NORTHERN TERRITORY

BUDGET 2021-22

Budget Paper No. 2

BUDGET STRATEGY AND OUTLOOK

Budget Strategy and Outlook

2021-22

Budget Paper No. 2

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 May 2021 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 27 April 2021. The projections presented here are in accordance with the Uniform Presentation Framework.

Craig Graham
Under Treasurer

27 April 2021

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.

Due to the 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 a 2020-21 mid-year report tabled in the Legislative Assembly in November 2020.

Section 13(1) of the FITA requires the public release and tabling of a mid-year fiscal outlook report by the end of February in each year, or within six months after the last budget, whichever is the later. Given the Territory's 2020-21 Budget was delivered on 10 November 2020, a 2020-21 mid-year report would be required in May 2021 to satisfy the reporting requirements of FITA. As this coincides with the delivery of the 2021-22 Budget, the fiscal projections and budget information contained within this report simultaneously satisfy sections 11 and 13(1) of FITA's reporting requirements of a budget and mid-year fiscal outlook report.

Fiscal outlook

Since the emergence of COVID-19 in early 2020, all Australian jurisdictions have adapted to the 'new normal' of an ever-changing environment of border restrictions, lockdowns and changes in consumer spending. While the 2020-21 Budget was only delivered six months ago, fiscal projections have been significantly revised, demonstrating the volatility and uncertainty of recent economic activity and the effects on the Territory's economic and fiscal outlook.

GST revenue, the Territory's single largest revenue source, is expected to improve to $2.9 billion in 2020-21 and $3.16 billion in 2021-22, an increase of $379 million and $359 million respectively, compared to the 2020-21 Budget. This is primarily due to better than expected performance in national consumption in early 2021, leading to stronger national GST collections. An increase in the Territory's GST relativity between 2020-21 and 2021-22 from 4.76893 to 4.79985 also contributes to the improvement.

The 2021-22 Budget includes investment aimed at accelerating economic recovery through a $120 million expansion of the Local Jobs Fund and additional funding to support growth and development of new and existing industries recommended by the Territory Economic Reconstruction Commission. The 2021-22 Budget continues to support government's health response to protect Territorians against COVID-19, meet demand for government services and enhance community safety.

All key fiscal measures have improved since the 2020-21 Budget. Key estimates for the 2021-22 Budget include:

- total revenue for the non financial public sector of $7.4 billion in 2021-22 and operating expenditure of $7.94 billion
- general government net operating balance deficit of $497 million in 2021-22
- non financial public sector fiscal balance deficit of $1.36 billion in 2021-22
- net debt for the non financial public sector forecast to increase to $9 billion in 2021-22, with the net debt to revenue ratio forecast to be 122%.

In accordance with section 9(1)(c) of the FITA, the government must specify the key fiscal indicators it considers important and against which fiscal policy will be assessed. The key fiscal indicators are the general government sector's net operating balance, and the non financial public sector's fiscal balance, net debt and net debt to revenue ratio. Accordingly, Table 1.1 provides the updated projections for these indicators for the 2021-22 Budget.

Table 1.1: Key fiscal indicators

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
General government sector					
Net operating balance	- 1 240	- 497	- 536	- 480	- 570
Non financial public sector					
Fiscal balance	- 1 873	- 1 356	- 1 215	- 807	- 629
Net debt	7 662	9 001	10 163	10 866	11 405
Net debt to revenue (%)	111	122	146	155	166

Further discussion on the explanations for material differences between the updated financial projections contained in the 2021-22 Budget and those projected at the time of the 2020-21 Budget is provided in Chapter 2, *Fiscal outlook*. Assessment of expected outcomes for fiscal strategy objectives and key fiscal targets is provided in Chapter 4, *Fiscal strategy statement*.

Economic outlook

COVID-19 had a significant impact on the Territory's economic outlook at the time of the 2020-21 Budget, however due to the Territory's effective health response to the pandemic, most Territory businesses continued to operate with fewer trading restrictions compared with other jurisdictions. Although the tourism sector remains affected by the absence of international visitors and disrupted interstate travel, economic indicators in the 2021-22 Budget have improved.

Table 1.2 details the revised outlook for the Territory's key economic indicators for 2020-21, 2021-22 and forward estimates period.

Table 1.2: Territory key economic indicators (%)

	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Gross state product[1]	4.7	2.3	3.1	- 0.3	2.3
State final demand[1]	4.2	4.3	3.9	2.7	- 3.1
Population[2]	0.3	0.5	0.8	0.9	1.0
Employment[1]	- 0.6	1.8	1.7	1.1	0.7
Unemployment rate[3]	5.6	5.4	5.1	4.9	4.8
Consumer price index[1]	0.7	1.8	1.4	1.8	2.2
Wage price index[1]	1.7	1.7	1.4	1.3	1.4

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

The Territory's economic recovery in 2020-21 is expected to be faster than previously anticipated, with gross state product (GSP) estimated to increase by 4.7% in 2020-21 and state final demand (SFD) estimated to grow by 4.2%.

Looking forward, GSP is forecast to increase by 2.3% in 2021-22, and SFD by 4.3%. To some extent, moderating growth reflects the pace of the rebound in 2020-21, which was bolstered by one-off factors that contributed to and brought forward consumption (such as the early release of superannuation) and investment (instant asset write-off rules and accelerated depreciation deductions).

Activity in 2021-22 is expected to return to long-term levels, supported by employment and population growth and a recovery in business confidence and investment. After increasing by an estimated 4.2% in 2020-21, household consumption growth is expected to moderate to 0.3% in 2021-22, with growth to then average 1.8% over the following three years. Investment is forecast to be the major contributor to GSP and SFD growth in 2021-22, with significant growth across both the private and public sectors.

The US$3.6 billion Barossa project and upgrades at the Darwin liquefied natural gas (LNG) plant are major contributors to projected private investment growth in the period to 2024-25. The forecast decline in GSP in 2023-24 is mainly due to the temporary cessation of production at the Darwin LNG plant due to the depletion of gas reserves from the Bayu-Undan gas field and associated impact on exports. There will be a gap in production until early 2025, when gas from the Barossa field is expected to be available.

Border restrictions and uncertainty arising from COVID-19 continue to disrupt interstate migration flows that typically detract from population growth in the Territory. Population is forecast to increase by 0.5% in 2021-22, and gradually strengthen over the forward estimates period.

The Territory's success in managing COVID-19 has reduced the impact on employment, which is forecast to grow by 1.8% in 2021-22, and the unemployment rate is expected to fall to 5.4%. Employment over the forward estimates period is expected to benefit from the lifting of international border restrictions, which will support the labour-intensive tourism sector, as well as private and public sector investment that will support construction employment.

Darwin's inflation rate is forecast to increase to 1.8% in 2021-22 as the impact of one-off measures, mainly government policy responses to COVID-19, unwind. Moderate inflation growth is forecast over the forward estimates period in line with improved consumption, investment, and employment and population growth, but is expected to remain below the long-term rate. Wage growth is also expected to be below long-term rates over the forward estimates, and is a factor contributing to the subdued inflation outlook.

There is significant potential upside to the economic outlook, with a number of major projects on the horizon that are yet to reach final investment decision. The economic contributions arising from these projects are not included in the economic forecasts. Projects that commence over the forward estimates will have a positive impact on the economy and strengthen the Territory's growth.

Further discussion on the explanations for material differences between the updated key economic indicators contained in the 2021-22 Budget and those projected at the time of the 2020-21 Budget is provided in Chapter 3, *Economic outlook*.

Intergovernmental financial relations outlook

GST revenue is the Territory's primary revenue source, representing an estimated 42.7% of the Territory's total revenue in 2021-22. This compares with GST as a proportion of total revenue ranging from 57.4% in 2003-04 to 40.8% 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 2021-22 Budget.

Table 1.3: Territory GST revenue

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
Territory GST revenue[1] ($M)	2 896	3 159	3 127	3 207	3 302
Annual change in Territory GST revenue (%)	8.9	9.1	- 1.0	2.6	3.0

1 GST revenue for 2020-21 includes a balancing adjustment for the overpayment of GST revenue to the Territory in the preceding year.

In 2020-21, the Territory's GST revenue is expected to be $2.9 billion. The improvement of $379 million since the 2020-21 Budget represents stronger than expected national GST collections in early 2021. In 2021-22, the Territory's GST revenue is expected to increase by $263 million (9.1%) to $3.16 billion when compared to the 2020-21 revised estimate. The estimated increase is driven by changes in national consumption and the GST pool distribution, including a 0.8% increase in the GST pool and an increase in the Territory's GST relativity to 4.79985. The increase is also due to a return to normal GST payment timing in 2021-22 following a larger than usual balancing adjustment, which resulted in a deduction of $216 million in 2020-21 associated with the deferral of the Commonwealth 2020-21 Budget.

Over the forward estimates, the GST pool is expected to gradually return to long-term average growth of 3%. The Territory's relativity is expected to decline over the forward estimates period, in line with legislated changes to the horizontal fiscal equalisation (HFE) methodology, which phase in from 2021-22 to 2026-27. Further details on GST estimates are discussed in Chapter 5, *Intergovernmental financial relations issues.*

Territory taxes and royalties outlook

As shown in Table 1.4, taxation and mining royalties are projected to be $889 million in 2021-22, consistent with estimated receipts in 2020-21, and indicate anticipated stability in a number of the Territory's revenue sources as the volatile economic effects of COVID-19 abate. Total own-source revenue is expected to remain comparatively stable over the forward estimates.

Royalty receipts are expected to average $330 million per annum over the forward estimates due to continued strength in some commodity prices and activity in the mining sector. There are no royalty revenues from new onshore gas developments included in the forward estimates.

A range of income support measures provided to households through 2019-20 and 2020-21 (including JobKeeper, early access to superannuation, and Centrelink COVID-19 supplement payments) may have contributed to slightly higher than estimated tax collections on gambling in 2020-21. These tax receipts are expected to remain strong in 2021-22 and grow moderately over the forward estimates.

Motor vehicle tax revenue has been positively impacted by the instant asset write-off announced in the Commonwealth Budget in October 2020, which has stimulated purchases of new vehicles. Motor vehicle tax collections are expected to decline slightly in 2021-22, before resuming trend growth over the forward estimates.

Payroll tax collections are expected to recover markedly in 2021-22 following cessation of COVID-19 payroll tax relief measures and improved business activity. Over the forward estimates period, payroll tax receipts are anticipated to return to trend growth levels in line with a broader recovery in economic conditions.

Residential conveyance duty is expected to accelerate in 2021-22 with mortgage interest rates at historically low levels, while conveyance duty on large commercial transactions is anticipated to lessen due to a small number of large one-off commercial property transactions. Over the forward estimates, taxes on property are forecast to revert to long-term average growth.

Table 1.4: Main taxes and royalties category estimates

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Mining royalties	378	344	337	323	331
Taxes on employers	187	213	223	231	240
Taxes on property	86	104	109	114	120
Taxes on gambling	98	95	98	102	106
Motor vehicle taxes	82	76	78	81	83
Taxes on insurance	56	58	59	60	62
Total	887	889	905	911	941

Conclusion

Fiscal deficits have improved across the forward estimates and the Territory's net debt position is forecast to be over $1 billion lower by 2023-24 than estimated six months ago.

The Territory's successful containment of COVID-19 has been directly attributable to its firm and responsive public health measures combined with additional funding to protect Territorians against the pandemic. Territory and Commonwealth fiscal stimulus measures combined with improving business and consumer sentiment have contributed to stronger than expected national GST collections, resulting in more GST revenue to the Territory. New initiatives aimed at supporting economic recovery in the 2021-22 Budget will underpin activity in the coming years and bolster own-source revenues to the Territory.

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 revised estimate for the year preceding the budget year for the general government and non financial public sectors.

The full set of financial statements is presented in Chapter 8, *Uniform Presentation Framework*, with this chapter providing a comparison of the projections in the 2021-22 Budget with those provided in the 2020-21 Budget. As the 2021-22 Budget concurrently satisfies the FITA requirements of a mid-year fiscal outlook report, no comparison has been provided against mid-year fiscal outlook projections.

For 2021-22, the general government net operating balance is expected to be a deficit $497 million and the non financial public sector fiscal balance a deficit $1.36 billion. Net debt for the non financial public sector is expected to be $9 billion in 2021-22, with the net debt to revenue ratio forecast to be 122%.

In the 2021-22 Budget, total revenue in the non financial public sector is estimated to be $7.4 billion in 2021-22, reducing to $6.89 billion in 2024-25, with total expenditure (including net capital) estimated to be $9.36 billion in 2021-22 and $8.23 billion by 2024-25. 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 2020-21 Budget.

Table 2.1: General government sector – net operating balance

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	- 1 676	- 774	- 819	- 739	n/a
2021-22 Budget	- 1 240	- 497	- 536	- 480	- 570
Variation from 2020-21 Budget	436	277	283	259	n/a

n/a: not available at the time of publishing the 2020-21 Budget

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, while remaining in a deficit position, the general government sector net operating balance is projected to improve when compared to forecasts at the time of the 2020-21 Budget.

For 2020-21, the net operating balance is now estimated to be $1.24 billion, a $436 million improvement from the 2020-21 Budget. From 2021-22 and across the forward estimates, net operating balance deficits are expected to stabilise with a net operating balance deficit of $497 million in 2021-22 and deficits averaging $529 million per annum over the forward estimates period. The improved net operating balance deficits since the 2020-21 Budget are predominantly due to:

- improvements in the Territory's GST revenue as a result of upward revisions to forecast growth in the national GST pool and improvement in the Territory's GST relativity
- additional own-source revenue, mainly mining royalties

- increased Commonwealth revenue for capital purposes where expenditure is recognised in the fiscal balance only
- partially offset by the effect of government policy decisions, mainly to support the Territory's economic recovery, protect Territorians against COVID-19, and address demand pressures for government services.

Further analysis of government policy changes and non-policy changes is provided later in this chapter.

Non financial public sector fiscal balance

The fiscal balance projections are 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 the three public non-financial corporations: 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 highlights the movements in the non financial public sector fiscal balance and compares the updated projections with those published in the 2020-21 Budget.

Table 2.2: Non financial public sector – fiscal balance

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	- 2 450	- 1 713	- 1 136	- 938	n/a
2021-22 Budget	- 1 873	- 1 356	- 1 215	- 807	- 629
Variation from 2020-21 Budget	577	357	- 79	131	n/a

n/a: not available at the time of publishing the 2020-21 Budget

As shown in Table 2.2, the fiscal balance deficit is expected to peak at $1.87 billion in 2020-21 and reduce over the forward estimates to $629 million by 2024-25. The fiscal balance deficit is anticipated to improve by $986 million over the budget cycle when compared with the 2020-21 Budget.

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*.

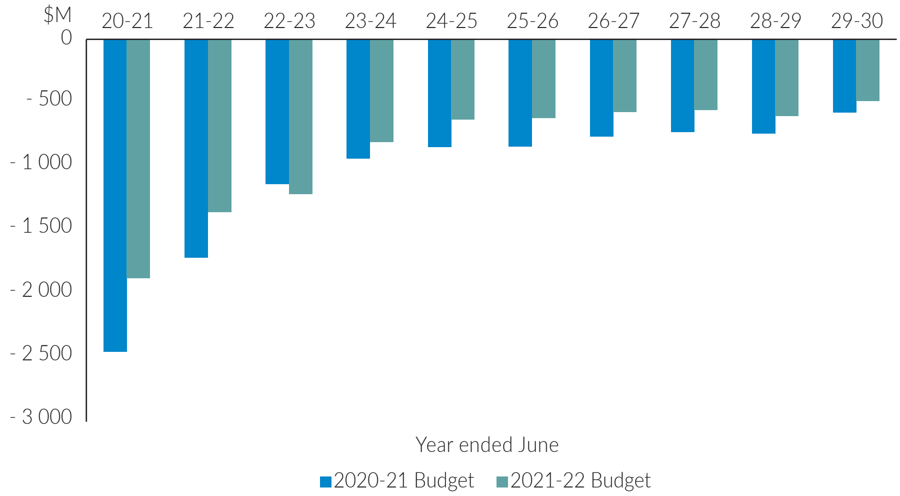
Chart 2.1 compares the updated projections in the 2021-22 Budget for the non financial public sector's fiscal balance with those reported in the 2020-21 Budget. The chart illustrates that the fiscal balance has improved in all years when compared to the 2020-21 Budget, with the exception of 2022-23 but remains in a deficit balance across all years.

While GST revenue estimates have improved in the 2021-22 Budget, the increase is not sufficient to offset the cumulative loss of Commonwealth revenues over recent years. Accordingly, without significant reductions in government expenditure that would undermine service standards or worsen economic outcomes, the fiscal balance is not projected to return to surplus over the medium-term outlook.

Consistent with economic forecasts, the fiscal outlook does not factor in the impact of potential or planned projects 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.

Furthermore, the Territory has not adopted the Commonwealth's 2020-21 Mid-Year Economic and Fiscal Outlook (MYEFO) estimates of GST pool growth in 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. 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 outlook



Given the uncertainty associated with the impacts of COVID-19 on the national economy, including lockdowns, border restrictions and consumer confidence, there is a high degree of volatility associated with 10-year projections. Based on current projections, net debt is estimated to be $13.7 billion by 2029-30, with the net debt to revenue ratio projected to be 181% at that point. When compared to the 2020-21 Budget, net debt has improved by $2.3 billion by 2029-30, and the net debt to revenue ratio by 35 percentage points. 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.

Reconciliation with previous fiscal projections

This section addresses the requirements of section 10(1)(f) of the 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 equivalent projections published in the last fiscal outlook report.

The most recent fiscal outlook report published under the FITA is the 2020-21 Budget. Accordingly, the analysis in the remainder of this chapter reflects policy and non-policy changes since the 2020-21 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 payments or changes in external economic conditions.

Policy and non-policy changes since 2020-21 Budget

Table 2.3 summarises the effect of policy and non-policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget.

Table 2.3: Non financial public sector fiscal balance – policy and non-policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
2020-21 Budget	- 2 450	- 1 713	- 1 136	- 938
Policy changes	- 50	- 151	- 128	- 49
Non-policy changes	627	507	51	180
2021-22 Budget	- 1 873	- 1 356	- 1 215	- 807

As shown in Table 2.3, the improvement in the fiscal balance in 2020-21 to 2021-22 is largely attributable to non-policy changes, notably increased GST revenue and own-source revenues.

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

Policy changes since 2020-21 Budget

Table 2.4 outlines the effect of policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget. The policy changes over the budget and forward estimates relate to government's operational and capital commitments, offset by new savings and contingency measures.

Table 2.4: Non financial public sector fiscal balance – policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Recurrent				
Operational commitments	- 51	- 124	- 89	- 95
Savings and contingency measures	1	52	46	46
Net recurrent	- 50	- 72	- 43	- 49
Capital commitments	nil	- 79	- 85	nil
Total policy changes	- 50	- 151	- 128	- 49

The policy changes over the budget cycle largely relate to continued funding to protect Territorians against COVID-19, initiatives to support economic recovery, funding to meet demand growth for government services and initiatives aimed at enhancing community safety. Additional funding was also provided to support the delivery of government's infrastructure program. Policy decisions are discussed in more detail below.

Operational commitments

Key commitments include:

- initiatives aimed at protecting Territorians against COVID-19:
  - $25.2 million in 2020-21 and $15 million in 2021-22 to support the Territory's public health response to COVID-19 and fund the vaccine rollout
  - $3.5 million in 2021-22 to maintain the Howard Springs quarantine facility and border control infrastructure across the Territory

- initiatives to support economic recovery:
  - $60 million in 2021-22 and $60 million in 2022-23 to expand the Local Jobs Fund package to provide concessional loans and equity finance to deliver financing options to small and emerging businesses with long-term potential. These payments are recognised as financial assets in accordance with accounting standards and do not affect the fiscal balance
  - $26.3 million in 2021-22 and $12.3 million ongoing from 2022-23 to support the tourism and hospitality sector through focused and effective marketing to increase visitation to the Territory, encouraging private investment and continuing to support festivals and events
  - $7.8 million in 2021-22, $10.5 million in 2022-23 and $9.5 million ongoing from 2023-24 to fund resource exploration for areas of high prospectivity, develop a market-led process for renewables in remote communities and undertake a hydrogen trial, and establish the Territory's mineral development taskforce
  - $5.6 million ongoing from 2021-22 to manage parks and reserves and $12 million over four years from 2021-22 to 2024-25 to support the continuation of the Aboriginal ranger grants program
  - $2 million in 2021-22 and $3.7 million ongoing from 2022-23 to establish Infrastructure NT and the Infrastructure Commissioner to undertake strategic planning for future industry and population growth, boost capacity to design and deliver new land releases, provide additional resources for the Territory Strategic Water Plan and to target international migrant programs
  - $1.5 million per annum from 2021-22 to 2023-24 and $1 million ongoing from 2024-25 to establish the Investment and Major Projects commissioners, and fast track a sustainable development precinct for agribusiness
  - $1 million in 2020-21, $3.5 million in 2021-22 and 2022-23, $2 million in 2023-24 and $3 million in 2024-25 and 2025-26 to develop new advanced manufacturing opportunities, and fund resource and agribusiness studies
- funding to address demand for government services:
  - $23 million in 2021-22, $22.9 million in 2022-23 and $22.7 million ongoing from 2023-24 to maintain police numbers, increase CCTV monitoring, improve capability within Northern Territory Emergency Services, expand school-based policing, and meet information and communications technology (ICT) system costs associated with National Disability Insurance Scheme worker screening
  - $15 million in 2020-21 and $10 million ongoing from 2021-22 to support correctional services
  - $4.9 million in 2020-21 and $1.9 million ongoing from 2021-22, including $3 million in 2020-21 for one-off legal expenses in courts and the Northern Territory Legal Aid Commission, and ongoing funding to support the operation of the Judicial Commission and victims of crime services
- initiatives aimed at enhancing community safety:
  - $6.2 million over three years from 2021-22 to continue the Biz Secure program from 1 July 2021
  - $2.5 million in 2021-22 and $3.5 million ongoing from 2022-23 to fund first response services to antisocial behaviour in Darwin, Palmerston and Alice Springs
  - $1.7 million in 2022-23 and $2 million ongoing from 2023-24 to fund the operations of a Barkly youth work camp
  - $1 million in 2020-21 and 2021-22, $1.1 million in 2022-23 and $3.2 million ongoing from 2023-24 to support youth services in Alice Springs and Tennant Creek.

Savings and contingency measures

In addition, the 2021-22 Budget incorporates savings and contingency measures to offset the impact of other policy commitments. Key savings and contingency measures include:

- reducing the consumer price index (CPI) indexation in agency budgets to nil in 2021-22, 1.4% in 2022-23, 1.8% in 2023-24 and 2.2% ongoing from 2024-25, consistent with updated economic forecasts
- utilising contingency of $35 million per annum previously set aside to offset the cost of policy decisions.

Capital commitments

The Territory Government approved additional funding to provide a total of $400 million in both 2021-22 and 2022-23 to progress Territory-funded capital projects on the infrastructure program.

Non-policy changes since 2020-21 Budget

Table 2.5 highlights the effect of non-policy changes on the non financial public sector's fiscal balance since the 2020-21 Budget.

Table 2.5: Non financial public sector fiscal balance – non-policy changes since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
GST revenue	379	359	240	217
Taxation and mining royalties	70	36	31	49
Interest variations	- 4	16	33	46
Government owned corporations	29	- 13	- 116	- 21
Leases	- 8	1	- 48	8
Revised timing of ship lift facility	7	173	- 60	- 90
Commonwealth and agency-related adjustments	153	- 64	- 30	- 29
Total non-policy changes	627	507	51	180

The non-policy changes since the 2020-21 Budget result in an improvement in the fiscal balance in all years over the budget cycle. Key variations include:

- an increase in GST revenue forecasts averaging $299 million per annum from 2020-21 compared to the 2020-21 Budget, largely as a result of upward revisions to national GST pool growth and increase in the Territory's GST relativity for 2021-22
- increases in taxation and mining royalty revenue across all years, largely relating to revised estimates from miners and one-off increases in 2020-21 in gambling taxes and motor vehicle taxes
- an improvement to net interest variations from 2021-22 due to lower interest expenses than previously forecast as a result of decreased borrowing requirements following the GST revenue increases
- revised revenue and expense assumptions and capital requirements incorporated in the government owned corporations' statements of corporate intent (SCIs)
- a net worsening of $47 million over the budget cycle due to the upfront recognition of renewed office accommodation and transport asset leases, in accordance with accounting standards
- the revised timing of payments for the $400 million ship lift facility over 2020-21 to 2024-25 in line with estimated timing of construction

- Commonwealth and agency-related adjustments, resulting in an improvement in 2020-21 and worsening across the budget and forward estimates. These are largely related to the revised timing of milestone payments for ICT systems, road and other infrastructure projects and school and health-related expenses.

2021-22 Budget and forward estimates

Basis of forward estimates

In accordance with the FITA, five years of forward estimates are published 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.

As part of the 2020-21 Budget, agency budgets were adjusted to reflect a nil wages indexation from 2021-22 to 2024-25, in line with the government's 2021–2024 wages policy. The wages policy included an annual $1,000 lump sum payment for public sector employees that has been funded from within existing agency resources.

The CPI parameter for the budget year is generally adjusted to match the year-on-year change in the Darwin CPI for the latest December quarter to better reflect actual price trends. While the Darwin CPI declined by 0.2% in the December 2020 quarter, a CPI factor of nil has been applied to operational costs in 2021-22. From 2022-23, CPI parameters are aligned to the Department of Treasury and Finance forecasts, with 1.4% estimated for 2022-23, 1.8% in 2023-24, and 2.2% thereafter, reflecting the long-term average inflation rate. Property management, undertaken on behalf of government by the Department of Corporate and Digital Development, receives a parameter of 3%, in line with contractual arrangements.

An additional growth parameter of 1.4% from 2021-22 is applied to wage and non-wage expenditure for all health expenditure in recognition of the cost of delivering health services.

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 1% per annum has been applied from 2021-22, a reduction from 3% in 2020-21.

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 component of the Department of Health.

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

Government owned corporation forward estimates are based on forecasts provided by the corporations during the development of their SCIs. The forecasts reflect future expectations in revenue, contracted and regulated costs, capital investments, operational efficiencies and other factors agreed by the corporation's shareholding Minister and the Board. Due to the concurrent development of the Territory budget and SCIs, the final approved SCIs for 2021-22 may differ from the estimates contained in the 2021-22 Budget.

Final SCIs will be tabled in the Legislative Assembly within six sitting days after the commencement of 2021-22.

Operating revenue – forward estimates

Table 2.6 shows the composition of Territory revenue for the non financial public sector for the 2020-21 revised estimate, 2021-22 Budget and forward estimates. Territory revenue is projected to decline on average from the budget year by 2.3% per annum, predominantly due to a reduction in current and capital grants associated with one-off COVID-19-related funding from the Commonwealth in 2020-21 and 2021-22.

Table 2.6: Non financial public sector – revenue

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Revenue					
Taxation revenue	509	546	568	588	611
GST revenue	2 896	3 159	3 127	3 207	3 302
Current grants	1 441	1 458	1 075	1 004	962
Capital grants	340	555	466	459	218
Sales of goods and services	1 144	1 106	1 154	1 198	1 235
Interest income	76	81	84	87	90
Dividend and income tax equivalent income	33	41	41	38	33
Mining royalties income	378	344	337	323	331
Other	98	106	92	101	106
Total revenue	6 914	7 396	6 943	7 005	6 888
Year-on-year percentage change (%)	n/a	7.0	- 6.1	0.9	- 1.7

n/a: not applicable

Taxation revenue

Taxation revenue represents the Territory's primary source of income that government can directly influence. It comprises payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance, and motor vehicle fees and taxes. In 2021-22, taxation revenue is projected to increase by 7.2% to $546 million, predominantly due to estimated increases in both payroll tax and conveyance and related duty. Payroll tax revenue is expected to increase as a result of improved economic conditions following the impact of COVID-19 in 2020-21. The estimated increase in conveyance and related duty results from the cessation of home buyer concessions, and improvements in residential and commercial property markets.

From 2021-22, taxation revenue is projected to grow by an average 4% per annum, anticipating an expected return to normal growth levels, albeit from a lower base.

GST revenue

The factors 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 2021-22, the Territory's GST revenue is expected to increase to $3.16 billion, $263 million or 9.1% greater than the 2020-21 revised estimate. The increase is largely driven by a significant improvement in the national GST pool, particularly in early 2021, following significant fiscal stimulus programs and the easing of business and border restrictions. The Territory's GST relativity also improved from 4.76893 in 2020-21 to 4.79985 in 2021-22.

Current and capital grants

During each budget year there are significant changes in tied and untied Commonwealth funding estimates as funding agreements cease. Current grant revenue in 2020-21 and 2021-22 include elevated balances due to time-limited Commonwealth funding of $240 million and $274 million, respectively, for the COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians program. Over the forward estimates, current grant revenue returns to more historical levels of around $1 billion per annum.

The variation in capital grants from 2021-22 and across the forward estimates is largely due to the timing of delivery of Commonwealth-funded 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. The most significant component relates to gas sales, electricity, water and sewerage charges collected by government owned corporations. Revenue from 2020-21 to 2021-22 will decline by 3.3% largely as a result of lower recoverable electricity network revenue as determined by the Australian Energy Regulator and lower forecast gas sales in the Power and Water Corporation. From 2021-22, sales of goods and services revenue growth are expected to return to historical long-term averages with an average growth of 3.9% per annum.

Interest income

Interest income includes returns on short-term and fixed interest investments combined with realised gains on Conditions of Service Reserve investments. Interest income from 2021-22 to 2024-25 is projected to increase with an average annual growth of 3.4%, in line with the anticipated recovery of financial markets.

Mining royalties income

Mining and petroleum income forecasts are largely 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 by $34 million or 9% from 2020-21 to 2021-22, due to stronger than expected commodity prices in 2020-21. From 2021-22 and across the forward estimates, variation in mining royalties remains modest, indicative of the challenges in estimating future commodity price movements and uncertainty with the pace of global economic recovery following COVID-19.

Other revenue

Other revenue comprises miscellaneous revenue, including reimbursements and research funding from non-government organisations, and is expected to remain relatively stable at an average $101 million per annum from 2020-21.

Operating expenses – forward estimates

Table 2.7 sets out the Territory's expenditure projections for the non financial public sector for the 2020-21 revised estimate, 2021-22 Budget and forward estimates. Total expenditure comprises the day-to-day running costs of government, combined with net capital expenditure including the construction of assets and capital purchases, such as vehicles, ICT and equipment, offset by asset sales.

Table 2.7: Non financial public sector – expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Expenses					
Employee expenses	2 838	2 815	2 671	2 648	2 622
Superannuation expenses	456	454	457	467	477
Depreciation and amortisation	756	752	742	743	733
Other operating expenses	2 308	2 239	2 083	2 046	2 057
Interest expenses	396	421	447	468	478
Current grants	1 095	1 095	996	994	970
Capital grants	247	92	32	32	28
Subsidies and personal benefit payments	91	71	70	67	68
Total expenses	8 186	7 940	7 499	7 464	7 432
Year-on-year percentage change (%)	n/a	- 3.0	- 5.6	- 0.5	- 0.4
Net capital	1 126	1 422	1 313	1 074	796
Total expenditure	9 312	9 362	8 811	8 538	8 228
Year-on-year percentage change (%)	n/a	0.5	- 5 .9	- 3.1	- 3.6

n/a: not applicable

As shown in Table 2.7, total expenses are expected to decline by 3% in 2021-22, mainly due to the cessation of Territory Government COVID-19 stimulus measures, including the Business Hardship Package, Home Improvement Scheme and Small Business Survival Fund, funded in 2020-21. Total expenses are projected to decline by a further 5.6% in 2022-23 and remain largely flat from 2023-24 in line with the conclusion of Commonwealth funding agreements and constrained parameter growth applied to Territory-funded expenses, as detailed earlier in this chapter.

Employee and related expenses

Employee and related expenses continue to account for about 40% of total expenses and are estimated to remain relatively stable over 2020-21 and 2021-22, before declining by 4.3% in 2022-23. Employee and related expenses in 2020-21 and 2021-22 incorporate time-limited expenditure to maintain the Territory's public health response to and preparedness for COVID-19 combined with Commonwealth funding for the COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians program. From 2022-23, employee and related expenses will average $3.11 billion per annum over the forward estimates period in line with government's new wages policy from 2021-22.

Other operating expenses

Other operating expenses are expected to decrease by 3% from 2020-21 to 2021-22 and a further 7% from 2021-22 to 2022-23 due to the same factors affecting employee and related expenses. The reduction is however, to a greater extent, due to a larger proportion of Commonwealth funding in 2020-21 and 2021-22 for COVID-19 quarantine arrangements allocated to other operating expenses than to employee expenses. Over the forward estimates, other operating expenses are projected to remain largely constant at an average $2.06 billion per annum.

Interest expenses

Interest expenses are projected to increase over the budget cycle in line with borrowing requirements to fund projected fiscal balance deficits. However, as shown in Table 2.8, when compared to the 2020-21 Budget, interest expenses have declined in all years as a result of lower overall borrowing requirements consistent with the projected improvement to the fiscal balance over the budget cycle.

Table 2.8: Non financial public sector – interest expenses

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	398	434	476	511	n/a
2021-22 Budget	396	421	447	468	478
Variation from 2020-21 Budget	- 2	- 13	- 29	- 43	n/a

n/a: not available at the time of publishing the 2020-21 Budget

Current grants

Current grant expenses are projected to remain stable over 2020-21 and 2021-22 and estimated to decline by 9% in 2022-23 before remaining largely constant over the forward estimates, in line with the cessation of time-limited COVID-19 stimulus measures and Commonwealth funding agreements.

Capital grants

Capital grant expenses are projected to decline by $155 million or 62.6% in 2021-22, predominantly as a result of the Home Improvement Scheme concluding in 2020-21. In 2022-23, capital grants will decline a further 65% to average $31 million per annum over the forward estimates period, due to one-off grants in 2021-22 relating to the Jabiru national broadband network rollout, Kakadu mobile connectivity program, Roadhouse to Recovery grant program and remote homelands upgrades.

Net capital

The revised timing of a number of key projects, including milestone payments for ICT systems, remote Indigenous housing, the ship lift facility 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 2020-21 Budget due to increased Territory-funded capital investment in both 2021-22 and 2022-23 to progress infrastructure works, and increased Commonwealth funding for roads. These increases are partially offset by a reduction in capital projects and realignment of costs for business transformation projects in the Power and Water Corporation that can no longer be capitalised in accordance with accounting standards.

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 $9 billion in 2021-22, increasing to $11.41 billion by 2024-25 (Table 2.9). The net debt to revenue ratio is projected to be 122% in 2021-22, increasing to 166% by 2024-25. When compared to the 2020-21 Budget, both net debt and net debt to revenue ratio have significantly improved, largely in line with improved fiscal balance deficits. By 2023-24, net debt is expected to improve by $1.14 billion and the net debt to revenue ratio by 24 percentage points.

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

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Net debt					
2020-21 Budget	8 404	10 084	11 149	12 004	n/a
2021-22 Budget	7 662	9 001	10 163	10 866	11 405
Variation from 2020-21 Budget	- 742	- 1 083	- 986	- 1 138	n/a
Net debt to revenue (%)					
2020-21 Budget	132	148	167	179	n/a
2021-22 Budget	111	122	146	155	166
Variation from 2020-21 Budget	- 20	- 26	- 21	- 24	n/a

n/a: not available at the time of publishing the 2020-21 Budget

Factors affecting net debt are the net result of policy and non-policy changes. Policy changes outlined earlier in this chapter include government's operational and capital commitments, offset by new savings and contingency measures. Non-policy changes include increased GST, taxation and mining royalty revenue, the effect of renewed and extended leases of office accommodation and transport assets, operating and capital results of government owned corporations, and timing of Commonwealth and agency payments. Table 2.10 summarises the effect of policy and non-policy changes on net debt since the 2020-21 Budget and demonstrates that non-policy changes are the main contributor to the improvement in net debt.

Table 2.10: Non financial public sector – cumulative changes to net debt since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative changes				
Policy changes	50	201	329	378
Non-policy changes	- 792	- 1 284	- 1 315	- 1 516
Net impact	- 742	- 1 083	- 986	- 1 138

Table 2.11 provides details on the cumulative factors that have contributed to the improvement in net debt over the forward estimates since the 2020-21 Budget.

Table 2.11: Non financial public sector – detailed cumulative changes to net debt since 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Cumulative changes				
Operational commitments	51	175	264	359
Savings and contingency measures	- 1	- 53	- 99	- 145
Capital commitments	nil	79	164	164
GST revenue	- 379	- 738	- 978	- 1 195
Taxation and mining royalties	- 70	- 106	- 137	- 186
Interest income	4	- 12	- 45	- 91
Government owned corporations	- 29	- 16	100	121
Leases	8	7	55	47
Revised timing of ship lift facility	- 7	- 180	- 120	- 30
Commonwealth and agency-related adjustments	- 318	- 238	- 189	- 181
Net impact	- 742	- 1 083	- 986	- 1 138

Chapter 3

Economic outlook

Overview

The information provided in this chapter meets the requirements of sections 10(1)(b) and 10(1)(c) of the 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 description of recent economic performance and the outlook for economic growth, population, employment, prices and wages, as well as a description of the structure of the economy and the external economic environment. More detailed commentary is 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 2021-22 Budget are detailed in Table 3.1.

Table 3.1: Territory key economic indicators (%)

	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Gross state product[1]	5.3	4.7	2.3	3.1	- 0.3	2.3
State final demand[1]	- 4.7	4.2	4.3	3.9	2.7	- 3.1
Population[2]	0.0	0.3	0.5	0.8	0.9	1.0
Employment[1]	- 0.6	- 0.6	1.8	1.7	1.1	0.7
Unemployment rate[3]	5.6	5.6	5.4	5.1	4.9	4.8
Consumer price index[1]	0.2	0.7	1.8	1.4	1.8	2.2
Wage price index[1]	2.3	1.7	1.7	1.4	1.3	1.4

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

COVID-19 had a significant impact on the Territory's GSP and SFD in 2020-21, though consumption effects have been subdued as a result of the Territory's effective health response to the pandemic. With the exception of trading restrictions and physical distancing in the early months of COVID-19, Territory businesses largely continued to operate as normal. The tourism sector however is still severely affected by the absence of international visitors and disrupted interstate travel.

The Territory's economic recovery is expected to be faster than previously anticipated, with GSP estimated to increase by 4.7% in 2020-21. While less than the 5.3% reported in 2019-20, it represents a significant turnaround in the domestic economy, notably for private sector investment (which is estimated to increase by 9.6%, the first increase in three years), household consumption (estimated to increase by 4.2%, first growth in two years) and housing investment (estimated to increase by 17.6%, first growth in six years).

Activity in 2021-22 is expected to return to long-run levels, supported by employment returning to growth after three years of decline, and a recovery in population growth, business confidence and investment. After increasing by an estimated 4.2% in 2020-21, household consumption growth is expected to moderate to 0.3% in 2021-22, and then average 1.8% per annum over the following three years. Investment is forecast to be the major contributor to GSP and SFD in 2021-22, with significant growth across both the private and public sectors.

The US$3.6 billion Barossa project, which also kick-starts an additional US$0.6 billion investment for the Darwin LNG plant's life extension and pipeline tie-in projects, are major contributors to private investment growth in the period to 2024-25. GSP is forecast to decline in 2023-24 as the Darwin LNG plant is expected to cease production temporarily due to depletion of gas reserves from the Bayu-Undan gas field. There is then a gap in production until early 2025 when gas from the Barossa field is projected to become available.

Border restrictions and uncertainty arising from COVID-19 continue to disrupt interstate migration flows that typically detract from population growth in the Territory. Population is estimated to increase by 0.3% in 2020-21 and 0.5% in 2021-22, and gradually strengthen over the forward estimates period.

The Territory's success in managing COVID-19 has reduced adverse impacts on employment, which is estimated to decline by 0.6% in 2020-21, and forecast to recover with estimated growth of 1.8% in 2021-22. The unemployment rate is expected to fall from 5.6% in 2020-21 to 5.4% in 2021-22. Employment over the forward estimates will benefit from lifting international border restrictions, supporting the labour-intensive tourism sector, as well as private and public sector investment which will support construction employment.

After estimated growth of 0.7% in 2020-21, the result of various government policy responses to COVID-19 detracting from inflation, Darwin's inflation rate is forecast to increase to 1.8% in 2021-22 as the impact of one-off measures concludes. Inflation is forecast to strengthen over the forward estimates in line with improved consumption, investment, and employment and population growth, but remain below the long-term rate. Wage growth is also expected to be below long-term rates over the forward estimates period, and is a factor contributing to the modest inflation outlook.

There is significant potential upside to the economic outlook, with a number of major projects on the horizon yet to reach final investment decision. The economic contributions arising from these projects are not included in the economic forecasts. Projects that commence over the forward estimates will have a positive impact on the forecasts.

The majority of forecasts for 2021-22 and the forward estimates period are stronger than reported in the 2020-21 Budget, reflecting new data that reports more positive information than expected and new investment announcements, notably the final investment decision for the Barossa project. Explanations for material variations are provided in the relevant sections that follow.

COVID-19

As COVID-19 cases began to escalate in March 2020, all Australian states and territories implemented various restrictions and safety measures. The Territory was one of the first jurisdictions to announce strict travel restrictions, contributing to the low number of cases locally and an absence of community transmission to date.

Significant fiscal stimulus by the Commonwealth, as well as a range of targeted business assistance and consumer incentive initiatives from the Territory and local governments, have supported activity over the past 15 months.

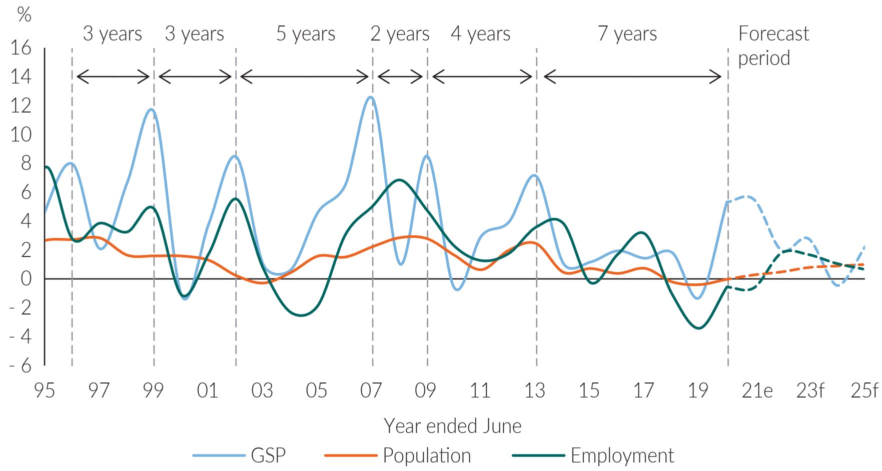
With the exception of the early months of the pandemic, Territory businesses have had to endure only minimal trading restrictions. However, the tourism sector is still severely impacted by the absence of international visitors and disrupted interstate travel. The forecasts assume the majority of Australia's vaccination rollout is completed by early 2022 and Australia's national borders open in early 2022, with a gradual increase in international visitation.

Structure of the economy

All economies are subject to cycles between strengthening and contracting growth rates. The frequency, magnitude and length of cycles are 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.

Chart 3.1 presents the economic cycles of GSP, population and employment for the Territory over the past 25 years, and shows that business cycles average four years, with a range from two to seven years. These cycles have been driven by major projects, where domestic conditions are impacted by resource exploration, construction and production cycles. Employment and population broadly follow GSP growth, although not to the same magnitude given the capital-intensive nature of investments in the Territory and the higher productivity per worker that results.

Chart 3.1: Economic cycles in the Territory



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

Between major private investment projects, economic conditions and growth are influenced by more fundamental factors such as population growth; business sentiment; 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.

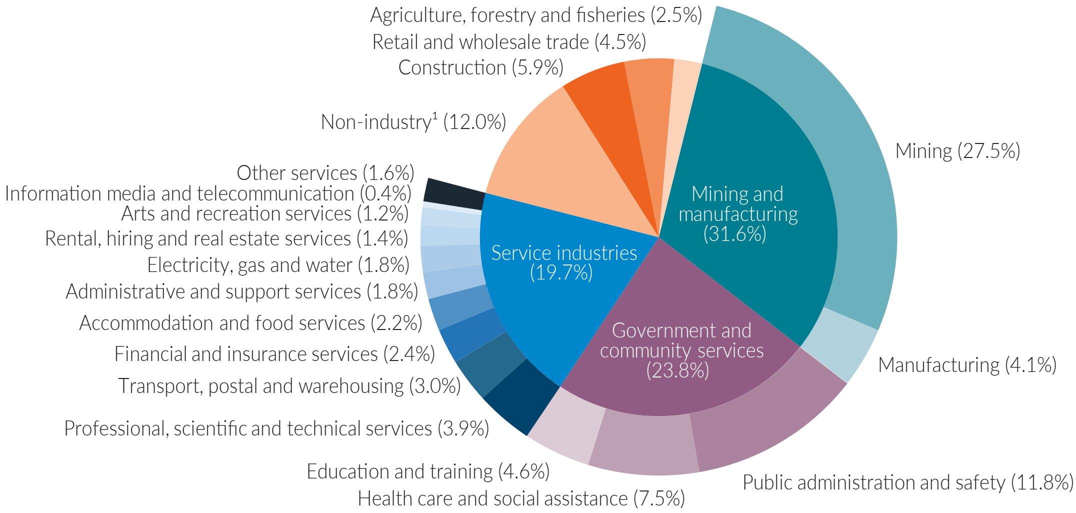
In 2019-20, the Territory's GSP was $26.2 billion, a 5.3% increase from 2018-19 and the strongest growth of the states and territories. In the past decade, the Territory economy has increased by 28.5% from $20.4 billion in 2009-10. Over the same period, the Territory's population increased by around 16,400 (or 7.1%) to 246,000 people, while employment increased by about 12,300 (or 10.3%) to about 132,000 people.

As shown in Chart 3.2, mining and manufacturing, government and community services, construction and tourism are the Territory's most significant sectors, accounting for almost two-thirds of economic activity in 2019-20. Tourism represented around 3.3% of economic output in 2019-20, down from 4.2% in 2018-19, but is not reported as an industry due to the nature of its output.

The share of industry contributions can be volatile in the short term, while changes in the underlying structure of the economy tend to occur over long periods, reflecting comparative economic advantages.

Chart 3.2 presents the contribution of each industry to Territory GSP in 2019-20.

Chart 3.2: Contributions to gross state product, 2019-20



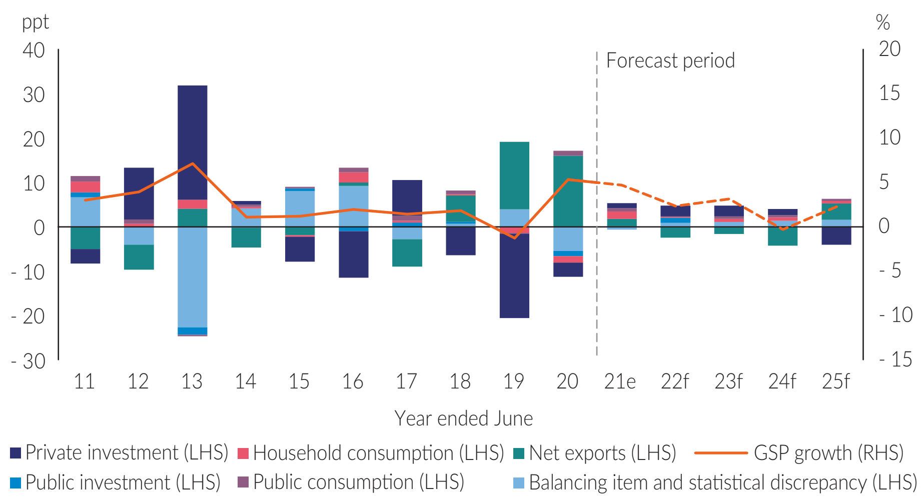
1 Non-industry components of GSP are ownership of dwellings, taxes less subsidies and statistical discrepancy.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Economic growth

GSP is forecast to increase by 2.3% in 2021-22, after increasing by an estimated 4.7% in 2020-21, and 5.3% in 2019-20. This compares with the 2020-21 Budget estimate that the economy would contract by 0.1% in 2020-21 and grow by 1.5% in 2021-22. Key factors contributing to the revisions are significantly stronger private consumption and investment in 2020-21, and the impact of the recently announced Barossa project on business investment in the period to 2024-25.

Chart 3.3 reports the contribution of each of the major components of demand to GSP, including over the forward estimates period. It demonstrates private investment is expected to be the major contributor to growth in 2021-22, followed by public investment.

Chart 3.3: Contribution to Territory economic growth



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

The 2021-22 Budget forecasts modest growth in business investment in 2020-21, following three consecutive years of decline. In reality, the rebound in business confidence and take-up of investment incentives in 2020-21 was sooner and stronger than the (previously) expected recovery, which was anticipated to commence in 2021-22.

The decision in March 2021 to proceed with the US$3.6 billion Barossa project has a very significant impact on the latest economic forecasts. It is expected that work will commence in the second half of 2021 and be completed to allow LNG production to re-commence in early 2025. The forecast for GSP to decline in 2023-24 reflects the temporary cessation of production from the Darwin LNG plant due to the depletion of gas reserves from the Bayu-Undan gas field, with a gap in production until early 2025 when gas from the Barossa field becomes available.

Net exports are expected to make a significant contribution to growth in 2020-21 as a result of declining imports. This is expected to reverse in 2021-22 as development for the Barossa project results in a significant increase in imports.

Besides the Barossa project, the outlook is for domestic investment to return to long-term levels over the forward estimates period, with several major private sector resource and technology projects on the horizon. These projects are at various stages of development and will contribute to growth if final investment decisions are made during the outlook period.

Economic activity in the outlook period will also benefit from improving domestic conditions and population growth, which will support demand for goods and services.

Opportunities

In November 2020, the Territory Economic Reconstruction Commission completed its final report, outlining recommendations to provide a roadmap to accelerate the economic rebound post-COVID-19. In response, the Territory Government approved 22 plans to implement the recommendations and established three key roles in April 2021, the Major Projects Commissioner, Investment Commissioner and Infrastructure Commissioner to strengthen and lead government's strategy for increasing private investment.

The delivery of new major projects will be key in achieving economic output of $40 billion by 2030. The Territory Government is committed to supporting economic activity and attracting private investment to broaden the economy and develop local industry capacity.

State final demand

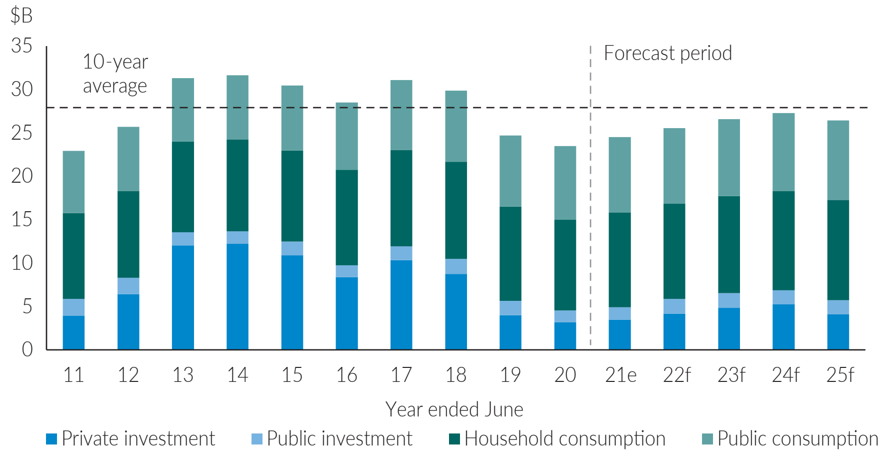
SFD is forecast to increase by 4.3% in 2021-22, with business investment the major contributor to growth, followed by public investment. After strong growth in 2020-21, private and public consumption growth is expected to moderate in 2021-22.

Compared with the forecast in the 2020-21 Budget, stronger SFD growth in 2021-22 reflects the improved outlook for private and public investment, with a significant contribution from the recent announcement to proceed with the Barossa project.

SFD is forecast to increase each year to 2023-24, supported by private investment associated with the Barossa project, before declining in 2024-25 as Barossa-related investment comes to an end.

Chart 3.4 reports Territory consumption, investment and SFD, including over the forward estimates period.

Chart 3.4: Territory state final demand



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

Investment

Investment is forecast to increase by 19.8% in 2021-22, after increasing by an estimated 7.4% in 2020-21 and decreasing by 19.7% in 2019-20. Business investment (a component of private investment) is expected to be the major contributor to growth in 2021-22, with public investment also making a significant contribution. Low interest rates and improved business confidence will support investment in the short to medium term.

The current forecast for investment growth in 2021-22 is significantly stronger than reported in the 2020-21 Budget. The revised forecast reflects stronger than expected public investment and the impact of the recent announcement to proceed with the Barossa project. In the long term, it is global demand for Territory resources and the Territory's cost competitiveness that will drive investment.

In 2021-22 public investment is estimated to increase by 21.2%, after increasing by an estimated 2.5% in 2020-21. Strong growth in 2021-22 reflects investment coming from a relatively low base, and is supported by the ramping up of investment for a range of Commonwealth and Territory-funded projects, including the $400 million Darwin ship lift and marine industry project. The Darwin ship lift will be the largest in northern Australia and the centrepiece in developing a marine maintenance and servicing industry. Construction is anticipated to take two years, with the facility to be operating in 2024.

Public investment will continue to provide significant support to the Territory economy and jobs over the medium term and is forecast to average $1.6 billion per annum over 2020-21 to 2024-25.

Consumption

Consumption is forecast to increase by 0.5% in 2021-22, after increasing by an estimated 3.4% in 2020-21 and declining by 0.5% in 2019-20. The current forecast for consumption growth of 0.5% in 2021-22 is slightly weaker than growth of 0.6% reported in the 2020-21 Budget.

Household consumption is forecast to increase by 0.3% in 2021-22, after increasing by an estimated 4.2% in 2020-21, and declining by 3.6% in 2019-20. Strong growth in 2020-21 reflects government stimulus, early access to superannuation, an inability to travel overseas and, to a lesser extent, interstate, and low interest rates. The consumption impact of these factors will cease or moderate in 2021-22, affecting growth. Household consumption growth is expected to average 1.4% per annum in the four years to 2024-25, consistent with economic, employment, wages and population growth.

Public consumption is estimated to increase by 0.7% in 2021-22, following growth of 2.3% in 2020-21 and 3.7% in 2019-20. Public consumption is expected to provide a modest contribution to economic growth in the forward estimates period.

External economic environment

National and international factors influence the Territory economy through exchange rates, commodity prices, population flows, trade flows, tourist visitation and the availability of workers to meet the Territory's labour requirements. Monetary policy set by the Reserve Bank of Australia (RBA) also influences household consumption, business confidence and investment.

The International Monetary Fund forecasts the global economy to grow by 4.4% in calendar year 2022, after increasing by 6% in 2021 and declining by 3.3% in 2020.

Nationally, economic activity had been weakening for a couple of years before entering recession for the first time in 29 years in the June quarter 2020. The International Monetary Fund forecasts the Australian economy to grow by 2.8% in 2022. This follows growth of 4.5% in 2021, and a decline of 2.4% in 2020. Australia's economic recovery in the second half of 2020 was stronger than initially anticipated, and output is expected to return to pre-COVID levels by mid-2021.

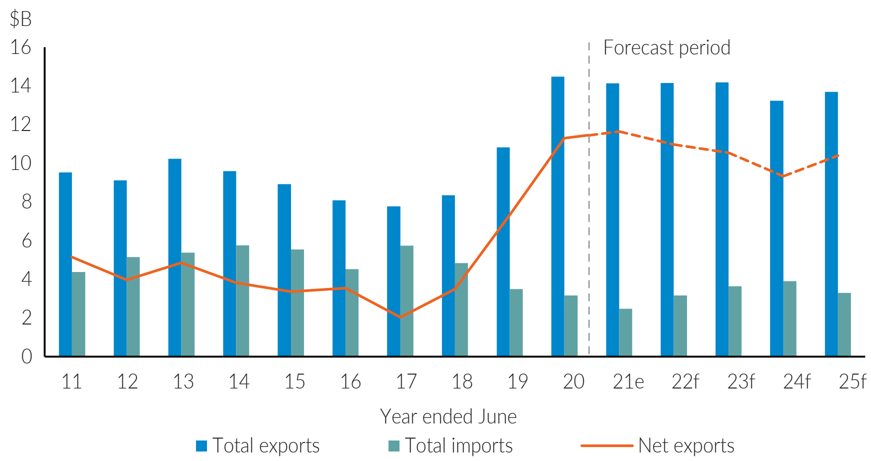
International trade

The Territory's net export balance is forecast to decline by 5.8% to $11 billion in 2021-22, after increasing by an estimated 3.8% in 2020-21 and 54.3% in 2019-20. The current forecast for 2021-22 is weaker than growth of 0.8% anticipated in the 2020-21 Budget, due to imports associated with the recent announcement to develop the Barossa gas field and new investment at the Darwin LNG plant.

The forecast period has exports falling by 6.7% in 2023-24 as production from the Darwin LNG plant temporarily ceases when Bayu-Undan gas feedstock is depleted. It is expected the Darwin LNG plant will recommence production in early 2025, using gas from the Barossa field.

As shown in Chart 3.5, after averaging $4.9 billion per annum over the past decade, net exports is expected to average $10.6 billion per annum over the forecast period.

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

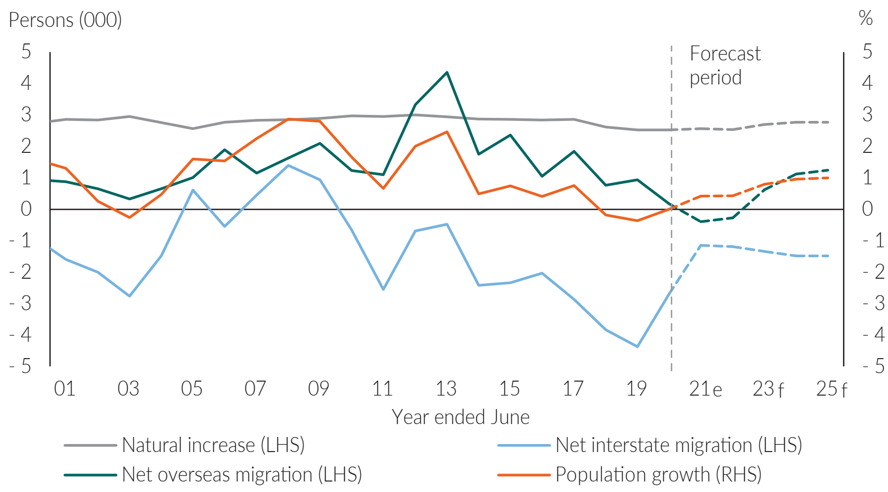
The Territory's population is forecast to grow by 0.5% in 2021-22, after increasing by an estimated 0.3% in 2020-21, and with no growth in 2019-20. The updated forecast for 2021-22 is slightly stronger than the 0.4% forecast in the 2020-21 Budget.

From 2020-21, modest population growth is expected as economic growth underpins employment opportunities. The outlook for overseas migration is highly uncertain and assumes a gradual resumption of overseas migration and travel from early 2022. Interstate migration flows are expected to gradually return to long-term trends as border restrictions ease following Australia's vaccine rollout. Nevertheless, interstate migration remains volatile, with key risks to forecasts including COVID-19, interstate border arrangements and employment opportunities in the Territory and interstate.

Growth in the Territory's population over the five years to 2024-25 is estimated to be 0.7% per annum on average.

Chart 3.6 reports the components of Territory population growth and annual growth rates, including over the forward estimates period.

Chart 3.6: Population growth[1]



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

Labour market

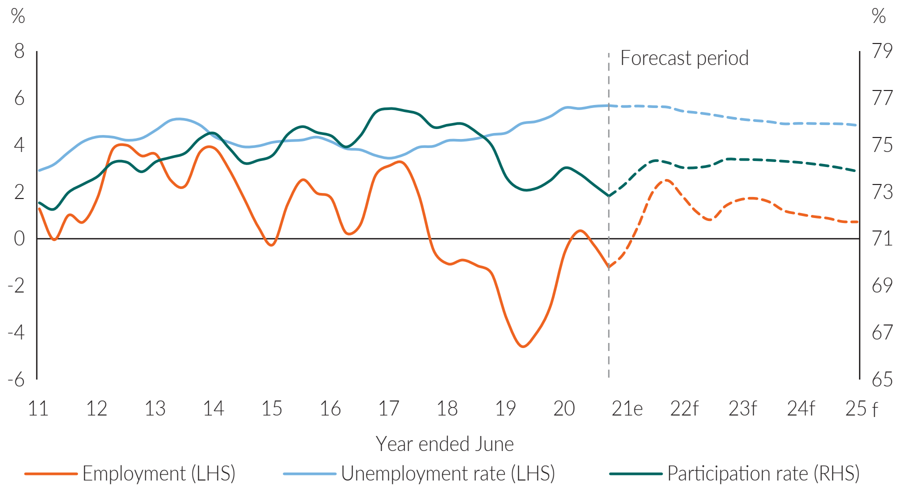
Employment in the Territory is forecast to increase by 1.8% in 2021-22, after declining by an estimated 0.6% in 2020-21 and 0.6% in 2019-20. The updated forecast for 2021-22 is stronger than the 1.3% forecast in the 2020-21 Budget, reflecting stronger investment and improved business confidence.

The unemployment rate is forecast to be 5.4% in 2021-22, down from 5.6% in 2020-21. The updated forecast for 2021-22 is an improvement on the 6.1% forecast in the 2020-21 Budget, reflecting fewer unemployed people than previously estimated and weaker labour force participation, noting there is considerable volatility in reported labour market data for the Territory.

From 2021-22 employment is forecast to recover as the expected lifting of international border restrictions supports the labour-intensive tourism sector, and new investment for public and private sector projects supports employment in construction and other industries.

Chart 3.7 reports changes in employment and the unemployment and participation rates in the Territory, including over the forward estimates.

Chart 3.7: Territory labour market



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

Prices and wages

Darwin's CPI is forecast to increase by 1.8% in 2021-22, after increasing by an estimated 0.7% in 2020-21, and by 0.2% in 2019-20. The updated forecast for 2021-22 is stronger than the 1.1% forecast in the 2020-21 Budget, reflecting the better than expected rebound in consumer spending (supported by the prospect of low interest rates for an extended period), and stronger property and rental markets. Effective prices for maintenance and repair of dwellings will also return to normal levels in 2021-22 after the Territory Government's Home Improvement Scheme provided significant support for works in 2020-21.

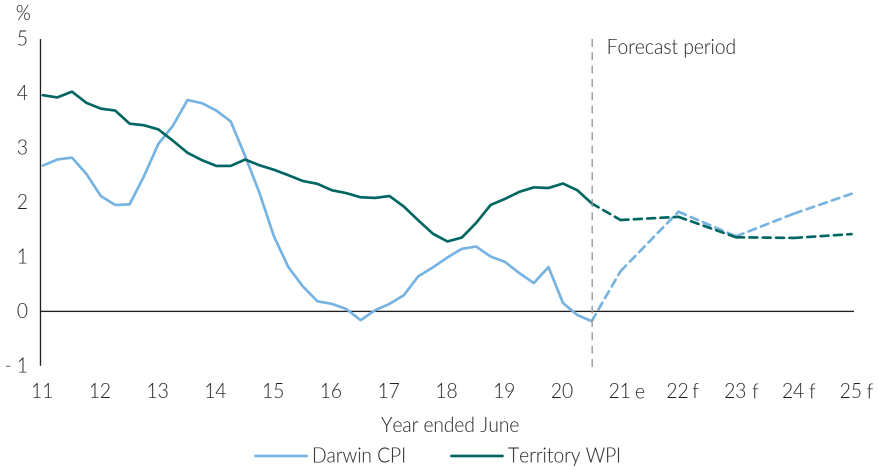
The outlook is for inflation to increase in the outer years as employment, population and demand increase, but to remain at the lower bound of the RBA's preferred inflation range of 2 to 3%.

The Territory's wage price index (WPI) is forecast to increase by 1.7% in 2021-22, after increasing by an estimated 1.7% in 2020-21, and by 2.3% in 2019-20. Current forecasts are consistent with the 2020-21 Budget forecasts.

The outlook for wages growth over the forecast period is modest. Public sector wages will be influenced by new enterprise agreements currently being negotiated, with the Territory Government's new wage policy to apply for four years from 2021-22. Private sector wages growth is expected to gradually increase in line with general economic conditions, and will be supported by limited access to international labour due to border restrictions.

Chart 3.8 reports the Darwin CPI and Territory WPI, including over the forward estimates.

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



e: estimate; f: forecast; CPI: consumer price index; WPI: wage price index
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 2021-22 Budget incorporates improved GST and own-source revenue estimates combined with government's policy measures to continue to protect Territorians against COVID-19, support economic recovery, manage demand for government services and enhance community safety.

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 objectives and consist of the following five strategic priorities on which the budget is based:

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

Section 9(1)(c) of the FITA requires the government to specify the key fiscal indicators it considers important and against which fiscal policy will be set and assessed. The key fiscal indicators on which the fiscal strategy is premised include the general government sector's net operating balance and the non financial public sector's fiscal balance, net debt and net debt to revenue ratio. The fiscal strategy also comprises other fiscal measures that support the achievement of the key fiscal indicators.

2021-22 Fiscal strategy

The fiscal strategy objectives and targets in the 2021-22 Budget remain unchanged from those reported in the 2020-21 Budget. Detailed assessment of expected outcomes for fiscal strategy objectives and key fiscal targets follows.

Assessment of the fiscal strategy

This section addresses the requirements under sections 9(1)(d) and 9(1)(e) of the FITA to provide an assessment of expected outcomes for the key fiscal indicators and explain 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 the 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 more attainable when the Territory's finances are sustainable. Operating surpluses indicate government can finance services from 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 appropriate during periods of economic downturn, persistent or structural operating deficits subsequently pass debt relating to current services to future generations. 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 no 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 grow by 0.2% in aggregate over the forward estimates when compared to a 5.4% anticipated growth in own-source and untied revenue over the same period. As a result, this fiscal strategy objective and target has been met over the budget cycle. The relatively flat growth in Territory-funded expenses is largely driven by nil wages indexation from 2021-22 to 2024-25 in line with the government's 2021–2024 wages policy, partially offset by demand growth in the health sector, combined with low CPI indexation over the budget and forward estimates, as detailed in Chapter 2, *Fiscal outlook*. Growth in untied revenue of 5.4% reflects improvements in both GST revenue and own-source revenue estimates since the 2020-21 Budget.

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

	2021-22	2022-23	2023-24	2024-25	
	Budget	Forward estimate			Growth
	$M	$M	$M	$M	%
Territory-funded expenses[1]	5 131	5 083	5 131	5 141	0.2
Own-source and untied revenue	4 626	4 621	4 722	4 876	5.4

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 about 40% of the general government sector's total expenses, maintaining a financially sustainable public service is critical in containing expenditure growth.

As the Territory Government is a major contributor to the Territory economy and the single largest employer in the Territory, this fiscal strategy objective takes a balanced approach. This objective is premised on ensuring service provision does not outpace population growth. Accordingly, the target has been set that 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% in any year over the budget and forward estimates period.

To assist in meeting this objective and support budget repair, the wage indexation for government's 2021–2024 wages policy was amended from 2% per annum to nil for four years from 2021-22. Table 4.2 highlights that Territory-funded employee expense growth is well below the sum of the wages policy parameter net of efficiency dividends and the Territory's 1.4% long-term population growth. It also demonstrates that government is containing growth in the general government sector's single largest expenditure item.

Table 4.2: Territory-funded expense growth and wages growth

	2021-22	2022-23	2023-24	2024-25
	Budget	Forward estimate		
	%	%	%	%
Territory-funded employee expense growth	- 1.3	- 0.5	0.4	0.0
Wages policy parameter plus long-term population growth	0.8	0.8	0.8	0.8
Variation	- 2.2	- 1.3	- 0.4	- 0.9

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

Table 4.3 shows the net operating balance has improved on average by $273 million per annum over the budget cycle when compared to the 2020-21 Budget, in line with the improved GST and own-source revenue estimates. Despite this improvement, the net operating balance remains in deficit over the budget cycle.

Table 4.3: General government sector – net operating balance

	2021-22	2022-23	2023-24	2024-25
	Budget	Forward estimate		
	$M	$M	$M	$M
2020-21 Budget	- 774	- 819	- 739	n/a
2021-22 Budget	- 497	- 536	- 480	- 570
Variation from 2020-21 Budget	277	283	259	n/a

n/a: not available at the time of publishing the 2020-21 Budget

One of the key objectives of government's *A plan to fix the budget* is to return the budget to an operating balance surplus over a 10-year period, previously forecast to be achieved by 2027-28. Since the emergence of COVID-19, forecast growth in GST and own-source revenue over the medium term has significantly deteriorated. Over the medium term from the budget year, the general government sector net operating balance is now expected to stabilise with an average deficit of $564 million per annum. In the absence of any further improvements in the Territory's revenue base or reduction in expenditure, a net operating surplus will not be achieved.

Principle 2: Infrastructure for economic and community development

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

Capital investment is essential to meet the Territory's economic and social 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 $1.09 billion, well above annual average depreciation of $528 million.

This measure differs from total infrastructure payments of $1.62 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 peaking at 1.5 in 2022-23 before falling to 1.1 from 2023-24.

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

	2021-22	2022-23	2023-24	2024-25	
	Budget	Forward estimate			Average
Total infrastructure investment ($M)	1 256	1 284	1 060	776	1 094
Depreciation ($M)	536	530	526	520	528
Territory-funded infrastructure investment ($M)	660	782	587	559	647
Depreciation ($M)	536	530	526	520	528
Territory-funded infrastructure investment to depreciation ratio	1.2	1.5	1.1	1.1	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% 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.

Since the introduction of the Northern Territory Project Development Framework in October 2019, there have been no Territory Government-funded projects in excess of $30 million added to the capital works program beyond existing rolling programs, including roads and prior commitments such as government's $1.1 billion 10-year remote housing program and projects related to the Darwin City Deal.

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% of the state average of 100%

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 actual revenue collections are above or below its assessed capacity to raise revenue if it imposed national average tax settings. A ratio above 100 indicates a state is collecting more revenue than it would if it applied state average settings, whereas a ratio below 100 indicates that it collects less revenue than it has the assessed capacity to do so. The fiscal strategy aims to achieve assessed taxation effort of at least 90% in order to maximise revenue generation but remain competitive when compared to other states.

Table 4.5 shows the Territory's taxation effort decreased to 74.9% in 2019-20, the latest year assessed by the CGC, compared with 81.1% in 2018-19. The reduction in taxation effort was due to overall declining economic activity in 2019-20 following higher payroll tax receipts in prior years during the construction of the Ichthys LNG project, and large one-off commercial stamp duties received in 2018-19. On this basis, the fiscal strategy target has not been achieved.

Table 4.5: 2019-20 taxation effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	%	%	%	%	%	%	%	%	%
Total taxation	102.1	99.7	93.7	102.5	97.5	82.9	157.6	74.9	100

Source: CGC 2021 Update

The Territory generally demonstrates below-average taxation effort as the Territory does not impose a land tax and levies lower than average motor vehicle taxes. One-off increases in gambling and motor vehicle taxes in 2020-21, combined with the improvement in housing values and market activity, are anticipated to have a positive effect on the Territory's taxation effort for 2020-21. In addition, the cessation of stamp duty concessions and most COVID-19 revenue relief measures from 2021-22 will also improve taxation effort in future updates.

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%

As discussed earlier, 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% 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% of total taxes and royalty revenue across the budget and forward estimates period.

Table 4.6: Territory Revenue Office expenditure to taxation revenue raised

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
Territory Revenue Office expenditure ($M)	5	5	4	4	4
Territory taxes and royalties ($M)	887	889	905	911	941
Expenditure to revenue (%)	0.5	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 support services to 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 at that time.

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 provide 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 2020-21 Budget, confirming an unchanged credit rating for the Territory at Aa3 with a stable outlook. Moody's acknowledged that the significant deterioration in the Territory's 2020-21 Budget projections was largely driven by the material contraction in the national GST pool as a result of the COVID-19-induced economic slowdown. Moody's noted that, despite the Territory's effective containment of the pandemic, given the Territory-funded COVID-19 stimulus measures combined with the effects of the broader economic slowdown, the achievement of the initial budget repair and savings measures identified in the government's *A plan to fix the budget* would be unlikely. Accordingly, this fiscal strategy target has not been met.

Subsequent to this assessment, Moody's published an updated credit opinion for the Territory in February 2021 stating the Territory's current credit profile is reflective of the significant support of the Commonwealth, and the Territory is heavily exposed to Australia's broader economic recovery. Accordingly, Moody's highlighted that a downgrade to the Australian sovereign debt rating would place downward pressure on the Territory's credit rating.

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. Net debt to revenue is calculated as gross debt liabilities less select liquid financial assets as a proportion of total revenue for the non financial public sector. Historically, the Territory has maintained a long-term average net debt to revenue ratio of 40%. Due to the implementation of new accounting standards on leases, this long-term average has been adjusted to 50% and retained as a long-term objective of the fiscal strategy.

As shown in Table 4.7, the non financial public sector's net debt to revenue ratio is projected to be lower in all years when compared to the 2020-21 Budget. The improvement in the net debt to revenue ratio is in line with improved fiscal balance deficits, with a ratio of 122% in 2021-22, increasing to 166% by 2024-25.

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

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	%	%	%	%	%
2020-21 Budget	132	148	167	179	n/a
2021-22 Budget	111	122	146	155	166
Variation from 2020-21 Budget	- 20	- 26	- 21	- 24	n/a

n/a: not available at the time of publishing the 2020-21 Budget

To support the achievement of improving the Territory's credit rating and net debt to revenue ratios, in the May 2021 Legislative Assembly sittings the Territory Government introduced amendments to the FITA to legislate a debt ceiling. A legislated debt ceiling provides greater accountability for financial performance and is one of the key financial accountability pillars of government's *A plan to fix the budget*, complementing the Charter of Budget Discipline and strengthened chief executive budget accountability reforms.

The debt ceiling has been set at a fixed cap on total borrowings at the non financial public sector (excluding finance leases) of $15 billion. Finance lease liabilities have been explicitly excluded from the cap as their valuation is subject to changes in discount rates and does not correlate with actual cash proceeds sought from financial markets to fund operating and capital activities of government.

Net debt is a fiscal measure as determined by the Australian Bureau of Statistics (ABS) and accounting standards. Total borrowings will always be greater than reported net debt figures as borrowings only represent gross debt liabilities, while net debt comprises gross debt liabilities less select liquid financial assets. Targeting borrowings is an indirect means of controlling net debt but represents a more directly controllable measure by government as net debt can be influenced by valuations of finance leases and returns on investments.

In the event the debt ceiling is exceeded or expected to be exceeded over the budget and forward estimates period, the Treasurer will be required to prepare a report within three months and then table it in parliament within six sitting days providing a detailed explanation of the circumstances that have contributed to the forecast breach, identifying actions that will be progressed to remedy the breach to ensure the cap is not exceeded, along with revised forward estimates. The Treasurer will also have the power to suspend the borrowing limit for 12 months in certain situations such as in the event of natural disasters or public health emergencies.

Table 4.8 presents the debt values for the 2021-22 Budget to be assessed in accordance with the FITA debt ceiling. The table shows that total borrowings, excluding finance leases, are below the $15 billion cap in all years over the budget cycle.

Table 4.8: Non financial public sector – debt ceiling assessment

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Total borrowings	10 427	11 777	13 031	13 911	14 612
Less: finance leases	1 771	1 775	1 732	1 616	1 507
Total assessable debt	8 656	10 002	11 299	12 296	13 105

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 should be self-supporting and largely autonomous.

As detailed earlier in Chapter 2, *Fiscal outlook*, given the concurrent development of the Territory budget and the SCIs, the fiscal strategy targets reported in final SCIs may differ from those reported in this chapter.

At the time of drafting, SCIs have been submitted but not approved by the shareholding minister.

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 4.9 shows that all three government owned corporations are expected to meet this element of the fiscal strategy. The Power and Water Corporation's high growth rate for revenue and operating expenses is driven by a forecast increase in gas purchases and sales from 2022-23.

Table 4.9: Government owned corporation growth rates over the statement of corporate intent period

	Power and Water Corporation growth	Territory Generation growth	Jacana Energy growth
	%	%	%
Revenue	17.0	5.6	2.6
Operating expenses[1]	7.2	- 2.6	2.2
Target met	yes	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% 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 also provide updated projections for the budget year and forward estimates period. 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 is expected to be achieved with each government owned corporation reporting their respective agreed targets in their 2021-22 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 relative proportion of shareholder equity and debt used to finance the corporation's assets. Low ratios are more favourable and indicate less risk, while high ratios indicate government owned corporations rely more on debt finance 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 4.10, the government owned corporations are expected to meet this fiscal strategy objective with debt to equity ratios projected to marginally improve in the Power and Water Corporation and be maintained in Territory Generation. The Power and Water Corporation's improved debt to equity position forecast over the period is driven by improved forecast profitability in 2023-24 and 2024-25. The Power and Water Corporation is forecasting a decline in controllable operating costs as it implements its business transformation program. Territory Generation's ratio is largely maintained over the SCI period.

Table 4.10: Government owned corporations 2021-22 statement of corporate intent debt to equity ratios

	2021-22	2022-23	2023-24	2024-25	
	Budget	Forward estimate			Target met
Power and Water Corporation	1.0	1.0	0.9	0.9	yes
Territory Generation	1.9	1.9	1.9	1.9	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 sales) maintained or reduced over the statement of corporate intent period

This measure requires the corporations to continue improving operational efficiency by reducing costs that they are able to directly influence, such as personnel, professional fees, ICT, training, travel and property expenses, to improve profitability and increase returns to government.

Table 4.11 shows that all three government owned corporations are estimating that they will meet this fiscal strategy objective and reduce or maintain controllable costs over the SCI period. Contributing to the achievement of this objective, all government owned corporations intend to adopt the government wages policy. The reduction to Territory Generation's controllable costs over the period is driven by one-off project costs in 2021-22.

Table 4.11: Government owned corporations 2021-22 statement of corporate intent controllable[1] costs

	2021-22	2022-23	2023-24	2024-25	
	Budget	Forward estimate			Target met
	$M	$M	$M	$M	
Power and Water Corporation	239	259	237	219	yes
Territory Generation	96	86	86	85	yes
Jacana Energy	19	18	18	19	yes

1 Controllable costs exclude cost 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 4.12 shows that only Territory Generation is expected to meet this element of the fiscal strategy with dividends projected to be paid across the SCI period.

Table 4.12: Government owned corporations 2021-22 statement of corporate intent dividends paid

	2021-22	2022-23	2023-24	2024-25	
	Budget	Forward estimate			Target met
	$M	$M	$M	$M	
Power and Water Corporation	nil	nil	nil	6.8	no
Territory Generation	3.9	1.6	3.2	6.4	yes
Jacana Energy	nil	4.4	4.8	5.9	no

A dividend is not expected to be declared by Jacana Energy for payment in 2021-22 with the corporation projecting a net loss for 2020-21 as the result of higher than estimated network costs. Jacana Energy is expected to return to profit in 2021-22 and pay dividends in each year of the forward estimates.

The Power and Water Corporation is projecting to pay a dividend in 2024-25 as a result of carried forward net operating losses projected for 2021-22 and negligible profit projected for 2022-23. The net losses and reduced profitability for 2022-23 are the result of lower revenue forecasts and a realignment of business transformation costs that can no longer be capitalised in accordance with accounting standards and are now projected to be expensed.

Chapter 5

Intergovernmental financial relations issues

The information provided in this chapter meets the requirements of sections 10(1)(c) and 10(1)(f) of the FITA in respect of Commonwealth revenues, both tied and untied. It includes forecasts of Commonwealth revenues, explanations of material differences between the revised forecasts and those published in the 2020-21 Budget, and an analysis of the changes in the forecasts.

Overview

Total Commonwealth funding to the Territory in 2021-22 is estimated at $5.17 billion. This comprises $3.16 billion in untied GST revenue and $2 billion in tied funding. Commonwealth funding represents 70% of total revenue to the Territory in 2021-22.

GST revenue is the largest single fiscal transfer from the Commonwealth. The Territory is expected to receive $3.16 billion in GST revenue in 2021-22, $263 million higher than the 2020-21 revised estimate of $2.9 billion. This increase represents a year-on-year improvement of 9.1%.

The estimated GST revenue increase between years is mainly due to a significant improvement in the national GST pool following the impacts of COVID-19, particularly in the first quarter of 2021. The improvement also reflects an increase in the Territory's GST relativity between 2020-21 and 2021-22, from 4.76893 to 4.79985.

The increase in the Territory's GST relativity is the result of the CGC Report on GST Revenue Sharing Relativities 2021 Update, which assessed the Territory as requiring increased revenue due to total expenses in all states growing faster than the GST pool, increasing the GST share of those states (such as the Territory) with above-average expense requirements.

Changes to the GST distribution system come into effect in 2021-22, following the Commonwealth legislating changes to the HFE methodology from full HFE, which equalised all jurisdictions to the fiscally strongest state, to 'reasonable' HFE, being the stronger of New South Wales or Victoria, a lower equalisation standard. This reduced the Territory's relativity for 2021-22 from 4.80820 to 4.79985.

The methodology change will phase in over six years and continue to negatively impact the Territory's relativity over the transition period. Additional Commonwealth payments to the GST pool of $600 million in 2021-22 offset the negative impacts of these reforms.

Other GST impacts include disruptions caused by the 2019-20 summer bushfires and COVID-19, which resulted in a 9% decrease in the Territory's 2019-20 GST assessment. Due to payment timing issues associated with the deferral of the Commonwealth 2020-21 Budget, the Territory's GST revenue in 2020-21 was affected by a $216 million balancing adjustment deduction.

Tied Commonwealth revenue is estimated to contribute $2 billion in 2021-22, compared to $1.78 billion in 2020-21. The increase in the tied revenue estimate for 2021-22 is primarily attributable to increases in Federation Funding Agreement (FFA) framework payments for the:

- National Partnership (NP) Agreement on Land Transport Infrastructure Projects ($207.4 million)
- National Health Reform (NHR) ($73.3 million)
- National School Reform (NSR) Agreement ($54.8 million)
- COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians ($34.3 million)
- NP for Remote Housing Northern Territory ($33.1 million).

These were partially offset by reductions in payments for the COVID-19 health response ($53.2 million), other FFA payments ($42.5 million), other Commonwealth payments ($41.6 million) and the NP on Northern Territory Remote Aboriginal Investment (NTRAI) ($30.4 million).

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 GST revenue 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 major funding agreements, payments under an FFA, including the former NP and project agreement models, and Specific Purpose Payments (SPPs). Previously, the Territory also received untied funding in the form of GST top-up payments and grants in lieu of uranium royalties. Neither of these payments are expected to continue due to the expiry of the Commonwealth's relativity guarantee for the Territory and the closure of the Ranger uranium mine.

Table 5.1 shows total Commonwealth payments to the Territory are estimated at $5.17 billion in 2021-22, of which 61.1% is general revenue assistance funding and the remaining 38.9% is tied funding.

Compared with 2020-21, total revenue from the Commonwealth is expected to increase by $495.9 million, or about 10.6%, in 2021-22.

Table 5.1: Components of Territory revenue, 2020-21 to 2021-22[1]

	2020-21 Budget	2020-21 Revised	2021-22 Budget
	$M	$M	$M
General revenue assistance	2 518	2 898	3 159
GST revenue[2]	2 517	2 896	3 159
Grants in lieu of uranium royalties	2	2	
Tied revenue	1 607	1 779	2 013
Major funding arrangements[3]	723	695	823
Federation Funding Agreement payments[4]	678	858	1 007
Specific purpose payments[5]	15	15	15
Other Commonwealth payments[6]	191	210	169
Total Commonwealth revenue	4 125	4 677	5 172
Territory own-source revenue	2 255	2 238	2 224
Total revenue	6 380	6 914	7 396

1 Includes non-financial public sector.
2 Includes balancing adjustments for over or under payment of GST in the preceding financial year.
3 Includes NHR, NSR Agreement (including payments 'through' the Territory for non-government schools) and NHHA funding.
4 Includes all payments under an FFA, including NTRAI, NP for Remote Housing NT, NP Agreement on Land Transport Infrastructure Projects, COVID-19 Response (health), COVID-19 Quarantine Arrangements at the NT Centre for National Resilience for Organised National Repatriation of Australians, and other FFA payments.
5 SPP on NASWD.
6 Includes funding under the Disaster Recovery Funding Arrangements and Commonwealth own-purpose expenditure.

GST revenue

Overview

GST revenue is the largest revenue transfer from the Commonwealth, estimated to account for 61.1% of total Commonwealth payments to the Territory in 2021-22.

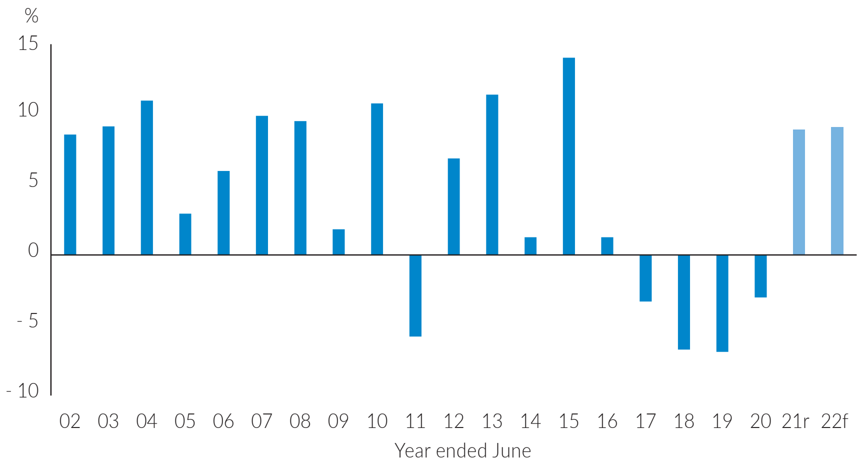
Prior to 2021-22, a state or territory's GST revenue allocation was dependent on three parameters: its GST relativity as recommended by the CGC and approved by the Commonwealth Treasurer, the total amount of GST revenue available for distribution, referred to as the GST pool, and the state or territory's share of the national population. From 2021-22 onwards, GST revenue allocation is also affected by the Commonwealth's legislated changes to the HFE methodology.

In 2020-21, the Territory's GST revenue is expected to be $2.9 billion. This is an improvement of $379 million since the 2020-21 Budget, attributable to significantly stronger than expected national GST pool collections in early 2021 corresponding with the easing of national lockdowns in response to COVID-19.

In 2021-22, the Territory's GST revenue is expected to increase by $263 million (9.1%) to $3.16 billion. The estimated increase is driven by changes in national consumption and the GST pool distribution, including 0.8% increase in the GST pool and an increase in the Territory's GST relativity to 4.79985. The increase also reflects a return to normal GST payment timing in 2021-22 following a larger than usual balancing adjustment that resulted in a deduction of $216 million in 2020-21, associated with the deferral of the Commonwealth 2020-21 Budget.

Since 2000, the Territory's GST revenue has averaged annual growth of about 3.9%. 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 from -6.9% up to 14% across the period 2001-02 to 2021-22.

Chart 5.1: Territory GST revenue, annual growth, 2001-02 to 2021-22[1]



r: revised; f: forecast

1 GST revenue amounts include balancing adjustments for the over or under payment of GST revenue to the Territory in the preceding financial year. Excludes GST top-up payment in 2019-20.

Source: Commonwealth Final Budget Outcome 2001-02 to 2019-20, and Department of Treasury and Finance estimate for 2020-21 and 2021-22

Table 5.2 shows how each of the GST parameters have contributed to the difference in the Territory's GST revenue estimates between 2020-21 and 2021-22.

Table 5.2: Estimated drivers of change in the Territory's GST revenue from 2020-21 to 2021-22

	$M
GST revenue for 2020-21	2 896
Change caused by:	
GST relativities	12
GST pool[1]	26
Population share	5
Interaction between GST parameters[2]	221
Total change	263
GST revenue for 2021-22	3 159

1 Includes additional Commonwealth payments to the GST pool in 2021-22.
2 Primarily driven by the removal of the $216 million reduction in 2020-21 as a result of overpayment in 2019-20.

As shown in Table 5.3, the Territory's revised estimate for 2020-21 is $379 million higher than the 2020-21 Budget estimate, primarily reflecting better than expected performance in national consumption in early 2021, leading to stronger national GST collections. Similarly, recovery in GST collections for 2021-22 combined with an increase in the Territory's GST relativity is expected to increase the Territory's 2021-22 Budget by $359 million when compared to the forecast in the 2020-21 Budget.

The magnitude of these revisions reflect the volatility and uncertainty of GST revenue as a result of COVID-19. These differences highlight the difficulty in forecasting GST revenue in an ever-changing environment involving lockdowns, border restrictions, population restrictions and stimulus programs. Further discussion on risks to the forward estimates associated with COVID-19 is set out at Chapter 7, *Risks and contingent liabilities*.

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

	2020-21	2021-22
	$M	$M
GST revenue		
As at 2020-21 Budget	2 517	2 800
As at 2021-22 Budget	2 896	3 159
Difference	379	359
Change caused by:		
GST relativities	nil	32
GST pool	380	309
Population share	- 1	4
Interactions between GST parameters[1]	nil	14
Total	379	359

1 Impact of the interaction between the updated parameters in the calculation of states' GST shares.

Impact of summer bushfires and COVID-19 on GST revenue

GST collections are directly impacted by changes in national consumption and the broader performance of the national economy. The effect of both the summer bushfires of 2019-20 across several states and COVID-19 resulted in significant contractions in the national economy, with gross domestic product (GDP) decreasing by 7% in the June quarter 2020. National household consumption recorded its first quarterly decline since the 2008 global financial crisis (GFC), decreasing by 12.3% in the June quarter 2020, the largest decline on record. Population growth was also affected by COVID-19, with border restrictions preventing the flow of interstate and international migration. Refer to the Northern Territory Economy book for more detail on the economic impacts of COVID-19.

Both the summer bushfires of 2019-20 and COVID-19 resulted in significant reduction to GST revenue, particularly in the GST pool. The GST pool contracted by -7.6% in 2019-20. This was the first time GST collections had contracted since the GFC and the largest decline since the introduction of the GST. This decline effectively reduced GST revenue by $4.9 billion for the states.

In 2020-21, the GST pool is expected to grow by 13.3% from 2019-20 actuals, reflecting national economic recovery following the onset of COVID-19. This estimate is based on the Commonwealth's 2020-21 MYEFO forecast, adjusted to reflect actual GST collections to March 2021, which were much stronger than expected.

New GST distribution system

Changes to the GST distribution system come into effect in 2021-22 following the Commonwealth legislating changes in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

GST relativities are calculated by 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 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.

These amendments make substantive changes to the manner in which GST is distributed between the states. Previously, GST would be distributed based on the principles of full HFE. Under the new methodology, jurisdictions will be equalised to a 'reasonable' HFE standard, being the fiscal capacity of either New South Wales or Victoria, whichever is greater.

In essence, the change will improve the relativity of any state or territory with stronger fiscal performance than New South Wales or Victoria, and reduce the relativity of all other jurisdictions. In practice, this results in an increase to Western Australia's relativity and a reduction in the relativities for all other jurisdictions. These HFE changes are scheduled to transition progressively from 2021-22 over six years.

The new GST distribution system also introduces a minimum GST relativity floor of 0.7 from 2022-23, increasing to 0.75 in 2024-25. If a jurisdiction's relativity is lower than the GST floor, the GST allocations of all other states will be reduced based on their share of the national population to fund the jurisdiction up to the relativity floor. Currently, the only jurisdiction with a relativity of less than 0.7 is Western Australia, reflecting its above-average capacity to raise mining royalties.

To partially offset the negative impacts of these reforms on states and territories other than Western Australia, the Commonwealth has committed to permanently boost the GST pool with additional annual contributions of $600 million from 2021-22, increasing by a further $250 million from 2024-25. These payments will be indexed annually in line with GST pool growth.

In addition to supplementing the GST pool, if any jurisdiction's GST revenue under the new system is less than the GST that would have been realised under the old methodology (excluding the additional GST pool contribution from the Commonwealth), the Commonwealth has guaranteed additional payments to affected jurisdictions as part of a 'no-worse-off' guarantee. To honour this guarantee, the Commonwealth 2020-21 MYEFO estimated payments totalling $31 million in 2021-22 to other states and territories. The Territory is not expected to receive any payments under this guarantee, as the reduction in the Territory's GST allocation caused by the HFE methodology change is expected to be fully offset by an increase in revenue resulting from the Commonwealth supplementing the pool.

This guarantee provides some certainty in the medium term that the HFE changes will not adversely impact the states until it expires in 2026-27, however subsequent GST allocations could be substantially worse with these methodology changes.

The Commonwealth has committed to a review of the HFE reforms by the end of 2026.

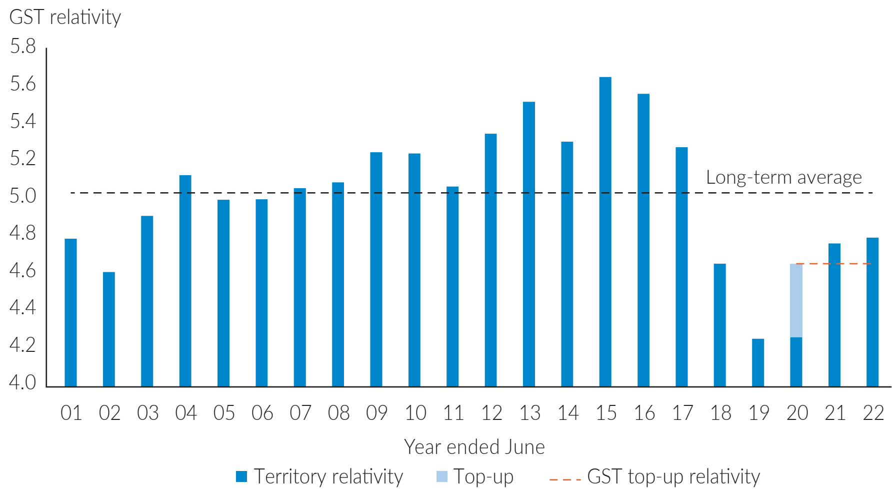
Further discussion on GST revenue risks is found in Chapter 7, *Risks and contingent liabilities*.

GST relativity

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

In March 2021, CGC released its 2021 Update, which recommended a slight increase to the Territory's GST relativity to 4.79985 in 2021-22 from 4.76893 in 2020-21. While this is an improvement on the Territory's GST relativity, it is below the Territory's long-term average of 5.04 as shown in chart 5.2.

Chart 5.2: Territory GST relativity, 2000-01 to 2021-22



Source: Commonwealth Final Budget Outcome, 2001-02 to 2019-20, CGC 2021 Update

The 2021-22 GST relativity recognises that the Territory is assessed as having the lowest fiscal capacity of the states, reflecting its:

- above-average assessed expenditure needs due to relatively high shares of disadvantaged population groups, including people living in remote and very remote areas, diseconomies of scale in administration and above-average infrastructure requirements, primarily for roads
- slightly above-average assessed capacity to raise own-source revenue, reflecting its above-average capacity to raise mining revenue, partially offset by its below-average capacity to raise stamp duty and other taxes
- above-average share of Commonwealth payments.

The main contributors to change in the Territory's GST relativity in the 2021 Update are changes in the Territory's circumstances between the years assessed in the CGC 2020 Review (2016-17 to 2018-19) and the 2021 Update (2017-18 to 2019-20), including:

- increased expenditure need as total national expenses grew significantly faster than growth in the GST pool, increasing the Territory's GST assessed need by $85 million
- increased investment need on rural roads and health to reflect an increase in national investment, increasing the Territory's GST assessed need by $34 million
- increased expenditure need for Aboriginal health services to reflect an increase in national spending, increasing the Territory's GST assessed need by $21 million
- decreased expenditure need due to a decrease in the Territory's relative wage cost, decreasing the Territory's GST assessed need by $55 million
- revised data on the population dispersion resulted in a reduced difference between remote and non-remote service delivery for non-admitted patients, and child protection and family services, reducing the Territory's GST assessed need by $49 million.

It is important to note the CGC's assessed revenue-raising capacity and assessed expenditure need for the Territory differs from actual revenue or expenditure incurred by the Territory. The CGC does not make recommendations on how states and territories should allocate their budgets, nor does CGC take into account all factors affecting the cost of delivering services in each state or territory.

The 2021-22 GST relativity also reflects the first year in which relativities are calculated under the new HFE methodology prescribed by the Commonwealth. The HFE reforms will phase in over six years, with the 2021-22 relativity determined on a 'blended' basis, being a combination of the previous 'full' HFE system and the new 'reasonable' HFE system. The methodology change will shift toward the 'reasonable' HFE over six years, and be determined solely under the 'reasonable' HFE from 2026-27 onwards.

If these HFE changes had not occurred, the Territory's 2021-22 GST relativity would be 4.80820 rather than 4.79985. In 2021-22, CGC estimates the impact of this change results in a reduction of the Territory's GST revenue by $11 million. If the transition had occurred in full, the Territory's relativity would be 4.74626. The Territory can expect its relativity to continue to be negatively impacted by this change as the methodology progressively transitions to 'reasonable' HFE by 2026-27.

In addition to the changes in relativities, CGC publishes an estimate of the Territory's total GST allocation. As GST revenue is paid on a forecast basis, allocations may not align with actual state GST revenue annually, with differences accounted for as a balancing adjustment in the subsequent financial year. This balancing adjustment was particularly significant in 2020-21 as a result of an overpayment in 2019-20 associated with the deferral of the Commonwealth 2020-21 Budget, which is not reflected in the CGC 2021 Update.

The CGC also adopts the Commonwealth's 2020-21 MYEFO estimates of the GST pool and national population growth, which differ from the Territory's estimates. Territory GST pool estimates differ to reflect updated GST collection information since the MYEFO was published.

As the economic impacts of COVID-19 began in late 2019-20, they only had a limited effect on GST relativities in the 2021 Update. The impacts of COVID-19 are expected to be more pronounced in the 2022 Update.

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

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.

Given these issues, it is difficult to reliably forecast the Territory's GST relativities over the forward estimates. The Territory's 2021-22 Budget adopts the 2021 GST relativity update for 2021-22. The GST relativity forecast for the forward estimates is based on a three-year average relativity and is held constant over the forecast period, adjusting for the transition to 'reasonable' HFE.

Further discussion on the GST relativity risks is found in Chapter 7, *Risks and contingent liabilities.*

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 broadening the scope of GST exemptions.

In 2020-21, the GST pool is expected to grow by 13.3% from 2019-20 actuals, reflecting national economic recovery following the onset of COVID-19. This estimate is based on the Commonwealth's 2020-21 MYEFO forecast, adjusted to reflect actual GST collections by the Australian Taxation Office to the end of March 2021. The updated GST data highlights large increases in GST collections in early 2021, reflecting increased consumption and consumer confidence as border restrictions eased and stimulus programs taking effect.

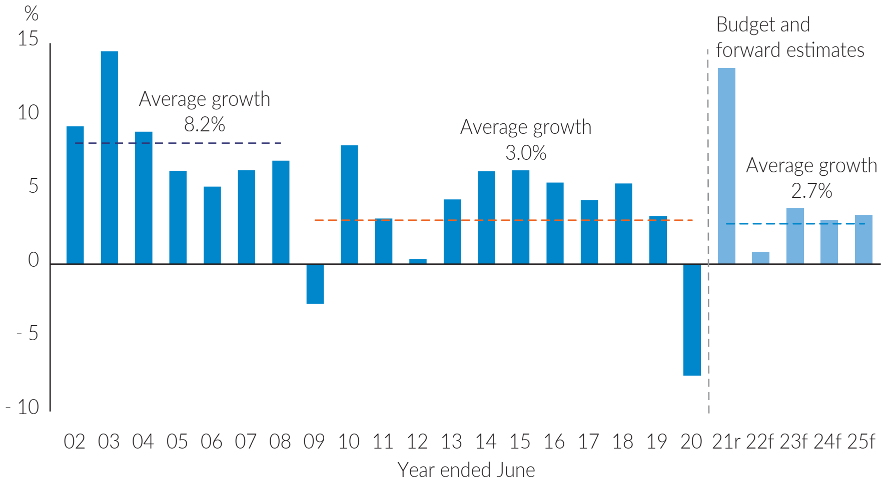
The Territory has not adopted the Commonwealth's MYEFO estimates of GST pool growth in the forward estimate years given the level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative growth rates over this period.

The GST pool is expected to increase in 2021-22 by 0.8%, reflecting a gradual return to long-run average GST pool growth as consumer and business confidence and activity increases with the COVID-19 vaccine rollout, and border and other health-related restrictions lifting. This growth estimate includes an expectation that the strong recovery in GST collections in 2020-21 partly reflects a permanent recovery in national consumption, but is also partly attributable to stimulus measures such as early superannuation withdrawals, JobSeeker and JobKeeper that expired in 2020-21 and are not expected to continue in the forward years.

GST pool growth in 2021-22 also includes the additional Commonwealth contribution to the GST pool of $600 million to coincide with changes to the HFE methodology. This is expected to increase the Territory's GST revenue by $28 million in 2021-22.

In the medium term, growth in the GST pool is assumed to return to the post-GFC average GST growth rate of 3%. Chart 5.3 shows past and expected GST pool growth rates.

Chart 5.3: Growth in the GST pool, 2001-02 to 2024-25



r: revised; f: forecast

Source: Commonwealth Final Budget Outcome, 2001-02 to 2019-20, Department of Treasury and Finance estimates for 2020-21 to 2024-25

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.

Estimates of other states' populations are based on the Commonwealth's 2020-21 MYEFO. The Territory uses its own estimates of Territory population growth, given its local knowledge regarding major projects, border restrictions as a result of COVID-19 and other one-off events that may affect migration levels. Chapter 4 of the Northern Territory Economy book provides more detail on the Territory's population characteristics and forecast growth patterns.

The Territory's 2021-22 Budget estimates the Territory's share of the national population to decline over the budget and forward estimates period from 0.9547% in 2020-21 to 0.9469% in 2024-25. This recognises that the Territory's population growth forecasts are below the national population growth rates.

After experiencing negative 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, and the Territory's success in managing COVID-19. In the short term, border restrictions imposed by the Commonwealth and state governments have disrupted usual interstate and overseas migration flows.

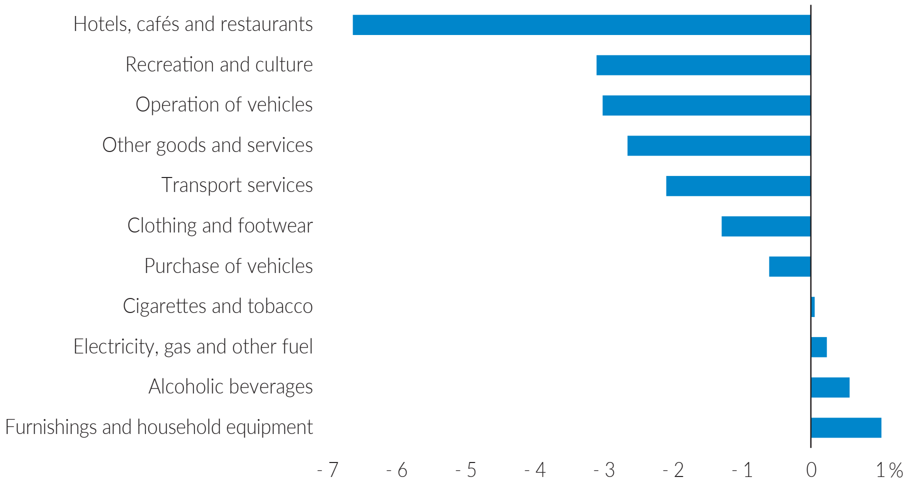
Other issues with GST

Impact of COVID-19 on consumption

GST is only levied on some goods and services, predominantly related to discretionary household expenditure. As a result of the lockdowns across Australia, household consumption patterns dramatically shifted from goods that attract GST towards goods that are GST-free such as health and groceries. A key feature of the lockdowns involved the closure of many hospitality businesses, such as restaurants and cafés, which traditionally constitute a high proportion of GST collections.

Chart 5.4 shows the estimated impact of each consumption category on national GST-taxable consumption. The impact of COVID-19 restrictions resulted in a 56.2% decrease in hotel, cafés and restaurant related consumption in the June quarter 2020, causing an estimated 6.2% decrease in GST-taxable consumption. This was partially offset by an increase in furnishings and household equipment consumption, most likely related to households purchasing home office equipment.

Chart 5.4: National quarterly drivers in GST-taxable consumption, June quarter 2020



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat No. 5206.0; Department of Treasury and Finance

The impact of COVID-19 primarily affected consumption. Avenues for consumption were limited and households spent more time at home during various lockdowns, with the household savings ratio reaching an all-time high of 22% in the June quarter 2020. This is expected to reverse over time as businesses reopen and households resume more normal consumption trends.

Data from the December quarter 2020 National Accounts suggests a recovery in household consumption. This recovery is particularly evidenced by the significant growth in GST collections in 2020-21 when compared to 2019-20.

In the long term, consumption patterns are expected to return to pre-COVID-19 patterns as border restrictions are eased and the COVID-19 vaccine rollout progresses.

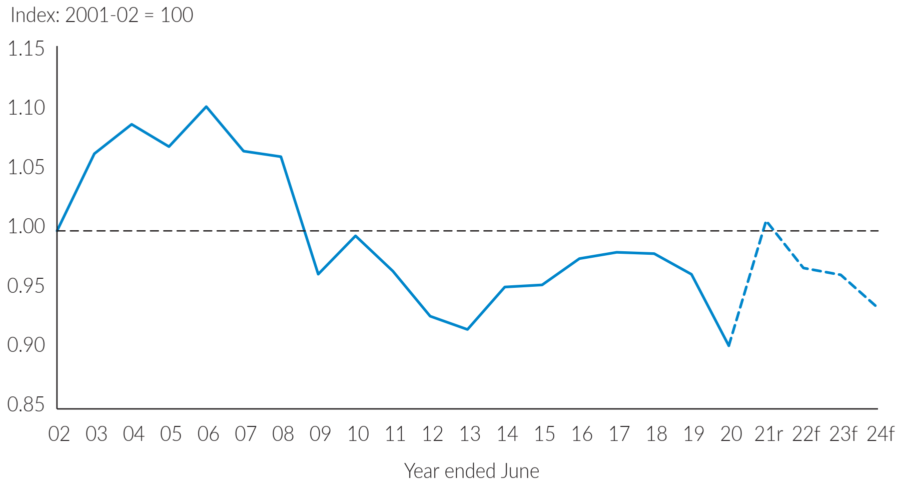
Long-term GST and consumption patterns

When the GST was first introduced in 2000, it was intended that GST revenue would provide a stable source of revenue to the states and would grow with the economy. GST was referred to as a 'growth tax' as it was expected to keep in pace with growth in the economy.

However, GST growth has not kept pace with Australia's GDP growth (181.7% increase since 2001), with the GST pool growth over the same period being 147.3%. If GST collections had kept pace with GDP growth, the GST pool would have been $8.4 billion higher in 2019-20.

This lack of growth is further highlighted by the subdued annual growth in GST collections post-GFC, averaging about 3% compared to pre-GFC annual growth of about 8.2%. Chart 5.5 demonstrates consumption of items attracting GST as a proportion of total household consumption remains below the level when the GST was introduced. This trend is expected to continue in the medium term post-COVID-19.

Chart 5.5: GST as a proportion of household consumption



r: revised; f: forecast

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: March 2021*; Department of Treasury and Finance

This long-term trend indicates both a decline in consumer spending on discretionary items that attract GST, and an increase in consumption of non-discretionary items.

The Commonwealth Parliamentary Budget Office estimates household spending on GST-free goods has more than doubled since the introduction of the GST, while household spending on GST taxable items has grown by less. Its analysis indicates this shift is not just driven by changes in consumer spending patterns, but also by unequal price growth between goods that attract GST and GST-free goods.

One of the largest components of household consumption is rent, accounting for an average of around 20% 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. The increase in household spending on rent as a proportion of total spending is both driven by a rise in renters, particularly among young Australians, and a significant increase in rental prices over the past 20 years.

Similarly to rent, household expenditure on education has significantly increased since the introduction of GST. Education is one of the fastest growing areas of GST-free household spending, with the proportion of consumption attributed to education increasing by 2.1 percentage points since the introduction of the GST. This increase reflects a shift in national consumer preferences, including rising tertiary educational attainment and an increasing preference for non-government schooling.

Household spending on health has also significantly increased since the introduction of the GST, with the proportion of consumption attributed to health increasing by 1.8 percentage points. This increase is associated with a variety of factors, including Australia's ageing population and a shift in consumer preferences to specialised doctors and dentist services. Medical technology has also greatly improved in the same period, broadening the scope of diagnosis and improving the quality of overall health care, resulting in associated health costs outpacing other expenditure categories.

If expenditure on rent, education and health continues to grow at a faster rate than other household expenditure, then GST as a proportion of household consumption will continue to decrease.

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, therefore impacting future growth in GST collections.

Tied Commonwealth revenue

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

In recent years, major sector-wide funding arrangements have been implemented under the NHR, NSR and National Housing and Homelessness (NHHA) agreements. These arrangements are ongoing and indexed annually on a sector-specific basis, providing a degree of certainty for states' budgeting.

In August 2020, the Council on Federal Financial Relations (CFFR) conducted a major reform of funding arrangements and established the new FFA framework. The FFA framework is a series of five overarching sectoral agreements, with program or project-specific funding arrangements developed in the form of FFA schedules. NP and project agreements have been consolidated into the five FFAs with no new NP or project agreements to be developed. Existing NP and project agreements have not been impacted by the introduction of the FFA framework, rather as these expire over time they will be replaced by newly developed FFA schedules as appropriate. CFFR is scheduled to review the new FFA framework by mid-2021, which may result in further changes to the form of tied funding arrangements.

The National Skills and Workforce Development (NASWD) 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. SPP funding is ongoing, indexed and untied within the relevant sector and distributed among the states on a population-share basis. Negotiations for a new National Skills Agreement are currently underway and it is expected the associated funding arrangements will replace the NASWD SPP once completed.

Table 5.5 sets out tied Commonwealth revenue recognised by the Territory in 2020-21 and 2021-22 for key agreements.

Table 5.5: Tied Commonwealth revenue 2020-21 and 2021-22

	2020-21 Revised	2021-22 Budget
	$M	$M
Major funding arrangements	695	823
National Health Reform	298	372
National School Reform Agreement	377	432
National Housing and Homelessness Agreement	20	20
Federation Funding Agreement payments	858	1 007
Northern Territory Remote Aboriginal Investment	129	99
Remote Housing	91	124
Land Transport Infrastructure Projects	199	406
COVID-19 Response (health)	53	nil
COVID-19 Quarantine Arrangements at the Northern Territory Centre for National Resilience for Organised National Repatriation of Australians	240	274
Other Federation Funding Agreement payments[1]	147	104
Specific purpose payments	15	15
National Skills and Workforce Development	15	15
Other tied Commonwealth revenue[2]	210	169
Total tied Commonwealth revenue	1 779	2 013

1 Includes all other FFA payments and funding under the Barkly Regional Deal and Darwin City Deal: Education and Community Precinct.
2 Includes funding under the Disaster Recovery Funding Arrangements and Commonwealth own-purpose expenses.

FFA payments included in the Territory's budget represent funding agreed by the Territory and Commonwealth governments. As additional agreements are finalised throughout the year, the Territory's FFA payments for 2021-22 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 2021-22 are provided in the following sections.

Major funding arrangements

National Health Reform Agreement

The Territory is a signatory to the 2020–2025 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% 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.

The NP on COVID-19 Response was introduced in early 2020 and will complement the NHR Agreement during COVID-19. Further detail on the funding arrangements associated with this NP can be found toward the end of this chapter.

In 2021-22, the Territory expects to receive $371.5 million under the NHR Agreement, an increase of $73.3 million from 2020-21 reflecting updated funding estimates based on advice from the National Health Funding Body.

National School Reform Agreement

The Territory is a signatory to the NSR Agreement 2019-2023 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 NSR Agreement 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.

Under the NSR Agreement package, the Territory has budgeted to receive $431.6 million in 2021-22, an increase of $54.8 million from 2020-21. This is due to the Commonwealth previously pre-paying a portion of the Territory's expected 2020-21 funding allocation for non-government schools in the 2019-20 year to assist with the impacts of COVID-19 on the education sector, and an increase in expected Commonwealth funding for government and non-government schools in 2021-22.

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 2021-22, decreasing marginally from the $20.3 million expected in 2020-21.

Federation Funding Agreement payments

Under the Territory's FFA schedules, Commonwealth funding of $1 billion is expected in 2021-22, an increase of $148.8 million from $858.4 million in 2020-21. This variance is driven by a significant increase in infrastructure investment under the NP Agreement on Land Transport Infrastructure Projects in 2021-22.

The following provides commentary on significant FFA payments to the Territory.

National Partnership on Northern Territory Remote Aboriginal Investment

The NP on 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 NTRAI, the Territory is eligible to receive up to $1 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.

The NP on NTRAI is scheduled to expire at the end of 2021-22, presenting a significant financial risk to the Territory's budget. Negotiations between the Commonwealth and the Territory for a continuation of Commonwealth funding have commenced.

In 2021-22, the Territory has budgeted to receive NTRAI payments of $98.7 million, a decrease of $30.4 million from the $129 million the Territory expects in 2020-21. This variance is driven by a decrease in expected funding in the Remote Australia Strategies component of the NP on NTRAI in line with expected project delivery timeframes.

National Partnership for Remote Housing Northern Territory

In March 2019, the Territory and Commonwealth signed the NP for Remote Housing: 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 in remote communities.

The Territory estimates receiving $123.9 million in 2021-22, $33.1 million more than the $90.8 million expected in 2020-21, in line with the Territory's expectations for meeting the performance obligations contained in the agreement.

National Partnership Agreement on Land Transport Infrastructure Projects

The NP Agreement on Land Transport Infrastructure Projects contributes to a national transport system that is safe, sustainable, drives economic growth and supports a competitive infrastructure market. The agreement is in place for five years from 2019-20 and encompasses a number of components, including Road Investment, Roads of Strategic Importance (ROSI), Black Spot projects, heavy vehicle safety, bridges renewal and the Developing Northern Australia roads programs.

In 2021-22, the Territory anticipates $406.3 million under the agreement, $207.4 million more than the $198.9 million expected in 2020-21, primarily driven by increased investment of $187.5 million under the Road Investment component of the agreement.

The Road Investment component includes funding for a number of large-scale projects, including the rollout of road safety treatments on rural and regional roads and COVID-19 stimulus works announced in 2020. Key projects under this component include future works on the Tiger Brennan Drive/Berrimah Road intersection and upgrades to the Buntine Highway and Central Arnhem roads, as well as the Stuart Highway intersection at Coolalinga. In 2021-22, the Territory expects $283.5 million in road investment component funding, an increase of $187.5 million compared with expected 2020-21 revenue of $96 million.

The ROSI component of the NP aims to better connect regional business and communities across Australia. The Territory expects $101.1 million in 2021-22 under ROSI, an increase of $58.4 million from 2020-21. Significant Commonwealth investment was brought forward in 2019-20 to expedite ROSI programs, and a further $173.6 million in additional funding was announced in early 2021 for upgrades to roads in and around the Beetaloo Sub-basin, including the Buchanan Highway, Western Creek Road and the Gorrie Dry Creek Road.

Adelaide River floodplain upgrades to the Arnhem Highway and Keep River Plains Road upgrades continue to be key projects under the Developing Northern Australia component of the NP in 2021-22. In 2021-22 the Territory anticipates $6.5 million in revenue, a decrease of $39.3 million from 2020-21 as most programs under the component are completed.

Key funding agreements in response to COVID-19

Over the course of COVID-19, a number of targeted funding agreements have been developed aimed at supporting Australia's response to the pandemic. For the Territory, key funding initiatives are those in the areas of public health, including the rollout of the COVID-19 vaccine and providing quarantine facilities for repatriated Australian citizens and permanent residents.

The following provides commentary on key COVID-19 funding agreements in place in the Territory.

National Partnership on COVID-19 Response

The NP on COVID-19 Response was established in early 2020 with the aim of providing additional funding to assist the states in managing their public health responses to the COVID-19 outbreak. In February 2021, the NP on COVID-19 Response was amended to include details for the coordination and delivery of the COVID-19 Vaccination Program across Australia with the intention to provide vaccines free of charge for all people living in Australia.

Funding under the program is provided on a 50/50 fixed price cost-sharing basis with the Commonwealth, states and territories to share the direct cost per vaccination dose. States and territories are required to cover all other additional costs related to the delivery of vaccinations to their communities. In the Territory, the COVID-19 vaccination program commenced in March 2021.

The NP will remain in place for the period of the activation of the Australian Health Sector Emergency Response Plan for Novel Coronavirus. The Territory expects to receive $53.2 million in 2020-21, commensurate with activity levels under the NP. Funding for 2021-22 is contingent on demand for in-scope services.

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

The agreement puts in place the governance and funding framework to operate the Howard Springs quarantine facility to enable the repatriation of Australian citizens and permanent residents back to Australia. Under a variation to the agreement in early 2021, the capacity at the Howard Springs quarantine facility will be expanded to 2,000 individuals per fortnight from May 2021 until the agreement's expected expiry in December 2021, with all funding to be provided in 2020-21 and 2021-22. Up to $513.5 million in Commonwealth funding is available under the agreement.

The Territory expects to receive $239.6 million under the agreement in 2020-21 and $273.9 million in 2021-22, based on the funding set out in the variation to the agreement in early 2021.

Specific purpose payments

In 2021-22, the Territory expects to receive a total of $14.7 million in SPPs, solely through the NASWD SPP.

The SPP is expected to cease following commencement of the new National Skills Agreement, which is currently under development between the Commonwealth, states and territories. In July 2020, the Territory signed the Heads of Agreement for Skills Reform, which requires jurisdictions to develop the new agreement by August 2021 for intended commencement in January 2022. It is expected the agreement will include a new activity-based funding model that is linked to efficient pricing.

Other tied Commonwealth revenue

The Territory also receives other tied revenue from the Commonwealth, including Commonwealth own-purpose expenses, 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 $168.9 million in 2021-22, $41.6 million less than 2020-21.

Barkly Regional Deal

The Barkly Regional Deal is a 10-year initiative, comprising total project funding of $78.4 million, including $45.4 million from the Commonwealth, $30 million from the Territory Government and $3 million from the Barkly Regional Council. The initiatives supported under this deal include $9.5 million to construct and operate a visitor park in Tennant Creek to provide a range of accommodation options for transitional and seasonal visitors from outlying communities; an investment of $2.2 million towards the establishment of the Barkly Business Hub as a 'one-stop-shop' to facilitate regional job and industry growth and development; and $2.5 million for the installation of a new weather radar providing communities across the Barkly with more real-time and short-term weather information. These and other initiatives are designed to improve the productivity and liveability of the Barkly region through increasing economic growth and enhancing social outcomes by reducing overcrowding, improving child safety and supporting local Aboriginal leadership.

The total funding from the Commonwealth in 2021-22 is estimated at $6.4 million. The Territory Government will provide $4.3 million in 2021-22.

Darwin City Deal: Education and Community Precinct

The Darwin City Deal is a 10-year agreement between the Commonwealth, Territory Government and City of Darwin to position Darwin as a thriving and liveable tropical capital city, supported by a growing population and diverse economy. The deal contains a suite of projects, including the construction of a new Education and Community Precinct, being supported as part of a $97.3 million commitment from the Commonwealth from 2019-20 until 2023-24. Funding is to be provided by the Commonwealth, through the Territory Government, to Charles Darwin University. This project will see a new city campus for Charles Darwin University and community hub on the corner of Cavenagh Street and Garramilla Boulevard. The Territory is expecting the remainder of the funding of $27.3 million in 2021-22 towards completing this project.

The Territory Government is funding a range of Darwin City Deal projects contributing to the revitalisation of the city centre, including $20 million for the 450 bay State Square underground carpark, $13 million for a re-imagined State Square precinct, $47 million for a new central business district (CBD) art gallery, $5 million for heat mitigation trials, $5 million for the upgrading of Austin Lane and $1 million for the Darwin Living Lab, established as a partnership between the Commonwealth, Territory Government and City of Darwin to research, test, monitor and evaluate improvements in Darwin's liveability, sustainability and resilience.

Chapter 6

Territory taxes and royalties

Overview

The Territory raises its own revenue from a range of sources. Predominantly, this comprises taxes and 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 Territory's sources of revenue are comparable with the states. However, the Territory is more reliant on revenue from the Commonwealth, with own-source revenue contributing 30% of total revenue in 2021-22 in the non financial public sector, compared to an average of 50% in other jurisdictions. This is due to a relatively lower own-source revenue capacity and a 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.

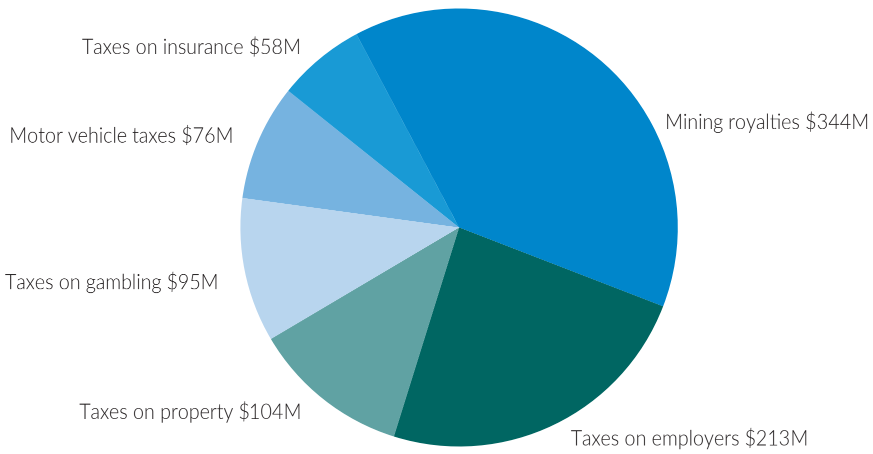
This chapter sets out details of the Territory's own-source revenues from taxes and royalties. In accordance with sections 10(1)(c) and 10(1)(f) of the FITA, it includes forecasts of taxes and royalty revenues, explanations of material differences between the revised forecasts and those published in the 2020-21 Budget, and an analysis of the changes in the forecasts. This chapter also includes a comparison of own-source revenues with other jurisdictions and, in accordance with section 10(1)(d) of the FITA, a statement of the Territory's forecast tax expenditure as a result of concessions and exemptions for 2020-21 through to 2024-25.

Analysis of Territory taxes and royalties

The projected revenue from taxes and royalties for 2021-22 for the non financial public sector totals $889 million. The main contributors are mining royalties at $344 million (39%), taxes on employers (payroll tax) estimated at $213 million (24%), and taxes on property at $104 million (12%).

Chart 6.1 shows the Territory's estimated main own-source revenues for 2021-22 according to the classification used in the UPF adopted for the Territory's reporting requirements.

Chart 6.1: Main taxes and royalties categories, 2021-22



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

Table 6.1 compares the updated projections with those published in the 2020-21 Budget. The most recent estimates for the years 2020-21 to 2024-25 revise the estimates of own-source revenue upwards, largely due to stronger mining royalties.

Table 6.1: Total Territory taxes and royalties

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
2020-21 Budget	816	853	874	862	n/a
2021-22 Budget	887	889	905	911	941
Variation from 2020-21 Budget	70	36	31	49	n/a

n/a: not available at the time of publishing the 2020-21 Budget

Table 6.2 reports the variation in each tax line by year, compared to that published in the 2020-21 Budget. The biggest contributor to the movement in revenue estimates is the royalty outlook (positive across each year). This largely reflects the adoption of less conservative assumptions around price expectations of key commodities compared to the last budget, partially offset by a payroll tax outlook still recovering from the impact of COVID-19.

Payroll tax receipts are estimated to grow over the forward estimates, however this growth is from a lower base when compared to the forecasts in the 2020-21 Budget, reflecting softening conditions pre-2020 compounded by the impact of COVID-19.

Table 6.2: Main tax and royalty variations from 2020-21 Budget

	2020-21	2021-22	2022-23	2023-24
	Revised	Budget	Forward estimate	
	$M	$M	$M	$M
Mining royalties	61	41	42	73
Taxes on employers	- 11	- 10	- 14	- 22
Taxes on property	1	4	1	- 2
Taxes on gambling	12	nil	nil	1
Motor vehicle taxes	8	nil	nil	nil
Taxes on insurance	nil	1	1	- 1
Variation from 2020-21 Budget	70	36	31	49

As shown in Table 6.3, the revised revenue forecast in 2020-21 from taxes and royalties totals $887 million compared to the original 2020-21 Budget forecast of $816 million. The $70 million increase in the 2020-21 revised budget is mainly due to higher mining royalty collections resulting from stronger than expected commodity prices, as well as increased revenue from taxes on gambling and taxes on motor vehicles. Increased gambling tax is likely reflecting the range of COVID-19 stimulus and income support measures, while growth in motor vehicle tax revenue is largely attributed to the instant asset write-off announced in the Commonwealth 2020 Budget.

Table 6.3: Main taxes and royalties category estimates

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$M	$M	$M	$M	$M
Mining royalties	378	344	337	323	331
Taxes on employers	187	213	223	231	240
Taxes on property	86	104	109	114	120
Taxes on gambling	98	95	98	102	106
Motor vehicle taxes	82	76	78	81	83
Taxes on insurance	56	58	59	60	62
Total	887	889	905	911	941

For 2021-22, it is expected that own-source revenue from taxes and royalties will increase slightly by $2 million compared to the revised forecast for 2020-21. This is largely due to an expected stabilisation in mining royalty receipts, partly offset by an increase in taxes on employers and property, as those revenues recover in line with forecast economic growth. The outcome for mining royalties is based on royalty payer estimates, as well as taking into account global trade tensions and some softening in demand for key commodities over the forward estimates period. The increase in taxes on employers compared to the 2020-21 revised budget aligns with improved economic conditions forecast for 2021-22 and the forward estimates, albeit from a lower base than estimated in the 2020-21 Budget. Property taxes are forecast to increase substantially in 2021-22, as stamp duty concessions cease and housing values and market activity continue to grow.

Revenue initiatives

The 2021-22 Budget includes the following changes to revenue policy:

- increasing the maximum annual tax cap applicable to bookmakers and betting exchanges from 500,000 to 1 million revenue units
- reducing the rate of bookmaker and betting exchange tax on gross monthly profits from 10% to 5%
- expanding bookmaker and betting exchange tax to total monthly betting profits, including sports and other betting, in addition to racing betting.

Other changes to revenue laws introduced prior to the 2021-22 Budget include:

- narrowing the types of expenditure able to be deducted as operating costs from mineral royalty payments for mining companies
- modernising the delegation provisions contained in the *Mineral Royalty Act 1982*
- amending the *Taxation Administration Act 2007* to improve the legislative framework governing special tax return arrangements for conveyancing agents.

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.

Mineral royalties are collected in the Territory from mining gold, silver, bauxite, manganese, lead, zinc and limestone. Royalties have also been imposed in the past on commodities such as copper, vermiculite, mineral sands and iron ore, and the Territory is prospective for several other minerals, including phosphate and rare earths. The Territory imposes a royalty based on 20% of the profit from mining activities after deductions for allowable costs, subject to a minimum royalty rate of 1% to 2.5% of the gross production value of commodities extracted.

A key feature of the Territory's mineral royalty scheme is that both commodity prices and mining costs are taken into account in royalty calculations. If commodity prices, production costs or the value of the Australian dollar rise or fall, royalty collections vary accordingly. This variability produces stronger growth in royalty revenues in times of high mineral prices than under ad valorem-based royalty schemes (a flat rate that does not vary by profit, location or cost structure of the mine).

In terms of petroleum royalties, the Territory imposes an ad valorem royalty at the rate of 10% on the value of production at the wellhead, which is generally consistent with other Australian jurisdictions, except for Queensland, which introduced a volumetric royalty model from 1 October 2020. In the Territory, the value at the wellhead is calculated by deducting certain post-wellhead costs incurred from the final sales value achieved for the petroleum produced.

In 2021-22, mining and petroleum royalty revenues are estimated to be $344 million, an increase of $41 million from the 2020-21 Budget. This reflects a more positive outlook for key commodity prices. Growth in mining and petroleum royalties are expected to remain modest across the forward estimates period.

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 the Department of Treasury and Finance's own commodity price and market outlook.

Taxation revenue

The Territory's taxation revenue for 2020-21 is expected to total $508.8 million. In 2021-22, taxation revenue is expected to increase by 7.2% to $545.6 million.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, and taxes on gambling, insurance and motor vehicles. Table 6.4 shows the updated projections in the 2021-22 Budget.

Table 6.4: Territory taxation revenue

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Taxes on employers					
Payroll tax	186 827	213 002	223 413	230 812	239 565
Taxes on property					
Conveyance and related duty	83 953	102 138	107 141	112 682	118 217
Property activation levy	2 000	1 700	1 700	1 700	2 000
Taxes on the provision of goods and services					
Taxes on gambling	97 672	94 801	98 269	101 879	105 635
Taxes on insurance	56 351	57 696	59 074	60 485	61 929
Taxes on use of goods and performance of activities					
Motor vehicle taxes	79 975	74 246	76 479	78 842	81 352
Passenger service levy	2 000	2 000	2 000	2 000	2 000
Total	508 778	545 583	568 076	588 400	610 698

Taxes on employers

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 imposed at a rate of 5.5% on taxable Territory wages less an annual deduction of up to $1.5 million.

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 expected to be $186.8 million, which is a reduction of $10.8 million from the forecast of $197.7 million in the 2020-21 Budget. This reflects continued weakness in broader economic conditions and the impact of COVID-19 relief measures, which waived or deferred payroll tax for some employers. Payroll tax receipts are expected to increase with improved economic conditions and cessation of payroll tax relief measures from 2021-22 and over the forward estimates, however at lower levels than initially forecast in the 2020-21 Budget.

Taxes on property

Conveyance and related duty

The Territory's conveyance and related duty is derived from direct and indirect conveyances of dutiable property in the Territory. Dutiable property includes real estate and businesses.

Conveyance and related duty in the Territory is imposed differently depending on the dutiable value of the property. There are four tax brackets for conveyance and related duty. For property in the lowest tax bracket (dutiable value not exceeding $525,000), a formula-derived rate is applied to the dutiable value of the property. Otherwise, a fixed rate dependent on the tax bracket applies to the total dutiable value of the property.

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.

In 2020-21, the Territory is expected to collect $84 million in conveyance and related duty, an increase of $0.8 million from the 2020-21 Budget forecast.

In 2021-22, conveyance and related duty is estimated to increase to $102.1 million, with steady growth in receipts of 5% over the forward estimates thereafter. Conveyance duty receipts are difficult to forecast accurately as large one-off transactions are sporadic and can materially inflate receipts in a given year. Nevertheless, conveyance and related duty receipts are expected to increase over the forward estimates period as home buyer concessions cease and residential and commercial property markets improve.

Property activation levy

The property activation levy imposes a charge on vacant land and unoccupied buildings in the Darwin CBD at a rate of 1% of unimproved capital value for unoccupied buildings and 2% for vacant land. The purpose of the levy is to incentivise investment in under-utilised land and buildings to revitalise the Darwin CBD.

The property activation levy is estimated to raise $2 million in 2020-21, before declining to $1.7 million in 2021-22 to 2023-24, reflecting a decline in unimproved capital values as assessed by the Valuer-General. Over the forward estimates period, revenue from the levy is expected to remain stable as CBD land values fluctuate and property owners choose to activate their properties.

Taxes on the provision of goods and services

Gambling taxes

Gambling tax revenue is a significant contributor to Territory own-source revenue, forecast to total $94.8 million in 2021-22. 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 receive $97.7 million in gambling taxes, an increase of $11.6 million (or 13.5%) from the 2020-21 Budget. This substantial increase is likely attributed to Commonwealth COVID-19 stimulus measures, which increased household disposable incomes. It may also encompass some delayed demand for recreational gambling, as community gaming machine venues closed in response to COVID-19 between March and June 2020.

Gambling tax receipts are expected to stabilise and return to trend levels from 2021-22 and over the forward estimates period.

Table 6.5 shows the estimated revenue from each of the Territory's gambling taxes.

Table 6.5: Estimated revenue from gambling taxes

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Community gaming machine tax	43 022	36 947	38 315	39 737	41 215
Lotteries tax	28 840	30 250	31 729	33 281	34 909
Community benefit levy	13 714	12 733	13 046	13 373	13 713
Bookmaker tax	5 988	9 376	9 603	9 830	10 057
Casino/internet tax	5 333	4 085	4 136	4 189	4 241
Betting exchange tax	605	1 240	1 270	1 300	1 330
Wagering tax	170	170	170	170	170
Total	97 672	94 801	98 269	101 879	105 635

Community gaming machine tax is based on gross profits (that is, net player losses) from gaming machines and is estimated to total $43 million in the 2020-21 revised budget. This is an increase of $8.2 million (or 23.6%) from the forecast in the 2020-21 Budget. From 2021-22, revenue from community gaming machine tax is expected to return to usual levels and increase over the forward estimates period in line with the annual trend growth of 4%.

The community benefit levy is directed to the Community Benefit Fund and fluctuates according to community gaming machine tax receipts. The levy is expected to increase by $2.1 million in the 2020-21 revised budget to $13.7 million, and thereafter stabilise over the forward estimates period in line with broader community gaming machine tax revenues set out above.

Bookmaker tax is estimated to remain flat in 2020-21. This is because the annual tax cap that applies to licensed bookmakers' gross profits is expressed in revenue units, which were subject to an indexation freeze over that period. In comparison to 2020-21 receipts, bookmaker tax revenue is expected to increase by $3.4 million in 2021-22 to $9.4 million. This is due to a number of reform measures that impact calculation of bookmaker and betting exchange taxes, including the doubling of the tax cap applicable to gross profits and expansion of taxes to sports and other betting in addition to racing betting, which take effect from 1 July 2021.

Similarly, betting exchange tax receipts are expected to remain unchanged in 2020-21, and double to $1.2 million in 2021-22.

Lotteries tax revenue is expected to remain unchanged in 2020-21, and track modest annual growth of 5% in 2021-22 and over the forward estimates period.

Following a spike in receipts in 2020-21, casino/internet tax revenue is expected to decrease by $1.2 million in 2021-22 to total receipts of $4.1 million. Over the forward estimates period, receipts are expected to modestly increase by 1.3% per annum.

Wagering tax revenue is expected to remain at $0.2 million in 2020-21 and continue at this level over the forward estimates period.

Stamp duty on insurance

Insurance duty is imposed on general insurance policies. Stamp duty on general insurance is calculated at a rate of 10% 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 estimated to be $56.4 million in 2020-21 and is forecast to grow to $57.7 million in 2021-22 and by 2.4% per annum over the forward estimates.

Taxes on use of goods and performance of activities

Motor vehicle taxes

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

Generally, stamp duty is levied on the purchase price of the vehicle at a rate of $3 per $100 or part thereof. Revenue from this source in 2020-21 is estimated to be $27.3 million, which is an increase of $7.7 million compared to the 2020-21 Budget. This substantial increase in receipts is largely due to the Commonwealth's instant asset write-off, which significantly brought forward demand for motor vehicles. Receipts in 2021-22 are expected to moderate to $19.9 million, consistent with long-term trend receipts, following cessation of this stimulus measure.

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 reference to a differential rate scale based on the engine capacity of the vehicle. Fees are expressed in revenue units that, although frozen in 2020-21 as a COVID-19 stimulus measure, increase each year in line with CPI or by a minimum of 3%, whichever is greater.

In 2020-21, the Territory is forecast to receive $52.7 million in motor vehicle fees, which is largely consistent with 2020-21 Budget projections and prior year receipts. This is estimated to increase to $54.3 million in 2021-22, in line with resumed indexation of the value of a revenue unit. Over the forward estimates period, revenue from motor vehicle fees is forecast to increase in line with both long-term growth rates and the indexation of government fees and charges.

Passenger services levy

A passenger services levy of $1 is imposed on every trip taken in a taxi, minibus, private hire car or ride-share vehicle. Revenue from the passenger services levy remains unchanged, and is estimated at $2 million in 2020-21 and ongoing.

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 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 CGC assesses could be raised if the state applied national average tax rates to its tax base.

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

Table 6.6 provides a comparison of CGC's assessment of taxation and own-source revenue-raising effort in 2019-20 (the most recent year for which an assessment is available). The total own-source revenue figures include taxation, mining revenue, contributions by trading enterprises (government owned corporations) and user charges for some government services, including waste management levies, road charges and registry services. The Territory's taxation effort remains below the national average, in large part due to the position adopted by the Territory not to impose a land tax. However, total own-source revenue effort is well above the national average and second only to the Australian Capital Territory due to the Territory's mineral royalty revenue.

The 2019-20 outcomes are lower than the result seen in 2018-19 when the Territory's total taxation and own-source revenue efforts were 81.1% and 123.6%, respectively. The Territory's declining taxation and revenue effort reflect economic factors present during 2019-20, including declining overall economic activity as a result of the winding down of the Ichthys LNG project, as well as the impact of COVID-19 on business, including business closures and hardship relief provided, in the second half of 2019-20.

Table 6.6: 2019-20 Revenue effort by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	102.1	99.7	93.7	102.5	97.5	82.9	157.6	74.9
Total own-source revenue	97.4	97.2	101.6	98.5	108.9	103.7	157.8	110.6

Source: CGC 2021 Update

This uncertainty makes predicting movement in taxation effort difficult, however total own-source revenue effort may remain above the national average due to robust mineral royalty receipts.

Revenue capacity

States are limited to growing their own-source revenues by either replacing current taxes with a new growth tax or expanding existing tax bases. States are unable to raise excise or customs duties under the Australian Constitution while the Commonwealth has long assumed the collection of income tax.

In 2020-21, the Territory's taxation and royalty own-source revenue comprises about 12.8% of total revenue for the non financial public sector.

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 tax base. This is illustrated in Table 6.7, which shows 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 6.7: Assessed revenue-raising capacity, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	105.0	99.9	89.0	128.4	79.5	64.9	86.5	107.1
Land tax	133.2	117.9	63.6	82.3	46.4	35.4	47.3	85.7
Stamp duty	119.1	117.3	84.0	59.2	69.3	76.6	98.8	44.2
Insurance tax	106.2	93.0	97.8	93.7	121.8	81.4	89.5	99.0
Motor tax	90.6	99.6	105.0	115.4	105.8	121.0	83.9	91.1
Total taxation	**109.7**	**105.7**	**88.6**	**98.1**	**82.0**	**76.4**	**86.3**	**86.7**
Mining revenue	35.4	5.6	130.3	548.7	33.3	26.4	0.0	147.9

Source: CGC 2021 Update

The main difference from the assessed 2018-19 capacity is a reduction in stamp duty capacity from 84.2% to 44.2% in 2019-20. This reflects the impact of a distortion in 2018-19 due to a very large one-off transaction.

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%. This reflects the Territory's unique geographical composition, comprising a relatively small number of very high value commercial and residential properties.

Representative taxpayer model

The following tables and charts provide comparisons of various taxes payable in each jurisdiction by an entity by applying each state's tax rate to a representative or average standard.

Payroll tax

Table 6.8 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 and its payroll tax rate is slightly above the national average.

Table 6.8: 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)	1.20	0.65	1.30	1.00	1.50	1.25	2.00	1.50	1.30
Rate (%)	4.85	4.85	4.75	5.50	4.95	6.10	6.85	5.50	5.42

1 A reduced rate of 2.02% applies to regional Victorian employers and 1.2125% for regional employers based in bushfire affected areas.
2 Rate is 4.75% for wages between $1.3 million and $6.5 million, and 4.95% for wages over $6.5 million. Threshold reduces as an employer's payroll increases, with no deduction provided for employers with payrolls over $6.5 million. Regional employers may be entitled to a 1% discount until 30 June 2023.
3 Threshold reduces as an employer's payroll increases, with no deduction for employers with payrolls over $7.5 million. A higher tax rate of 6% applies to wages from $100 million to $1.5 billion. For wages above $1.5 billion, a tax rate of 6.5% applies.
4 Rate increases from 0% to 4.95% for employers with wages between $1.5 million and $1.7 million. A maximum deduction of $600,000 is available to employers.
5 Rate is 4% for wages between $1.25 million and $2 million, and 6.1% for wages over $2 million.
6 Threshold reduces as an employer's payroll increases, with no deduction for employers with payrolls over $7.5 million.
Source: State legislation and information available at 25 February 2021

Table 6.9 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 very 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. 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 6.9: 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	1.9	3.3	1.5	3.2	3.5	1.5	0.0	1.7	2.1
3	2.9	3.8	2.6	4.2	4.0	3.0	2.3	3.4	3.3
4	3.4	4.1	3.1	4.8	4.2	3.8	3.4	4.3	3.9
5	3.7	4.2	3.4	5.1	4.4	4.3	4.1	4.8	4.3
10	4.3	4.5	5.0	5.5	4.7	5.2	5.5	5.5	5.1
20	4.6	4.7	5.0	5.5	4.8	5.6	6.2	5.5	5.2

Source: State legislation and information available at 25 February 2021

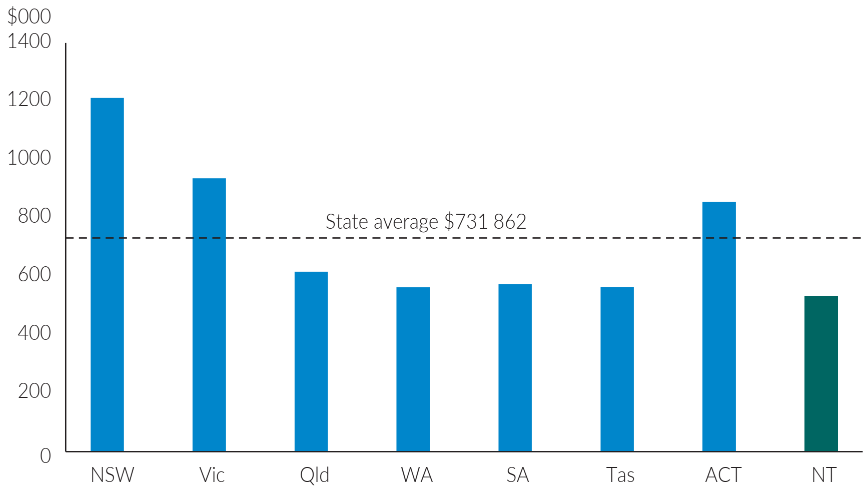
Stamp duty on conveyances in the Territory

Stamp duty on residential properties is impacted by changes in the housing market, the rate of stamp duty and the 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 expire on 30 June 2021.

Overall it is difficult to compare stamp duty on homes in each state, given the significant variation in median house and unit prices. Chart 6.2 shows Darwin has one of the lowest median house prices of all state and territory capitals.

Chart 6.2: Median capital city house prices, December 2020 quarter

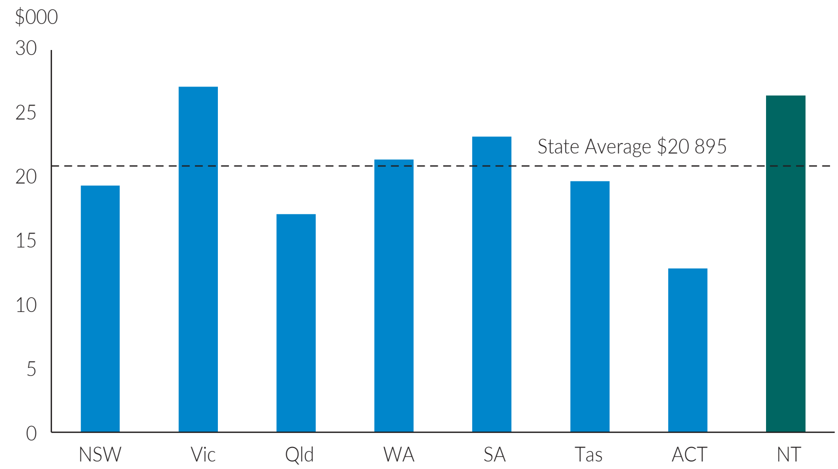


Source: Australian Property Monitor for December quarter 2020

However, one method is to compare the stamp duty that would be payable in each state for similarly priced housing. Chart 6.3 provides an inter-jurisdictional comparison of the amount of stamp duty levied on the purchase of a new or established home, at the median house price in Darwin ($533,845) 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 comparable to other states in Australia. However, as the Territory does not impose a land tax, the overall property tax impost will be lower in comparison to other jurisdictions.

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



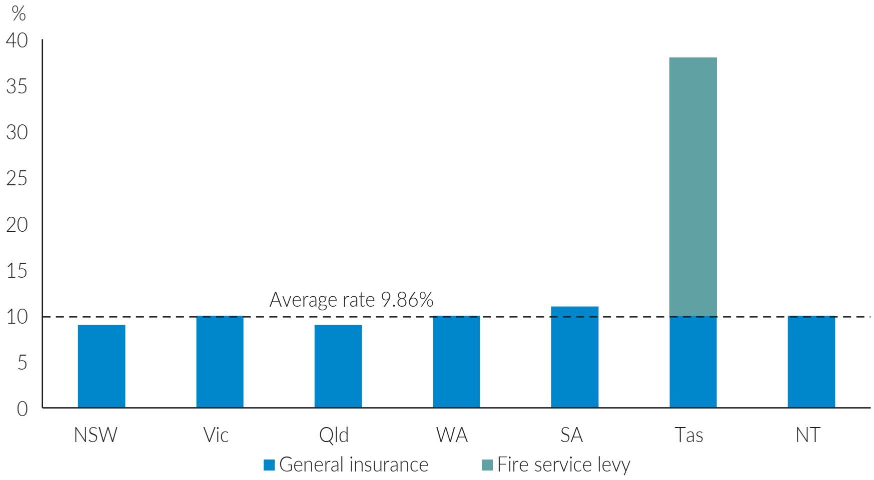
Note: Assumes purchaser is not a first home buyer.
Source: Australian Property Monitor for December quarter 2020; state legislation and information available at 25 February 2021

Insurance duty

All states and territories impose taxes on general insurance premiums at rates between 9% and 11%, 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.

As shown in Chart 6.4, compared to the other states (excluding the Australian Capital Territory), the Territory is an average taxing jurisdiction.

Chart 6.4: Average state tax rate on general insurance premiums

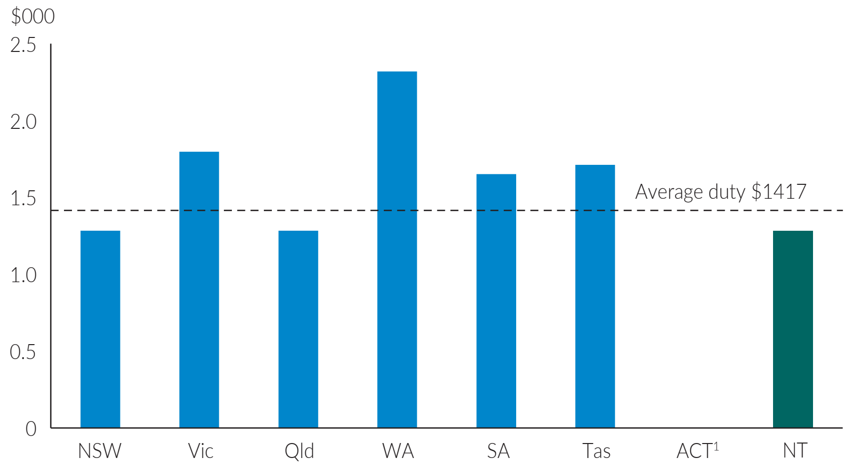


Source: State legislation and information available at 25 February 2021

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 $42,790. The chart shows the stamp duty payable in the Territory is below the national average and equal second lowest in Australia. The Australian Capital Territory applies reduced rates of stamp duty to environmentally friendly new motor vehicles but applies similar duty to the Territory on motor vehicles valued below $45,000 that have average environmental performance or are second hand.

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



1 ACT's Vehicle Emission Reduction Scheme allocates vehicles a performance rating based on their carbon dioxide emissions, and the stamp duty payable is reduced or increased based on that rating. The vehicle used for this comparison achieves a rating of A, which means no stamp duty is payable.

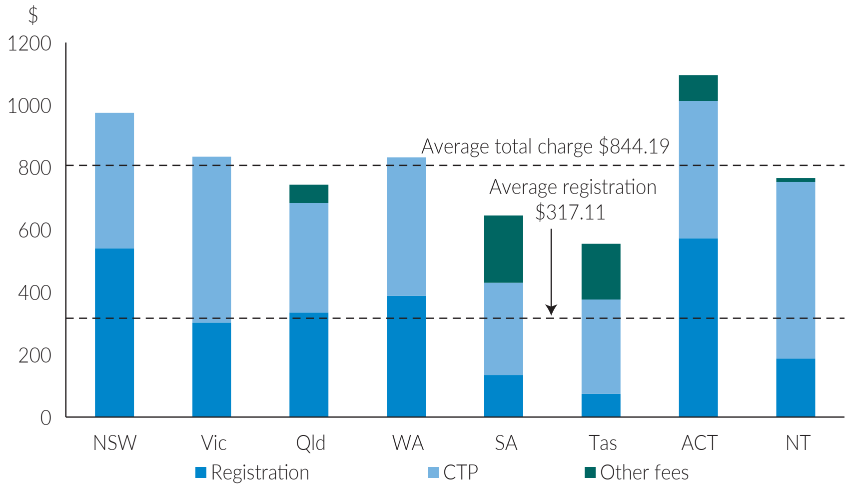
Note: Based on a 4-cyclinder 2020 Toyota Camry SL sedan 2.5L automatic with carbon dioxide emissions of 103g/km.

Source: State legislation and information available at 25 February 2021

Motor vehicle registration

Motor vehicle registration fees comprise registration, compulsory third-party insurance (CTP) 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 $766.57 demonstrates the Territory's registration fees and total registration costs are below the average cost Australia-wide.

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



CTP: compulsory third-party insurance or equivalent
Source: State legislation and information available at 25 February 2021

The higher than average the Motor Accidents Compensation Scheme insurance premiums in the Territory reflect the inherently higher costs associated with the small population size of the Territory and relatively high incidence of road accident casualties, and the no-fault nature of the Territory's compensation scheme. 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 include ancillary taxes and levies in the cost of registration. 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 comprises taxes on the ownership of land, where the tax is based on the assessed unimproved value of the land, and 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 $10.8 billion in revenue in 2019-20. Land tax is levied on the landowner's total holdings of commercial land and investment residential property, although usually 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 2021 Update, CGC assessed that the Territory could raise about $89 million if it adopted the average state policies on land tax.

The Territory does impose a property activation levy on vacant land and unoccupied buildings in the Darwin CBD. It is expected the property activation levy will raise $1.7 million in 2021-22.

Tax expenditure statement

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.

Tax concessions are often provided to benefit a specified activity or class of taxpayer. They are expenditures in the sense the 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, waiver, deduction, rebate or a concessionary tax rate.

The tax expenditure identified in this statement relates to the more important and material concessions available in the Territory. In accordance with the FITA, the tax expenditure statement provides an estimate of expenditure in 2020-21, and estimates information for 2021-22 and the following three financial years.

Table 6.10 details the total tax expenditure across payroll tax, stamp duty and motor vehicle fees.

Table 6.10: Total tax expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
Tax expenditure ($M)	237.6	206.6	193.9	185.8	190.6

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%.

Table 6.11: Payroll tax expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
Tax expenditure ($M)	169.9	164.9	150.5	140.5	143.3

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 6.11 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 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, into 2020-21 and over the forward estimates period. An increase in payroll tax expenditure 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 Territory and Commonwealth 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 2021-22 before payroll tax expenditure returns to long-term trends over the forward estimates period.

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

Small business exclusion

Employers with total Australian 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 423 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 6.12: Stamp duty on conveyances expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
Tax expenditure ($M)	37.7	10.5	11.0	11.5	12.1

Tax expenditure estimates in Table 6.12 are based on actual stamp duty data. Forecast expenditure declines from 2021-22 and remains largely in line over the forward estimates period due to 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% of the premium.

Table 6.13: Stamp duty on general insurance

	2020-21	2021-22	2022-23	2023-24	2024-25
Tax expenditure ($M)	27.7	29.0	30.2	31.5	32.8

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 6.13 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 Concession Scheme and Northern Territory Seniors Recognition Scheme. Table 6.14 shows the motor vehicle registration fees expenditure. Actual registration fee data has been used to estimate this item of tax expenditure.

Table 6.14: Motor vehicle registration fees expenditure

	2020-21	2021-22	2022-23	2023-24	2024-25
Tax expenditure ($M)	2.4	2.4	2.4	2.4	2.4

Chapter 7

Risks and contingent liabilities

As required under sections 5(1)(d) and 10(1)(e) of the 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 risks to the budget due to changes in factors underpinning revenue and expenditure estimates, and the likelihood of contingent liabilities becoming actual liabilities. Risks have been categorised in accordance with section 5(2) of the 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 Treasurer's Annual Financial Report *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 from 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 in November 2020 on the 2020-21 Budget, and confirmed an unchanged credit rating at Aa3 with a stable outlook. Moody's acknowledged the significant deterioration in the Territory's 2020-21 Budget projections were largely driven by a material contraction in the national GST pool as a result of the COVID-19-induced economic slowdown.

Subsequent to this assessment, Moody's published an updated credit opinion for the Territory in February 2021 stating the Territory's current credit profile is reflective of the significant support of the Commonwealth, and that the Territory is heavily exposed to Australia's broader economic recovery. Accordingly, Moody's highlighted that a downgrade to the Australian sovereign debt rating would place downward pressure on the Territory's credit rating.

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 more sustainable debt levels. 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.

Furthermore, to support achievement of improving the Territory's credit rating, the Territory Government introduced amendments to the FITA to legislate a debt ceiling during the May 2021 sittings of the Legislative Assembly. A legislated debt ceiling provides greater accountability for financial performance and directly aids in mitigating risk of excessive debt by capping total borrowings. The debt ceiling has been set at $15 billion on total borrowings at the non financial public sector, excluding finance leases.

In the event the debt ceiling is exceeded or expected to be exceeded over the budget and forward estimates, the Treasurer will be required to prepare a report within three months and then table it in parliament within six sitting days providing a detailed explanation of the circumstances that have contributed to the forecast breach, identifying actions that will be progressed to remedy the breach to ensure the cap is not exceeded, along with revised forward estimates.

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

Risks from the ownership of trading entities

Poor financial performance of 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 fiscal outcomes.

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 an SCI, which is an annual performance agreement between the board and the shareholding minister, tabled in parliament and examined by the GOC scrutiny committee. The SCI details key financial and non financial targets and provides updated projections for the budget year and forward estimates period.

Each corporation is expected to incorporate future efficiencies through operational and business improvements as part of their respective 2021-22 SCIs. Failure to achieve their SCI targets presents a risk to the budget and forward estimates through reduced dividends and tax equivalent payments, and worsening to the Territory's fiscal outcomes.

The Corporate Governance and Reporting Framework includes processes for monitoring and reporting 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 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 as well as increased competition from the east coast gas market. Any gas industry reforms considered by the Energy National Cabinet Reform Committee 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. A financial risk to the Territory budget is the Power and Water Corporation's long-term gas purchase, sales and transportation agreements. The fixed price nature of the contracts, volatility of the market price of gas, and 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

GST revenue

Volatility in GST revenue represents the largest revenue risk for the Territory, as GST revenue accounts for 42.7% of the Territory's total revenue in 2021-22.

The Territory's GST allocation is dependent on four parameters: national GST collections (GST pool), the Territory's share of the national population, the Territory's GST relativity as determined by the Commonwealth Treasurer based on the recommendation of the CGC, and the impact of the HFE methodology changes legislated by the Commonwealth.

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 following analysis 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.

COVID-19 and GST revenue

The onset of COVID-19 and the associated national health responses have significantly increased GST revenue volatility since 2019-20, leading to greater than normal uncertainty in the Territory's revenue forecasts.

COVID-19 has influenced GST revenue through reduced national consumption, and reduced business and consumer confidence, which negatively affected overall GST collections and growth in 2019-20. This reduction is not expected to be as significant in 2020-21, reflecting a recovery in national consumption, particularly from early 2021.

GST pool forecasts are subject to significant uncertainty in the short to medium term due to the unpredictable nature of COVID-19, and the extent, duration and severity of any further health responses. COVID-19 driven stimulus policies or changes to existing stimulus measures by governments could also affect national GST collections.

COVID-19-related forecast volatility is expected to diminish over the medium-term as vaccines are provided nationally and overseas, with a gradual return to long-run trends.

GST pool

In 2020-21, the GST pool is expected to grow by 8.1% compared to the Commonwealth 2020-21 MYEFO forecast. This growth reflects earlier than anticipated national economic recovery following the impacts of COVID-19. The increase in the estimate is based on actual GST collections by the Australian Taxation Office from November 2020 to March 2021 and reflects increased consumption and consumer confidence as border restrictions eased.

The Territory has not adopted the Commonwealth's 2020-21 MYEFO estimates of GST pool growth in the forward estimates given the significant level of uncertainty around these assumptions. Instead, the Territory has adopted more conservative growth rates over this period.

Growth estimates include an expectation that the strong recovery in GST collections in 2020-21 partly reflects a permanent recovery in national consumption, but is also partly attributable to significant stimulus measures such as early superannuation withdrawals, JobKeeper and JobSeeker, which expired in 2020-21 and are not expected to continue in the forward years.

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 ±$30 million impact on the Territory's GST revenue in 2021-22, all else being equal. 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 ±$310 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.

COVID-19 has had a significant effect on national population trends, particularly due to the disruptions to net international migration. Interstate migration has also been affected by border closures and general changes in mobility.

The Territory's national population forecasts, for GST purposes, is based on local population forecasts and Commonwealth MYEFO population growth forecasts for the other jurisdictions. The Territory's population is expected to grow at a slower rate than the national population over the budget and forward estimates period. These assumptions are sensitive to any further changes to population flows, including the timing and extent of any border openings or closures, and other behavioural changes affecting national mobility.

The effect of a ±1,000 person variation in the Territory's forecast total population is expected to have a ±$12 million impact in 2021-22, all else being equal. The cumulative impact of a ±1,000 person variation in the Territory's total population over the budget and the forward estimates period would be about ±$124 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 2021 Update, CGC recommended an increase in the Territory's GST relativity to 4.79985 in 2021-22 from 4.76893 in 2020-21.

The 2021 Update incorporates data over the 2017-18, 2018-19 and 2019-20 financial years and therefore, the economic impacts of COVID-19 had a limited effect on GST relativities in the 2021 Update. The impacts of COVID-19 are expected to be more pronounced in the 2022 Update.

Due to the complexities associated with calculating national relativities, Territory GST relativities are forecast on a three-year rolling average basis and held constant over the forward estimates period while adjusting for the methodology change from full HFE to reasonable HFE.

The impact of a ±0.1 variation in the Territory's GST relativity is about ±$63 million in 2021-22, all else being equal. A ±0.1 variation in the Territory's GST relativity in each of the budget and forward estimate years would have a cumulative effect of around ±$264 million.

Legislated horizontal fiscal equalisation methodology changes

The Commonwealth has enacted 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.

In practice, this results in an increase to Western Australia's relativity and a reduction in the relativities for all other jurisdictions. In 2021-22, the CGC estimates the transition will result in a reduction of GST revenue to the Territory of $11 million.

During the transition period, the Territory's GST relativity will be sensitive to changes to both the old and new methodologies, with the new relativity becoming proportionately more influential until the full transition is completed in 2026-27.

The 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. The introduction of a relativity floor means the Territory's GST forecasts are sensitive to the magnitude of any other jurisdiction's falling relativity.

Currently, the only jurisdiction with a relativity of less than 0.7 is Western Australia, reflecting its above-average capacity to raise mining royalties. However, Western Australia's relativity is expected to increase as a result of the HFE reforms. If the 0.7 relativity floor had been in effect in 2021-22, the estimated impact would have been a reduction of GST revenue to the Territory of $21 million.

The Commonwealth is also making additional annual contributions to the GST pool of $600 million from 2021-22, increasing by a further $250 million each year from 2024-25. These payments will be indexed annually in line with GST pool growth collections. In 2021-22, about $28 million of the Territory's GST revenue is attributable to the Commonwealth supplementing the GST pool.

The Commonwealth has provided a 'no-worse-off' guarantee that states will receive the greater of the old HFE system (using 2017-18 as a base year), excluding the additional Commonwealth GST pool contributions, and the new legislated GST distribution system over the transition period (2021-22 to 2026-27). To honour this guarantee, the Commonwealth MYEFO estimates payments totalling $31 million in 2021-22 to other states and territories. The Territory is not expected to receive any payments under this guarantee, as the reduction in the Territory's GST allocation caused by the HFE methodology change is expected to be fully offset by an increase in allocation resulting from the Commonwealth supplementing the pool.

Other Commonwealth grants and subsidies

Tied Commonwealth funding is provided under the IGA through major funding arrangements, schedules to FFA and the NASWD SPPs. Tied funding can also be provided outside the IGA payment arrangements through Commonwealth own-purpose expenses.

Key risks to the Territory budget associated with tied Commonwealth funding include uncertainty as to the amount, timing and duration of new and renegotiated funding agreements, as well as the increasing inclusion of financial input controls. Agreements that are short term in nature, in particular, repeated short-term extensions of existing agreements, inhibit the ability of governments and other providers to plan for the provision of ongoing, reliable service delivery in key areas. Further, short-term funding arrangements can lead to heightened community expectations without providing associated Commonwealth funding certainty in the long run. The Commonwealth is also including financial input controls in funding arrangements such as matched funding and maintenance of effort provisions. Input controls pose a significant risk to the Territory budget by reducing the Territory Government's budget autonomy and the ability to allocate resources in a manner that best suits community need.

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 FFA framework. Key principles of this reform included providing states and territories with greater budget autonomy, flexibility and funding certainty where possible. CFFR is also intended to have greater input in deciding the future of funding agreements, with a decision to be reached on whether funding will be renewed at least 12 months before an agreement's intended expiry.

In principle, the FFA framework could reduce the risks to state and territory budgets by enabling Treasurers to have greater oversight of the development and renewal of agreements. However, the practical outcomes of the FFA reform are not yet evident given the short time period that has passed since its introduction. The FFA framework reforms are expected to be reviewed by CFFR in mid-2021.

The expiry of the NP on NTRAI at the end of the 2021-22 year continues to pose a significant financial risk to the Territory due to increased service delivery expectations established over the life of the agreement, and exposes the community to risk of service reduction or withdrawal. Under the NP, the Territory is eligible to receive up to $1 billion between 2015-16 and 2021-22, aimed at improving Aboriginal outcomes.

Other new or upcoming major agreements include developing a national skills agreement, which is currently under negotiation and may significantly change the manner in which skills programs are funded nationally. Negotiation of this agreement in 2021 represents the first major agreement since the FFA framework commenced. If agreed, the skills agreement may replace the last remaining SPP on Skills and Workforce Development.

Own-source revenue

The Territory raises own-source revenue from a range of sources. This mainly comprises taxes and 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 caused greater uncertainty in revenue forecasting from late 2019-20 into 2020-21, and across the forward estimates period. Revenue forecasting has required new assumptions regarding the magnitude and longevity of the impact of COVID-19 on key economic indicators such as retail and other consumer spending, employment, investment activity and economic growth. These indicators are further complicated by uncertainty around domestic border closures and timing for resumption of international travel. 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 period.

Mining royalty revenue is the largest single contributor to own-source revenue, and forecasts are sensitive to mineral price outlooks, production levels, mine expansions or disruptions as well as exchange rates and global trade conditions.

Mining revenue forecasts mainly rely on advice from mining companies of their expected payment for the financial year and forward estimates, along with an internal royalty outlook informed by estimates on commodity prices and market conditions. Market changes in mineral prices, production or exchange rates can have a material effect on these forecasts. Notwithstanding this volatility, the importance of royalties as a source of revenue is evident in the 2021-22 Budget.

Payroll tax is the Territory's largest source of tax revenue and is imposed on businesses with total payroll above the tax-free threshold of $1.5 million per annum. COVID-19 introduced greater than usual uncertainty on payroll tax forecasting due to its impact on employment, wage growth and business investment, as well as COVID-19 relief measures that provided payroll tax waivers or deferrals to eligible businesses through 2020-21. Payroll tax forecasts are sensitive to assumptions about the rate and timing of the recovery of business activity, expansion and creation, as well as employment levels and job creation.

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 can be volatile and directly linked to conveyance duty collections. In particular, residential property demand is heavily influenced by market sentiment, labour market conditions and interstate migration flows.

While COVID-19 has had a negative impact on most economic indicators, low Territory case numbers and fewer public health restrictions has mitigated the localised effect 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 influence residential real estate market predictions. The Territory's property market has exhibited resilience in 2020-21 with growth in house prices flowing through to stronger conveyance revenue. Stamp duty forecasts are also influenced 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 increased in 2020-21 resulting in greater than expected tax receipts, and likely correlates with COVID-19 stimulus payments and Centrelink supplements, as well as early access to superannuation, facilitated by the Commonwealth Government. This is expected to return to more normal levels from 2021-22 and across the forward estimates period.

In total, a variation of ±1% to the forecast of Territory taxes and royalties would affect revenue by about ±$9 million in 2021-22.

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.

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 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 $8.8 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 and periodic reviews of issued loans have not resulted in a shift in levels of assessed risk.

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.

As part of the 2020-21 Budget, agency budgets were adjusted to reflect a nil wages indexation for four years from 2021-22 in line with government's 2021–2024 wages policy. This poses a risk to the budget to the extent that the outcome of enterprise agreement negotiations exceed the nil indexation currently factored into the forward estimates.

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 maintain the commitment to savings measures over the medium to long term.

Emerging risks to expenses and payments are monitored through robust reporting obligations within the Territory's Financial Management and Accountability Framework, enabling timely identification of budget pressures.

Ensuring agencies operate within approved budget is fundamental to successfully returning the budget to a surplus position. To strengthen budget accountability and agency financial performance, the Territory Government has implemented a number of financial management reforms as part of *A plan to fix the budget*. These reforms include revisions to the *Financial Management Act 1995* to strengthen accountable officer responsibilities, enhanced executive performance agreements between ministers and chief executives, introduction of the Chief Executive Code of Conduct and revisions to the annual carryover process.

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.

Interstate trade flows and balancing items are typically large components of GSP that are volatile on a year-to-year basis. These components are reported by the ABS once a year with the release of the GSP estimate. Accordingly, accurately forecasting GSP is a significant challenge.

The fundamental uncertainties described above are compounded in 2020-21 by COVID-19, which has significantly affected household and business behaviours, and resulted in a number of government policy and stimulus interventions in the economy. Uncertainty in estimating the economic impacts of COVID-19 poses greater than normal risks to the forecasts. This has resulted in significant revisions to some economic forecasts reported in the 2020-21 Budget, as new data has been released that assists with understanding the pace and shape of the recovery in the domestic economy, and in international markets that impact the Territory.

Key forecasting challenges include the need to consider: the impacts of any government stimulus measures; the extent of any 'pull forward' in activity associated with stimulus; the implementation of vaccination programs in Australia and overseas; changes in COVID-19 cases in key international markets; and the timing of opening Australia's border to international travellers.

There is also upside risk to the forecasts if projects without a financial investment decision at the time of the budget achieve this milestone during the forward estimates period. Projects in this category include the Mount Peake project, Ammaroo phosphate project, Nolans rare earths project, Jervois base metal project and Project Sea Dragon.

The Territory economy is heavily exposed to changes in exchange rates and commodity prices, which can have a 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 affect production from current resource and agriculture projects.

Economic conditions in other Australian jurisdictions 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 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 risks to the economic forecasts as they impact production in the Territory or put 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 labour supply conditions and 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 risks under these arrangements to determine if 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 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 balance 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

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

Jabiru electricity supply project

The Territory has entered into an agreement for the development and operation of a new power station for the supply of electricity to Jabiru. The Territory has contingent liabilities that may arise if the agreement is terminated under specific circumstances.

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 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 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.

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 operator of Darwin Private Hospital, which contains an indemnity for medical professionals to provide medical services to public patients in response to COVID-19 if medical insurance is unable to be obtained.

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% 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 under a public private partnership agreement including ongoing property management of the facility.

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 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 UPF.

The tables in this chapter meet the Territory's reporting obligations under both the FITA and 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 revised budget, 2021-22 budget and 2022-23 to 2024-25 forward estimates. The statements for the public financial corporation sector and total public sector present the 2020-21 revised budget, with the remaining supplementary tables presenting both the 2020-21 revised budget and the 2021-22 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	2024-25
		Revised	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	515 918	552 677	575 112	595 544	617 770
	Current grants	4 337 048	4 617 291	4 202 000	4 210 520	4 264 157
	Capital grants	327 307	551 394	462 841	454 956	214 914
	Sales of goods and services	396 200	386 391	390 985	399 947	402 520
	Interest income	75 911	81 258	83 761	86 514	89 432
	Dividend and income tax equivalent income	49 502	46 501	53 885	54 982	77 984
	Other revenue	446 419	399 977	389 960	377 608	386 158
	TOTAL REVENUE	**6 148 305**	**6 635 489**	**6 158 544**	**6 180 071**	**6 052 935**
less	EXPENSES					
	Employee benefits expense	2 708 391	2 681 881	2 535 453	2 508 096	2 488 853
	Superannuation expenses					
	Superannuation interest cost	34 623	65 153	71 981	78 188	83 776
	Other superannuation expenses	412 785	379 691	375 855	378 901	383 410
	Depreciation and amortisation	539 200	535 506	529 835	525 696	519 718
	Other operating expenses	1 724 527	1 652 228	1 486 999	1 466 192	1 459 696
	Interest expenses	332 219	358 830	386 444	411 050	423 304
	Other property expenses					
	Current grants	1 154 731	1 156 229	1 058 144	1 056 908	1 033 388
	Capital grants	267 714	115 792	53 231	52 425	49 219
	Subsidies and personal benefit payments	214 343	186 807	196 986	183 046	181 949
	TOTAL EXPENSES	**7 388 533**	**7 132 117**	**6 694 928**	**6 660 502**	**6 623 313**
equals	**NET OPERATING BALANCE**	**- 1 240 228**	**- 496 628**	**- 536 384**	**- 480 431**	**- 570 378**
plus	Other economic flows – included in operating result	145 747	68 144	80 549	83 910	85 368
equals	**OPERATING RESULT**	**- 1 094 481**	**- 428 484**	**- 455 835**	**- 396 521**	**- 485 010**
plus	Other economic flows – other comprehensive income	384 852	72 528	100 808	141 129	145 877
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 709 629**	**- 355 956**	**- 355 027**	**- 255 392**	**- 339 133**
	NET OPERATING BALANCE	**- 1 240 228**	**- 496 628**	**- 536 384**	**- 480 431**	**- 570 378**
less	**Net acquisition of non financial assets**					
	Purchases of non financial assets	929 286	1 221 744	1 135 582	913 185	646 238
	Sales of non financial assets	- 26 684	- 28 082	- 29 152	- 30 697	- 31 292
	less Depreciation	539 200	535 506	529 835	525 696	519 718
	plus Change in inventories					
	plus Other movements in non financial assets	230 735	127 755	84 890	11 131	18 593
	equals **Total net acquisition of non financial assets**	**594 137**	**785 911**	**661 485**	**367 923**	**113 821**
equals	**FISCAL BALANCE**	**- 1 834 365**	**- 1 282 539**	**- 1 197 869**	**- 848 354**	**- 684 199**

Table 8.2

General government sector balance sheet

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	929 314	250 742	156 524	149 429	130 900
Advances paid	202 196	230 996	249 996	248 996	247 996
Investments, loans and placements	2 635 022	2 777 853	2 921 902	3 076 127	3 236 680
Receivables	522 163	517 560	512 912	508 188	522 383
Equity					
Investments in other public sector entities	2 271 716	2 230 246	2 217 056	2 244 188	2 276 068
Equity accounted investments					
Investments – shares	10 000	40 000	70 000	70 000	70 000
Other financial assets	22 802	24 398	26 106	27 934	29 890
Total financial assets	**6 593 213**	**6 071 795**	**6 154 496**	**6 324 862**	**6 513 917**
Non financial assets					
Inventories	13 359	13 359	13 359	13 359	13 359
Property, plant and equipment	18 502 639	19 160 636	19 814 319	20 191 857	20 316 297
Investment property	35 959	31 959	27 959	23 959	19 959
Other non financial assets	342 132	478 496	494 898	492 683	490 664
Total non financial assets	**18 894 089**	**19 684 450**	**20 350 535**	**20 721 858**	**20 840 279**
TOTAL ASSETS	**25 487 302**	**25 756 245**	**26 505 031**	**27 046 720**	**27 354 196**
LIABILITIES					
Deposits held	944 771	421 153	402 534	400 813	415 074
Advances received	267 041	256 396	244 888	232 727	219 531
Borrowing	8 631 625	9 950 441	11 212 414	12 121 997	12 863 021
Superannuation	3 847 032	3 723 034	3 599 036	3 475 039	3 351 042
Other employee benefits	747 605	747 605	747 605	747 605	747 605
Payables	227 883	229 644	230 503	232 165	233 092
Other liabilities	1 068 418	1 031 001	1 026 107	1 049 822	1 077 412
TOTAL LIABILITIES	**15 734 375**	**16 359 274**	**17 463 087**	**18 260 168**	**18 906 777**
NET ASSETS/(LIABILITIES)	**9 752 927**	**9 396 971**	**9 041 944**	**8 786 552**	**8 447 419**
NET WORTH	**9 752 927**	**9 396 971**	**9 041 944**	**8 786 552**	**8 447 419**
NET FINANCIAL WORTH[1]	- 9 141 162	- 10 287 479	- 11 308 591	- 11 935 306	- 12 392 860
NET FINANCIAL LIABILITIES[2]	11 412 878	12 517 725	13 525 647	14 179 494	14 668 928
NET DEBT[3]	**6 076 905**	**7 368 399**	**8 531 414**	**9 280 985**	**9 882 050**

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	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	510 918	557 677	580 112	595 544	617 770
Receipts from sales of goods and services	444 934	417 163	422 560	431 522	434 095
Grants and subsidies received	4 558 581	5 117 327	4 636 203	4 665 476	4 479 071
Interest receipts	75 911	81 258	83 761	86 514	89 432
Dividends and income tax equivalents	59 750	32 353	52 389	57 553	63 789
Other receipts	486 488	401 955	388 632	377 084	384 092
Total operating receipts	**6 136 582**	**6 607 733**	**6 163 657**	**6 213 693**	**6 068 249**
Cash payments for operating activities					
Payments for employees	- 3 195 723	- 3 126 725	- 2 983 289	- 2 965 185	- 2 956 039
Payment for goods and services	- 1 398 951	- 1 356 334	- 1 195 295	- 1 174 879	- 1 166 244
Grants and subsidies paid	- 1 690 617	- 1 454 228	- 1 306 461	- 1 290 979	- 1 263 156
Interest paid	- 332 475	- 357 640	- 385 136	- 410 019	- 422 411
Other payments	- 331 113	- 286 856	- 283 066	- 283 066	- 283 066
Total operating payments	**- 6 948 879**	**- 6 581 783**	**- 6 153 247**	**- 6 124 128**	**- 6 090 916**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 812 297**	**25 950**	**10 410**	**89 565**	**- 22 667**
Cash flows from investments in non financial assets					
Sales of non financial assets	26 684	28 082	29 152	30 697	31 292
Purchases of non financial assets	- 924 859	- 1 221 744	- 1 135 582	- 912 785	- 646 238
Net cash flows from investments in non financial assets	**- 898 175**	**- 1 193 662**	**- 1 106 430**	**- 882 088**	**- 614 946**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 710 472**	**- 1 167 712**	**- 1 096 020**	**- 792 523**	**- 637 613**
Net cash flows from investments in financial assets for policy purposes[1]	- 34 000	- 68 800	- 59 000	- 9 000	- 9 000
Net cash flows from investments in financial assets for liquidity purposes	- 162 872	- 94 558	- 84 254	- 89 142	- 94 012
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 095 047	- 1 357 020	- 1 249 684	- 980 230	- 717 958
Net cash flows from financing activities					
Advances received (net)	- 9 948	- 10 645	- 11 508	- 12 161	- 13 196
Borrowing (net)	1 708 757	1 186 761	1 175 183	897 052	721 031
Deposits received (net)	- 348 978	- 523 618	- 18 619	- 1 721	14 261
Other financing (net)	1 350			400	
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 351 181	652 498	1 145 056	883 570	722 096
NET INCREASE/DECREASE IN CASH HELD	- 556 163	- 678 572	- 94 218	- 7 095	- 18 529
Net cash flows from operating activities	- 812 297	25 950	10 410	89 565	- 22 667
Net cash flows from investments in non financial assets	- 898 175	- 1 193 662	- 1 106 430	- 882 088	- 614 946
CASH SURPLUS (+)/DEFICIT (-)	**- 1 710 472**	**- 1 167 712**	**- 1 096 020**	**- 792 523**	**- 637 613**
Future infrastructure and superannuation contributions/ earnings[2]	- 31 839	- 43 242	- 45 836	- 48 586	- 51 502
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 742 311**	**- 1 210 954**	**- 1 141 856**	**- 841 109**	**- 689 115**

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	2024-25
		Revised	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Current grants	184 772	178 020	190 369	179 847	179 567
	Capital grants	33 099	27 169	24 430	25 276	24 062
	Sales of goods and services	812 121	783 520	826 031	861 804	896 215
	Interest income	1 690	1 432	1 844	2 047	2 127
	Other revenue	31 913	51 958	40 641	49 042	53 444
	TOTAL REVENUE	1 063 595	1 042 099	1 083 315	1 118 016	1 155 415
less	EXPENSES					
	Employee benefits expense	129 366	133 249	135 986	139 472	133 239
	Superannuation expenses	11 281	11 269	11 621	12 117	12 422
	Depreciation and amortisation	219 454	218 719	213 722	218 649	214 628
	Other operating expenses	652 127	656 108	665 142	648 731	666 436
	Interest expenses	65 111	63 105	61 842	58 793	56 611
	Other property expenses	11 731	3 821	4 548	5 625	23 718
	Current grants					
	Capital grants					
	Subsidies and personal benefit payments	1 317	1 333	1 352	1 376	1 401
	TOTAL EXPENSES	1 090 387	1 087 604	1 094 213	1 084 763	1 108 455
equals	NET OPERATING BALANCE	- 26 792	- 45 505	- 10 898	33 253	46 960
plus	Other economic flows – included in operating result	- 5 200	- 4 291	- 4 305	- 4 324	- 4 344
equals	OPERATING RESULT	- 31 992	- 49 796	- 15 203	28 929	42 616
plus	Other economic flows – other comprehensive income	13				
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 31 979	- 49 796	- 15 203	28 929	42 616
	NET OPERATING BALANCE	- 26 792	- 45 505	- 10 898	33 253	46 960
less	Net acquisition of non financial assets					
	Purchases of non financial assets	223 652	228 273	206 342	191 549	180 896
	Sales of non financial assets					
	less Depreciation	219 454	218 719	213 722	218 649	214 628
	plus Change in inventories	- 1 875	9 978	2 351	4 734	2 222
	plus Other movements in non financial assets	867				
	equals Total net acquisition of non financial assets	3 190	19 532	- 5 029	- 22 366	- 31 510
equals	FISCAL BALANCE	- 29 982	- 65 037	- 5 869	55 619	78 470

Table 8.5

Public non financial corporation sector balance sheet

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	210 616	195 105	187 715	204 557	227 102
Advances paid					
Investments, loans and placements	3	3	3	3	3
Receivables	150 260	145 392	148 716	156 487	163 579
Equity					
Investments in other public sector entities					
Equity accounted investments					
Investments – shares					
Other financial assets	6 811	5 838	4 843	3 797	2 695
Total financial assets	**367 690**	**346 338**	**341 277**	**364 844**	**393 379**
Non financial assets					
Inventories	162 550	172 528	174 879	179 613	181 835
Property, plant and equipment	3 725 945	3 745 788	3 744 252	3 723 506	3 694 053
Investment property					
Other non financial assets	15 462	14 587	13 168	12 112	11 681
Total non financial assets	**3 903 957**	**3 932 903**	**3 932 299**	**3 915 231**	**3 887 569**
TOTAL ASSETS	**4 271 647**	**4 279 241**	**4 273 576**	**4 280 075**	**4 280 948**
LIABILITIES					
Deposits held	705	705	705	705	705
Advances received					
Borrowing	1 811 417	1 840 732	1 832 065	1 801 138	1 759 677
Superannuation					
Other employee benefits	50 252	48 916	39 921	50 320	51 676
Payables	88 013	86 231	85 084	85 520	83 324
Other liabilities	71 640	94 585	120 953	120 446	131 774
TOTAL LIABILITIES	**2 022 027**	**2 071 169**	**2 078 728**	**2 058 129**	**2 027 156**
NET ASSETS/(LIABILITIES)	**2 249 620**	**2 208 072**	**2 194 848**	**2 221 946**	**2 253 792**
NET WORTH	**2 249 620**	**2 208 072**	**2 194 848**	**2 221 946**	**2 253 792**
NET FINANCIAL WORTH[1]	- 1 654 337	- 1 724 831	- 1 737 451	- 1 693 285	- 1 633 777
NET DEBT[2]	1 601 503	1 646 329	1 645 052	1 597 283	1 533 277

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	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Receipts from sales of goods and services	790 169	773 186	818 509	849 919	885 038
Grants and subsidies received	204 129	196 839	209 453	199 275	199 481
Interest receipts	1 704	1 440	1 845	2 057	2 127
Dividends and income tax equivalents					
Other receipts	27 463	51 347	40 641	49 042	53 444
Total operating receipts	**1 023 465**	**1 022 812**	**1 070 448**	**1 100 293**	**1 140 090**
Cash payments for operating activities					
Income tax equivalents paid	- 14 819	2 114	- 3 819	- 4 548	- 5 603
Payments for employees	- 159 899	- 152 946	- 163 640	- 148 332	- 151 379
Payment for goods and services	- 590 232	- 630 466	- 635 081	- 646 116	- 670 581
Grants and subsidies paid	- 1 317	- 1 333	- 1 352	- 1 376	- 1 401
Interest paid	- 65 906	- 63 128	- 61 926	- 59 106	- 56 486
Other payments		- 36	- 58	- 78	- 23
Total operating payments	**- 832 173**	**- 845 795**	**- 865 876**	**- 859 556**	**- 885 473**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**191 292**	**177 017**	**204 572**	**240 737**	**254 617**
Cash flows from investments in non financial assets					
Sales of non financial assets					
Purchases of non financial assets	- 223 652	- 228 273	- 206 342	- 191 549	- 180 896
Net cash flows from investments in non financial assets	**- 223 652**	**- 228 273**	**- 206 342**	**- 191 549**	**- 180 896**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 32 360	- 51 256	- 1 770	49 188	73 721
Net cash flows from investments in financial assets for policy purposes[1]					
Net cash flows from investments in financial assets for liquidity purposes	951	973	995	1 046	1 102
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 222 701	- 227 300	- 205 347	- 190 503	- 179 794
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	- 9 247	26 442	- 8 974	- 31 704	- 41 618
Deposits received (net)	- 146				
Dividends paid	- 4 950	- 1 670	- 7 641	- 11 688	- 20 660
Other financing (net)	20 000	10 000	10 000	10 000	10 000
NET CASH FLOWS FROM FINANCING ACTIVITIES	5 657	34 772	- 6 615	- 33 392	- 52 278
NET INCREASE/DECREASE IN CASH HELD	- 25 752	- 15 511	- 7 390	16 842	22 545
Net cash flows from operating activities	191 292	177 017	204 572	240 737	254 617
Net cash flows from investments in non financial assets	- 223 652	- 228 273	- 206 342	- 191 549	- 180 896
Dividends paid	- 4 950	- 1 670	- 7 641	- 11 688	- 20 660
CASH SURPLUS (+)/DEFICIT (-)	- 37 310	- 52 926	- 9 411	37 500	53 061

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	2024-25
		Revised	Budget	Forward estimate		
		$000	$000	$000	$000	$000
	REVENUE					
	Taxation revenue	508 778	545 583	568 076	588 400	610 698
	Current grants	4 337 048	4 617 291	4 202 000	4 210 520	4 264 157
	Capital grants	339 540	555 142	466 287	459 404	217 662
	Sales of goods and services	1 144 125	1 106 376	1 153 648	1 198 468	1 235 462
	Interest income	76 154	81 477	83 971	86 732	89 701
	Dividend and income tax equivalent income	32 799	40 928	41 316	37 526	33 496
	Other revenue	475 847	449 450	428 116	424 165	437 117
	TOTAL REVENUE	6 914 291	7 396 247	6 943 414	7 005 215	6 888 293
less	EXPENSES					
	Employee benefits expense	2 837 757	2 815 130	2 671 439	2 647 568	2 622 092
	Superannuation expenses					
	Superannuation interest cost	34 623	65 153	71 981	78 188	83 776
	Other superannuation expenses	421 856	388 750	385 266	388 808	393 622
	Depreciation and amortisation	755 960	752 423	742 311	743 099	733 100
	Other operating expenses	2 307 707	2 239 296	2 082 772	2 045 531	2 056 822
	Interest expenses	395 702	420 582	446 554	467 916	477 959
	Other property expenses					
	Current grants	1 094 800	1 095 056	996 340	994 281	969 600
	Capital grants	246 848	92 371	32 247	31 597	27 905
	Subsidies and personal benefit payments	90 819	71 293	69 773	67 202	67 571
	TOTAL EXPENSES	8 186 072	7 940 054	7 498 683	7 464 190	7 432 447
equals	NET OPERATING BALANCE	- 1 271 781	- 543 807	- 555 269	- 458 975	- 544 154
plus	Other economic flows – included in operating result	140 547	63 853	76 244	79 586	81 024
equals	OPERATING RESULT	- 1 131 234	- 479 954	- 479 025	- 379 389	- 463 130
plus	Other economic flows – other comprehensive income	421 605	123 998	123 998	123 997	123 997
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	- 709 629	- 355 956	- 355 027	- 255 392	- 339 133
	NET OPERATING BALANCE	- 1 271 781	- 543 807	- 555 269	- 458 975	- 544 154
less	Net acquisition of non financial assets					
	Purchases of non financial assets	1 152 938	1 450 017	1 341 924	1 104 734	827 134
	Sales of non financial assets	- 26 684	- 28 082	- 29 152	- 30 697	- 31 292
	less Depreciation	755 960	752 423	742 311	743 099	733 100
	plus Change in inventories	- 1 875	9 978	2 351	4 734	2 222
	plus Other movements in non financial assets	233 102	132 355	86 790	12 531	19 993
	equals Total net acquisition of non financial assets	601 521	811 845	659 602	348 203	84 957
equals	FISCAL BALANCE	- 1 873 302	- 1 355 652	- 1 214 871	- 807 178	- 629 111

Table 8.8

Non financial public sector balance sheet

	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
ASSETS					
Financial assets					
Cash and deposits	929 319	250 747	156 529	149 434	130 905
Advances paid	202 196	230 996	249 996	248 996	247 996
Investments, loans and placements	2 635 025	2 777 856	2 921 905	3 076 130	3 236 683
Receivables	665 363	649 610	647 180	649 017	652 079
Equity					
Investments in other public sector entities	21 631	21 631	21 631	21 631	21 631
Equity accounted investments					
Investments - shares	10 000	40 000	70 000	70 000	70 000
Other financial assets	29 613	30 236	30 949	31 731	32 585
Total financial assets	4 493 147	4 001 076	4 098 190	4 246 939	4 391 879
Non financial assets					
Inventories	175 909	185 887	188 238	192 972	195 194
Property, plant and equipment	22 213 131	22 892 773	23 546 166	23 904 204	24 000 437
Investment property	35 959	31 959	27 959	23 959	19 959
Other non financial assets	357 594	493 083	508 066	504 795	502 345
Total non financial assets	22 782 593	23 603 702	24 270 429	24 625 930	24 717 935
TOTAL ASSETS	27 275 740	27 604 778	28 368 619	28 872 869	29 109 814
LIABILITIES					
Deposits held	734 865	226 758	215 529	196 966	188 682
Advances received	267 041	256 396	244 888	232 727	219 531
Borrowing	10 427 124	11 776 979	13 031 497	13 911 365	14 612 140
Superannuation	3 847 032	3 723 034	3 599 036	3 475 039	3 351 042
Other employee benefits	797 857	796 521	787 526	797 925	799 281
Payables	307 589	307 305	307 018	309 128	307 859
Other liabilities	1 141 305	1 120 814	1 141 181	1 163 167	1 183 860
TOTAL LIABILITIES	17 522 813	18 207 807	19 326 675	20 086 317	20 662 395
NET ASSETS/(LIABILITIES)	9 752 927	9 396 971	9 041 944	8 786 552	8 447 419
NET WORTH	9 752 927	9 396 971	9 041 944	8 786 552	8 447 419
NET FINANCIAL WORTH[1]	- 13 029 666	- 14 206 731	- 15 228 485	- 15 839 378	- 16 270 516
NET FINANCIAL LIABILITIES[2]	13 051 297	14 228 362	15 250 116	15 861 009	16 292 147
NET DEBT[3]	7 662 490	9 000 534	10 163 484	10 866 498	11 404 769

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	2024-25
	Revised	Budget	Forward estimate		
	$000	$000	$000	$000	$000
Cash receipts from operating activities					
Taxes received	503 778	550 583	573 076	588 400	610 698
Receipts from sales of goods and services	1 170 971	1 127 085	1 177 701	1 218 160	1 255 858
Grants and subsidies received	4 558 572	5 117 325	4 636 203	4 665 476	4 479 071
Interest receipts	76 154	81 477	83 971	86 732	89 701
Dividends and income tax equivalents	39 981	32 799	40 927	41 317	37 526
Other receipts	514 843	450 817	426 788	423 639	435 051
Total operating receipts	6 864 299	7 360 086	6 938 666	7 023 724	6 907 905
Cash payments for operating activities					
Payments for employees	- 3 346 272	- 3 270 369	- 3 137 681	- 3 104 165	- 3 098 134
Payment for goods and services	- 1 927 440	- 1 925 125	- 1 768 043	- 1 758 745	- 1 774 587
Grants and subsidies paid	- 1 487 796	- 1 258 720	- 1 098 360	- 1 093 080	- 1 065 076
Interest paid	- 396 739	- 419 407	- 445 329	- 467 188	- 476 941
Other payments	- 331 113	- 286 892	- 283 124	- 283 144	- 283 089
Total operating payments	- 7 489 360	- 7 160 513	- 6 732 537	- 6 706 322	- 6 697 827
NET CASH FLOWS FROM OPERATING ACTIVITIES	- 625 061	199 573	206 129	317 402	210 078
Cash flows from investments in non financial assets					
Sales of non financial assets	26 684	28 082	29 152	30 697	31 292
Purchases of non financial assets	- 1 151 888	- 1 450 017	- 1 341 924	- 1 104 334	- 827 134
Net cash flows from investments in non financial assets	- 1 125 204	- 1 421 935	- 1 312 772	- 1 073 637	- 795 842
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 1 750 265	- 1 222 362	- 1 106 643	- 756 235	- 585 764
Net cash flows from investments in financial assets for policy purposes[1]	- 14 000	- 58 800	- 49 000	1 000	1 000
Net cash flows from investments in financial assets for liquidity purposes	- 161 921	- 93 585	- 83 259	- 88 096	- 92 910
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 301 125	- 1 574 320	- 1 445 031	- 1 160 733	- 887 752
Net cash flows from financing activities					
Advances received (net)	- 9 948	- 10 645	- 11 508	- 12 161	- 13 196
Borrowing (net)	1 701 993	1 214 927	1 167 421	866 560	680 625
Deposits received (net)	- 323 372	- 508 107	- 11 229	- 18 563	- 8 284
Other financing (net)	1 350			400	
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 370 023	696 175	1 144 684	836 236	659 145
NET INCREASE/DECREASE IN CASH HELD	- 556 163	- 678 572	- 94 218	- 7 095	- 18 529
Net cash flows from operating activities	- 625 061	199 573	206 129	317 402	210 078
Net cash flows from investments in non financial assets	- 1 125 204	- 1 421 935	- 1 312 772	- 1 073 637	- 795 842
CASH SURPLUS (+)/DEFICIT (-)	- 1 750 265	- 1 222 362	- 1 106 643	- 756 235	- 585 764
Future infrastructure and superannuation contributions/ earnings[2]	- 31 839	- 43 242	- 45 836	- 48 586	- 51 502
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 1 782 104	- 1 265 604	- 1 152 479	- 804 821	- 637 266

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 Revised
		$000
	REVENUE	
	Current grants	
	Capital grants	
	Sales of goods and services	822
	Interest income	317 279
	Other revenue	
	TOTAL REVENUE	318 101
less	EXPENSES	
	Employee benefits expense	623
	Superannuation expenses	98
	Depreciation and amortisation	
	Other operating expenses	1 559
	Interest expenses	283 022
	Other property expenses	9 840
	Current grants	
	Capital grants	
	Subsidies and personal benefit payments	
	TOTAL EXPENSES	295 142
equals	NET OPERATING BALANCE	22 959
plus	Other economic flows – included in operating result	
equals	OPERATING RESULT	22 959
plus	Other economic flows – other comprehensive income	
equals	COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners	22 959
	NET OPERATING BALANCE	22 959
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	22 959

Table 8.11

Public financial corporation sector balance sheet

	2020-21 Revised
	$000
ASSETS	
Financial assets	
Cash and deposits	579 269
Advances paid	63 175
Investments, loans and placements	8 833 898
Receivables	3 532
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments – shares	
Other financial assets	
Total financial assets	**9 479 874**
Non financial assets	
Inventories	
Property, plant and equipment	
Investment property	
Other non financial assets	
Total non financial assets	
TOTAL ASSETS	**9 479 874**
LIABILITIES	
Deposits held	335
Advances received	192 813
Borrowing	9 167 119
Superannuation	
Other employee benefits	136
Payables	65 040
Other liabilities	32 800
TOTAL LIABILITIES	**9 458 243**
NET ASSETS/(LIABILITIES)	**21 631**
NET WORTH	**21 631**
NET FINANCIAL WORTH[1]	21 631
NET DEBT[2]	**- 116 075**

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 Revised
	$000
Cash receipts from operating activities	
Receipts from sales of goods and services	822
Grants and subsidies received	
Interest receipts	317 987
Other receipts	
Total operating receipts	**318 809**
Cash payments for operating activities	
Income tax equivalents paid	- 11 994
Payments for employees	- 721
Payment for goods and services	- 1 559
Grants and subsidies paid	
Interest paid	- 292 836
Other payments	
Total operating payments	**- 307 110**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**11 699**
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	**11 699**
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	- 1 831 354
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 827 999
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	1 521 061
Deposits received (net)	
Dividends paid	- 27 987
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 493 074
NET INCREASE/DECREASE IN CASH HELD	- 323 226
Net cash flows from operating activities	11 699
Net cash flows from investments in non financial assets	
Distributions paid	- 27 987
CASH SURPLUS (+)/DEFICIT (-)	**- 16 288**

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

Table 8.13

Total public sector comprehensive operating statement

		2020-21 Revised
		$000
	REVENUE	
	Taxation revenue	508 778
	Current grants	4 337 048
	Capital grants	339 540
	Sales of goods and services	1 143 638
	Interest income	76 354
	Dividend and income tax equivalent income	
	Other revenue	475 789
	TOTAL REVENUE	**6 881 147**
less	EXPENSES	
	Employee benefits expense	2 838 380
	Superannuation expenses	
	Superannuation interest cost	34 623
	Other superannuation expenses	421 896
	Depreciation and amortisation	755 960
	Other operating expenses	2 307 957
	Interest expenses	361 645
	Other property expenses	
	Current grants	1 094 800
	Capital grants	246 848
	Subsidies and personal benefit payments	90 819
	TOTAL EXPENSES	**8 152 928**
equals	**NET OPERATING BALANCE**	**- 1 271 781**
plus	Other economic flows – included in operating result	140 547
equals	**OPERATING RESULT**	**- 1 131 234**
plus	Other economic flows – other comprehensive income	421 605
equals	**COMPREHENSIVE RESULT – total change in net worth before transactions with owners in their capacity as owners**	**- 709 629**
	NET OPERATING BALANCE	**- 1 271 781**
less	**Net acquisition of non financial assets**	
	Purchases of non financial assets	1 152 938
	Sales of non financial assets	- 26 684
	less Depreciation	755 960
	plus Change in inventories	- 1 875
	plus Other movements in non financial assets	233 102
	equals **Total net acquisition of non financial assets**	**601 521**
equals	**FISCAL BALANCE**	**- 1 873 302**

Table 8.14

Total public sector balance sheet

	2020-21 Revised
	$000
ASSETS	
Financial assets	
Cash and deposits	929 319
Advances paid	202 196
Investments, loans and placements	2 635 025
Receivables	632 621
Equity	
Investments in other public sector entities	
Equity accounted investments	
Investments - shares	10 000
Other financial assets	29 613
Total financial assets	4 438 774
Non financial assets	
Inventories	175 909
Property, plant and equipment	22 213 131
Investment property	35 959
Other non financial assets	357 594
Total non financial assets	22 782 593
TOTAL ASSETS	27 221 367
LIABILITIES	
Deposits held	155 931
Advances received	219 036
Borrowing	10 937 988
Superannuation	3 847 032
Other employee benefits	797 993
Payables	369 154
Other liabilities	1 141 306
TOTAL LIABILITIES	17 468 440
NET ASSETS/(LIABILITIES)	9 752 927
NET WORTH	9 752 927
NET FINANCIAL WORTH[1]	- 13 029 666
NET DEBT[2]	7 546 415

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 Revised
	$000
Cash receipts from operating activities	
Taxes received	503 778
Receipts from sales of goods and services	1 170 484
Grants and subsidies received	4 558 572
Interest receipts	76 154
Other receipts	514 785
Total operating receipts	**6 823 773**
Cash payments for operating activities	
Payments for employees	- 3 346 935
Payment for goods and services	- 1 927 690
Grants and subsidies paid	- 1 487 796
Interest paid	- 371 588
Other payments	- 331 113
Total operating payments	**- 7 465 122**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**- 641 349**
Cash flows from investments in non financial assets	
Sales of non financial assets	26 684
Purchases of non financial assets	- 1 151 888
Net cash flows from investments in non financial assets	**- 1 125 204**
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	**- 1 766 553**
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	- 161 921
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 301 125
Net cash flows from financing activities	
Advances received (net)	
Borrowing (net)	1 385 107
Deposits received (net)	- 146
Other financing (net)	1 350
NET CASH FLOWS FROM FINANCING ACTIVITIES	1 386 311
NET INCREASE/DECREASE IN CASH HELD	- 556 163
Net cash flows from operating activities	- 641 349
Net cash flows from investments in non financial assets	- 1 125 204
CASH SURPLUS (+)/DEFICIT (-)	**- 1 766 553**
Future infrastructure and superannuation contributions/earnings[2]	- 31 839
UNDERLYING SURPLUS (+)/DEFICIT (-)	**- 1 798 392**

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

Table 8.16

General government sector taxes

	2020-21 Revised	2021-22 Budget
	$M	$M
Taxes on employers' payroll and labour force	**194**	**220**
Payroll taxes	194	220
Taxes on property	**86**	**104**
Stamp duties on financial and capital transactions	84	102
Other	2	2
Taxes on the provision of goods and services	**154**	**153**
Taxes on gambling	98	95
Taxes on insurance	56	58
Taxes on the use of goods and performance of activities	**82**	**76**
Motor vehicle registration fees	80	74
Other	2	2
TOTAL TAXATION REVENUE	516	553

Table 8.17

General government sector grant revenue

	2020-21 Revised	2021-22 Budget
	$M	$M
Current grant revenue		
Current grants from the Commonwealth		
National partnership payments	529	518
Specific purpose payments	389	443
General purpose grants	3 419	3 656
Total current grant revenue	**4 337**	**4 617**
Capital grant revenue		
Capital grants from the Commonwealth		
National partnership payments	294	509
Specific purpose payments	2	3
General purpose grants	31	39
Total capital grant revenue	**327**	**551**
TOTAL GRANT REVENUE	4 664	5 169

Table 8.18

General government sector grant expenses

	2020-21 Revised	2021-22 Budget
	$M	$M
Current grant expense including subsidies and personal benefit payments		
Local government	80	74
Private and not-for-profit sector	1 018	1 007
Grants to other sectors of government	60	61
Other	212	200
Total current grant expense including subsidies and personal benefit payments	**1 369**	**1 343**
Capital grant expense		
Local government	16	4
Private and not-for-profit sector	231	88
Grants to other sectors of government	21	23
Other		
Total capital grant expense	**268**	**116**
TOTAL GRANT EXPENSES	1 637	1 459

Table 8.19

General government sector dividend and income tax equivalent income

	2020-21 Revised	2021-22 Budget
	$M	$M
Dividend and income tax equivalent income from public non financial corporations sector	17	6
Dividend and income tax equivalent income from public financial corporations sector	33	41
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	50	47

Table 8.20

General government sector operating expenses by function

	2020-21 Revised	2021-22 Budget
	$M	$M
General public services	473	536
Public order and safety	942	917
Economic affairs	661	468
Environmental protection	124	130
Housing and community amenities	649	621
Health	2 067	2 070
Recreation, culture and religion	183	156
Education	1 272	1 296
Social protection	722	651
Transport	296	287
TOTAL OPERATING EXPENSES	7 389	7 132

Reported by Classifications of Functions of Government – Australia.

Table 8.21

General government sector purchases of non financial assets by function

	2020-21 Revised	2021-22 Budget
	$M	$M
General public services	6	6
Public order and safety	109	129
Economic affairs	38	29
Environmental protection	11	24
Housing and community amenities	276	287
Health	80	94
Recreation, culture and religion	34	25
Education	66	54
Social protection	19	21
Transport	290	553
TOTAL PURCHASES OF NON FINANCIAL ASSETS	929	1 222

Reported by Classifications of Functions of Government – Australia.

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[3]
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 Commissioner for Public Employment
Office of the Independent Commissioner Against Corruption
Ombudsman's Office
Territory Wildlife Parks[2]
Top End Health Service[3]

Public Non Financial Corporations

Indigenous Essential Services Pty Ltd[1]
Jacana Energy[1, 4]
Land Development Corporation[2]
Power and Water Corporation[1, 4]
Territory Generation[1, 4]

Public Financial Corporation

Northern Territory Treasury Corporation[2]

1 Non-budget sector entity.
2 Government business division.
3 Government business division ceasing 1 July 2021.
4 Government owned corporation.

Appendix B

Abbreviations and acronyms

AARC	AustralAsia Railway Corporation
ABS	Australian Bureau of Statistics
B	billion
CBD	central business district
CCTV	closed-circuit television
CFFR	Council on Federal Financial Relations
CGC	Commonwealth Grants Commission
CPI	consumer price index
CTP	compulsory third-party insurance
DPC	Darwin Port Corporation
e	estimate
f	forecast
FFA	Federation Funding Agreement
FITA	*Fiscal Integrity and Transparency Act 2001*
GDP	gross domestic product
GFC	global financial crisis
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
L	litre
LHS	left-hand side
LNG	liquefied natural gas
M	million
Moody's	Moody's Investors Service
MYEFO	Mid-Year Economic and Fiscal Outlook
NAIF	Northern Australia Infrastructure Facility
NASWD	National Skills and Workforce Development
NHHA	National Housing and Homelessness Agreement
NHR	National Health Reform
NP	national partnership
NSR	National School Reform
NT	Northern Territory
NTRAI	Northern Territory Remote Aboriginal Investment
NTTC	Northern Territory Treasury Corporation
RBA	Reserve Bank of Australia
RHS	right-hand side
ROSI	Roads of Strategic Importance
SCI	statement of corporate intent
SFD	state final demand
SPP	specific purpose payment
states	states and territories
UPF	Uniform Presentation Framework
WPI	wage price index

Appendix C
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 as 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. Agencies are entities that fulfil the functions of government as their primary activity. The services that they provide include those which are mainly non-market in nature and are largely for the collective consumption by the community. These services are provided free of charge or at nominal charges well below cost of production. Agencies are predominantly funded through appropriations.

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 comprise the receiving of money, property or other value with an obligation to repay, regardless of whether or not the repayment is of equal value. It includes loans, the issue of debentures, bonds or stock, discounted securities, promissory notes, the lease of real or personal property, or any other arrangement where there is an obligation to repay.

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

Key fiscal aggregate reported in the cash flow statement, it measures the net impact of cash flows during the period. Cash surplus/deficit is a useful indicator of the Territory's need to call on financial markets to meet its budget obligations. It equals net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets, less distributions paid.

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

Fiscal aggregate reported in the operating statement. 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 assets and liabilities, other than transactions with owners in their capacity as owners. It equals revenue from transactions less expenses from transactions plus other economic flows.

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 not wholly in control of the Territory. It also includes present liabilities that arise from past events where it is not probable the Territory will be required to settle the liability, or the amount of the obligation cannot be reliably estimated.

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.

Federation funding agreements

Subject to the intergovernmental agreement on federal financial relations, these agreements contribute to and facilitate the delivery of initiatives in a specific sector, consolidating payments made under national partnerships and projects agreements. The aim is to reduce complexity in funding arrangements from the Commonwealth to states and territories, while maintaining accountability and transparency.

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 government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit) position indicates that government's level of investment is greater than its level of savings. It equals the net operating balance less the net acquisition and disposal of non financial assets.

General government sector

Agencies and other entities controlled by government mainly engaged in the production of goods and or services outside the normal market mechanism, where goods and services are provided free of charge or at nominal charges well below cost of production. This sector is generally funded by taxation (directly or indirectly).

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

Government owned entities that follow commercial practices and are required to comply with competitive neutrality principles. Government business divisions are mainly funded through user charges.

Government finance statistics

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 governed by the *Government Owned Corporations Act 2001*. Operating under a shareholder model of corporate government, its objectives are to function as efficiently as any corporate business and maximise sustainable returns to government.

The Territory has three government owned corporations: the 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.

Gross domestic product

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

Gross state product

Similar to gross domestic product, except it measures the total value of goods and services produced in a state or territory. 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 lease repayments and amortisation of discounts or premiums on borrowings.

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.

Key fiscal indicators

Key financial measures that must be specified by government in accordance with *Fiscal Integrity and Transparency Act 2001*, against which fiscal policy will be set and assessed. The fiscal indicators determined by government are derived from fiscal aggregates reported in the Uniform Presentation Framework and Australian Accounting Standards Board 1049.

Leases

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

Loans

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

Machinery of government

Changes or variations in government structure, including the abolition or creation of new government entities, the merger or absorption of government entities, and small or large transfers of policy, program or service delivery responsibilities between government entities.

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

Measuring net capital expenditure for a fiscal year, it equals 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

Net gains and losses as a result of changes in actuarial assumptions, including those relating to defined benefit superannuation plans, included in other economic flows in the operating statement.

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

Key fiscal aggregate reported in the balance sheet, measuring a government's net stock of selected gross financial liabilities less financial assets. It 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 debt to revenue

A fiscal measure that assesses net debt as a proportion of total revenue. It assesses government'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.

Net financial liabilities

Reported in the balance sheet, 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). It equals total liabilities less financial assets, other than equity in public non financial corporations and public financial corporations. For the public non financial corporation and public financial corporation sectors, it is equal to negative net financial worth.

Net financial worth

Reported in the balance sheet, net financial worth measures a government's net holdings of financial assets. It is calculated as financial assets minus liabilities, and 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 operating balance

Key fiscal aggregate reported in the operating statement, measuring the ongoing sustainability of a government's operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets, and is the component of the change in net worth that is due to transactions and can be attributed directly to government policies. It equals total revenue less total expenses.

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 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 agency, 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, net actuarial gains and losses, 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

Liabilities (or amounts owed) that include 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

Government owned and controlled entities that provide goods and services to consumers on a commercial basis and are funded largely by the sale of these goods and services with the aim to maximise sustainable returns to government. These entities are legally distinguishable from the government which owns them.

Receivables

Assets (or amounts to be received) that include 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.

Statutory bodies

Entities established by or under an Act for a public purpose where there is a need for some operational independence from government. These entities are mainly funded from either levies, taxes or grant funding.

Superannuation interest cost

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

Mechanism used 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 sector formed through a consolidation of the non financial public and public financial corporation sectors.

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 on Federal Financial Relations to incorporate Australian Accounting Standards Board 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. This enables users of the information to make valid comparisons between jurisdictions.