, employment, average hours worked, commodity prices, market activity and exchange rates.

COVID-19 has resulted in increased uncertainty in revenue forecasting from late 2019-20 and across the forward estimates. Revenue forecasting has required new assumptions regarding the magnitude and timing of the impact of COVID-19 on key economic indicators such as retail and other consumer spending, employment, investment activity and economic growth. These impacts arose due to the mandatory closure of certain businesses and the curtailment of other business operating models in the last quarter of 2019-20, compounded by domestic and international border closures. The extent of future public health measures and the amount and duration of government stimulus have also contributed to increased forecasting risk over the forward estimates.

Ordinarily, the most difficult source of revenue to forecast is mining royalty revenue because it is influenced by a number of factors, predominantly mineral prices, production levels and exchange rate conditions.

Mining revenue forecasts rely mainly on advice from mining companies of their expected payment for the financial year and forward estimates, along with an internal royalty outlook informed by independent commodity price and market condition forecasts. Unpredicted market changes in mineral prices, production or exchange rates will have a material effect on this forecast. COVID-19 is expected to affect mining royalties due to a softening in global demand for key commodities. Mining production is also dependent on fly-in fly-out workers, which can result in sensitivities to COVID-19 border control measures. Notwithstanding this volatility, the importance of royalties as a source of revenue is evident in the 2020-21 Budget.

Payroll tax is the Territory's largest own-source revenue tax imposed on businesses with total payroll above the tax-free threshold of $1.5 million per annum. COVID-19 has introduced greater than usual uncertainty on payroll tax forecasting due to impacts on employment, wage growth and business investment. Payroll tax forecasts are sensitive to assumptions about the rate and timing of the recovery of these key economic indicators. Payroll tax forecasts are also influenced by government stimulus measures, such as payroll tax waivers and deferrals for COVID-19 relief measures and the Commonwealth JobKeeper, and other stimulus measures.

Forecasting conveyance stamp duty is linked to the outlook for the property market. The extent and timing of any market changes in terms of property prices and transaction levels is difficult to predict and can have a significant effect on conveyance duty collections. In particular, residential property demand is heavily influenced by market sentiment, labour market conditions and interstate migration flows.

The impacts of COVID-19 on residential real estate markets over the forward estimates is difficult to predict. While COVID-19 has had a generally negative impact across most economic indicators, low Territory case numbers and fewer public health restrictions may mitigate the localised impacts on key Territory residential real estate markets. COVID-19 has also generally reduced population mobility and could contribute to other behavioural changes (such as the propensity to rent or buy), which may impact residential real estate market predictions. Notwithstanding the economic impacts of COVID-19 from the last quarter of 2019-20, the Territory's housing market had already experienced a significant downward correction in house prices back to levels of a decade earlier.

Stamp duty forecasts are also impacted by the size of the Territory's conveyance duty base, which includes valuable commercial properties such as 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.

Unlike tax revenue from property transactions or employment, gambling tax revenue is not as closely correlated with the economic or business cycle. Gaming activity in community venues and casinos was impacted by public health measures, in particular, venue closures between March and June 2020, associated with COVID-19. Online gambling revenue, such as lotteries and bookmaker taxes, have been less affected by COVID-19 than physical venues. However revenue forecasts remain dependent on assumptions about consumer activity and COVID-19 health measures over the forward estimates.

In total, a variation of ±1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about ±$8 million in 2020-21.

Risk arising from the management of assets and liabilities

The Territory maintains a wide range of assets and liabilities, each subject to inherent risks, which are managed through the Territory's fiscal strategy objectives of prudent management of debt and liabilities, and infrastructure for economic and community development.

To mitigate these risks, the Territory's Financial Management and Accountability Framework governs the financial management of government resources (assets and liabilities), and comprises legislation, supplementary legislation (including Treasurer's Directions and Treasury Circulars), Australian accounting standards, whole of government and agency-specific policies and procedures, and resource materials. This framework specifies the practices, including risk assessment, to be observed by accountable officers in the financial management of their respective agencies.

In addition, the Territory's investment assets and liabilities are administered by the NTTC, the central financing authority for the Territory Government. It borrows, invests and lends on behalf of government and is governed by an extensive risk management framework for the management of the Territory's investment assets and debt liabilities.

For more detailed information refer to Chapter 4, *Fiscal strategy statement*.

Local Jobs Fund

The Local Jobs Fund sets aside funds to provide finance or grants to private sector projects and entities.

To date, concessional loans totalling $7.4 million have been provided for private sector projects under the Local Jobs Fund. Associated risks of default and or loss of investment relating to these loans are considered small.

The fund aims to mitigate financial risks through a range of policies and governance statements, along with an expert investment committee to provide independent assessment and advice on investment proposals.

Risks to expenses and payments

Estimates for expenses are based on known policy decisions, with adjustments for non-policy changes. The most significant risk to expense estimates is budget pressure due to increased cost and demand for government services, and the inability to meet savings measures factored into agency budgets.

Achievement of significant savings and revenue measures approved by government are critical in returning the budget to a sustainable position over the long term. The inherent risk to the budget is whether successive governments throughout future election cycles will adopt the existing and new savings measures over the medium to long term.

Risks to expenses and payments are mitigated by the government's fiscal strategy objectives that are focused on ensuring government operates within its means, and is supported by robust monitoring and reporting obligations within the Territory's Financial Management and Accountability Framework, enabling the early identification of budget pressures.

Risks to economic forecasts

Economic forecasts in the budget papers are subject to upside and downside risks and uncertainties. Uncertainty comes from a variety of sources, including the reliability of official economic data reported by the ABS, and potentially significant revisions to data. This uncertainty reflects that, even when using best practice statistical techniques, generating reliable estimates from small samples of diverse populations is difficult. The greater likelihood of data being confidentialised in the Territory can also contribute to uncertainty when forecasting economic variables.

Another major uncertainty when estimating gross state product (GSP) relates to estimating interstate trade flows and the balancing item. These are typically very large components to GSP that are very volatile on year-to-year basis. These two components are only reported once a year with the release of the GSP estimate. Data volatility, combined with no preliminary data released though the year to guide forecasts, means these two components of GSP are prone to considerable forecasting error.

The fundamental uncertainties described above are compounded in the forward estimates this year due to COVID-19, which is causing significant disruption to economic activity. This disruption is impacting investment and consumption patterns, and the range of possible outcomes is much wider than normal given the uncertainty as to the pace and shape of the recovery. These disruptions will vary by region and over time, creating a complex environment where each factor affects the rate of recovery in the Territory and Australian economies, and our international trading partners.

Uncertainty is also influencing household and business sector behaviours, with households saving more and businesses deferring investment. Any new policies or stimulus will impact economic forecasts over the forward estimates period. A further unknown is the development and roll out of a vaccine, which is not explicitly included in the forecasts.

Developing forecasts in this environment requires use of judgement and a greater than usual number of assumptions, resulting in higher risks regarding the reliability of forecasts.

There is upside risk to the forecasts if projects without a financial investment decision at the time of the Budget do achieve this milestone during the forward estimates period. Projects in this category include: the Mount Peake rare earths mine, Ammaroo phosphate mine, Nolans rare earths mine, Jervois copper-silver-gold project, Darwin LNG plant backfill project, and Project Sea Dragon.

The Territory economy is heavily exposed to changes in exchange rates and commodity prices, which can have significant effect on the viability and competitiveness of Territory exports. The forecasts assume there are no material changes in exchange rates or commodity prices over the forward estimates period that significantly impact production from current resource and agriculture projects.

Economic conditions in other Australian jurisdictions also present risks to the economic forecasts, with the strength of the Territory economy relative to other jurisdictions impacting population flows. Labour market conditions in other jurisdictions can also affect the availability of labour in the Territory. Current advice from the RBA suggests the usual risks associated with interest rate increases are unlikely to emerge in the short to medium term.

Adverse weather conditions such as cyclones, floods and droughts, and agricultural pests and diseases are also risks to the economic forecasts, including through putting upwards pressure on input and output prices. Changes to Commonwealth migration policies are also beyond the control of the Territory Government and represent a risk to population forecasts.

Contingent liabilities

Contingent liabilities are potential future costs to government that may arise from guarantees, indemnities, and legal and contractual claims. Contingent liabilities pose a risk to the Territory's financial position, and have the potential to materially affect the budget due to the likelihood of an actual liability arising, however, most are considered low risk. The Territory continues to assess any risks under these arrangements to determine if any future disclosure is required, and if there are any impacts on the Territory's financial position.

Details of significant contingent liabilities for the Territory are summarised in the paragraphs below and have been classified as quantifiable (where the financial effect is estimated in excess of $5 million) or unquantifiable (where the financial effect cannot be reliably estimated, either due to the nature of the contingent liability, or the number of variables that could affect the financial estimates).

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

Quantifiable contingent liabilities

Public Trustee Common Fund 1

The Public Trustee Common Fund 1, which had a reported total of $34.5 million as at 30 June 2020, is government guaranteed.

Under section 97 of the *Public Trustee Act 1979*, the Treasurer indemnifies the Public Trustee Common Fund 1 against any deficiencies in money available to meet claims on it. The Common Fund is a repository for all monies received by the Public Trustee on behalf of estates, trusts or persons, and earns interest.

Money to the credit of the Common Fund is invested according to the directions issued by an Investment Board, comprising the Public Trustee or, in the absence of the Public Trustee, the Deputy Public Trustee, and two persons appointed by the Attorney-General and Minister for Justice. The Board is responsible for acting prudently to obtain maximum return on the investments of Common Fund monies commensurate with sound investment practices and to ensure estates and trusts receive commercial rates of return on their funds.

Darwin ship lift and marine infrastructure project

In July 2020, the Territory entered into a loan facility agreement with the Northern Australia Infrastructure Facility (NAIF) to borrow $300 million for the Darwin ship lift and marine infrastructure project.

The project is estimated at $400 million and will enable the maintenance and servicing of Defence and Australian Border Force vessels, along with commercial and private vessels, including from the oil, gas and marine industries.

The Territory guarantees to the NAIF the payment of outstanding monies, and indemnifies the NAIF against any loss related to the Territory's fulfilment of any condition precedent to the loan facility agreement.

The conditions precedent and obligations contained in the facility agreement are being monitored during development of the project to ensure the conditions are satisfied.

Unquantifiable contingent liabilities

Economic enabling projects

Darwin luxury hotel

The Territory has contingent liabilities that relate to indemnities provided in support of the Darwin luxury hotel development.

Northern gas pipeline project

The Territory has contingent liabilities in relation to gas, for indemnities contained in the Northern Gas Pipeline Project Development Agreement.

Adelaide to Darwin railway

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

The AustralAsia Railway Corporation (AARC) and the Territory and South Australian governments 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 relate to:

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

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

Prior to the long-term lease of the Port of Darwin, the railway corridor interfacing the port was owned by the former Darwin Port Corporation (DPC), which leased the facilities to the concession holder. As part of the long-term lease of the Darwin port, the railway corridor was transferred to the Territory and leased to the concession holder. There are contingent liabilities that arise out of any loss or claim incurred or suffered as a result of the Territory's failure to comply with its environmental obligation contained in the lease. The lease contains similar indemnities given by the lessee with respect to contamination caused by the lessee and a failure to comply with its environmental obligations. To the extent that DPC had contingent liabilities prior to the Port of Darwin transaction, the Territory has the same contingent liabilities now.

Fuel terminal relocation project

The Territory has entered into agreements for the relocation of fuel terminals from near the Darwin CBD to East Arm industrial estate. The agreements include certain unquantifiable contingent liabilities in favour of the developer of the fuel terminal and Shell, an oil company. The government has put in place comprehensive risk management processes to address potential exposure.

The Territory has assumed the former DPC's indemnity in relation to certain remedial works at East Arm Port. The indemnity covers third-party claims, loss, damage, cost and expenses that may be incurred or sustained by Shell arising out of any breach of the Territory's obligation under the agreement, or in connection with any failure of defect in the integrity of the bunker lines, as well as rectification of damage to the wharf. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Banking

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.

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 2001*, 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.

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.

Indemnities are granted to the Commonwealth and other entities involved in funding or sponsoring activities and programs initiated or undertaken by the Territory. Under these 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, depending on the activity undertaken, may not always be low risk, the Territory's financial exposure is no greater than would have been the case without funding or sponsorship assistance.

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 a value to these cases also has the potential to prejudice the outcome of the proceedings and disputes.

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

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 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.

In addition, the Territory has entered into an agreement with the Darwin Private Hospital, which contains an indemnity for medical professionals to provide medical services to public patients in response to COVID-19.

Land development

The Territory has contingent liabilities that relate to guarantees provided by the Land Development Corporation in order to facilitate specific land release projects.

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 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
- 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 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.

A contingent asset also arises as a consequence of the concession arrangement. The Territory Availability Payment 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 Territory Availability Payment that may be subject to abatement is classified as a contingent asset.

Correctional facilities

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

The Territory has indemnified the proponent for losses arising from uninsurable risks.

Chapter 8

Uniform presentation framework

Under the UPF, Commonwealth, state and territory governments have agreed to publish information in a standard format in budget papers. The UPF is based on Australian Accounting Standards Board (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 government financial reports are presented on the same basis by all jurisdictions, resulting in greater transparency and consistency.

The FITA requires that fiscal outlook reports be prepared in accordance with external reporting standards, including relevant Australian accounting standards and the UPF.

The tables in this chapter meet the Territory's reporting obligations under both the FITA and the UPF. For each sector of government, they include a:

- comprehensive operating statement
- balance sheet
- 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
- operating expenses by function
- purchases of non financial assets by function.

The financial statements for the general government, public non financial corporation and non financial public sectors include the 2020-21 Budget and 2021-22 to 2023-24 forward estimates. The statements for the public financial corporation sector and total public sector present the 2020-21 Budget only, with the remaining supplementary tables presenting both the 2019-20 actual outcome and the 2020-21 Budget. This reporting approach is consistent with all other jurisdictions.

Table 8.1

General government sector comprehensive operating statement

		2020-21	2021-22	2022-23	2023-24
		Budget	Forward estimate		
		$000	$000	$000	$000
	REVENUE				
	Taxation revenue	509 917	561 364	589 696	622 821
	Current grants	3 753 254	3 968 376	3 951 785	3 967 506
	Capital grants	371 673	537 211	359 173	338 351
	Sales of goods and services	397 751	397 236	406 675	412 980
	Interest income	82 342	78 894	81 183	83 773
	Dividend and income tax equivalent income	71 023	88 197	105 887	111 494
	Other revenue	376 419	357 127	346 962	304 253
	TOTAL REVENUE	5 562 379	5 988 405	5 841 361	5 841 178
less	EXPENSES				
	Employee benefits expense	2 643 994	2 608 337	2 533 493	2 475 003
	Superannuation expenses				
	Superannuation interest cost	100 653	105 703	110 240	110 240
	Other superannuation expenses	297 464	298 064	290 453	290 720
	Depreciation and amortisation	554 582	541 633	535 147	531 718
	Other operating expenses	1 694 243	1 511 038	1 503 963	1 481 713
	Interest expenses	333 168	367 315	410 340	447 555
	Other property expenses				
	Current grants	1 135 463	1 054 952	1 039 026	1 004 942
	Capital grants	260 359	84 968	41 889	39 203
	Subsidies and personal benefit payments	218 810	190 777	195 756	199 430
	TOTAL EXPENSES	7 238 736	6 762 787	6 660 307	6 580 524
equals	NET OPERATING BALANCE	- 1 676 357	- 774 382	- 818 946	- 739 346
plus	Other economic flows – included in operating result	43 361	47 160	51 076	52 372
equals	OPERATING RESULT	- 1 632 996	- 727 222	- 767 870	- 686 974
plus	Other economic flows – other comprehensive income	121 346	101 720	134 023	100 453
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 1 511 650	- 625 502	- 633 847	- 586 521
	NET OPERATING BALANCE	- 1 676 357	- 774 382	- 818 946	- 739 346
less	Net acquisition of non financial assets				
	Purchases of non financial assets	1 030 562	1 312 872	891 304	762 736
	Sales of non financial assets	- 35 329	- 43 488	- 43 958	- 44 503
	less Depreciation	554 582	541 633	535 147	531 718
	plus Change in inventories				
	plus Other movements in non financial assets	223 968	125 410	29 732	11 244
	equals Total net acquisition of non financial assets	664 619	853 161	341 931	197 759
equals	FISCAL BALANCE	- 2 340 976	- 1 627 543	- 1 160 877	- 937 105

Table 8.2

General government sector balance sheet

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
ASSETS				
Financial assets				
Cash and deposits	497 418	202 338	205 088	208 990
Advances paid	202 196	200 996	189 996	188 996
Investments, loans and placements	2 459 411	2 581 653	2 698 266	2 818 282
Receivables	572 431	565 803	579 240	570 883
Equity				
Investments in other public sector entities	2 308 094	2 307 435	2 343 002	2 346 459
Equity accounted investments				
Investments – shares	10 000	10 000	10 000	10 000
Other financial assets	22 802	24 398	26 106	27 934
Total financial assets	**6 072 352**	**5 892 623**	**6 051 698**	**6 171 544**
Non financial assets				
Inventories	13 359	13 359	13 359	13 359
Property, plant and equipment	18 577 320	19 304 095	19 644 889	19 849 759
Investment property	35 959	31 959	27 959	23 959
Other non financial assets	347 256	479 842	487 179	485 068
Total non financial assets	**18 973 894**	**19 829 255**	**20 173 386**	**20 372 145**
TOTAL ASSETS	**25 046 246**	**25 721 878**	**26 225 084**	**26 543 689**
LIABILITIES				
Deposits held	403 709	372 037	377 772	374 766
Advances received	267 041	256 396	244 888	232 727
Borrowing	9 249 848	10 724 354	11 943 491	12 938 101
Superannuation	4 146 368	4 042 986	3 938 288	3 834 394
Other employee benefits	746 123	746 123	746 123	746 123
Payables	230 675	232 156	233 516	235 193
Other liabilities	1 051 575	1 022 421	1 049 448	1 077 348
TOTAL LIABILITIES	**16 095 339**	**17 396 473**	**18 533 526**	**19 438 652**
NET ASSETS/(LIABILITIES)	**8 950 907**	**8 325 405**	**7 691 558**	**7 105 037**
NET WORTH	**8 950 907**	**8 325 405**	**7 691 558**	**7 105 037**
NET FINANCIAL WORTH[1]	- 10 022 987	- 11 503 850	- 12 481 828	- 13 267 108
NET FINANCIAL LIABILITIES[2]	12 331 081	13 811 285	14 824 830	15 613 567
NET DEBT[3]	**6 761 573**	**8 367 800**	**9 472 801**	**10 329 326**

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

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
Cash receipts from operating activities				
Taxes received	504 917	566 364	594 696	622 821
Receipts from sales of goods and services	411 396	410 753	420 192	426 497
Grants and subsidies received	3 984 565	4 454 974	4 310 958	4 305 857
Interest receipts	82 342	78 894	81 183	83 773
Dividends and income tax equivalents	78 770	79 742	85 477	119 851
Other receipts	820 150	621 345	611 916	568 022
Total operating receipts	**5 882 140**	**6 212 072**	**6 104 422**	**6 126 821**
Cash payments for operating activities				
Payments for employees	- 3 092 914	- 3 003 107	- 2 930 428	- 2 872 861
Payment for goods and services	- 2 129 326	- 1 758 524	- 1 755 600	- 1 732 352
Grants and subsidies paid	- 1 672 480	- 1 330 697	- 1 276 671	- 1 243 575
Interest paid	- 331 833	- 366 148	- 408 533	- 446 064
Other payments				
Total operating payments	**- 7 226 553**	**- 6 458 476**	**- 6 371 232**	**- 6 294 852**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 1 344 413**	**- 246 404**	**- 266 810**	**- 168 031**
Cash flows from investments in non financial assets				
Sales of non financial assets	35 329	43 488	43 958	44 503
Purchases of non financial assets	- 1 026 135	- 1 312 872	- 891 304	- 762 336
Net cash flows from investments in non financial assets	**- 990 806**	**- 1 269 384**	**- 847 346**	**- 717 833**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 2 335 219**	**- 1 515 788**	**- 1 114 156**	**- 885 864**
Net cash flows from investments in financial assets for policy purposes[1]	- 24 000	- 8 800	1 000	- 9 000
Net cash flows from investments in financial assets for liquidity purposes	- 73 942	- 77 271	- 67 726	- 69 833
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 088 748	- 1 355 455	- 914 072	- 796 666
Net cash flows from financing activities				
Advances received (net)	- 9 948	- 10 645	- 11 508	- 12 161
Borrowing (net)	2 344 040	1 349 096	1 189 405	983 366
Deposits received (net)	- 890 040	- 31 672	5 735	- 3 006
Other financing (net)	1 050			400
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 445 102	1 306 779	1 183 632	968 599
NET INCREASE/DECREASE IN CASH HELD	- 988 059	- 295 080	2 750	3 902
Net cash flows from operating activities	- 1 344 413	- 246 404	- 266 810	- 168 031
Net cash flows from investments in non financial assets	- 990 806	- 1 269 384	- 847 346	- 717 833
CASH SURPLUS (+)/DEFICIT (-)	**- 2 335 219**	**- 1 515 788**	**- 1 114 156**	**- 885 864**
Future infrastructure and superannuation contributions/earnings[2]	- 38 430	- 40 736	- 43 179	- 45 769
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 2 373 649**	**- 1 556 524**	**- 1 157 335**	**- 931 633**

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

		2020-21	2021-22	2022-23	2023-24
		Budget	Forward estimate		
		$000	$000	$000	$000
	REVENUE				
	Current grants	180 609	179 340	187 799	193 875
	Capital grants	19 366	19 832	20 309	20 309
	Sales of goods and services	892 091	891 708	938 726	969 789
	Interest income	2 028	1 702	2 145	2 150
	Other revenue	55 199	53 287	42 576	42 737
	TOTAL REVENUE	1 149 293	1 145 869	1 191 555	1 228 860
less	EXPENSES				
	Employee benefits expense	133 585	140 871	137 064	141 814
	Superannuation expenses	18 398	18 342	18 587	18 672
	Depreciation and amortisation	205 549	202 705	200 721	209 656
	Other operating expenses	662 736	664 082	658 932	711 785
	Interest expenses	66 728	68 201	68 173	65 885
	Other property expenses	19 301	22 996	25 545	41 477
	Current grants				
	Capital grants				
	Subsidies and personal benefit payments	1 487	1 518	1 451	1 491
	TOTAL EXPENSES	1 107 784	1 118 715	1 110 473	1 190 780
equals	NET OPERATING BALANCE	41 509	27 154	81 082	38 080
plus	Other economic flows – included in operating result	- 3 668	- 3 201	- 3 440	- 3 581
equals	OPERATING RESULT	37 841	23 953	77 642	34 499
plus	Other economic flows – other comprehensive income				
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	37 841	23 953	77 642	34 499
	NET OPERATING BALANCE	41 509	27 154	81 082	38 080
less	Net acquisition of non financial assets				
	Purchases of non financial assets	304 920	259 803	190 545	194 071
	Sales of non financial assets	- 246	- 900	- 527	- 181
	less Depreciation	205 549	202 705	200 721	209 656
	plus Change in inventories	6 561	7 271	2 222	760
	plus Other movements in non financial assets	14 317	12 589	11 588	11 588
	equals Total net acquisition of non financial assets	120 003	76 058	3 107	- 3 418
equals	FISCAL BALANCE	- 78 494	- 48 904	77 975	41 498

Table 8.5

Public non financial corporation sector balance sheet

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
ASSETS				
Financial assets				
Cash and deposits	230 725	187 725	186 989	178 363
Advances paid				
Investments, loans and placements	3	3	3	3
Receivables	163 532	163 353	166 121	168 250
Equity				
Investments in other public sector entities				
Equity accounted investments				
Investments – shares				
Other financial assets	6 996	6 205	5 389	4 346
Total financial assets	**401 256**	**357 286**	**358 502**	**350 962**
Non financial assets				
Inventories	170 986	178 257	180 479	181 239
Property, plant and equipment	3 761 835	3 830 164	3 829 988	3 824 066
Investment property				
Other non financial assets	82 894	81 665	80 736	80 298
Total non financial assets	**4 015 715**	**4 090 086**	**4 091 203**	**4 085 603**
TOTAL ASSETS	**4 416 971**	**4 447 372**	**4 449 705**	**4 436 565**
LIABILITIES				
Deposits held	851	851	851	851
Advances received				
Borrowing	1 888 471	1 917 417	1 875 429	1 863 582
Superannuation				
Other employee benefits	62 485	62 423	62 440	62 457
Payables	97 316	98 274	95 824	100 131
Other liabilities	81 850	83 146	94 367	85 327
TOTAL LIABILITIES	**2 130 973**	**2 162 111**	**2 128 911**	**2 112 348**
NET ASSETS/(LIABILITIES)	**2 285 998**	**2 285 261**	**2 320 794**	**2 324 217**
TOTAL EQUITY	**2 285 998**	**2 285 261**	**2 320 794**	**2 324 217**
NET FINANCIAL WORTH[1]	- 1 729 717	- 1 804 825	- 1 770 409	- 1 761 386
NET DEBT[2]	**1 658 594**	**1 730 540**	**1 689 288**	**1 686 067**

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

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
Cash receipts from operating activities				
Receipts from sales of goods and services	888 892	888 672	921 512	964 049
Grants and subsidies received	199 975	199 172	208 108	214 184
Interest receipts	2 035	1 710	2 146	2 160
Dividends and income tax equivalents				
Other receipts	34 389	40 747	30 527	31 193
Total operating receipts	**1 125 291**	**1 130 301**	**1 162 293**	**1 211 586**
Cash payments for operating activities				
Income tax equivalents paid	- 15 351	- 23 545	- 22 483	- 40 969
Payments for employees	- 162 550	- 169 984	- 166 410	- 171 298
Payment for goods and services	- 648 681	- 658 038	- 650 759	- 694 963
Grants and subsidies paid	- 1 487	- 1 518	- 1 451	- 1 491
Interest paid	- 67 308	- 68 161	- 68 252	- 66 149
Other payments				
Total operating payments	**- 895 377**	**- 921 246**	**- 909 355**	**- 974 870**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**229 914**	**209 055**	**252 938**	**236 716**
Cash flows from investments in non financial assets				
Sales of non financial assets	246	900	527	181
Purchases of non financial assets	- 304 920	- 259 803	- 190 545	- 194 071
Net cash flows from investments in non financial assets	**- 304 674**	**- 258 903**	**- 190 018**	**- 193 890**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 74 760**	**- 49 848**	**62 920**	**42 826**
Net cash flows from investments in financial assets for policy purposes[1]				
Net cash flows from investments in financial assets for liquidity purposes	766	791	816	1 043
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 303 908	- 258 112	- 189 202	- 192 847
Net cash flows from financing activities				
Advances received (net)				
Borrowing (net)	81 789	28 946	- 41 988	- 11 847
Deposits received (net)				
Dividends paid	- 23 438	- 32 889	- 32 484	- 50 648
Other financing (net)	10 000	10 000	10 000	10 000
NET CASH FLOWS FROM FINANCING ACTIVITIES	68 351	6 057	- 64 472	- 52 495
NET INCREASE/DECREASE IN CASH HELD	- 5 643	- 43 000	- 736	- 8 626
Net cash flows from operating activities	229 914	209 055	252 938	236 716
Net cash flows from investments in non financial assets	- 304 674	- 258 903	- 190 018	- 193 890
Dividends paid	- 23 438	- 32 889	- 32 484	- 50 648
CASH SURPLUS (+)/DEFICIT (-)	**- 98 198**	**- 82 737**	**30 436**	**- 7 822**

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

Table 8.7

Non financial public sector comprehensive operating statement

		2020-21	2021-22	2022-23	2023-24
		Budget	Forward estimate		
		$000	$000	$000	$000
	REVENUE				
	Taxation revenue	499 268	550 655	578 920	611 992
	Current grants	3 753 254	3 968 376	3 951 785	3 967 506
	Capital grants	371 673	537 211	359 173	338 351
	Sales of goods and services	1 225 547	1 224 649	1 281 240	1 318 688
	Interest income	82 561	79 088	81 352	83 942
	Dividend and income tax equivalent income	23 308	30 511	28 233	28 941
	Other revenue	424 210	403 006	387 130	344 582
	TOTAL REVENUE	6 379 821	6 793 496	6 667 833	6 694 002
less	EXPENSES				
	Employee benefits expense	2 777 579	2 749 208	2 670 557	2 616 817
	Superannuation expenses				
	Superannuation interest cost	100 653	105 703	110 240	110 240
	Other superannuation expenses	313 729	314 273	306 907	307 259
	Depreciation and amortisation	757 437	742 536	734 622	740 128
	Other operating expenses	2 284 424	2 101 705	2 088 993	2 119 623
	Interest expenses	397 906	433 868	476 439	511 361
	Other property expenses				
	Current grants	1 075 532	993 504	976 105	942 021
	Capital grants	235 993	60 136	21 580	18 894
	Subsidies and personal benefit payments	99 619	74 403	72 329	69 967
	TOTAL EXPENSES	8 042 872	7 575 336	7 457 772	7 436 310
equals	NET OPERATING BALANCE	- 1 663 051	- 781 840	- 789 939	- 742 308
plus	Other economic flows – included in operating result	39 693	43 959	47 636	48 791
equals	OPERATING RESULT	- 1 623 358	- 737 881	- 742 303	- 693 517
plus	Other economic flows – other comprehensive income	111 708	112 379	108 456	106 996
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 1 511 650	- 625 502	- 633 847	- 586 521
	NET OPERATING BALANCE	- 1 663 051	- 781 840	- 789 939	- 742 308
less	Net acquisition of non financial assets				
	Purchases of non financial assets	1 335 482	1 572 675	1 081 849	956 807
	Sales of non financial assets	- 35 575	- 44 388	- 44 485	- 44 684
	less Depreciation	757 437	742 536	734 622	740 128
	plus Change in inventories	6 561	7 271	2 222	760
	plus Other movements in non financial assets	238 285	137 999	41 320	22 832
	equals Total net acquisition of non financial assets	787 316	931 021	346 284	195 587
equals	FISCAL BALANCE	- 2 450 367	- 1 712 861	- 1 136 223	- 937 895

Table 8.8

Non financial public sector balance sheet

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
ASSETS				
Financial assets				
Cash and deposits	497 423	202 343	205 093	208 995
Advances paid	202 196	200 996	189 996	188 996
Investments, loans and placements	2 459 414	2 581 656	2 698 269	2 818 285
Receivables	716 904	708 853	702 372	705 218
Equity				
Investments in other public sector entities	21 631	21 631	21 631	21 631
Equity accounted investments				
Investments - shares	10 000	10 000	10 000	10 000
Other financial assets	29 798	30 603	31 495	32 280
Total financial assets	**3 937 366**	**3 756 082**	**3 858 856**	**3 985 405**
Non financial assets				
Inventories	184 345	191 616	193 838	194 598
Property, plant and equipment	22 323 702	23 120 608	23 462 472	23 662 666
Investment property	35 959	31 959	27 959	23 959
Other non financial assets	430 150	561 507	567 915	565 366
Total non financial assets	**22 974 156**	**23 905 690**	**24 252 184**	**24 446 589**
TOTAL ASSETS	**26 911 522**	**27 661 772**	**28 111 040**	**28 431 994**
LIABILITIES				
Deposits held	173 840	185 168	191 639	197 259
Advances received	267 041	256 396	244 888	232 727
Borrowing	11 122 401	12 627 577	13 805 938	14 789 913
Superannuation	4 146 368	4 042 986	3 938 288	3 834 394
Other employee benefits	808 608	808 546	808 563	808 580
Payables	319 677	322 126	321 035	327 029
Other liabilities	1 122 680	1 093 568	1 109 131	1 137 055
TOTAL LIABILITIES	**17 960 615**	**19 336 367**	**20 419 482**	**21 326 957**
NET ASSETS/(LIABILITIES)	**8 950 907**	**8 325 405**	**7 691 558**	**7 105 037**
NET WORTH	**8 950 907**	**8 325 405**	**7 691 558**	**7 105 037**
NET FINANCIAL WORTH[1]	- 14 023 249	- 15 580 285	- 16 560 626	- 17 341 552
NET FINANCIAL LIABILITIES[2]	14 044 880	15 601 916	16 582 257	17 363 183
NET DEBT[3]	**8 404 249**	**10 084 146**	**11 149 107**	**12 003 623**

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

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward estimate		
	$000	$000	$000	$000
Cash receipts from operating activities				
Taxes received	494 268	555 655	583 920	611 992
Receipts from sales of goods and services	1 236 057	1 235 130	1 277 543	1 326 465
Grants and subsidies received	3 984 565	4 454 974	4 310 958	4 305 857
Interest receipts	82 561	79 088	81 352	83 942
Dividends and income tax equivalents	39 981	23 308	30 510	28 234
Other receipts	850 508	654 682	640 037	596 807
Total operating receipts	**6 687 940**	**7 002 837**	**6 924 320**	**6 953 297**
Cash payments for operating activities				
Payments for employees	- 3 242 682	- 3 160 249	- 3 083 929	- 3 031 197
Payment for goods and services	- 2 716 165	- 2 353 854	- 2 343 235	- 2 364 269
Grants and subsidies paid	- 1 468 992	- 1 128 043	- 1 070 014	- 1 030 882
Interest paid	- 397 144	- 432 653	- 474 710	- 510 124
Other payments				
Total operating payments	**- 7 824 983**	**- 7 074 799**	**- 6 971 888**	**- 6 936 472**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 1 137 043**	**- 71 962**	**- 47 568**	**16 825**
Cash flows from investments in non financial assets				
Sales of non financial assets	35 575	44 388	44 485	44 684
Purchases of non financial assets	- 1 334 432	- 1 572 675	- 1 081 849	- 956 407
Net cash flows from investments in non financial assets	**- 1 298 857**	**- 1 528 287**	**- 1 037 364**	**- 911 723**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 2 435 900**	**- 1 600 249**	**- 1 084 932**	**- 894 898**
Net cash flows from investments in financial assets for policy purposes[1]	- 14 000	1 200	11 000	1 000
Net cash flows from investments in financial assets for liquidity purposes	- 73 176	- 76 480	- 66 910	- 68 790
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 386 033	- 1 603 567	- 1 093 274	- 979 513
Net cash flows from financing activities				
Advances received (net)	- 9 948	- 10 645	- 11 508	- 12 161
Borrowing (net)	2 428 312	1 379 766	1 148 629	972 731
Deposits received (net)	- 884 397	11 328	6 471	5 620
Other financing (net)	1 050			400
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 535 017	1 380 449	1 143 592	966 590
NET INCREASE/DECREASE IN CASH HELD	- 988 059	- 295 080	2 750	3 902
Net cash flows from operating activities	- 1 137 043	- 71 962	- 47 568	16 825
Net cash flows from investments in non financial assets	- 1 298 857	- 1 528 287	- 1 037 364	- 911 723
CASH SURPLUS (+)/DEFICIT (-)	**- 2 435 900**	**- 1 600 249**	**- 1 084 932**	**- 894 898**
Future infrastructure and superannuation contributions/earnings[2]	- 38 430	- 40 736	- 43 179	- 45 769
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 2 474 330**	**- 1 640 985**	**- 1 128 111**	**- 940 667**

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

		2020-21 Budget $000
	REVENUE	
	Current grants	
	Capital grants	
	Sales of goods and services	822
	Interest income	317 931
	Other revenue	
	TOTAL REVENUE	318 753
less	EXPENSES	
	Employee benefits expense	613
	Superannuation expenses	88
	Depreciation and amortisation	
	Other operating expenses	2 368
	Interest expenses	292 376
	Other property expenses	6 992
	Current grants	
	Capital grants	
	Subsidies and personal benefit payments	
	TOTAL EXPENSES	302 437
equals	NET OPERATING BALANCE	16 316
plus	Other economic flows – included in operating result	
equals	OPERATING RESULT	16 316
plus	Other economic flows – other comprehensive income	
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	16 316
	NET OPERATING BALANCE	16 316
less	Net acquisition of non financial assets	
	Purchases of non financial assets	
	Sales of non financial assets	
	less Depreciation	
	plus Change in inventories	
	plus Other movements in non financial assets	
	equals Total net acquisition of non financial assets	
equals	FISCAL BALANCE	16 316

Table 8.11

Public financial corporation sector balance sheet

	2020-21 Budget $000
ASSETS	
Financial assets	
Cash and deposits	18 098
Advances paid	63 175
Investments, loans and placements	9 452 398
Receivables	5 331
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments – shares	
Other financial assets	
Total financial assets	**9 539 002**
Non financial assets	
Inventories	
Property, plant and equipment	
Investment property	
Other non financial assets	
Total non financial assets	
TOTAL ASSETS	**9 539 002**
LIABILITIES	
Deposits held	335
Advances received	192 813
Borrowing	9 236 782
Superannuation	
Other employee benefits	136
Payables	63 996
Other liabilities	23 309
TOTAL LIABILITIES	**9 517 371**
NET ASSETS/(LIABILITIES)	**21 631**
TOTAL EQUITY	**21 631**
NET FINANCIAL WORTH[1]	21 631
NET DEBT[2]	**- 103 741**

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

	2020-21 Budget $000
Cash receipts from operating activities	
Receipts from sales of goods and services	822
Grants and subsidies received	
Interest receipts	316 840
Other receipts	
Total operating receipts	**317 662**
Cash payments for operating activities	
Income tax equivalents paid	- 11 994
Payments for employees	- 701
Payment for goods and services	- 2 368
Grants and subsidies paid	
Interest paid	- 285 785
Other payments	
Total operating payments	**- 300 848**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**16 814**
Cash flows from investments in non financial assets	
Sales of non financial assets	
Purchases of non financial assets	
Net cash flows from investments in non financial assets	
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**16 814**
Net cash flows from investments in financial assets for policy purposes[1]	3 355
Net cash flows from investments in financial assets for liquidity purposes	- 2 449 854
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 2 446 499
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	1 573 275
Deposits received (net)	
Dividends paid	- 27 987
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 545 288
NET INCREASE/DECREASE IN CASH HELD	- 884 397
Net cash flows from operating activities	16 814
Net cash flows from investments in non financial assets	
Distributions paid	- 27 987
CASH SURPLUS (+)/DEFICIT (-)	**- 11 173**

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

Table 8.13

Total public sector comprehensive operating statement

		2020-21 Budget $000
	REVENUE	
	Taxation revenue	499 268
	Current grants	3 753 254
	Capital grants	371 673
	Sales of goods and services	1 225 021
	Interest income	82 761
	Dividend and income tax equivalent income	
	Other revenue	424 138
	TOTAL REVENUE	6 356 115
less	EXPENSES	
	Employee benefits expense	2 778 192
	Superannuation expenses	
	Superannuation interest cost	100 653
	Other superannuation expenses	313 745
	Depreciation and amortisation	757 437
	Other operating expenses	2 285 444
	Interest expenses	372 551
	Other property expenses	
	Current grants	1 075 532
	Capital grants	235 993
	Subsidies and personal benefit payments	99 619
	TOTAL EXPENSES	8 019 166
equals	NET OPERATING BALANCE	- 1 663 051
plus	Other economic flows – included in operating result	39 693
equals	OPERATING RESULT	- 1 623 358
plus	Other economic flows – other comprehensive income	111 708
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 1 511 650
	NET OPERATING BALANCE	- 1 663 051
less	Net acquisition of non financial assets	
	Purchases of non financial assets	1 335 482
	Sales of non financial assets	- 35 575
	less Depreciation	757 437
	plus Change in inventories	6 561
	plus Other movements in non financial assets	238 285
	equals Total net acquisition of non financial assets	787 316
equals	FISCAL BALANCE	- 2 450 367

Table 8.14

Total public sector balance sheet

	2020-21 Budget $000
ASSETS	
Financial assets	
Cash and deposits	497 423
Advances paid	202 196
Investments, loans and placements	2 459 414
Receivables	693 653
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments - shares	10 000
Other financial assets	29 798
Total financial assets	**3 892 484**
Non financial assets	
Inventories	184 345
Property, plant and equipment	22 323 702
Investment property	35 959
Other non financial assets	430 150
Total non financial assets	**22 974 156**
TOTAL ASSETS	**26 866 640**
LIABILITIES	
Deposits held	156 077
Advances received	219 036
Borrowing	11 084 428
Superannuation	4 146 368
Other employee benefits	808 744
Payables	378 399
Other liabilities	1 122 681
TOTAL LIABILITIES	**17 915 733**
NET ASSETS/(LIABILITIES)	**8 950 907**
NET WORTH	**8 950 907**
NET FINANCIAL WORTH[1]	- 14 023 249
NET DEBT[2]	**8 300 508**

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

	2020-21 Budget $000
Cash receipts from operating activities	
Taxes received	494 268
Receipts from sales of goods and services	1 235 531
Grants and subsidies received	3 984 565
Interest receipts	82 561
Dividends and income tax equivalents	
Other receipts	850 436
Total operating receipts	**6 647 361**
Cash payments for operating activities	
Payments for employees	- 3 243 311
Payment for goods and services	- 2 717 185
Grants and subsidies paid	- 1 468 992
Interest paid	- 366 089
Other payments	
Total operating payments	**- 7 795 577**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 1 148 216**
Cash flows from investments in non financial assets	
Sales of non financial assets	35 575
Purchases of non financial assets	- 1 334 432
Net cash flows from investments in non financial assets	**- 1 298 857**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 2 447 073**
Net cash flows from investments in financial assets for policy purposes[1]	- 14 000
Net cash flows from investments in financial assets for liquidity purposes	- 73 176
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 386 033
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	1 545 140
Deposits received (net)	
Other financing (net)	1 050
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 546 190
NET INCREASE/DECREASE IN CASH HELD	- 988 059
Net cash flows from operating activities	- 1 148 216
Net cash flows from investments in non financial assets	- 1 298 857
CASH SURPLUS (+)/DEFICIT (-)	**- 2 447 073**
Future infrastructure and superannuation contributions/earnings[2]	- 38 430
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 2 485 503**

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

Table 8.16

General government sector taxes

	2019-20 Outcome	2020-21 Budget
	$M	$M
Taxes on employers' payroll and labour force	**214**	**208**
Payroll taxes	214	208
Taxes on property	**100**	**85**
Stamp duties on financial and capital transactions	100	83
Other		2
Taxes on the provision of goods and services	**130**	**142**
Taxes on gambling	75	86
Taxes on insurance	55	56
Taxes on the use of goods and performance of activities	**74**	**74**
Motor vehicle registration fees	72	72
Other	2	2
TOTAL TAXES	519	510

Table 8.17

General government sector grant revenue

	2019-20 Outcome	2020-21 Budget
	$M	$M
Current grant revenue		
Current grants from the Commonwealth (including for on-passing)		
National partnership payments	251	336
Specific purpose payments	443	397
General purpose grants	3 394	3 021
Total current grant revenue	**4 088**	**3 753**
Capital grant revenue		
Capital grants from the Commonwealth (including for on-passing)		
National partnership payments	184	338
Specific purpose payments		3
General purpose grants	22	31
Total capital grant revenue	**206**	**372**
TOTAL GRANTS REVENUE	4 294	4 125

Table 8.18

General government sector grant expenses

	2019-20 Outcome	2020-21 Budget
	$M	$M
Current grant expenses including subsidies and personal benefit payments		
Local government	87	79
Private and not-for-profit sector (including for on-passing)	882	1 009
Grants to other sectors of government	59	60
Other	257	206
Total current grant expenses including subsidies and personal benefit payments	**1 286**	**1 354**
Capital grant expenses		
Local government	27	13
Private and not-for-profit sector (including for on-passing)	114	223
Grants to other sectors of government	29	24
Other	3	
Total capital grant expenses	**172**	**260**
TOTAL GRANT EXPENSES	1 458	1 615

Table 8.19

General government sector dividend and income tax equivalent income

	2019-20 Outcome	2020-21 Budget
	$M	$M
Dividend and income tax equivalent income from public non financial corporations sector	31	48
Dividend and income tax equivalent income from public financial corporations sector	40	23
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	71	71

Table 8.20

General government sector operating expenses

	2019-20 Outcome	2020-21 Budget
	$M	$M
General public services	449	542
Public order and safety	855	888
Economic affairs	535	661
Environmental protection	110	127
Housing and community amenities	617	649
Health	1 680	1 899
Recreation, culture and religion	170	172
Education	1 221	1 276
Social protection	637	652
Transport	322	371
TOTAL OPERATING EXPENSES	**6 596**	**7 239**

Reported by Classifications of Functions of Government – Australia (COFOG-A).

Table 8.21

General government sector purchases of non financial assets by function

	2019-20 Outcome	2020-21 Budget
	$M	$M
General public services	7	7
Public order and safety	50	139
Economic affairs	34	42
Environmental protection	8	20
Housing and community amenities	199	268
Health	49	83
Recreation, culture and religion	45	32
Education	58	75
Social protection	35	23
Transport	239	342
TOTAL PURCHASES OF NON FINANCIAL ASSETS	**724**	**1 031**

Reported by Classifications of Functions of Government – Australia (COFOG-A).

Appendices

Appendix A

Classification of entities in the Northern Territory

Total public sector

Non financial public sector

General government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation[1]
Batchelor Institute of Indigenous Tertiary Education[1]
Central Australia Health Service[2]
Central Holding Authority
Darwin Waterfront Corporation[1]
Data Centre Services[2]
Department of the Attorney-General and Justice
Department of the Chief Minister and Cabinet
Department of Corporate and Digital Development
Department of Education
Department of Environment, Parks and Water Security
Department of Health
Department of Industry, Tourism and Trade
Department of Infrastructure, Planning and Logistics
Department of the Legislative Assembly
Department of Territory Families, Housing and Communities
Department of Treasury and Finance
Desert Knowledge Australia[1]
Motor Accidents (Compensation) Commission[1]
Museums and Art Galleries Board of the Northern Territory[1]
Nominal Insurer's Fund[1]
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission[1]
Northern Territory Major Events Company Pty Ltd[1]
Northern Territory Police, Fire and Emergency Services
NT Build Statutory Corporation[1]
NT Fleet[2]
NT Home Ownership[2]
Office of the Independent Commissioner Against Corruption
Ombudsman's Office
Territory Wildlife Parks[2]
Top End Health Service[2]

Public Non Financial Corporations

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

Public Financial Corporation

Northern Territory Treasury Corporation[2]

1 Non-budget sector entity.
2 Government business division.
3 Government owned corporation.

Appendix B
Glossary

Advances/advances paid

Advances are the creation of financial assets (that is, an increase in the indebtedness to government units) with the aim of funding particular enterprise, household or government activities.

Agency

A unit of government administration, office or statutory corporation, nominated in an Administrative Arrangements Order for the purposes of the *Financial Management Act 1995* and including, where the case requires, a part or division (by whatever name called) of an agency.

Appropriation

An authority given by the Legislative Assembly to make payments, now or at some future time, for the purposes stated, up to the limit of the amount in the particular Act.

Australian accounting standards

Statements of accounting standards (from the Australian Accounting Standards Board) that are applied in preparation and presentation of financial statements.

Australian Bureau of Statistics

The Australian Bureau of Statistics is a Commonwealth agency that coordinates statistical activities and collaborates with official bodies in the collection, compilation, analysis and distribution of statistics.

Borrowings

Borrowings are debt financial instruments used prudently for the purpose of raising and obtaining funds from financial institutions (or centralised borrowing authority).

Capital grants

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

Cash and deposits

Notes and coin held, deposits at call with a bank or other financial institution, and highly liquid investments that are readily convertible to cash on hand at the investor's option.

Cash surplus/deficit

Reported in the cash flow statement and measures the net impact of cash flows during the period. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid.

Change in net worth

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows. It measures the variation in a government's accumulated assets and liabilities.

Classifications of functions of government – Australia

A framework to classify government outlays or expenditure by the purpose served, for example, health or education.

Commitment

A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Includes operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Commonwealth Grants Commission

The Commonwealth Grants Commission is a Commonwealth statutory body that makes recommendations to the Commonwealth Treasurer on how revenues raised from GST should be distributed to states and territories to achieve horizontal fiscal equalisation.

Commonwealth own-purpose expenses

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

Comprehensive result

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

Consumer price index

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

Contingent liability

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

Current grants

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

Deposits held

Consists of the net increase in cash held by public sector entities as a result of deposits received.

Employee benefits expense

Consists of all uncapitalised compensation of employees except for superannuation. It includes payments in cash or in-kind.

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
  - exchange financial assets or financial liabilities with another entity under conditions potentially favourable to the entity
- 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
  - 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 (net lending/borrowing)

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

General government sector

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

Generally accepted accounting principles

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

Goods and services tax (GST) revenue

The Territory's share of nationally collected GST, based on the Territory's population share weighted by its GST relativity. Revenue sharing relativities are determined by the Commonwealth Treasurer, informed by the recommendations of the Commonwealth Grants Commission.

Government business division

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

Government finance statistics

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

Government owned corporation

An entity in which its objectives are to operate at least as efficiently as any corporate business and maximise sustainable returns to government. The *Government Owned Corporations Act 2001* adopts the shareholder model of corporate governance. The Territory has three government owned corporations: Power and Water Corporation, Territory Generation and Jacana Energy.

Grants

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

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

Grants for on-passing

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

Gross domestic product

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

Gross state product

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 assume responsibility for the debt of, or performance obligations by, another party should the party default.

Horizontal fiscal equalisation

A distribution of GST revenue to state and territory governments so, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

Indemnity

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

Intergovernmental agreement on federal financial relations

An agreement signed by all states, territories and the Commonwealth in December 2008 defining the framework for federal financial relations, encompassing Commonwealth funding to states and territories through general revenue assistance, specific purpose payments and national partnership payments.

Interest expense

Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments and amortisation of discounts or premiums in relation to borrowing.

Inventories

Includes goods or other property used in the production of goods or services, or held for sale, but does not include livestock and other regenerative natural resources.

Investments, loans and placements

Surplus cash or funds available that are invested in permitted investment types with the goal of achieving the desired financial returns within defined risk tolerance levels as stipulated in investment policy.

Leases

Rights conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

National partnership agreements

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

National partnership payments

Tied Commonwealth grants provided to states and territories to enable them to achieve the outcomes and outputs of an agreement.

Net acquisition/(disposal) of non financial assets from transactions

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

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

Net actuarial gains/losses

Includes actuarial gains and losses on defined benefit superannuation plans.

Net cash flows from investments in financial assets (liquidity management purposes)

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

Net cash flows from investments in financial assets (policy purposes)

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

Net debt

Net debt measures a government's net stock of selected gross financial liabilities less financial assets. Net debt equals sum of deposits held, advances received, government securities, loans and other borrowings, less the sum of cash and deposits, advances paid and investments, loans and placements.

Net financial liabilities

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

Net financial worth

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

Net operating balance

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

Net worth

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

Non-budget sector entity

An entity in which the Territory has a controlling interest. The entity is consolidated at whole-of-government level but is not presented separately in the Territory's financial reports. Outside the scope of the *Financial Management Act 1995*, it is generally a statutory body that does not meet the definition of a general government sector entity, public non financial corporation or public financial corporation.

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.

Operating result

A measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Other economic flows

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

Other operating expenses

The total value of goods and services used in production and use of goods acquired for resale. Goods and services acquired for use as direct in-kind transfer to households or as grants are excluded.

Other superannuation expenses

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

Payables

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

Provisions

Amounts set aside by entities from current revenue or income for future payments.

Public financial corporations

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

Public non financial corporations

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

Receivables

Includes short-term and long-term trade credit, accounts receivable, prepaid expenses, 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, sales 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 sales of goods and services revenue.

Specific purpose payments

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

Interest cost is the increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement, as per the relevant accounting standard. The cost is measured net of the return on plan assets of defined benefit schemes.

Tax equivalents regime

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

Total public sector

The total public sector is formed through a consolidation of the non financial public sector and public financial corporation sector.

Treasurer's Advance

An appropriation purpose of that name as specified in the *Appropriation Act*, which provides a pool of funds specifically set aside in each budget to meet one-off unexpected costs that arise during the year and are substantial enough to warrant additional appropriation.

Uniform Presentation Framework

A uniform framework agreed by the Council of Federal Financial Relations to incorporate accounting standard AASB 1049. The Uniform Presentation Framework requires Commonwealth, state and territory governments to present a minimum set of budget and financial outcome information based on the government finance statistics, according to an agreed format and specified reporting arrangements.

Appendix C

Abbreviations and acronyms

AARC	AustralAsia Railway Corporation
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
CBD	central business district
CFFR	Council on Federal Financial Relations
CPI	consumer price index
CGC	Commonwealth Grants Commission
COPE	Commonwealth own-purpose expenses
DPC	Darwin Port Corporation
FFA	Federation Funding Agreements
FITA	*Fiscal Integrity and Transparency Act 2001*
GDP	gross domestic product
GSP	gross state product
GST	goods and services tax
HFE	horizontal fiscal equalisation
ICT	information and communications technology
IGA	Intergovernmental Agreement on Federal Financial Relations
LNG	liquefied natural gas
Moody's	Moody's Investors Service
NAIF	Northern Australia Infrastructure Facility
NHHA	National Housing and Homelessness Agreement
NHR	National Health Reform
NP	National partnership
NTRAI	Northern Territory Remote Aboriginal Investment
NTTC	Northern Territory Treasury Corporation
RBA	Reserve Bank of Australia
ROSI	Roads of Strategic Importance
SCI	statement of corporate intent
SFD	state final demand
SPPs	specific purpose payments
TAFR	Treasurer's Annual Financial Report
UPF	Uniform presentation framework
WPI	wage price index