

Fiscal and Economic Outlook 2011-12

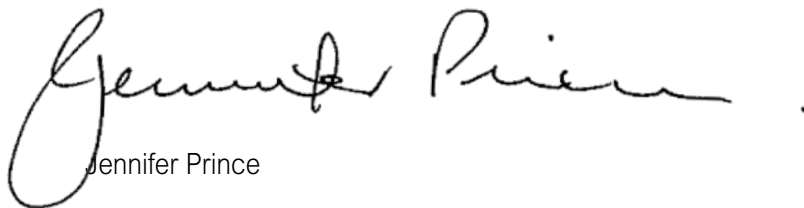
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In this book, the term 'state' or 'states' includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

Under Treasurer's Certification

In accordance with the provisions of the *Fiscal Integrity and Transparency Act*, I certify that the financial projections included in the May 2011 Budget documentation were based on Government decisions that I was aware of or that were made available to me by the Treasurer before 27 April 2011. The projections are presented in accordance with the Uniform Presentation Framework.

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

Jennifer Prince
Under Treasurer

29 April 2011

Chapter 1 Overview

Economic and Fiscal Outlook

The Northern Territory is a small economy that is significantly affected by national economic activity as well as the economic performance of our trading partners. The global financial crisis (GFC) has had a considerable effect on the Northern Territory economy and its finances, albeit somewhat delayed compared with other jurisdictions because of a number of large projects that were under construction in 2008-09 when the GFC's effects were first experienced.

After a period of sustained economic growth and strong financial outcomes prior to 2008, it was apparent that the GFC would result in limitations on project finance and government revenues. As a result, the Territory's fiscal strategy was revised significantly in the 2009-10 Budget to take into account the emerging effect of the GFC on the Territory and its finances.

The Territory Government's revised fiscal strategy was intended to counteract the expected decline in business investment by heavily increasing spending on infrastructure, supported by the Commonwealth stimulus package, to boost the economy and protect Territory jobs until private sector investment returned to its pre-GFC levels. Economic data from 2009 and 2010 indicates that the strategy has been an important contributor to growth, with public sector investment significantly replacing the decline in private investment.

The Territory's high reliance on the goods and services tax (GST) revenue means that the slowing economy nationally and the lower activity in the Territory resulted in substantially lower revenues over the forward estimates period. This combined with increased investment in infrastructure, resulted in a deterioration of the Territory's financial position, which was expected to continue for up to five years.

At the commencement of the 2010-11 year, the growing strength in the resources sector, assisted by the final tranche of the Commonwealth fiscal stimulus measures, suggested there would be an improvement in national and local circumstances. However, a series of natural disasters experienced in Australia and by our trading partners has resulted in slower economic growth with significant flow-on effects to government revenue across Australia.

These continued uncertain economic conditions have flowed through to the Territory's fiscal position as presented in the 2011-12 Budget. This is most apparent in relation to the Territory's largest revenue source, GST revenue, where national GST collections are expected to be lower than previously estimated in 2010-11 and all forward years. Lower GST revenue is due to a number of factors including a greater propensity by households to save, a shift in consumption patterns to items that are not subject to GST and lower levels of business activity as a result of the high number of recent natural disasters. Higher interest rates and more challenging credit conditions have resulted in lower levels of investment, further reducing GST collections as well as contributing to lower own-source revenues.

Lower revenue together with the need to respond to demand pressures across key service delivery areas means the achievement of fiscal strategy targets continues to be a challenge and requires ongoing expenditure restraint and the prudent management of current and future cost pressures. Accordingly, the Territory Government has continued with fiscal restraint measures that have been in place in recent years. Notwithstanding this, the Government has actively responded to necessary reforms in the areas of health, welfare and public safety resulting in increased recurrent expenditure over forward years. The Territory's medium-term strategy remains to return the budget to a cash surplus position when revenues and economic growth return to more normal levels.

The fiscal outlook in the 2011-12 Budget includes:

- operating surplus decreases over the forward years with operating deficits projected from 2012-13;
- substantial infrastructure investment in 2011-12 of \$1471 million to maintain Territory jobs, with higher than historical levels in all forward years;
- cash outcome and fiscal balance projected to remain in deficit over the budget cycle but improving over the forward estimates period to 2014-15; and
- ratios of net debt and net financial liabilities to revenue increased since the 2010-11 Budget due to higher cash deficits and a higher valuation of superannuation liabilities.

Fiscal Position

Tables 1.1 and 1.2 present the Territory's key aggregates at the time of the 2010-11 Budget, the 2010-11 Mid-Year Report and the 2011-12 Budget.

Table 1.1: Estimated Outcomes – General Government Sector

	2010-11 Estimate	2011-12 Budget	2012-13 Forward Estimates	2013-14 Forward Estimates	2014-15 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
Operating balance					
2010-11 Budget	441	98	56	57	na
2010-11 Mid-Year Report	232	108	- 27	- 76	na
2011-12 Budget	384	95	- 11	- 28	- 37
Variation from 2010-11 Budget	- 57	- 3	- 67	- 85	na
Fiscal balance					
2010-11 Budget	- 310	- 211	- 115	- 81	na
2010-11 Mid-Year Report	- 496	- 405	- 309	- 240	na
2011-12 Budget	- 375	- 435	- 297	- 240	- 204
Variation from 2010-11 Budget	- 65	- 224	- 182	- 159	na
Cash outcome					
2010-11 Budget	- 268	-173	-90	-61	na
2010-11 Mid-Year Report	- 425	- 351	- 269	- 205	na
2011-12 Budget	- 295	- 387	- 260	- 215	- 195
Variation from 2010-11 Budget	- 27	- 214	- 170	- 154	na

Source: Northern Territory Treasury

Changes in estimated budget outcomes over the Budget and forward estimates period between the 2010-11 Budget and the 2011-12 Budget have been influenced by four key factors:

- decreased GST revenue due to lower growth in the national GST pool than previously projected, partially offset by an increase in 2011 GST relativities from 2011-12. This results in a large reduction in GST revenue of \$137 million in 2010-11 and smaller net reductions thereafter;
- the revised timing of Commonwealth funds for capital purposes and a greater proportion of Territory funding being applied to capital spending;
- new and expanded spending on important reforms particularly the *Growing Them Strong, Together and New Era in Corrections*, and the *Enough is Enough* alcohol reforms; and
- timing of expenditure between years.

The decline in fiscal measures is limited in 2010-11. For the 2011-12 Budget and forward years, lower own-source and GST revenues, combined with new and expanded recurrent initiatives have resulted in the operating balance being in deficit from 2012-13 with the cash and fiscal balance deficits higher than projected at the time of the May 2010 Budget.

Table 1.2: Balance Sheet –
General Government Sector

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
Net debt (\$M)					
2010-11 Budget	1 256	1 442	1 567	1 680	na
2010-11 Mid-Year Report	1 231	1 597	1 902	2 160	na
2011-12 Budget	1 075	1 475	1 769	2 034	2 196
Variation from 2010-11 Budget	- 181	33	202	354	na
Net debt to revenue (%)					
2010-11 Budget	26	32	36	37	na
2010-11 Mid-Year Report	26	35	43	48	na
2011-12 Budget	23	32	40	45	47
Variation from 2010-11 Budget	- 3	0	4	8	na
Net financial liabilities (\$M)					
2010-11 Budget	4 264	4 507	4 676	4 828	na
2010-11 Mid-Year Report	4 402	4 838	5 200	5 511	na
2011-12 Budget	4 256	4 722	5 071	5 382	5 573
Variation from 2010-11 Budget	- 8	215	395	554	na
Net financial liabilities to revenue (%)					
2010-11 Budget	89	102	106	108	na
2010-11 Mid-Year Report	95	107	118	123	na
2011-12 Budget	90	102	113	119	119
Variation from 2010-11 Budget	1	0	7	11	na

Source: Northern Territory Treasury

As shown in Table 1.2, the general government net debt for 2010-11 has improved since the May 2010 Budget due to the cash surplus achieved in 2009-10. However net debt is expected to increase over the forward years as a consequence of the higher cash deficits, together with increased

borrowings to meet the Government's infrastructure commitments. This includes the continuation of the debt for equity swaps with the Power and Water Corporation (PWC) announced in the 2010-11 Budget to enable PWC to continue with essential capital expenditure under its new generation strategy. When measured as a ratio to revenue, net debt is slightly higher than the 2010 Budget projections, but remains lower than 2001-02 levels.

The financing of construction and operational costs for the new correctional facility announced in the *New Era in Corrections* package is expected to be on the basis of a public private partnership (PPP). In line with commercial practice, these costs will not be incorporated into the Territory's Budget and debt calculations until the contractual arrangements are finalised later in 2011, but are expected to be prior to the 2011-12 Mid-Year Report.

Net financial liabilities have increased since the May 2010 Budget due to an increase in the estimated value of the Territory's superannuation liability, largely a result of improved mortality rates and lower benefit payments in previous years, combined with the flow-on effect of the increase in net debt over the forward years. The 10 year bond rate used in valuing the superannuation liability for the 2011-12 Budget remains unchanged from May 2010 at 5.7 per cent.

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

Economic Conditions and Outlook

In the five years to 2008-09, the Territory recorded the highest annual average economic growth among the jurisdictions at 5.2 per cent, significantly above the national average of 3.0 per cent. However, the Territory economy slowed in 2009-10, reflecting the completion of several major projects and the absence of new projects in the aftermath of the GFC.

Following subdued growth in 2009-10, economic growth in the Territory is estimated to have strengthened to 2.2 per cent in 2010-11, due to increased public sector investment and consumption, which are expected to have more than offset a decline in private investment. However, growth is estimated to be 0.8 percentage points lower than forecast at the time of the 2010-11 Budget, due to higher interest rates and an increase in the propensity to save among households that have affected residential construction activity and household consumption. A smaller than expected international trade surplus due to timing issues associated with a scheduled maintenance shutdown at the Darwin LNG plant also affected growth in 2010-11.

The Territory economy is forecast to grow by 3.2 per cent in 2011-12, reflecting a higher international trade surplus, increased private sector investment and a recovery in household consumption. Public sector consumption and investment are forecast to decline as Commonwealth stimulus measures conclude.

The Territory's international trade surplus is forecast to increase mainly due to higher oil, uranium and manganese exports following expected production improvements at existing mines and commencement of production from the Kitan and Montara oilfields.

Increased private sector investment is expected to be driven by the Kitan and Montara developments and increased residential construction activity in the latter half of 2011-12 once settlements are finalised on pre-sales associated with the Territory Government's accelerated land release program in Palmerston East. Public investment expenditure is forecast to decline from historically high levels in 2011-12 as Commonwealth stimulus measures, such as the Nation Building and Jobs Plan program, conclude although the Territory Government's capital works program will remain at above average levels.

Household consumption is forecast to strengthen as consumer confidence rebuilds in the aftermath of the GFC, supported by solid employment and wage growth. Higher population growth is also expected to support increased household consumption, particularly in the latter half of 2011-12. The growth in household consumption is expected to offset anticipated declines in public consumption.

The Territory's population growth is forecast to remain at 1.0 per cent in 2011, impacted by moderating employment growth, lower overseas migration and the relocation of the 1st Brigade's 7th Battalion Royal Australian Regiment (7RAR) to South Australia from the December quarter 2010. The Territory's population growth in 2011 may also be affected by the Queensland floods, large interstate mining projects coming online and changes to interest rates.

Population growth is expected to strengthen to 1.8 per cent in 2012, reflecting stronger employment growth arising from increased private sector investment, residential construction activity and increased Defence personnel.

Inflation in Darwin is forecast to moderate to 2.3 per cent in 2011, reflecting subdued aggregate demand in the local economy, moderating employment and population growth and passive inflationary expectations following seven increases in interest rates between October 2009 and November 2010. However, recent natural disasters in the eastern states, which reduced Australia's domestic food supply, are likely to result in a spike in food inflation in early 2011. In addition, efforts to repair or replace infrastructure and housing over the coming year are likely to add to aggregate demand and lead to a slightly higher inflation rate.

In 2012, Darwin's consumer price index (CPI) is forecast to strengthen to 2.6 per cent due to a recovery in household consumption that is expected to strengthen aggregate demand in the economy.

Table 1.3: Key Economic Indicators

	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Estimate	2011-12 Forecast
	%	.0%	%	%	%	%
Gross state product ¹	4.4	4.4	5.1	1.3	2.2	3.2
Employment	5.0	6.1	4.4	2.5	2.2	2.8
Population ²	1.9	2.4	2.5	2.3	1.0	1.0
Darwin CPI ³	4.4	3.4	4.0	2.8	2.8	2.3

¹ Inflation adjusted

² As at December, annual percentage change

³ As at December year-on-year percentage change

Source: ABS Cat Nos 5220.0

Chapter 2 Fiscal Position and Outlook

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

While the national economy has moved to a recovery phase, recent indicators suggest that this is more subdued than had been anticipated and the predicted rise in consumer confidence and private sector investment has not eventuated to the extent previously anticipated. Uncertainty in some sectors of the Australian economy has been masked by headline growth supported by the continued strength in the resources sector, but the effects of the two-speed economy are becoming more apparent in many areas of Australia.

The most obvious effect on the Territory Budget is lower goods and services tax (GST) revenue for 2010-11 and all forward estimates years compared with that estimated at the time of the Mid-Year Report. The estimated reduction in the national GST pool is due to lower consumption expenditure as households increase their propensity to save, a greater proportion of consumption being directed to the GST free components of health and education services, housing and food, lower construction activity and the effects of the natural disasters in Australia over recent months resulting in lower business activity in a number of regions. The effect is lower GST revenue in 2010-11 and lower growth estimated for all forward years, resulting in a cumulative loss to the Territory of more than \$600 million over the Budget and forward estimates. From 2011-12, the decline due to lower national GST revenue is partially offset by an increase in the Territory's relativity in line with the Commonwealth Grants Commission's 2011 Update. However, the level of GST revenue the Territory is expecting to receive remains lower than pre-GFC levels in all years.

Although the Territory economy has moderated compared with the estimates in the 2010 Budget, positive growth of 2.2 per cent is expected due to increased public sector investment and consumption, which is expected to have more than offset a decline in private investment. Lower private sector growth has resulted in a slowing of the Territory's own-source revenue due to the absence of new major projects in the aftermath of the GFC, a softening in the property market and moderating population and employment growth.

At the same time, the Government remains committed to maintaining high levels of infrastructure investment to protect jobs as well as responding to ongoing requirements for the key service delivery areas of education, health, welfare and public safety.

As a result, the 2011-12 Budget has again been developed in an environment of lower revenue capacity and increased expenditure requirements to both sustain the economy and meet the growing needs of all Territorians.

This chapter presents the updated financial projections for 2010-11 through to 2014-15, and an explanation of changes since the May 2010 Budget. It also includes the identification of possible risks to the Territory's Budget and

Forward Estimates and the Territory's contingent liabilities, as required by the *Fiscal Integrity and Transparency Act (FITA)*.

The main focus is on the general government sector although commentary is provided on changes in other sectors since the 2010-11 Budget.

General Government

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

Table 2.1: Key Fiscal Aggregates – General Government

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Operating Statement					
Revenue	4 722	4 622	4 476	4 515	4 671
Expenses	4 338	4 527	4 487	4 542	4 708
Net operating balance	384	95	- 11	- 28	- 37
Net acquisition of non financial assets	759	530	286	213	167
Fiscal balance	- 375	- 435	- 297	- 240	- 204
Cash Flow Statement					
Operating receipts	4 916	4 803	4 657	4 694	4 855
Operating payments	4 234	4 439	4 406	4 466	4 649
Net capital payments	958	734	493	423	380
Superannuation earnings re-invested	19	18	19	20	21
Cash surplus (+)/deficit (-)	- 295	- 387	- 260	- 215	- 195
Balance Sheet					
Assets	13 168	13 652	14 139	14 589	14 962
Liabilities	5 581	5 774	6 090	6 391	6 603
Net worth	7 587	7 878	8 050	8 199	8 359
Net debt	1 075	1 475	1 769	2 034	2 196
Net debt to revenue (%)	23	32	40	45	47
Net financial liabilities	4 256	4 722	5 071	5 382	5 573
Net financial liabilities to revenue (%)	90	102	113	119	119

Source: Northern Territory Treasury

As shown in Table 2.1, the net operating balance is declining over the forward estimates with deficits now projected from 2012-13. The decline is due to lower growth in Territory revenue, notably the GST and conveyance duties, a higher proportion of Commonwealth tied revenue being allocated for capital purposes in 2010-11 and to a lesser extent in 2011-12, and higher recurrent expenditure as a result of necessary new reforms in the areas of health, welfare and public safety.

The reduced growth rate in revenue emphasises the importance of minimising recurrent expenditure growth to below that of revenue growth in line with the Territory's fiscal strategy. Accordingly, further budget improvement measures have been adopted in the 2011-12 Budget, including a reprioritisation of 2 per cent of agencies' output appropriation to partially fund demand growth and new and expanded initiatives. In addition, there is a step up in the efficiency dividend from 2 per cent in 2010-11 to 3 per cent in 2011-12. The reprioritisation and the related new initiatives for each agency are presented in Chapter 4 of this Budget Paper.

In addition to the reprioritisation initiatives, significant additional funding has been provided in the 2011-12 Budget for major reforms in the areas of health, welfare and public safety such as the *Growing Them Strong, Together* and *New Era in Corrections* and the *Enough is Enough* alcohol reforms.

The lower revenue growth over the budget cycle has resulted in the operating balance moving into a deficit position from 2012-13, which means there is no capacity to fund investment in new infrastructure without the Budget going further into deficit. However, the fiscal strategy also requires the maintenance of infrastructure spending until the economy returns to a more normal cycle. Hence the objective is to ensure that expenditure growth is contained and cash deficits are minimised as far as possible. Once revenue growth normalises, this strategy will provide the capacity to fund future capital spending and retire debt incurred as a result of the GFC.

The fiscal balance, which adjusts the operating balance by the net investment in capital spending, is in deficit throughout the forward years, although trending to improvement. The higher deficits in 2010-11 and 2011-12 are a direct result of the Government's decision to support the economy and protect Territory jobs by investing in infrastructure. This policy has to date been a significant factor in sustaining economic growth in the Territory post-GFC. As economic growth is predicted to strengthen from 2011-12, the need to invest as heavily in public sector infrastructure will begin to diminish. Accordingly the level of infrastructure investment over the forward years, while still higher than the long-term trend, starts to reduce from the record level in 2010-11. For 2011-12, general government net capital spending is estimated to be \$734 million while the investment in infrastructure by the Territory Government is \$1.5 billion.

Consistent with the fiscal balance, the cash targets are in deficit in all years, but trending to improvement from 2012-13, albeit more slowly than previously projected due to lower revenues in all years. Although the cash outcome and the accrual fiscal balance encompass both operational and capital spending, the difference between the two measures relates to non cash items and accrual timing differences between years. The most significant component relates to the Territory's superannuation liability, with the operating statement reflecting the change in the total liability whereas the cash flow statement includes only the benefit payments made. At present the increase in the liability is marginally greater than the increase in benefits paid but this situation will reverse when the liabilities peak in around five years.

Net debt is expected to increase in all forward years as a consequence of the projected cash deficits over the budget cycle, together with increased borrowings with the ratio of net debt to revenue estimated to be 47 per cent in 2014-15.

The 2011-12 Budget does not include the anticipated costs associated with the new Darwin correctional facility announced in the *New Era in Corrections* package, which will further increase net debt over the forward estimates. This project is expected to be developed on a public private partnership (PPP) basis, and in line with usual commercial practice the contractual commitments will be included in the forward estimates once financial close is achieved. This is expected to be before the 2011-12 Mid-Year Report.

Net financial liabilities are also expected to rise over the budget cycle due to the flow-on effect of the increase in net debt combined with an increase in the Territory's superannuation liability, largely as a result of improved mortality rates and lower benefit payments. The 10 year bond rate used in valuing the superannuation liability for the 2011-12 Budget remains unchanged from the May 2010 Budget at 5.7 per cent. Net financial liabilities to revenue is estimated to be 119 per cent by 2014-15.

Changes Since May 2010

Table 2.2 sets out the material variations to both the fiscal balance and cash outcome for 2010-11 and 2011-12 since the May 2010 Budget, with explanations of the variations described below the table.

Table 2.2: Variations to the Cash Flow and Operating Statements since May 2010

	2010-11		2011-12	
	Accrual	Cash	Accrual	Cash
	\$M	\$M	\$M	\$M
2010-11 BUDGET	- 309.7	- 268.0	- 211.3	- 172.6
REVENUE/RECEIPTS				
Revenue/receipts – policy				
Stamp duty			2.3	2.3
Payroll tax			- 6.7	- 6.7
Total revenue/receipts – policy			- 4.4	- 4.4
Revenue/receipts – non policy				
Taxation	- 13.8	- 13.8	- 17.4	- 18.6
GST revenue	- 137.4	- 137.4	- 26.7	- 26.7
New/expanded Commonwealth revenue	39.0	39.0	204.0	204.0
Interest income	17.1	17.1	2.0	1.9
Mining royalties	- 10.9	- 10.9		
Income tax equivalents and dividends	5.2	2.6	3.8	3.8
Agency own-source revenue	35.6	34.6	20.4	19.4
Miscellaneous revenue	3.4	24.8	2.5	4.4
Total revenue/receipts – non policy	- 61.8	- 44.0	188.6	188.2
TOTAL REVENUE/RECEIPTS	- 61.8	- 44.0	184.2	183.8
OPERATING EXPENSES/PAYMENTS				
Expenses/payments – policy				
New initiatives	43.9	43.9	108.2	108.2
Saving measures	- 9.2	- 9.2	- 38.5	- 38.5
Total expenses/payments – policy	34.7	34.7	69.7	69.7
Expenses/payments – non policy				
Transfers between years and to capital	- 44.8	- 44.8	125.8	125.8
Interest	- 0.7	- 0.6	- 5.9	- 6.0
Employee entitlements	8.1	- 6.1	- 3.8	- 8.7
Depreciation	- 4.9		- 2.8	
Other	2.8	- 5.6	3.8	- 0.4
Total expenses/payments – non policy	- 39.5	- 57.1	117.1	110.7
TOTAL OPERATING EXPENSES/PAYMENTS	- 4.8	- 22.4	186.8	180.4
Net Capital Payments				
Land sales	- 1.1	- 1.1	- 12.8	- 12.8
Transfers between years and to capital	12.6	12.6	235.7	235.7
Depreciation	- 4.9		- 2.8	
Other	1.5	- 8.1	0.7	- 4.9
Total capital payments	8.1	3.4	220.8	218.0
TOTAL EXPENSES/PAYMENTS	3.3	- 19.0	407.6	398.4
Future infrastructure and superannuation contributions/earnings		- 2.5		- 0.1
TOTAL VARIATION	- 65.1	- 27.5	- 223.4	- 214.7
2011-12 BUDGET	- 374.8	- 295.5	- 434.7	- 387.3

Note: Excludes gross up of GST receipts and payments as explained in the 2009-10 Treasurer's Annual Financial Report.

Source: Northern Territory Treasury

General government operating revenue (accrual) has decreased from the May 2010 Budget by \$61.8 million in 2010-11 and increased by \$184.2 million in 2011-12 with receipts (cash) decreasing by \$44 million in 2010-11 and increasing by \$183.8 million in 2011-12.

There are no policy-related revenue variations since the May 2010 Budget for 2010-11. However, there are two significant policy changes in the 2011-12 Budget, discussed in more detail in Chapter 4 of this Budget paper, that will affect revenue and receipts from 2011-12:

- upward revision of stamp duty revenue of \$2.3 million in 2011-12, due to the increase in the stamp duty rate for transactions with a dutiable value over \$3 million, from 4.95 per cent to 5.45 per cent (the additional revenue will be used to fund additional homebuyer assistance in 2011-12); and
- downward revision of payroll tax of \$6.7 million in 2011-12 as a result of the Government's reduction of the payroll tax rate from 5.9 per cent to 5.5 per cent from 1 July 2011, together with the increase and other changes to the threshold.

The main non policy-related variations to revenue since the May 2010 Budget are:

- downward revision of taxation revenue of \$13.8 million in 2010-11 and \$17.4 million in 2011-12, largely due to a decline in stamp duty receipts on conveyances reflecting a subdued residential and commercial property market and the estimated reduction in community gaming machine tax revenue largely attributable to the effect of indoor smoking bans. Further details on the Territory's taxes are outlined in Chapter 6 of this Budget Paper;
- GST revenue estimates have decreased by \$137.4 million in 2010-11 and \$26.7 million in 2011-12 as a result of lower estimates of the national GST pool in 2010-11, partially offset in 2011-12 by an increase in the Territory's share of the GST revenue following the 2011 Relativities Review Update. Detailed explanations on the collection of GST revenue can be found in Chapter 5 of this Budget Paper; and
- increased funding from the Commonwealth largely related to National Partnership (NP) agreements of \$39 million in 2010-11 and \$204 million in 2011-12 as shown in Table 2.3. The variations in the table below include:
 - Housing – revised timing of the Strategic Indigenous Housing and Infrastructure Program (SIHIP) resulting in lower revenue of \$42.1 million in 2010-11 and increasing by \$146.3 million in 2011-12;
 - Health – increased funding from the Commonwealth for a range of health-related programs including the Improving Public Hospital Services NP of \$12.6 million and funding for the Expanding Health Service Delivery initiative of \$7.1 million in 2010-11;
 - Education – mainly due to the Additional Teachers NP of \$17.7 million in 2010-11, Non-Government Primary Schools of \$8.1 million in 2010-11, \$7.8 million in 2010-11 and \$7.4 million in 2011-12 for Community Development Employment Projects and \$3.4 million in 2010-11 and

\$7 million in 2011-12 for Literacy and Numeracy under the Smarter Schools NP;

- National Network Roads – reduced funding of \$42.8 million for National Network Roads in 2010-11 due to amounts received in advance in 2009-10 and alignment of the timing of funding with the Commonwealth's updated projections;
- Public Order and Safety – increased Commonwealth funding predominantly related to Closing the Gap in the Northern Territory – Remote Policing and Substance Abuse; and
- Other – Commonwealth funding of \$8.6 million in 2010-11 and a reduction of \$1.5 million in 2011-12.

Table 2.3: Variations in Commonwealth Funding (excluding GST)

	2010-11 Estimate	2011-12 Budget
	\$M	\$M
Housing	- 34.8	149.7
Health	50.2	7.8
Education	48.9	31.6
National Network Roads	- 42.8	7.1
Public Order and Safety	8.9	9.3
Other	8.6	- 1.5
Total Increase	39.0	204.0

Source: Northern Territory Treasury

- increased interest income of \$17.1 million in 2010-11 due to higher cash balances as a result of the improved 2009-10 cash outcome;
- decreased mining royalty revenue of \$10.9 million in 2010-11, reflecting collections received year to date in 2010-11 and industry profitability moderating slightly, in part due to the strength of the Australian dollar;
- increased income tax equivalents in 2010-11 and 2011-12, predominantly related to the increased profitability of the Territory Insurance Office (TIO). The differences between the cash and accrual amounts represent the timing of payments;
- increased own-source revenue of \$35.6 million in 2010-11 and \$20.4 million in 2011-12, largely as a result of an increase in patient revenue due to higher demand and cross border charges. These revenue increases are largely matched by corresponding expenditure; and
- an increase in miscellaneous receipts of \$24.8 million in 2010-11 predominantly due to the return of part of a prior year grant as a result of revised plans for sporting facilities.

General government expenses (accrual) have decreased by \$4.8 million in 2010-11 and increased by \$186.8 million in 2011-12, with payments (cash) decreasing by \$22.4 million in 2010-11 and increasing by \$180.4 million in 2011-12. The difference between the cash and accrual variations are predominantly due to lower superannuation benefits paid in 2009-10, which results in an increase in the future liability but lower costs in 2010-11 and 2011-12. Depreciation expenses are also lower in 2010-11 and 2011-12.

The main expenditure-related policy variations include:

- funding for new and expanded initiatives of \$43.9 million in 2010-11 and \$108.2 million in 2011-12, including:
 - child protection reforms as part of *Growing Them Strong, Together* of \$8.4 million in 2010-11 and \$25.2 million in 2011-12 as part of the \$130 million package over five years;
 - \$7 million in 2010-11 and \$10.9 million in 2011-12 as part of the \$67 million over five years *Enough is Enough* alcohol reforms package;
 - funding of \$8.5 million in 2011-12 as part of the \$120 million over five years *New Era in Corrections* initiative;
 - funding of \$7.7 million for a range of education-related initiatives including the regionalisation of school services, additional specialist teacher and teacher aide positions, and pathways for disengaged youth;
 - a three-year Shire Funding Package to improve Indigenous employment opportunities in shires of \$10 million in 2011-12, including \$1.6 million of Commonwealth funding, as part of the \$30 million funding package over three years;
 - additional funding of \$17.8 million for construction of a new gas-fired power station at Wadeye in 2011-12;
 - \$10 million in 2011-12 for increased road maintenance to respond to the Territory's flood-damaged road network;
 - \$3.45 million across 2010-11 and 2011-12 for BuildBonus to support Territory home buyers with a one-off \$10 000 grant;
 - \$4 million in 2010-11 and \$5.6 million in 2011-12 for a range of health initiatives; and
 - other new and expanded initiatives including the continuation of the Bringing Forward Discovery initiative of \$3.8 million for three years from 2011-12 and a \$4 million grant in 2010-11 to Squash NT for the construction of a new 12 court squash facility at Marrara Sports Complex; and
- the increases in 2011-12 are funded in part by saving measures across agencies of \$9.2 million in 2010-11 and \$38.5 million from 2011-12.

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

The key non-policy expense/payment variation is the net transfers of payments between years and to capital of \$44.8 million for 2010-11 and \$125.8 million for 2011-12, largely related to the delivery of Commonwealth-funded programs, including where the funds were received in prior years.

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

- the transfer of capital payments between years and from operational of \$12.6 million in 2010-11 and \$235.7 million in 2011-12, largely related to the timing and scope of delivery of Commonwealth-funded programs; and
- increased land sales of \$12.8 million in 2011-12 largely related to projected sales for Bellamack and Johnston.

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

2011-12 Budget and 2012-13 to 2014-15 Forward Estimates

Basis of Forward Estimates

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

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

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

The wage inflator applied for employee costs in 2011-12 and over the forward estimates period is 3 per cent, with a CPI factor of 2.8 per cent applied to operational costs for 2011-12, being CPI growth in calendar year 2010 compared with calendar year 2009. An estimate of 2.5 per cent is used for CPI over the forward estimates period from 2012-13.

An efficiency dividend is applied to operational and employee costs premised on agencies improving processes and delivering services more efficiently, as is the case with private sector enterprises. For key service delivery agencies with fixed staffing costs (police, health, education and correctional services), one-quarter of the dividend is applied. An efficiency dividend of 3 per cent has been applied in 2011-12, with 1 per cent used in 2012-13 and over the forward estimates period.

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

Operating and Cash Flow Statement

Operating Revenue and Receipts

Table 2.4 presents operating revenue and receipts for 2011-12 and forward estimate years.

Table 2.4: Operating Revenue and Receipts – General Government Sector

	2011-12	2012-13	2013-14	2014-15
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
Revenue				
Taxation revenue	390	396	411	430
GST revenue	2 657	2 829	2 998	3 160
Current grants	784	625	565	548
Capital grants	317	149	61	51
Sales of goods and services	186	186	184	185
Interest income	56	57	58	60
Dividend and income tax equivalent income	34	37	39	39
Mining royalties income	162	162	162	162
Other	36	35	36	36
Total Revenue	4 622	4 476	4 515	4 671
Year-on-year percentage increase (%)	- 2	- 3	1	3
Receipts				
Taxes received	388	394	409	428
Receipts from sales of goods and services	188	190	187	188
GST receipts	2 657	2 829	2 998	3 160
Grants and subsidies received	1 101	774	626	600
Interest receipts	56	57	58	60
Dividends and income tax equivalents	32	34	36	39
Mining royalties income	162	162	162	162
Other receipts	219	217	217	217
Sales of non financial assets	99	100	94	100
Total Receipts	4 903	4 757	4 788	4 954
Year-on-year percentage increase (%)	- 2	- 3	1	3

Source: Northern Territory Treasury

Total operating revenue and receipts are projected to increase at an average of 0.35 per cent per annum over the forward estimates period. The two key influences on the Territory's revenue growth are increases in GST revenue, offset by a decrease in tied Commonwealth funding in the form of specific purpose payments (SPPs) and NPs.

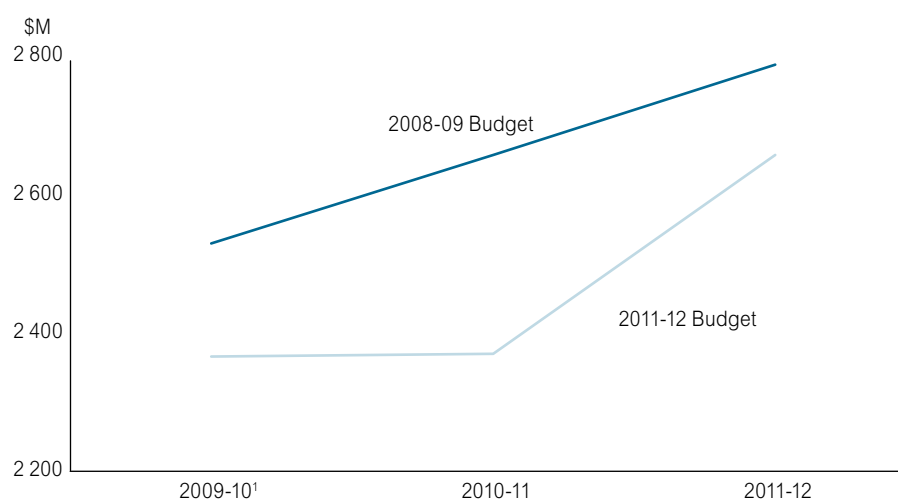
The Territory's own-source revenue is increasing at around 1.8 per cent per annum and overall, growth in Territory untied revenue, which includes GST revenue, is 5.2 per cent per annum.

The Territory's largest source of revenue is in the form of GST revenue. The uncertainty in some sectors of the Australian economy, together with the greater propensity for households to save rather than spend and spending being increasingly used for items that are not subject to GST, has resulted in a lower than expected projection for the national GST pool in 2010-11 and over the Budget and forward estimates. Despite growth in the forward years, and a higher relative share of GST to the Territory as a result of the 2011

Update of Relativities by the Commonwealth Grants Commission (CGC), GST revenue has not returned to pre-GFC levels and is not estimated to do so over the forward estimates.

As Figure 2.1 shows, GST remains significantly lower in all years than predicted in the 2008-09 Budget, prior to the GFC. For 2010-11, GST revenue is now \$288 million lower than predicted in May 2008, a further decline since May 2010, and in 2011-12 is \$132 million lower than that predicted in May 2008. In addition, in absolute terms, Figure 2.1 highlights no growth between 2009-10 and 2010-11 once one-off adjustments to GST payments (such as budget balancing assistance and under and over payments) are excluded. When these items are included, actual GST revenue in 2010-11 is \$150 million lower than in 2009-10.

Figure 2.1: General Government Sector GST Revenue Projections



¹ Excludes the Budget balancing assistance of \$96 million and GST overpayment of \$27 million to enable an appropriate comparison with other years

Table 2.5 represents the change in GST revenue projections over time from the May 2008 Budget and shows that the reduction over this three year period is \$584 million.

Table 2.5: General Government Sector GST Revenue Projections

	2009-10	2010-11	2011-12
	\$M	\$M	\$M
2008-09 Budget	2 530	2 658	2 789
2011-12 Budget	2 366¹	2 370	2 657
Variation from 2008-09 Budget	- 164	- 288	- 132

¹ Excludes the Budget balancing assistance of \$96 million and GST overpayment of \$27 million to enable an appropriate comparison with other years

Source: Northern Territory Treasury

Further information on GST can be found in Chapter 5 of this Budget Paper.

The growth in GST is offset by a decrease in tied Commonwealth funding, largely NPs, by an average of 15 per cent per annum over the forward estimates. The decline in NPs is traditionally around 4-5 per cent per annum as many of these agreements are for fixed periods and are not included in the forward estimates beyond the life of the agreement. However, the decline over the forward estimates in the 2011-12 Budget is significantly higher due to the large amounts of capital funding provided by the Commonwealth through to 2011-12, reflecting the peak in funding of the Strategic Indigenous Housing and Infrastructure Program (SIHIP) and the Nation Building and Jobs Plan fiscal stimulus package. When considered on a year-by-year basis

the most significant reduction is between 2011-12 and 2012-13 due to the completion of the stimulus package and lower SIHIP funding.

During each budget year there are significant changes in Commonwealth funding estimates as agreements are finalised. These adjustments tend not to affect the fiscal outcome as increases in revenue are generally matched by a corresponding increase in expenditure. However, timing differences in the receipt of tied revenue and associated expenditure introduce a degree of volatility affecting budgeted and actual outcomes.

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

Taxation revenue is the most significant component of the Territory's own-source revenue and is expected to grow by an average of 3.5 per cent over the forward estimates period. This growth is lower than long-term trends and is reflective of current economic conditions and the Government's commitment to reduce the tax burden on business, including the abolition of stamp duty on the non-land component of business conveyances from 1 July 2012 and the reduction in payroll tax rates to 5.5 per cent in the 2011-12 Budget. Further information on the Territory Government's tax reform initiatives can be found in chapters 4 and 6 of this Budget Paper.

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

The Cash Flow Statement also includes capital receipts. These are largely sales of vehicles and land and are expected to increase from previous estimates in 2011-12 and 2012-13 due to projected land sales in Palmerston East. The higher receipts in 2014-15 are in line with the Territory's expected share of sale proceeds for the next stage of the residential component of the Darwin Waterfront.

Operating Expenses and Payments

Table 2.6 shows general government sector operating expenses and payments for 2011-12 and forward estimate years.

Table 2.6: Operating Expenses and Payments – General Government Sector

	2011-12	2012-13	2013-14	2014-15
	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M
Expenses				
Employee expenses	1 711	1 721	1 763	1 840
Superannuation expenses	299	300	300	301
Depreciation and amortisation	204	207	210	213
Other operating expenses	1 170	1 164	1 182	1 255
Interest expenses	151	168	186	201
Current grants	765	750	724	717
Capital grants	104	53	49	51
Subsidies and personal benefit payments	123	124	128	131
Total expenses	4 527	4 487	4 542	4 708
Year-on-year percentage increase (%)	4	- 1	1	4
Payments				
Payments for employees	1 937	1 959	2 012	2 108
Payments for goods and services	1 359	1 352	1 368	1 441
Grants and subsidies paid	992	927	900	899
Interest paid	151	168	186	201
Purchases of non financial assets	833	593	517	480
Total payments	5 272	4 998	4 983	5 129
Year-on-year percentage increase (%)	0	- 5	0	3

Source: Northern Territory Treasury

Operating expenses are expected to grow at an average of 1.3 per cent over the forward estimates. This is significantly lower than historical growth rates, but consistent with the fiscal strategy target of limiting operational expenditure growth, excluding tied Commonwealth funding, to below revenue growth. Payments are expected to decrease at an average of 0.9 per cent over the forward estimates due to record levels of infrastructure spending in both 2010-11 and 2011-12, starting to return to more usual levels over the forward estimates.

Overall growth in Territory-funded expenditure, including GST but excluding tied Commonwealth funding, is 3.7 per cent per annum, less than the associated revenue growth of 5.2 per cent.

A small part of the overall expenditure growth over the forward estimates is attributed to the inclusion of a minimal contingency allowance in all forward estimate years. The inclusion of a contingency allowance is consistent with the practices in other states and territories and includes \$30 million set aside per annum to support new and expanded initiatives in the forward estimates and \$40 million annually set aside for Treasurer's Advance. In order to achieve projected budget outcomes, additional expenditure above these levels in future years will need to be met through a reprioritisation of existing expenditure or additional efficiency gains, with any additional revenue to be used to reduce debt.

Over the forward estimates period, employee payments, including superannuation benefit payments, are estimated to increase, on average, by around 3 per cent per annum. Underlying growth in other operating expenses continues to grow marginally due to the CPI inflator included in agency budgets, offset by the efficiency dividend.

There is a decline in estimated current and capital grants, or grants and subsidies paid, due to high levels of tied funding from the Commonwealth in 2010-11 and 2011-12. The decline in Commonwealth-funded grants over the forward years is partially offset by the application of parameters to Territory-funded grants.

The Cash Flow Statement also includes capital payments. This element is expected to remain higher than the average of the past decade over the forward estimates, although below the peak of 2010-11, which includes significant funding for SIHIP and the Nation Building and Jobs Plan stimulus package. The continuing high level of infrastructure spending is in line with the Government's priority of maintaining high levels of infrastructure spending during periods of low business investment as a means of supporting Territory jobs and the economy.

Balance Sheet

Table 2.7 provides a summary of assets, liabilities and balance sheet measures for the general government sector.

**Table 2.7: Balance Sheet –
General Government Sector**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total assets	12 514	13 168	13 652	14 139	14 589	14 962
Financial assets	3 862	3 749	3 685	3 868	4 088	4 270
Non financial assets	8 652	9 419	9 967	10 271	10 502	10 692
Total liabilities	5 668	5 581	5 774	6 090	6 391	6 603
Net worth	6 846	7 587	7 878	8 050	8 199	8 359
Net debt	719	1 075	1 475	1 769	2 034	2 196
Net debt to revenue (%)	15	23	32	40	45	47
Net financial liabilities	3 959	4 256	4 722	5 071	5 382	5 573
Net financial liabilities to revenue (%)	85	90	102	113	119	119

Source: Northern Territory Treasury

Net Worth

Since the 2010-11 Budget, projected net worth for the general government sector has increased in all forward years largely due to the flow-on effect of the improved 2009-10 outcome, including the upward revision of the Territory's valuation of significant assets.

Since the introduction of accrual accounting in 2002-03, the Territory's net worth has risen in successive years to \$6846 million in 2009-10 and is projected to reach \$8359 million by 2014-15. This is largely the result of continued improvement in the valuation of the Territory's asset base as assessed by the Australian Valuation Office and the significant investment in infrastructure, together with eight successive cash surpluses in the general government sector. Future valuation improvements on the Territory's asset base have not been included in the forward estimates.

Net Debt

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

Table 2.7 shows that, in absolute terms, net debt for the general government sector is estimated to rise from \$1.1 billion in 2010-11 to \$2.2 billion in 2014-15. When measured as a ratio to revenue, this equates to an increase from 23 per cent in 2010-11 to 47 per cent by 2014-15, although the rate of increase slows over the forward years in line with the reducing deficit position. The 2014-15 estimate is significantly lower than the 61 per cent recorded in 2001-02, a result of the eight consecutive cash surpluses delivered up to 2009-10.

Net debt projections for 2010-11 have improved since the May 2010 Budget due to the general government cash surplus achieved in 2009-10. However, net debt projections over the forward estimates from 2011-12 to 2014-15 have increased since May 2010, as a consequence of the cash deficits predicted over the budget cycle, together with increased borrowings. Net debt also includes the debt for equity swaps for the Power and Water Corporation (PWC) announced in the 2010-11 Budget which supports PWC's \$1.8 billion investment in infrastructure. PWC has increased its capital expenditure by bringing forward and expanding essential infrastructure investment to ensure the continued reliability and security of services through asset refurbishment and renewal and to accommodate the Territory's likely future demand growth.

Financial assets largely comprise investments held by the Territory Government and include a range of instruments including short-term securities, fixed interest securities, fixed rate notes and equities. These financial assets are structured in separate portfolios to ensure that they meet the purpose for which the investments have been designated. The performance returns on these investments to 31 March 2011 are 3.92 per cent, slightly ahead of combined benchmark returns of 3.67 per cent.

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

Over the past seven years to 30 June 2010, these funds have averaged annual returns of 7.84 per cent, 2.04 per cent above benchmark and in excess of the long-term target rate of return of 6 per cent. The COSR is valued at \$443 million to 31 March 2011 and is forecast to remain at these levels for 2010-11 and expected to grow steadily over the forward estimates.

Net Financial Liabilities

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation. Table 2.7 shows that the level of net financial liabilities as a percentage of revenue is predicted to rise over the budget cycle before stabilising in 2013-14. This reflects the reducing deficit position and the superannuation liability nearing its anticipated peak in around 2016-17, together with increased revenues to service the debt position. Until the liability peaks, the accrual expense will be higher than actual cash payments but following that, the expense will start to reduce. However, cash payments will continue to grow and begin to exceed the accrued expense. As a result, after 2016-17 the fiscal balance will improve relative to the cash outcome. The overall increase in net financial liabilities is a direct result of the projected higher net debt, together with an increase in the Territory's superannuation liability over the forward estimates largely as a result of improved mortality rates and lower benefit payments. The 10-year bond rate used to calculate the present value of the liability remains unchanged from May 2010 at 5.7 per cent. Although increasing, as a ratio to revenue the projected 119 per cent in 2014-15 is below the 133 per cent recorded in 2001-02.

Non Financial Public Sector Operating and Cash Flow Forward Estimates

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

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

Table 2.8: Estimated Outcomes – Non Financial Public Sector

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Operating balance					
2010-11 Budget	416	81	31	23	na
2011-12 Budget	359	61	- 46	- 86	- 92
Variation from 2010-11 Budget	- 57	- 20	- 77	- 109	na
Fiscal balance					
2010-11 Budget	- 666	- 418	- 266	- 166	na
2011-12 Budget	- 666	- 698	- 523	- 447	- 361
Variation from 2010-11 Budget	0	- 280	- 258	- 281	na
Cash outcome					
2010-11 Budget	- 631	- 390	- 241	- 156	na
2011-12 Budget	- 626	- 656	- 502	- 427	- 356
Variation from 2010-11 Budget	5	- 266	- 260	- 271	na

Source: Northern Territory Treasury

As shown in Table 2.8, the operating balance declines over the forward estimates and is in a deficit position from 2012-13, while the fiscal balance and cash outcomes remain in deficit in all years although trending to improvement over the budget cycle.

The change since the May 2010 Budget predominantly represents the flow-on effect of the general government outcomes together with the continued significant investments in infrastructure of \$1.8 billion over five years by the PWC, that are largely funded by borrowings and affect the cash and fiscal balance outcomes.

Balance Sheet

Table 2.9 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector.

**Table 2.9: Balance Sheet –
Non Financial Public Sector**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Outcome	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M
Total assets	13 405	14 258	14 961	15 622	16 201	16 736
Financial assets	2 020	1 711	1 473	1 496	1 545	1 623
Non financial assets	11 385	12 547	13 488	14 126	14 657	15 112
Total liabilities	6 558	6 671	7 083	7 572	8 003	8 376
Net worth	6 846	7 587	7 878	8 050	8 199	8 359
Net debt	1 483	2 057	2 685	3 157	3 552	3 874
Net debt to revenue (%)	29	37	52	62	69	73
Net financial liabilities	4 774	5 256	5 946	6 459	6 896	7 246
Net financial liabilities to revenue (%)	92	95	115	127	134	136

Source: Northern Territory Treasury

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

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

Table 2.9 shows that, in absolute terms, net debt for the non financial public sector is also predicted to rise over the budget cycle as a flow on of the increase in general government debt together with additional borrowings by PWC for essential infrastructure investment. When measured as a ratio to revenue, net debt is expected to rise from 37 per cent in 2010-11 to 73 per cent by 2014-15.

Net financial liabilities is a broader measure than net debt and Table 2.9 shows that the level of net financial liabilities as a percentage of revenue for the non financial public sector is predicted to rise over the forward estimates to 136 per cent by 2014-15. This is a direct result of the projected increase in net debt together with an increase in the valuation of the Territory's superannuation liability.

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

Total Public Sector

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

As required by the Uniform Presentation Framework, financial data for the public financial corporation and total public sectors is only required for the current financial year, being 2010-11, as shown in Chapter 8 of this Budget Paper. For 2010-11 the total public sector outcomes largely mirror those of the non financial public sector.

Statement of Risks

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

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

Revenue

Goods and Services Tax Revenue

Volatility in GST revenue represents the largest revenue risk for the Territory. Historically, GST accounts for about two-thirds of the Territory’s total revenue, and therefore changes in GST estimates can have a significant effect on the Territory’s funding capacity and budget outcome.

The amount of GST revenue that the Territory receives is dependent on three parameters: national GST collections, the Territory’s share of the national population and the GST per capita relativities as assessed by the Commonwealth Grants Commission. However, there are a large number of variables that influence each of these parameters which add to the complexity of estimating GST revenue in the budget and forward estimates period.

National GST Collections

The estimates of national GST collections in the 2011-12 Budget are based on best estimates using the Commonwealth’s most recent published advice and national economic indicators.

Since the 2010-11 Budget, growth in national GST collections for 2011-12 onwards have been revised downwards reflecting weak consumption growth, an increased propensity of households to save and the anticipated impact of extreme weather events in 2010-11.

The amount of GST revenue to the Territory is sensitive to variation in national GST collections. A ± 1 per cent variation in national GST collections is estimated to have a $\pm \$27$ million impact on the Territory’s GST revenue in 2011-12. If variations of this size occurred in each of the budget and forward estimates period, the cumulative impact on Territory GST revenue would be $\pm \$116$ million.

Territory's Share of National Population

The Territory's population growth is expected to moderate in 2011 following five years of strong growth, resulting in the Territory's share of the national population now expected to decrease from 2010-11. However, over the forward estimates period, the Territory's population growth is expected to strengthen to be above the national average, leading to an increase in the Territory's share of the national population over this period.

The effect of a 1 per cent variation in the Territory's forecast population is estimated at $\pm\$25$ million in 2011-12 and $\pm\$27$ million in 2012-13. The cumulative impact of 1 per cent variations over each of the forward estimate years would be $\pm\$110$ million by 2014-15.

GST Relativities

CGC is responsible for determining GST relativities. The CGC updates GST relativities each year, however it does not forecast relativities in forward years. The CGC has recommended the relativities that will be used to distribute the GST pool in 2011-12. Compared to 2010-11, the Territory's GST relativity has increased from 5.07383 to 5.35708 in 2011-12, thereby increasing the Territory's share of GST revenue.

The revenue risks associated with a variation in GST relativities relate only to the forward estimates period (2012-13 onwards). Due to the complexity and the large number of variables that are used to determine GST relativities, the Territory holds the relativities constant over the forward estimates period.

The approximate effect of a 1 per cent variation in the Territory's GST relativity is $\pm\$25$ million in 2011-12 and $\pm\$27$ million in 2012-13, with a cumulative impact over the forward estimates period to 2014-15 of $\pm\$110$ million.

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

Other Commonwealth Grants and Subsidies

Under the 2008 Intergovernmental Agreement on Federal Financial Relations (IGA), SPPs are ongoing and directly linked to National Agreements (NAs) in the areas of health, education, skills and workforce, disability and affordable housing (as well as contributing to the achievement of outcomes under the National Indigenous Reform Agreement). No matching and maintenance of effort requirements apply to SPPs – they are only required to be spent in their respective sector to facilitate achievement of the NA's agreed outputs and outcomes.

The IGA also established base funding and sector specific indexation for each SPP. The removal of input controls associated with SPPs has provided a greater level of certainty to the Territory budget moving forward. However, the adequacy of indexation compared with actual demand and cost growth remains a key risk under the new arrangements.

Although also intended to be output and outcome focused, National Partnership (NP) agreements contain many of the risks to states that existed under the previous financial arrangements. These risks include co-investment, input controls, application of national costs and burdensome reporting and administrative arrangements.

Expiry of NPs (which are by nature time limited) also potentially poses a risk to the Territory's budget, particularly where funding supports service provision. Funding for expiring National Partnerships may be ceased, rolled into an SPP or general revenue assistance or be used to fund a new NP. While the Territory may provide advice to the Commonwealth either directly or through the Ministerial Council for Federal Financial Relations as to the preferred treatment of expiring NP funding, Commonwealth budget processes determine funding availability.

Given that NP revenue now accounts for a significant proportion of the Territory's Commonwealth revenue, careful consideration is required by agencies as to the requirement for future Commonwealth investment well prior to the expiry of any agreements. Subsequent negotiations with the Commonwealth will also require consideration of whole of government impacts of any proposed financial arrangements.

The risks related to SPPs and NPs cannot be quantified.

Commonwealth Health Reform Agenda

The Commonwealth's National Health and Hospitals Network reform involves significant changes to the current state and territory health care arrangements. The risks associated with implementation of the reform agenda cannot currently be quantified, but could arise from a number of elements of the reform package including inadequate processes to determine the efficient price of hospital services by the Independent Health Pricing Authority; unreasonable performance setting through service level agreements, the National Performance Authority and the Australian Commission on Safety and Quality in Health; the shift to management by Local Hospital Networks; and the changes to aged care and disability service responsibilities.

The risk of challenging national targets established for both emergency department and elective surgery reform in the National Partnership agreement on Improving Public Hospitals has been identified as a national issue, with an expert panel appointed to provide the Council of Australian Governments with its first report on the applicability of the current targets by 30 June 2011. This is an issue of particular concern to the Territory.

Own-source Revenue

The amount of revenue received from Territory taxes and royalties is dependent on the performance of the Territory economy and other external factors. Forecasting such revenue involves judgments and assumptions being made about the performance of the various economic factors and indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment, average hours worked, prices, market activity and exchange rates.

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

Mining revenue forecasts mainly rely on advice from mining companies of their expected estimated liability for the financial year. Unpredicted market

changes in mineral prices, production or exchange rates will have a material impact on this forecast.

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

In total, a variation of ± 1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$5.5 million for 2011-12.

Expenses

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

The parameter for wages growth in all forward years is 3 per cent, which has remained unchanged, with revised CPI of 2.8 per cent for 2011-12 and 2.5 per cent for all forward years. The efficiency dividend is 3 per cent in 2011-12 and 1 per cent in 2012-13 and all the forward years.

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

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

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

Contingent Liabilities

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

Contingent liabilities have the potential to materially affect the Budget due to the likelihood of an actual liability arising. As such, where possible, the potential outcome of an actual liability should be quantified. Details of estimated amounts of material contingent liabilities as at 30 June 2010 resulting from guarantees or indemnities granted by the Territory, as published in the 2009-10 Treasurer's Annual Financial Report (TAFR), are presented in Table 2.10.

Table 2.10: Material Quantifiable Contingent Liabilities

Estimated Quantifiable Contingent Liability as at 30 June 2010

	\$M NPV ¹
Amadeus Basin to Darwin gas pipeline	78
Pine Creek/McArthur River electricity purchase agreements	54
Public Trustee common funds	38

¹ Future values discounted at a nominal 5.2 per cent discount rate

Source: Northern Territory Treasury

Material contingent liabilities of the Territory are defined as guarantees and indemnities with potential exposure greater than \$5 million and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable material contingent liabilities of the Territory are outlined below.

Quantifiable Contingent Liabilities

Electricity, Gas and Water Supply

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

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

Amadeus Basin to Darwin Gas Pipeline

The Territory has indemnified the financiers of the Amadeus Basin to Darwin Gas Pipeline lease in relation to the residual value of the pipeline to be paid by the PWC on expiry or termination of the pipeline lease agreement. This matter is likely to be resolved in the next year.

Electricity and Gas Supply to Pine Creek and McArthur River

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

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

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

Statutory Contingent Liabilities

Public Trustee Act

Under section 97 of the *Public Trustee Act*, the Treasurer indemnifies the Common Funds against any deficiencies in money available to meet claims on it. The Common Funds are a repository for all moneys received by the

Public Trustee on behalf of estates, trusts or persons, and earns interest. Money to the credit of the Common Funds is invested according to the directions issued by an Investment Board.

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

Unquantifiable Contingent Liabilities

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

Transport

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

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

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

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

The Darwin Port Corporation has leased facilities at the Darwin Port to Genesee & Wyoming Australia (North) Pty Limited, interfacing the port and the railway. There are contingent liabilities which arise out of the performance of the facilities.

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

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

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

The Northern Territory has provided an indemnity to the Darwin Port Corporation in relation to certain remedial works at East Arm Port. The indemnity covers third party claims which may be made against the corporation as well as rectification of damage to the wharf or other corporation property caused by the carrying out of the remedial works. Comprehensive risk management procedures are in place to minimise risk exposure to the Territory.

Health and Community Services

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

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

There are no reportable contingent liabilities in this category.

Government Administration

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

These indemnities are generally consistent with the 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 policy of self insurance.

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

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

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

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

The Government has indemnified private sector insurers providing workers compensation insurance in the Territory. The indemnity covers insurers for losses which may arise as a result of acts of terrorism. It is considered unlikely that the indemnity will be called, notwithstanding that the consequence in terms of financial exposure, should the indemnity be called, is potentially significant.

Finance

The Territory's financial management framework is underpinned by centralised banking arrangements. The sole provider of banking-related

Property and Business Services

services has been granted indemnities under the whole of government banking contract. These indemnities are considered not to involve significant risk.

Agreements for leases or licences of property, plant or equipment generally contain standard indemnity provisions covering the lessor or licensor for any losses suffered as a result of the lease or licence arrangement. These indemnities are considered not to involve significant risk.

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

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

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

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

Legal Proceedings

Like negotiations not yet finalised, the outcome of legal proceedings brought by and against the Government also have the potential to affect actual Budget outcomes in current and future years.

Chapter 3 Fiscal Strategy

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

The fiscal strategy that was developed in the May 2009 Budget to respond to the effect of the global financial crisis (GFC) remains unchanged and encompasses both short-term and medium-term targets. The overall objective in the medium term is to provide a long-term stable and resilient Territory economy and a sustainable financial position for the Territory's finances in order to provide the capacity and flexibility to respond to short term, less favourable economic conditions and protect Territory jobs.

Through the last decade, the Territory has had a strong and resilient economy as evidenced by its economic growth over the five years to 2008-09 being the highest of all jurisdictions. Similarly, over this period, fiscal sustainability and discipline is evident with eight consecutive cash surpluses achieved through to 2009-10. This strong performance enabled the Territory to vary its fiscal strategy in 2009 in response to the dramatic change in economic circumstances that flowed from the GFC.

The fiscal strategy observes the ongoing requirement for fiscal discipline and is underpinned by the target of growth in untied expenditure not exceeding growth in untied revenues. In the current economic environment, with constrained goods and services tax (GST) and own-source revenue growth, and the policy of significant infrastructure spending to support Territory jobs, cash deficits over the forward estimates period will remain. Nevertheless, when revenue and expenditure return to more usual levels, the objective of returning the budget to an operating and cash surplus will provide the capacity to reduce Territory debt.

Fiscal Principles

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

- formulate and apply spending and taxation policies having regard to the effect of these policies on employment, economic prosperity and the development of the Territory economy;
- formulate and apply spending and taxing policies so as to give rise to a reasonable degree of stability and predictability;
- ensure that funding for current services is provided by the current generation; and

- prudently manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

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

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

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

Sustainable Service Provision

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

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

The Government's overarching target of sustainable service delivery requires that growth in operating expenses is less than growth in operating revenue, excluding Commonwealth tied funding, in order to achieve operating surpluses that can be used to fund capital investment.

This strategy has been maintained in the 2011-12 Budget although the further reductions in the national GST pool, by far the Territory's largest source of untied revenue, together with own-source revenue growth below long-term trends, have meant that the target of returning the Budget to surplus remains uncertain in the short term, with cash deficits in all years and operating deficits from 2012-13 now predicted.

In order to maintain the Territory's commitment of limiting growth in expenditure, the Territory Government, as it did in 2010-11, has required agencies to identify a further 2 per cent of output appropriation that can be redirected from 2011-12 to provide some capacity for demand growth and new initiatives, as well as an increase in the efficiency dividend from 2 per cent in 2010-11 to 3 per cent in 2011-12. The staffing cap that was imposed in the lead up to the 2010-11 Budget remains in place for 2011-12.

Despite the lower revenue growth over the Budget and forward years and additional funding provided from 2010-11 for the necessary reforms of *Growing Them Strong Together*; *New Era in Corrections*; and the *Enough is Enough* alcohol reforms, untied expenditure growth remains below that of untied revenue growth over the budgetary cycle. Overall untied expenditure increases by 3.7 per cent compared to untied revenues of 5.2 per cent over the forward years, meeting the fiscal strategy target.

When the economy and associated revenue growth return to more normal conditions, achievement of this target will enable the Territory Budget to return to operating and cash surpluses, as evidenced by eight consecutive surpluses up to 2009-10. Returning the Budget to surplus will provide the

capacity to meet both capital spending requirements and the retirement of additional debt accumulated during the economic downturn.

Tables 3.1 and 3.2 compare the updated net operating balance and cash positions for the general government sector since the 2010-11 Budget and Mid-Year Report.

**Table 3.1: Net Operating Balance
– General Government Sector**

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2010-11 Budget	441	98	56	57	na
2010-11 Mid-Year Report	232	108	-27	-76	na
2011-12 Budget	384	95	- 11	- 28	- 37
Variation from 2010-11 Budget	- 57	- 3	- 67	- 85	na

Source: Northern Territory Treasury

The operating balance in the general government sector has declined in 2010-11 and all forward estimate years predominantly due to the reduction in GST and the additional expenditure related to the necessary reform initiatives and demand growth in key service delivery areas.

For 2010-11 and 2011-12, the operating balance remains in surplus due largely to the continuation of funding from the Commonwealth allocated to capital expenditure. However from 2012-13, when the Commonwealth stimulus funding has ceased, the reduced untied revenue growth and additional expenditure is estimated to result in an operating deficit.

**Table 3.2: Cash Outcome –
General Government Sector**

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2010-11 Budget	- 268	- 173	- 90	- 61	na
2010-11 Mid-Year Report	- 425	- 351	- 269	- 205	na
2011-12 Budget	- 295	- 387	- 260	- 215	- 195
Variation from 2010-11 Budget	- 27	- 214	- 170	- 154	na

Source: Northern Territory Treasury

Table 3.2 shows that for all years the cash outcome is in a deficit position and while still trending to improvement is not at such a pronounced rate as that projected in the 2010-11 Budget. This is a direct flow on of the worsened operating position, and the need to maintain high levels of capital investment, albeit at a lower level than 2010-11 and 2011-12. As a consequence, a return to surplus is not expected until two to three years beyond the current budgetary cycle without a significant turnaround in revenue.

The higher cash deficits in 2010-11 and 2011-12 are reflective of investment in infrastructure to support the economy and Territory jobs until private investment returns to pre-GFC levels.

Infrastructure for Economic and Community Development

Target: Maintain infrastructure investment at appropriate levels

Infrastructure investment plays a central role in the Government's budget strategy and is essential for the delivery of the Territory's social and economic requirements. The short-term strategy commits to spending at least twice the level of depreciation expense on capital infrastructure, on average, over the current economic cycle to support service delivery and business growth in the Territory. The economic outcomes for 2009-10 and 2010-11 show that this policy has been successful, with the Government's infrastructure expenditure ensuring that economic growth has remained positive, despite the reduction in private sector investment.

Since 2008-09, the Territory Government has significantly increased investment in infrastructure to protect Territory jobs and support the economy. For 2009-10 to 2011-12 this has been assisted by the Commonwealth stimulus package and spending on Strategic Indigenous Housing and Infrastructure Program (SIHIP).

Once private sector investment returns to more usual levels, the need for countercyclical government investment in infrastructure will no longer be required. Accordingly, the level of infrastructure investment over forward years, while higher than longer term trends, is lower than 2010-11 and 2011-12.

In more usual times most jurisdictions strive to maintain their capital investment levels around the equivalent of their depreciation expenses in order to keep the stock of public sector assets at appropriate levels. In the Territory, capital needs are greater and the provision of adequate levels of infrastructure is an ongoing challenge, due both to the Territory's remoteness and its stage of development relative to other jurisdictions. Once the economy and government revenues return to more usual levels, the Territory's strategy is to maintain infrastructure spending to at least equal to depreciation charges to support medium-term economic growth, while trending towards the objective of a general government fiscal balance.

Table 3.3 presents the estimates for capital investment for 2010-11 to 2014-15 compared with the May 2010 Budget. The Government's capital investment comprises purchases of non financial assets (including construction and capital items) and capital grants to non government organisations. It excludes repairs and maintenance.

Table 3.3: Capital Investment –
General Government Sector

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2010-11 Budget					
Purchases of non financial assets	1 049	602	480	438	na
Capital grants	177	85	51	44	na
Total	1 226	687	531	482	na
2011-12 Budget					
Purchases of non financial assets	1 053	833	593	517	480
Capital grants	158	104	53	49	51
Total	1 212	937	646	566	532
Variation from 2010-11 Budget					
Purchases of non financial assets	4	231	113	79	na
Capital grants	- 19	19	2	5	na
Total	- 14	250	115	84	na

Source: Northern Territory Treasury

Table 3.4: Capital Investment to
Depreciation Ratio – General
Government Sector

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2010-11 Budget					
Total capital investment	1 226	687	531	481	na
Depreciation	204	207	210	213	na
Capital investment to depreciation ratio	6.0	3.3	2.5	2.3	na
2011-12 Budget					
Total capital investment	1 212	937	646	566	532
Depreciation	199	204	207	210	213
Capital investment to depreciation ratio	6.1	4.6	3.1	2.7	2.5
Variation from 2010-11 Budget					
Total capital investment	- 14	250	115	85	na
Depreciation	- 5	- 3	- 3	- 3	na
Capital investment to depreciation ratio	0.1	1.3	0.6	0.4	na

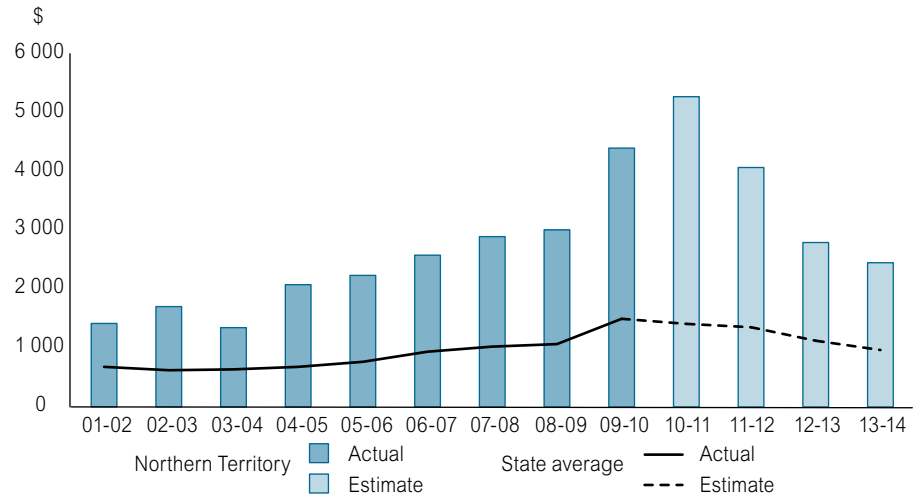
Source: Northern Territory Treasury

As shown in Tables 3.3 and 3.4, the Territory is meeting this element of the strategy by investing in infrastructure substantially in excess of the fiscal strategy target of spending twice depreciation levels over the current economic cycle.

The increase in capital investment since the May 2010 Budget is mainly a result of changes in the timing of Commonwealth funds, particularly SIHIP, and increased Territory funding.

Chart 3.1 illustrates that the Northern Territory’s capital investment per capita since 2001-02 and highlights the Territory’s increasing levels of investment which is significantly higher than the average of the states. The peaks from 2009-10 to 2011-12 demonstrate the Territory Government’s commitment, assisted by Commonwealth funding, to increase infrastructure spending to maintain jobs and economic growth in the Territory.

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



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

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

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

Similar to the cash outcome, the fiscal balance remains in deficit over the budget cycle, peaking to a deficit of \$435 million in 2011-12 however improving to a projected deficit of \$204 million in 2014-15, as shown in Table 3.5.

Table 3.5: Fiscal Balance – General Government Sector

	2010-11 Estimate	2011-12 Budget	2012-13 Forward Estimates	2013-14 Forward Estimates	2014-15 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
2010-11 Budget	- 310	- 211	- 115	- 81	na
2010-11 Mid-Year Report	- 496	- 405	- 309	- 240	na
2011-12 Budget	- 375	- 435	- 297	- 240	- 204
Variation from 2010-11 Budget	- 65	- 224	- 182	- 159	na

Source: Northern Territory Treasury

Competitive Tax Environment

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

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

From 1 July 2011, the Territory will change the structure of its payroll tax arrangements by introducing a reducing deduction in place of the payroll

tax threshold, increasing the level below which no payroll tax is paid and reducing the payroll tax rate.

The level of wages provided before payroll tax is paid will increase from \$1.25 million to \$1.5 million and will benefit smaller businesses with total payrolls of up to \$1.5 million in the Territory by no longer having to pay payroll tax. For businesses with payrolls above \$1.5 million, a reducing deduction has been introduced whereby the deduction reduces by \$1 for every \$4 above \$1.5 million. Employers with payrolls of \$7.5 million or more will not receive any deduction. However, the Government has also brought forward its election commitment to reduce the payroll tax rate from 5.9 per cent to 5.5 per cent, which will provide a benefit to all employers with payrolls in excess of \$1.5 million. The payroll tax rate of 5.5 per cent is below the national average payroll tax rate.

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

The Commission's analysis of 'tax capacity and effort' assesses the extent to which a particular jurisdiction's capacity to raise revenue is above or below average and whether tax rates applied are above or below the states' average. Table 3.6 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2009-10, the latest year assessed by the Commission.

Table 3.6: Northern Territory Revenue-Raising Capacity and Effort 2009-10

	Capacity ¹	Effort ²
	%	%
Total taxation	88	85
Total own-source revenue	101	117

Note: Australian Average = 100 per cent.

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

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

Source: Commonwealth Grants Commission 2011 Update

Table 3.6 shows that the Territory's capacity to raise tax revenue is below the Australian average. That is, if the Territory applied the average rates of tax to its tax base, the revenue the Territory could raise would be less than the national average on a per capita basis.

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

In relation to total own-source revenue, the main reason that the Territory is assessed as having a high effort in 2009-10 is due to mining revenues. The Territory was assessed as having the second highest effort for mining

revenues behind Western Australia, as a result of the high profitability of Territory miners in that year and the application of the Territory's profit-based royalty scheme. Although the Territory's mining royalty scheme is profit-based, the Commission's assessment is based on an average ad valorem basis as operates in all other jurisdictions. The Territory's profit-based scheme means that mining royalty revenue is highly variable in line with fluctuations in profit levels. The Commission's estimate of the Territory's mining revenue effort in 2007-08 and several preceding years was that it was below average, reinforcing that any comparison of profit-based schemes against ad valorem schemes needs to be undertaken over the life of a mine or other significant period, rather than on a year-on-year basis.

When volatility associated with mineral royalties and mining profits is taken into account, levels of effort are in line with previous years and the Australian average.

Prudent Management of Debt and Liabilities

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

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

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

Once the economy recovers, the sustainable service provision target of limiting expenditure growth will provide the capacity to reduce debt over time to pre-GFC levels. The target is to reduce debt by 5 per cent of the increase per annum.

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

Table 3.7: Net Debt – General Government Sector

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
Net debt (\$M)					
2010-11 Budget	1 256	1 442	1 567	1 680	na
2010-11 Mid-Year Report	1 231	1 597	1 902	2 160	na
2011-12 Budget	1 075	1 475	1 769	2 034	2 196
Variation from 2010-11 Budget	- 181	33	202	354	na
Net debt to revenue (%)					
2010-11 Budget	26	32	36	37	na
2010-11 Mid-Year Report	26	35	43	48	na
2011-12 Budget	23	32	40	45	47
Variation from 2010-11 Budget	- 3	0	4	8	na

Source: Northern Territory Treasury

As Table 3.7 highlights, net debt for the general government sector is expected to increase over the budget and forward estimates period. This is

as a result of the slowing economy both nationally and in the Territory that has resulted in substantially lower revenues over the forward estimates. This, combined with ongoing significant levels of investment in infrastructure and additional funding for important reforms, has resulted in a deteriorating fiscal position for the Territory.

Table 3.7 shows that in absolute terms net debt is estimated to rise from \$1.1 billion in 2010-11 to around \$2.2 billion in 2014-15. When measured as a ratio to revenue, it is expected to rise from 23 per cent in 2010-11 to 47 per cent by 2014-15. However this is lower than the 61 per cent recorded in 2001-02, primarily as a result of the eight consecutive cash surpluses delivered up to 2009-10.

These amounts include the continuation of a series of debt for equity swaps for the Power and Water Corporation (PWC) announced in the 2010-11 Budget. The swaps represent the Territory Government's contribution towards the increased infrastructure investment as part of PWC's new generation strategy to improve system capacity and reliability. These aggregates, however, do not include the new Darwin Correctional facility announced as part of the *New Era in Corrections* expected to be financed through a Public Private Partnership (PPP) arrangement. In line with commercial practice, financial commitments associated with the project will not be included in the Territory's financial statements until financial close is achieved in mid to late 2011.

Net financial liabilities is a broader measure than net debt in that it encompasses all liabilities including unfunded employee entitlements, largely superannuation, a major liability for the Territory and most jurisdictions. The Territory cannot influence the level of its future superannuation liabilities. The schemes to which the liabilities relate are closed and any variation to the liability is a result of factors outside the Territory's control such as longevity or long-term bond rates. The Territory will make no policy decisions that will increase its overall superannuation liabilities.

**Table 3.8: Net Financial Liabilities
– General Government Sector**

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
Net financial liabilities (\$M)					
2010-11 Budget	4 264	4 507	4 676	4 828	na
2010-11 Mid-Year Report	4 402	4 838	5 200	5 511	na
2011-12 Budget	4 256	4 722	5 071	5 382	5 573
Variation from 2010-11 Budget	- 8	215	395	554	na
Net financial liabilities to revenue (%)					
2010-11 Budget	89	102	106	108	na
2010-11 Mid-Year Report	95	107	118	123	na
2011-12 Budget	90	102	113	119	119
Variation from 2010-11 Budget	1	0	7	11	na

Source: Northern Territory Treasury

Table 3.8 highlights that the level of net financial liabilities both in absolute terms and as a percentage of revenue is set to increase over the forward estimates. The increase is a direct result of the projected cash deficits and

increasing superannuation liabilities, largely as a result of improved mortality rates and lower benefit payments.

The Commonwealth 10-year bond rate used in calculating the superannuation liability is 5.7 per cent, consistent with current market conditions and the Territory's long-term average rate. The rate is the same as reported at the time of the May 2010 Budget.

Conclusion

The Territory's 2011-12 fiscal strategy continues to incorporate both short and medium-term targets post-GFC with a focus on sustaining the Territory economy and protecting jobs while private sector investment is lower than historical levels. Once revenue growth and the economy recover, the objective will be to restore the budget to surplus and reduce debt.

The operating balance is set to decline over the budget cycle largely as a result of lower revenue streams flowing to the Territory and the cessation of Commonwealth stimulus measures from 2011-12, together with additional expenditure associated with important reforms. An operating deficit position is now forecast from 2012-13.

However the key measure of untied operating expenditure remaining below revenue growth is achieved across the budget cycle and will provide the capacity to return the Budget to surplus once revenues improve.

The Territory Government continues its commitment to significant infrastructure investment while private sector investment recovers. This investment in infrastructure has proven to be a significant factor in sustaining the Territory economy post-GFC. Over the budget cycle, the target measure of spending at least twice depreciation expense has been exceeded. This high level of investment, coupled with the worsening operating result, means both the cash and fiscal balances are predicted to be in deficit across the budget cycle.

The Government's commitment to maintain taxation at competitive levels to encourage increased levels of business activity continues with the introduction from 1 July 2011 of an increased payroll tax threshold and lower payroll tax rate for businesses.

The measures of net debt and net financial liabilities will unavoidably increase over the budget cycle in line with increased cash deficits, but the Government remains committed to retire debt and return to a surplus position as soon as it is economically prudent to do so.

The challenge over the forward years is to continue limiting growth in operational spending during subdued economic times, until improving revenue streams and a reduced requirement to invest heavily in infrastructure provide the capacity to return the Budget to surplus.

Chapter 4 Budget Initiatives

Overview This chapter summarises the Government's new and expanded initiatives for expenditure and revenue included in the 2011-12 Budget, along with significant new works on the 2011-12 Capital Works Program.

Table 4.1 provides an aggregate summary of expenditure initiatives across all agencies, with Table 4.2 outlining new expenditure initiatives and initiatives announced in previous Budgets that commence or increase in 2011-12. Table 4.2 also presents the amounts identified by agencies available for reprioritisation that have been redirected towards the new and expanded expenditure initiatives set out in Table 4.2.

The Capital Works Program tables list new major works projects and capital grants. The amounts reflect the total project costs, not the cash allocation in the 2011-12 Budget. Table 4.3 provides an aggregate summary by agency, with Table 4.4 setting out the details by agency.

For more details about initiatives and capital projects, including capital works projects continuing from 2010-11, see Budget Paper No. 3 and Budget Paper No. 4. Budget Paper No. 3 also provides information on Commonwealth-funded projects not included in this chapter.

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

Table 4.1: Summary of Expenditure Initiatives

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Northern Territory Electoral Commission		116			
Ombudsman's Office	100	200	200	200	200
Department of the Chief Minister	5 750	3 335	1 308	1 208	1 208
Department of the Legislative Assembly	924	974	974	324	324
Northern Territory Police, Fire and Emergency Services	13 497	20 406	22 666	22 106	22 416
Northern Territory Treasury	250	3 200			
Department of Justice	23 222	32 638	40 137	46 048	46 048
Department of Education and Training	13 715	18 455	17 655	17 155	17 155
Department of Housing, Local Government and Regional Services	2 847	27 196	9 729	8 400	
Department of Health	11 193	13 744	17 510	18 855	18 576
Department of Children and Families	19 801	40 440	47 536	46 778	48 497
Department of Resources		4 157	4 157	4 157	357
Department of Business and Employment	1 500	4 038	3 738	2 598	898
Department of Natural Resources, Environment, The Arts and Sport	7 200	5 439	6 036	5 786	5 786
Department of Lands and Planning	6 689	15 773	5 773	5 773	5 773
Total initiatives	106 688	190 111	177 419	179 388	167 238

Table 4.2: Initiatives by Agency

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Auditor-General's Office					
Support for audit activities		62	62	62	62
Savings identified for reprioritisation ¹		- 62	- 62	- 62	- 62
Total		0	0	0	0
Northern Territory Electoral Commission					
Additional activities associated with preparations for the 2012 Legislative Assembly General Election and ongoing roll stimulation		150	34	34	34
Savings identified for reprioritisation ¹		- 34	- 34	- 34	- 34
Total		116	0	0	0
Ombudsman's Office					
Increased operational expenses	100	200	200	200	200
Total	100	200	200	200	200
Department of the Chief Minister					
Northern Territory Centenary celebrations grant funding	345				
Queensland Flood Appeal donation	514				
Marine Supply Base – technical studies, commercial and legal advice	3 000	2 000			
Support for major events including the V8 Supercars, the Race and Rock concert, Australian Superbikes and the Finke Desert Race	1 891	1 355	1 328	1 228	1 228
Establishment of a grant program to support community-based climate change groups		200	200	200	200
Additional support for the Office of Parliamentary Counsel		280	280	280	280
Additional support to monitor the Territory 2030 program		250	250	250	250
Savings identified for reprioritisation ¹		- 750	- 750	- 750	-750
Total	5 750	3 335	1 308	1 208	1 208
Department of the Legislative Assembly					
Additional support for the operations of the Legislative Assembly	324	324	324	324	324
Support for the Statehood Steering Committee	600	650	650		
Total	924	974	974	324	324

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Northern Territory Police, Fire and Emergency Services					
Additional resources to monitor Alice Springs CCTV		600	600	600	600
Expand the capacity of the Forensics Science Branch		1 300	700	700	700
Health screening of detainees in Katherine, Alice Springs and Darwin watch-houses		800	800	800	800
Support for police bans under the Enough is Enough Alcohol Reform package		1 500	1 500	1 500	1 500
Support for Police Beat offices in shopping precincts	6 004	7 364	7 364	7 364	7 364
Additional resources for the Northern Territory Fire and Rescue Service	3 493	5 442	8 302	7 742	8 052
Replacement aircraft to support operations	4 000				
Increased funding to repair and maintain Government infrastructure		3 400	3 400	3 400	3 400
Total	13 497	20 406	22 666	22 106	22 416

Northern Territory Treasury

Expansion of the graduate employment program		130	130	130	130
Implementation of the new Territory Revenue Management System		500	500	500	500
BuildBonus scheme	250	3 200			
Savings identified for reprioritisation ¹		- 630	- 630	- 630	- 630
Total	250	3 200	0	0	0

Department of Justice

Operational funding for the new Barkly prisoner work camp	2 172	3 087	3 087	3 087	3 087
Increased support for the Health and Community Services Complaints Commission	260	600	600	600	600
New Era in Corrections initiatives including enhanced community-based orders and treatment services		8 462	14 581	19 834	19 834
Funding to support Darwin Greyhound Association	1 400				
Enough is Enough Alcohol Reform Package including enforcement activities, the SMART Court and Alcohol and Other Drugs Tribunal	7 000	4 200	5 200	5 200	5 200
Funding to support Thoroughbred Racing NT	3 590	3 949	4 329	4 987	4 987
Additional funding to manage increased prisoner numbers	7 500	11 300	11 300	11 300	11 300
Continued support for the Indigenous Family Violence Community Based Program	1 300	1 640	1 640	1 640	1 640
Implementation of recommendations of the Community Corrections Review		1 663	1 118	1 013	913
Savings identified for reprioritisation ¹		- 2 263	- 1 718	- 1 613	- 1 513
Total	23 222	32 638	40 137	46 048	46 048

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Education and Training					
Working Future					
- Child protection unit to provide specialist support to schools including ten student counsellors for remote communities	900	1 030	1 030	1 030	1 030
- Continued roll out of new mobile preschools for children in remote communities	2 500	3 000	3 000	3 000	3 000
- Additional teachers to increase education opportunities for children in remote communities	3 600	4 800	4 800	4 800	4 800
- Additional funding for new education and training programs in Territory Growth Towns	5 263	6 425	6 425	6 425	6 425
- Additional resources to facilitate regionalisation of school services		2 850	2 850	2 850	2 850
- Additional funding for specialist teacher positions in identified schools		1 200	1 200	1 200	1 200
Funding for Alice Springs Youth Action Plan – stage 2	952	1 203	1 203	1 203	1 203
Participation and pathways for disengaged Palmerston youth		700	700	700	700
Funding for additional Classroom Support Officers and Teacher Aide positions		1 182	1 182	1 182	1 182
Additional funding to repair and maintain Government infrastructure		1 615	1 615	1 615	1 615
Additional resources to facilitate stage 1 implementation of the National Curriculum in schools		850	850	850	850
Funding to continue employer incentives under Jobs NT 2010-12	500	1 300	500		
Savings identified for reprioritisation ¹		- 7 700	- 7 700	- 7 700	- 7 700
Total	13 715	18 455	17 655	17 155	17 155

Department of Housing, Local Government and Regional Services

Working Future – funding package to improve Indigenous employment opportunities in shires		8 400	8 400	8 400	
Additional funding for the Ampilatwatja powerline connection to Arlparra grid	2 100				
Additional resources to implement the Public Housing Safety Strategy		1 200	1 200	1 200	1 200
Territory Government contribution to establish and maintain the A Place to Call Home tenancy sustainability scheme	747	996	1 329		
Construction of a new gas-fired power station at Wadeye		17 800			
Savings identified for reprioritisation ¹		- 1 200	- 1 200	- 1 200	- 1 200
Total	2 847	27 196	9 729	8 400	0

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Office of the Commissioner for Public Employment					
Implementation of outcomes of the review of the <i>Public Sector Employment and Management Act</i>		57			
Northern Territory Public Sector Employee Survey		40			
Resources to meet new and emerging priorities			97	97	97
Savings identified for reprioritisation ¹		- 97	- 97	- 97	- 97
Total		0	0	0	0

Department of Health

Increased funding for the provision of emergency road ambulance and medical transportation services by St John Ambulance	3 085	2 469	2 235	1 980	1 701
Clinical service system enhancements for children and adolescent health services, and suicide prevention programs		1 600	3 000	3 200	3 200
Enhanced community-based services for exceptional and complex needs clients in the community	950	1 500	1 500	1 500	1 500
Additional resources to enhance secure care services for adults with complex care needs	4 658	8 220	9 220	9 220	9 220
Grant funding to Groote Eylandt and Bickerton Island Enterprises Aboriginal Corporation towards the construction of a new Umbakumba Health Centre		2 000			
Targeting chronic disease	2 500	5 000	5 000	5 000	5 000
Enough is Enough Alcohol Reform Package					
– Enhancement of urban and remote treatment and rehabilitation services		3 500	3 500	3 500	3 500
– Grant funding to provide remote community alcohol and other drug centres			800	800	800
– Non-government organisation grants for referral clinicians to support the SMART Court			900	1 900	1 900
– Community based outreach case management and intervention services in urban and remote locations		700	1 600	2 000	2 000
– Grant funding for brief interventions delivered through primary health care providers		225	225	225	225
– Provision of withdrawal support services		500	1 500	1 500	1 500
– Development and assessment of services provided		230	230	230	230
Savings identified for reprioritisation ¹		- 12 200	- 12 200	- 12 200	- 12 200
Total	11 193	13 744	17 510	18 855	18 576

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11 Estimate	2011-12 Budget	2012-13	2013-14	2014-15
	\$000	\$000	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Children and Families					
Implementation of the Growing them Strong, Together Report recommendations	8 440	24 532	31 628	30 670	32 389
Additional resources for Family Support Centre services	100	200	200	200	200
Support for children in care to address school attendance and homelessness amongst Palmerston youth	300	1 000	1 000	1 200	1 200
Expansion of the Child Abuse Taskforce	2 300	2 500	2 500	2 500	2 500
Continued expansion of Sexual Assault Referral Centre services, including Katherine	1 500	1 900	1 900	1 900	1 900
Additional resources to enhance secure care services for young people with complex care needs	861	2 208	2 208	2 208	2 208
Enhancements to the child protection system		1 170	1 170	1 170	1 170
Additional resources to develop the Central Intake Team after-hours service	4 300	5 500	5 500	5 500	5 500
Continued development of integrated community family violence and support services in remote communities	2 000	2 600	2 600	2 600	2 600
Savings identified for reprioritisation ¹		- 1 170	- 1 170	- 1 170	- 1 170
Total	19 801	40 440	47 536	46 778	48 497

Department of Resources

Continuation of the Bringing Forward Discovery program		3 800	3 800	3 800	
Establishment of the East Arnhem Fisheries Network		490	490	490	490
Development of new fisheries opportunities for Growth Towns		245	245	245	245
Increased resources to develop Indigenous horticulture businesses		275	275	275	275
Additional funding to repair and maintain Government infrastructure		357	357	357	357
Savings identified for reprioritisation ¹		- 1 010	- 1 010	- 1 010	- 1 010
Total		4 157	4 157	4 157	357

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Business and Employment					
Funding to support the Jobs NT 2010-12 program	1 500	1 700	1 700	1 700	
Additional resourcing of Payroll Services		2 080	1 780	640	640
ecoBiz NT initiative		400	400	400	400
Funding to support community childcare centres		258	258	258	258
Savings identified for reprioritisation ¹		- 400	- 400	- 400	- 400
Total	1 500	4 038	3 738	2 598	898
Aboriginal Areas Protection Authority					
Increased demand for the protection of sacred sites		63	63	63	63
Savings identified for reprioritisation ¹		- 63	- 63	- 63	- 63
Total		0	0	0	0
Tourism NT					
Consumer website redevelopment		700	700	700	700
Savings identified for reprioritisation ¹		- 700	- 700	- 700	- 700
Total		0	0	0	0
Department of Natural Resources, Environment, The Arts and Sport					
Expansion of environmental compliance activities	1 100	800	800	800	800
Additional resources for crocodile management		190	190	190	190
Grant to Northern Territory Hockey Association to repair the hockey surface at Marrara	500				
Additional environmental monitoring of Darwin Harbour	1 100	1 350	1 350	1 100	1 100
Increased support for the Darwin Festival	500	500	500	500	500
Additional resources for the operations of the Palmerston Water Park			2 100	2 100	2 100
Additional capacity to improve conservation management in Territory parks and reserves through additional Indigenous employment		2 100	2 100	2 100	2 100
Funding for upgrades to the Territory Wildlife Park		1 503			
Grant to Squash NT for construction of a new 12 court squash facility at Marrara Sports Precinct	4 000				
Additional funding to repair and maintain Government infrastructure		1 096	1 096	1 096	1 096
Savings identified for reprioritisation ¹		- 2 100	- 2 100	- 2 100	- 2 100
Total	7 200	5 439	6 036	5 786	5 786

¹ Savings from discretionary costs including consultancy, advertising and travel

(continued)

	2010-11 Estimate	2011-12 Budget	2012-13	2013-14	2014-15
	\$000	\$000	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Department of Lands and Planning					
Installation of security cameras in taxis and minibuses	711				
Business improvements		1 425	1 425	1 425	1 425
Establishment of school bus services for Rosebery schools	978	1 956	1 956	1 956	1 956
Additional funding to repair and maintain Territory roads		13 817	3 817	3 817	3 817
Grant to support the Alice Springs revitalisation project	5 000				
Savings identified for reprioritisation ¹		- 1 425	- 1 425	- 1 425	- 1 425
Total	6 689	15 773	5 773	5 773	5 773
Department of Construction and Infrastructure					
Additional resources to establish an Infrastructure Research and Development section		220	220	220	220
Savings identified for reprioritisation ¹		- 220	- 220	- 220	- 220
Total		0	0	0	0

¹ Savings from discretionary costs including consultancy, advertising and travel

Table 4.3: Summary of
2011-12 New Capital Works

	\$M
Department of the Chief Minister	2.0
Northern Territory Police, Fire and Emergency Services	29.5
Department of Justice	28.7
Department of Education and Training	8.6
Department of Housing, Local Government and Regional Services	330.8
Department of Health	31.8
Department of Children and Families	3.5
Department of Resources	1.0
Department of Natural Resources, Environment, The Arts and Sport	3.5
Department of Lands and Planning	89.6
Darwin Port Corporation	7.1
Department of Construction and Infrastructure	4.4

Table 4.4: 2011-12
Capital Works by Agency

	\$M
Department of the Chief Minister	
Darwin Waterfront Precinct – preparatory works for stage 2	2.0
Northern Territory Police, Fire and Emergency Services	
Berrimah Fire Station	12.3
Peter McAulay Centre – 16 Training College accommodation units	3.6
Additional Forensic Science laboratory and office accommodation	1.2
<i>Working Future</i>	
Arparra Police Station and associated infrastructure	9.4
Upgrade existing and construct new cyclone shelters	2.0
2011-12 Major Capital Grants	
<i>Working Future</i> – cyclone shelter upgrades	1.0
Department of Justice	
New Era in Corrections – Additional beds to support Alcohol and Other Drugs services	1.7
Doug Owston Correctional Facility – headworks	27.0
Department of Education and Training	
Acacia Hill School – upgrade preschool and student drop-off area	1.5
Henbury School – expand school facilities	2.0
Palmerston Senior College – upgrade special education facilities	1.0
Taminmin College – new special education centre	3.0
<i>Working Future</i> – Kalkaringi School – upgrade facilities	1.1

(continued)

Department of Housing, Local Government and Regional Services

Government Employee Housing

Working Future

Construct additional housing in remote locations	5.0
Land servicing in remote locations	1.0
Upgrade housing in remote locations	3.0

Public Housing

A Place to Call Home – construct units in Bellamack	1.3
Construct four two-bedroom units in Moil	1.4
Construct seven one-and two-bedroom units in the northern suburbs	2.4
Nation Building and Jobs Plan – new construction and refurbishment of existing stock	2.3
Redevelop unit complexes across all regions	1.0

Indigenous Housing and Infrastructure

<i>Working Future</i> – Strategic Indigenous Housing and Infrastructure Program	249.2
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Other

Litchfield swimming pool – site works	1.0
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2011-12 Major Capital Grants – Indigenous Essential Services

<i>Working Future</i> – new gas-fired power station at Wadeye	17.8
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2011-12 Major Capital Grants – Other

Municipal and Essential Services	4.1
Strategic Indigenous Housing and Infrastructure Program	41.2

Department of Health

Alice Springs Hospital – remediation and upgrade	16.0
Construction of new renal facilities in the Top End	3.0
Royal Darwin Hospital – Emergency Department upgrade	4.6
Royal Darwin Hospital – operating theatre upgrade	4.9
Tennant Creek Hospital – fire safety upgrade	3.3

Department of Children and Families

<i>Working Future</i> – Safe Place upgrades in 15 remote communities	3.5
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Department of Resources

Recreational fishing infrastructure	1.0
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Department of Natural Resources, Environment, the Arts and Sport

Palmerston Water Park access road	1.4
Howard Springs Nature Park upgrade	0.7
Palmerston Water Park – intersection upgrade	1.4

(continued)

\$M

Department of Lands and Planning

Arnhem Highway – upgrade	5.0
Black Spot Program	1.0
Capital Cities project	2.0
Fog Bay Road – upgrade and seal further sections	4.0
Green Streetscape Program	1.0
Jenkins Road – upgrade and seal further sections	6.0
Kilgariff – headworks for new residential subdivision	3.5
National Network flood immunity improvements	3.0
National Network infrastructure road safety initiatives	6.0
National Network strengthening and widening	14.0
Roads to Recovery Program	4.6
Rural arterials – pavement strengthening and widening	2.0
Secondary and local roads – pavement strengthening	1.0
Stuart Highway – Darwin to Katherine overtaking opportunities	5.0
Stuart Highway – new high-level bridge over the King River	6.0
Upgrades to selected priority beef secondary roads	2.0
Urban arterials – strengthen deficient pavement sections	2.0
Urban arterials – traffic management improvements	3.0
Urban roads landscaping	2.0
<i>Working Future</i>	
Integrated Regional Transport Strategy – barge ramps	2.0
Port Keats Road upgrade	12.0
Tanami Road upgrade and seal	2.0
Yarralin airstrip upgrade and seal	2.5

Darwin Port Corporation

East Arm Wharf – quarantine wash down bay	0.6
East Arm Wharf – new overland conveyor design works	3.0
East Arm Wharf – upgrade existing ship loader and gallery conveyor	3.0
Stabilisation of earth wall at Frances Bay Drive	0.5

Department of Construction and Infrastructure

Relocation from Greatorex and fit out of new building	4.4
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Revenue Initiatives A number of revenue measures are included in the 2011-12 Budget. Revenue measures that affect the Budget are summarised in Table 4.5. These initiatives and other policy variations are described later in this section.

Table 4.5: Summary of Revenue Measures

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Abolition of stamp duty on business property conveyances excluding land			- 8 242	- 8 448	- 8 659
Increase in maximum conveyance stamp duty for transactions of \$3 million or more to 5.45%		2 300	2 358	2 416	2 477
Decrease in payroll tax rate to 5.5% and increase \$1.25 million exemption to a \$1.5 million deduction		- 6 700	3 300	3 465	3 638
Total		- 4 400	- 2 584	- 2 567	- 2 544

Source: Northern Territory Treasury

Home Ownership Incentives

A key priority in the Territory 2030 Strategic Plan is to achieve a balanced housing market across all market segments. One of the Government's targets is for the Territory to be one of Australia's most affordable housing markets.

BuildBonus

From 3 May 2011 to 31 December 2011, Territorians purchasing or building a new home may be eligible for a BuildBonus grant of \$10 000. This increased assistance is at a total estimated cost to the Budget of \$3.45 million.

The \$10 000 BuildBonus grant is available to all home buyers (including first-home buyers and investors) to build or purchase a new home, including off-the-plan purchases valued up to \$530 000. The grant applies to contracts signed from 3 May 2011 until 31 December 2011 where construction commences on or after 3 May 2011. Owner builders who commence construction of a house during this period are also eligible for the BuildBonus.

The BuildBonus grant is aimed at encouraging investment and construction activity in the affordable housing sector across the Territory. The assistance is targeted at purchasers of new housing in this sector, including units, and builds on the affordable house and land packages in Alice Springs and Palmerston.

Payroll Tax Measures

From 1 July 2011, the payroll tax rate will reduce from its current rate of 5.9 per cent to 5.5 per cent, bringing forward delivery of the Government's election commitment to reduce the payroll tax rate to 5.5 per cent by 2012.

In addition, the annual threshold of \$1.25 million will be increased to \$1.5 million from 1 July 2011, meaning that businesses with total Australian wages of up to \$1.5 million will not pay any payroll tax in the Territory. Similar to the approach adopted in Queensland, the threshold will be changed from a general exemption to a deduction from an employer's taxable wages. For businesses with wages above the \$1.5 million annual threshold, the deduction will reduce by \$1 for every \$4 in wages paid by an employer above \$1.5 million. This means that an employer who pays \$7.5 million or more in wages does not receive a deduction.

The combination of the higher threshold and lower payroll tax rate means that more small and medium businesses, particularly local businesses, are excluded from having to register for and pay payroll tax.

These measures will provide \$6.7 million of payroll tax savings to businesses in 2011-12. Most locally-based businesses will pay less payroll tax, with businesses paying wages up to \$3 million having payroll tax savings of up to \$14 750. Larger businesses may pay more payroll tax as a result of the changes to the annual threshold, but part or all of this will be offset by the significant reduction in the payroll tax rate.

From 1 July 2011, the payroll tax employee share scheme provisions have been updated as a result of the Commonwealth's income tax changes. Consistent with the Government's commitment to payroll harmonisation, these amendments are based on harmonised legislation developed in consultation with other states and territories.

Conveyance Stamp Duty Rate for High Value Transactions

From 1 July 2011, the maximum conveyance stamp duty rate for property transactions over \$3 million will increase from 4.95 per cent to 5.45 per cent. Currently, the maximum duty rate of 4.95 per cent applies to transactions of \$525 000 or more. From 1 July 2011, the rate of 4.95 per cent will continue to apply to dutiable property valued from \$525 000 to under \$3 million, with a higher rate of 5.45 per cent applying to transactions of \$3 million or more.

The Territory's conveyance duty is derived from direct and indirect conveyances of dutiable property in the Territory. Such property comprises real estate and transfers of businesses. This rate change will provide a return to the Territory on very high value transactions that is more consistent with the average transfer duty rate of the other states and territories while maintaining tax competitiveness, as the rate change will have no impact on small to medium business or on home buyers generally. As it applies only to high value transactions greater than \$3 million, the increased conveyance rate is expected to apply to only a small number of transactions each year.

The Territory's new maximum rate of 5.45 per cent is lower than the highest rate in four other jurisdictions, being the Australian Capital Territory, New South Wales, Victoria and South Australia.

Also, the \$3 million value at which the top rate will apply is the highest in Australia, with the next highest being in New South Wales and the Australian Capital Territory, which apply the maximum general duty rates on property valued at over \$1 million. In the case of residential transactions, the Territory's threshold is equal highest compared to New South Wales, which imposes a premium duty rate of 7 per cent for residential transactions valued at \$3 million or more.

The new rate is estimated to increase revenue by \$2.3 million per year.

Equity, Efficiency and Administrative Enhancements

The Government has approved a package of changes that enhances the simplicity, efficiency and equity of the Territory's taxation laws and the First Home Owner Grant scheme.

The measures, which generally commence from 1 July 2011, will:

- provide the Commissioner of Territory Revenue with the discretion to waive, in special circumstances, the requirement of the home incentive schemes that a person occupy a home as their principal place of residence;
- clarify that the Commissioner can reduce or not impose interest on instalment arrangements where payment of the outstanding liability has been secured;
- extend the ability to provide a stamp duty refund for conveyances of property on the breakdown of a de facto relationship or pursuant to a binding financial agreement under the *Family Law Act*;
- ensure instruments are considered to be duly stamped where duty is paid under a returns-based arrangement such as for insurance duty; and
- repeal redundant revenue legislation generally relating to abolished taxes.

Chapter 5 Intergovernmental Financial Issues

Overview

Commonwealth transfers are an important source of revenue for all states. About 80 per cent of the Territory's revenue is sourced from the Commonwealth, the highest proportion of all jurisdictions.

In 2011-12, the Territory is estimated to receive \$3.8 billion in Commonwealth funding, a decrease of 2.3 per cent from 2010-11. The main components of this amount are goods and services tax (GST) revenue of \$2657 million, National Partnership (NP) payments of \$599 million and Specific Purpose Payments (SPPs) of \$273 million.

Since the Territory's 2010-11 Budget, estimates of national GST collections for 2010-11 were revised downwards by \$745 million in the Commonwealth 2010-11 Mid-Year Economic and Fiscal Outlook (MYEFO). Ongoing weakening of consumption expenditure, in particular on items that are subject to GST, has resulted in a further reduction in the estimated GST pool of \$1.4 billion in 2010-11 and lower growth over the forward estimates period.

In February 2011, the Commonwealth Grants Commission (CGC) released the GST relativities that will be used to distribute GST revenue between the states in 2011-12. The CGC has recommended an increase in the Territory's relativity from 5.07383 in 2010-11 to 5.35708 in 2011-12. The result is an increase in the Territory's share of GST revenue in 2011-12, which largely offsets the downward revisions to forecasts of the GST pool. However, the net benefit to the Territory is limited by the lower GST collections in 2011-12 and the forward estimates.

The Commonwealth has announced a review of the method and objectives of the distribution of GST revenue between the states. The terms of reference direct the review to consider a 'simpler, fairer, more predictable and more efficient' distribution of GST revenue while providing states with greater incentives for reform. While the key principle of horizontal fiscal equalisation (HFE) is to be retained, the review represents a risk to the Territory.

In February 2011, the Council of Australian Governments (COAG) signed the Heads of Agreement – National Health Reform (HoA). The HoA sets out the principles for reform of health and hospital services. Treasury, first minister and health agency officials are currently working on the details of the National Health Reform Agreement for COAG to consider at its July 2011 meeting.

The 2010 Indigenous Expenditure Report (IER) was released on the 28 February 2011. The 2010 IER found that 53.9 per cent of the Territory's general government expenditure in 2008-09 was on services related to Indigenous Territorians. The findings are consistent with the Northern Territory's 2006-07 Indigenous Expenditure Review, which found that 52.4 per cent of Territory general government expenditure on services related to Indigenous people.

Federal Financial Relations

Australia's federal financial system is characterised by a high level of vertical fiscal imbalance, whereby states are responsible for delivering the major government services such as health, education and law and order but do not have sufficient own-source revenue-raising capacity to fully fund these services. The reverse is true for the Commonwealth, where expenditure requirements for its own services are less than the revenue it collects. Consequently, the Commonwealth provides transfer payments to all states to support service delivery and infrastructure.

There are two broad types of Commonwealth funding to the states:

- general revenue assistance, predominantly GST revenue payments. These are untied payments to be used in line with each state's policies and priorities; and
- tied grants, including SPPs and NP payments, with defined objectives, outcomes and outputs agreed between the Commonwealth and states. These grants may pertain to infrastructure or service delivery.

The Territory's estimated revenue from the Commonwealth for 2010-11 and 2011-12 is shown in Table 5.1.

Table 5.1: Commonwealth Funding to the Territory

	2010-11		2011-12	
	\$M	% Total Revenue	\$M	% Total Revenue
Total Commonwealth revenue				
General revenue assistance ¹	2 351	50	2 664	57
Specific Purpose Payments	274	6	273	6
National Partnership Payments	940	20	599	13
Other Commonwealth revenue	281	6	222	5
Own-source revenue	876	18	864	19
Total revenue	4 722	100	4 622	100

¹ Includes GST revenue, balancing adjustment, grants in lieu of uranium royalties and Natural Disaster Relief and Recovery Arrangements

Source: Northern Territory Treasury

Commonwealth revenue comprises about 80 per cent of total revenue to the Territory, significantly higher than other states. The higher share of Commonwealth revenue reflects the Territory's limited own-source revenue-raising capacity, but more importantly the higher cost of service delivery in the Territory, particularly related to its comparatively small and geographically dispersed population with a significantly higher proportion of Indigenous people than any other state. Table 5.2 shows the Commonwealth share of total revenue for each state.

Table 5.2: Estimate of Commonwealth Revenue as a Proportion of Total Revenue, 2010-11

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Commonwealth revenue as a proportion of total revenue	45	50	50	41	54	65	44	82

Source: State 2010-11 Budgets and Mid-Year Reports

Intergovernmental Agreement on Federal Financial Relations

Commonwealth funding arrangements with the states were reformed as part of the Intergovernmental Agreement on Federal Financial Relations (IGA), which commenced on 1 January 2009. Key objectives of the new arrangements include greater focus on achievement of outcomes, reduced Commonwealth prescription and increased transparency and accountability for governments. The IGA also provides a framework for governments to collaborate on service delivery and to implement nationally important economic and social reforms.

The IGA establishes National Agreements (NAs) in five key state service areas (health care, schools, skills and workforce development, disability and affordable housing) and for Indigenous reform. It also establishes NP agreements, which are intended to be vehicles for reform or to implement projects of national importance, and which apply across a broad range of state services. Implementation Plans (IPs) are agreed on a needs basis, for some but not all NP agreements. The NAs and significant NP agreements for the Territory are outlined in Budget Paper No 3.

The IGA also provides for the continued distribution of the GST revenue in the form of untied funding to the states, in accordance with the principle of HFE.

General Revenue Assistance

In 2010-11, Commonwealth general revenue assistance to the Territory is estimated to be \$2351 million, as shown in Table 5.3. The balancing adjustment in 2010-11 is the return to the Commonwealth of the overpayment of GST revenue in 2009-10. The Territory's estimated general revenue assistance in 2010-11 is \$150 million lower than in 2009-10. This reflects a combination of one-off adjustments to GST payments (such as budget balancing assistance and under and overpayments) and the effect of the CGC's 2010 major review of relativities. The expected increase in general revenue assistance in 2011-12 is due to the Territory's higher GST relativity and growth in the GST pool, albeit at a lower rate than previously estimated.

Table 5.3: Estimates of Territory General Revenue Assistance

	2010-11	2011-12	2012-13	2013-14	2014-15
General revenue assistance	\$M	\$M	\$M	\$M	\$M
GST revenue	2 370	2 657	2 829	2 998	3 160
Balancing adjustment ¹	- 27				
Grants in lieu of uranium royalties	6	7	7	6	4
Natural Disaster Relief and Recovery Arrangements	2				
Total	2 351	2 664	2 836	3 004	3 164

¹ Balancing adjustment arose from the overpayment of GST revenue to the states in 2009-10
Source: Northern Territory Treasury

GST Revenue

GST revenue represents the largest revenue transfer from the Commonwealth to the states.

National GST collections are expected to increase by 2.3 per cent in 2010-11, although at the time of the 2010-11 Budget this was estimated to be 7.3 per cent. National GST collections are now expected to grow by 6.7 per cent in 2011-12.

Table 5.4 shows the estimates of national GST collections since the 2010-11 Budget. The table shows that Commonwealth and Territory estimates of national GST collections have been consistently revised downwards during 2010-11.

Table 5.4: Estimates of National GST Collections

	2010-11	2011-12	2012-13	2013-14
	\$M	\$M	\$M	\$M
Territory 2010-11 Budget	47 695	50 843	54 046	57 235
Commonwealth 2010-11 Budget	47 930	51 210	54 380	57 510
Commonwealth 2010-11 MYEFO	46 950	50 000	53 000	56 150
Territory 2011-12 Budget	45 550	48 600	51 600	54 500
Change between the Territory 2010-11 and 2011-12 Budgets	- 2 145	- 2 243	- 2 446	- 2 735

Source: Northern Territory and Commonwealth Budget and Mid-Year Reports

Estimates of growth in national GST collections in 2010-11 were revised downwards from 7.7 per cent in the Commonwealth's 2010-11 Budget to 5.5 per cent in the 2010-11 MYEFO. Subsequent to MYEFO, actual monthly GST collections in the first half of 2010-11 were \$612 million lower than the estimated cash flow and an analysis of economic data released in 2011 indicates strongly that this trend will continue over the second half of 2010-11.

Also, the likely impact of recent extreme weather events, as well as a trend whereby an increasing proportion of consumption expenditure is being directed to the GST-free components of health, education services, housing and food, and the increased household propensity to save, further reduce the estimate of GST collections. Accordingly, national GST collection estimates for 2010-11 have been revised from \$47 695 million in the 2010-11 Budget to \$46 950 in the MYEFO and a further reduction to \$45 550 million in the 2011-12 Budget.

Growth in national GST collections for 2011-12 and over the forward estimates period is expected to remain subdued and be below the trend before the global financial crisis.

Each state's share of the GST pool is dependent on the GST revenue sharing relativities and states' shares of the national population. GST revenue represents the largest component of total Territory revenue.

Table 5.5 shows the estimates of each of the above parameters used in the 2011-12 Budget.

Table 5.5: Territory GST Revenue Parameter Estimates

	2010-11	2011-12	2012-13	2013-14	2014-15
National GST collections (\$M) ¹	45 550	48 600	51 600	54 500	57 250
Territory GST relativity	5.07383	5.35708	5.35708	5.35708	5.35708
Territory share of national population (%)	1.0237	1.0188	1.0217	1.0247	1.0279
Territory GST revenue (\$M)¹	2 370	2 657	2 829	2 998	3 160

¹ Excludes balancing adjustments

Source: Northern Territory Treasury

GST Relativities

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

State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and associated infrastructure at the same standard, if each made the same effort to raise revenue from its own-sources and operated at the same level of efficiency. (CGC 2011 Update)

In calculating per capita relativities, the CGC assesses the relative differences in states' own-source revenue capacities and the factors that influence the costs of, and demand for, services for each jurisdiction. As the Territory has limited own-source revenue-raising capacity, high costs of service delivery and a population that has relatively high needs for government services, its assessed relativity is higher than other states.

In February 2011, the CGC released its Report on GST Revenue Sharing Relativities – 2011 Update. The report contains the CGC's recommendations on the relativities to be applied to the GST revenue pool for 2011-12.

Table 5.6 compares the 2010-11 and 2011-12 relativities and the estimated impact of applying the 2011 Update relativities to the 2010-11 GST revenue pool and state population shares.

Table 5.6: Comparison of Relativities for 2010-11 and 2011-12

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Relativities								
2010-11	0.95205	0.93995	0.91322	0.68298	1.28497	1.62091	1.15295	5.07383
2011-12	0.95776	0.90476	0.92861	0.71729	1.27070	1.59942	1.11647	5.35708
Impact¹								
\$ million	78.5	- 417.1	141.7	164.4	- 51.7	- 23.8	- 28.0	136.0
\$ per capita	10.77	- 74.50	30.98	70.69	- 31.29	- 46.76	- 77.46	584.43

¹ Estimates derived by the CGC by applying the 2011-12 relativities to the national GST collections and population estimates for 2010-11 in the Commonwealth's Mid-Year Economic and Fiscal Outlook

Source: CGC Report on GST Revenue Sharing Relativities – 2011 Update

The 2011 Update report recommended an increase in the Territory's relativity from 5.07383 to 5.35708. This translates into a notional increase in GST revenue for the Territory of \$136 million or \$584.43 per capita, as shown in Table 5.6 above. The 2011 Update report also resulted in increased GST shares for Western Australia (\$70.69 per capita), Queensland (\$30.98 per capita) and New South Wales (\$10.77 per capita).

The 2011 Update includes revisions to the CGC's assessments of the relative fiscal capacity of each state to incorporate updated data and changes in states' circumstances. The increase in the Territory's GST relativity is largely attributable to the growth in national expenditure on services for Indigenous people between 2006-07 and 2009-10, which increased the assessed costs of providing services in states with above average Indigenous populations. Table 5.7 shows the main influences on the GST redistribution from the 2011 Update.

Table 5.7: Main Influences on Changes in the Distribution of GST, 2011 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Interstate wages	- 407.0	- 239.9	127.2	444.8	21.2	6.9	15.4	31.4	646.9
Conveyance duty	68.7	- 338.6	293.3	75.6	-50.9	- 13.7	- 21.0	- 13.5	437.7
Commonwealth payments	161.4	195.9	- 184.4	- 48.7	- 55.5	- 60.2	5.3	- 13.8	362.6
Mining revenue	71.6	161.2	- 124.9	- 174.5	53.8	8.7	9.6	- 5.4	304.8
Services to Indigenous people	- 31.2	- 105.5	37.0	46.1	- 27.9	- 3.3	- 11.3	96.1	179.2
Other	215.0	- 90.2	- 6.5	- 178.9	7.7	37.8	- 26.0	41.2	301.7
Total	78.5	- 417.1	141.7	164.4	- 51.7	- 23.8	- 28.0	136.0	520.6

Source: CGC Report on GST Revenue Sharing Relativities – 2011 Update

Share of National Population

The Territory's share of national population in 2010-11 and 2011-12 is expected to fall, following strong population growth relative to the national rate between 2004 and 2009. The reduction in the Territory's share of national population from 1.0283 per cent in 2009-10 to an estimated 1.0237 per cent in 2010-11 and 1.0188 per cent in 2011-12 is attributed to moderating economic and employment growth, lower net overseas migration and the relocation of the 1st Brigade's 7th Battalion Royal Australian Regiment to South Australia from the December quarter 2010. It is anticipated that the Territory's population growth will return to the long-term trend, which is above the national average from 2012-13 onwards.

Review of GST Distribution

On 30 March 2011, the Prime Minister announced a review of GST distribution. The review will focus on how the future challenges facing Australia will affect states' fiscal capacities. The challenges identified include continued globalisation, climate change, population growth and demographic change, the impact of technology and the need to address Indigenous disadvantage.

The review will make recommendations on whether the current methodology is appropriate to guide the distribution of the GST to ensure that Australia is best placed to respond to these challenges. In considering alternate arrangements, the review will be framed around achieving efficiency, equity, simplicity and predictability of the way in which GST revenue is distributed amongst states.

The review will be conducted by the Hon. Nick Greiner AC, the Hon. John Brumby and Mr Bruce Carter. An interim report will be provided to the Commonwealth Treasurer in February 2012 with a final report due by September 2012.

Specific Purpose Payments and National Partnership Payments

The review of GST distribution represents a risk to the Territory due to its reliance on GST revenue. While there are provisions in the terms of reference for GST to continue to be distributed to the states on the basis of equalisation, there is a risk that the current principle of HFE may be weakened in order to advance priorities such as simplicity and budget certainty. Under the current approach, GST is distributed among the states to ensure that each state has the fiscal capacity to deliver the same standard of services as provided in other jurisdictions. Any dilution of the principle of HFE would undermine the long-standing principle that all Australians should have the same level of access to services no matter where they live.

An SPP is associated with each of the service provision NAs, with funding untied within the relevant sector. These SPPs are also intended to contribute to the outputs and outcomes of the National Indigenous Reform Agreement. Funding is ongoing and indexed annually. The Territory is estimated to receive \$274 million in SPPs in 2010-11 and \$273 million in 2011-12.

As outlined in the IGA, SPP funding will transition to a population-share basis in 2014-15 (in 2011-12, 40 per cent of the Territory's SPP funding will be determined on a population-share basis). This will result in a reduction in the Territory's share of national SPP funding, however this reduction will be taken into account in the CGC assessment of GST relativities.

In 2010-11 and 2011-12, NPs are the major source of tied Commonwealth funding to the Territory. This largely reflects the significant infrastructure expenditure associated with the Remote Indigenous Housing NP agreement and the completion of Commonwealth stimulus measures. Estimates of NPs by the agency responsible for delivering the service are shown in Table 5.8.

Table 5.8: National Partnership
Payments

	2010-11 Estimate	2011-12 Budget
Agency	\$M	\$M
Northern Territory Police, Fire and Emergency Services	51.1	50.8
Northern Territory Treasury	1.0	0.3
Department of Justice	7.6	7.7
Department of Education and Training	192.9	103.4
Department of Housing, Local Government and Regional Services	515.5	286.8
Department of Health	92.0	39.6
Department of Children and Families	12.3	10.9
Department of Resources	5.3	3.7
Department of Business and Employment	3.0	1.5
Department of Natural Resources, Environment, The Arts and Sport	4.3	0.3
Department of Lands and Planning	54.9	94.5
Total National Partnership payments	939.9	599.5

Source: Northern Territory Treasury

The significant decrease in NP revenue in 2011-12 predominantly represents the peak of funding in 2010-11 under the Strategic Indigenous Housing and Infrastructure Program component of the Remote Indigenous Housing NP, together with the winding down of the Commonwealth's stimulus measures that responded to the economic downturn in 2008-09 (through the Nation

Building and Jobs Plan NP agreement, including construction and repair of school infrastructure through Building the Education Revolution and social housing).

The Territory currently has about 50 NP agreements under negotiation or agreed and a similar number of IPs. This is considerably more than originally envisaged when the IGA was developed. However, NP agreements (and IPs) are by nature time limited, with the majority having a short time span.

Although current forecasts of NP revenue further decrease in the forward estimates, they represent the expiry of NP agreements and do not take into account any potential Commonwealth revenue either from agreements currently under negotiation or where future investment may be contemplated or current investment renewed. On expiry of an NP agreement, funding may cease, be incorporated into an SPP or general revenue assistance, or be allocated under a new NP agreement. State Treasurers may advise the Commonwealth Treasurer as to their preferred treatment for expiring NP agreement funding. While the Ministerial Council for Federal Financial Relations is required to assess whether expiring NP agreements should be converted into existing or new SPPs or general revenue assistance, the Commonwealth, through its budgetary processes, determines what funding is available.

Performance Reporting

In order to deliver on the IGA's commitment of enhanced public accountability for NA outputs and outcomes, NA and NP agreement performance reporting is required to focus on the achievement of results, efficient service delivery and timely provision of publicly available performance information. Evidence of government performance with regard to agreed NA performance measures and benchmarks, outputs and outcomes is initially examined for data quality and appropriateness by the Steering Committee for the Report on Government Service Provision, and then assessed by the COAG Reform Council (CRC), which reports publicly on each NA annually.

Baseline performance reports have been issued for all six NAs. While contextual factors and data limitations contributing to the Territory's reported performance are outlined in the baseline reports, it is anticipated that future reports that measure change from the baseline will better reflect the recent improvements in service delivery arising from increased Territory and Commonwealth investment. Improvement in Territory performance was reported for some National Education Agreement and National Agreement for Skills and Workforce Development performance measures in the CRC's 2009 performance reports compared to that reported in the 2008 baseline reports. 2009 performance reports for the other NAs are proposed to be publicly released in June 2011.

At its February 2011 meeting, COAG agreed to a review of the performance frameworks of each of the NAs to ensure that progress under the NAs is appropriately measured and reported. It is anticipated that these reviews will consider the conceptual validity of the performance measures (that is, how well they align with the NA outcomes), data availability and quality. Data quality issues continue to be a specific concern regarding NA performance

reporting, particularly data collected through national surveys, where samples often reflect only urban rather than remote populations, potentially resulting in an inaccurate reflection of the Territory's population and circumstances.

The CRC also assesses the performance of states for reform-focused NP agreements that include reward payments. A determination is then made by the relevant Commonwealth minister on the basis of the CRC's report and reward payments released accordingly. The CRC has publicly released assessments of two reform NP agreements the Territory participates in the Elective Surgery Waiting List Reduction Plan NP agreement in 2010 and the NP agreement on Literacy and Numeracy in 2011. The Territory's performance resulted in the Territory being eligible for reward payments under both NP agreements.

Heads of Treasury Review of National Agreements, National Partnership Agreements and Implementation Plans

In December 2009, one year after the signing of the IGA, COAG commissioned Heads of Treasuries, in consultation with senior officials from first ministers' departments, to undertake a review of NAs, NP agreements and IPs (HoTs Review). The HoTs review considered the consistency of existing NAs, NP agreements and IPs with the design principles of the IGA, the clarity and transparency of objectives, outcomes, outputs and roles and responsibilities, and the quantity and quality of performance indicators and benchmarks.

The HoTs Review reported to COAG through the Ministerial Council for Federal Financial Relations in February 2011. The HoTs Review reinforced that the aspirations and principles of the IGA provide a strong foundation for pursuing the COAG reform agenda. COAG noted the HoTs Review recommendations and a Senior Officials Steering Committee (comprising representatives from the Commonwealth, state first ministers' departments and treasuries) has been established to implement the recommendations from the HoTs Review.

National Health Reform

On 13 February 2011, COAG signed the HoA replacing the National Health and Hospital Network Agreement (NHHNA), which was agreed by COAG (with the exception of Western Australia) in April 2010. The HoA foreshadows the National Health Reform Agreement, which is to be finalised by COAG by 1 July 2011 and outlines reform principles for health and hospital services.

Key features of the HoA are:

- The Commonwealth will contribute 45 per cent of the efficient growth funding of hospitals from 2014-15. This will increase to 50 per cent from 2017-18.
- The Commonwealth guarantees that no state will be worse off under the national health reforms.
- The Commonwealth will provide a guaranteed \$16.4 billion over six years (2014-15 to 2019-20) to meet its share of public hospital growth funding.
- A single independent national funding pool with discrete state accounts will be established. Commonwealth and state activity-based hospital funding

will be deposited into the national funding pool and disbursed through state-managed accounts to the Local Hospital Network (LHN).

- LHNs will be established to manage one or a small group of public hospitals. LHNs will be responsible for providing a range of hospital services, planning and co-ordinating services throughout the network and managing hospital budgets.
- States will continue as system managers for public hospital services and will purchase public hospital services from the LHNs through Service Level Agreements between the state and the LHN.
- The establishment of:
 - an Independent Hospital Pricing Authority (IHPA), which will determine the efficient price of all hospital activity. This will be used as the basis for calculating the Commonwealth's hospital funding contribution;
 - a National Performance Authority that will develop and produce reports on the performance of hospitals and health care services, including primary health care services; and
 - an Australian Commission on Safety and Quality in Health to develop and monitor clinical safety and quality in hospitals.

There will be further reforms to mental health, dental health and aged care over the next three years. Over time, the Commonwealth will take over full funding, policy, management and delivery responsibility of aged care services.

Treasuries are working through a range of fiscal policy and operational issues associated with the implementation of the new National Health Reform Agreement. In the Territory, fiscal considerations include those associated with the transition to the two Territory LHNs, which are planned to be operational by 1 July 2012.

The major differences between the HoA and the NHHNA are that the Commonwealth will no longer take policy and funding responsibility for all primary health care and it will not increase its contribution to health and hospital services by dedicating a share of GST to funding these services.

2010 Indigenous Expenditure Report

On 28 February 2011, the Indigenous Expenditure Report Steering Committee released the 2010 IER. The IER progresses a COAG commitment for transparent reporting on expenditure on Indigenous services by all governments. The objective of the national reporting framework is to facilitate, over time, an understanding of the link between expenditure and outcomes for Indigenous people and to inform government policy, particularly in relation to the Closing the Gap targets in COAG's National Indigenous Reform Agreement (Closing the Gap).

The 2010 IER was produced by the IER Steering Committee, which was chaired by Commonwealth Treasury and comprised officials from state treasuries and various Commonwealth departments, including the Australian Bureau of Statistics, CGC, Australian Institute of Health and Welfare and Department of Families, Housing, Community Services and Indigenous

Affairs. The Productivity Commission provided the secretariat function for the IER Steering Committee.

The scope of the 2010 IER was general government operating expenses of Commonwealth and state governments in 2008-09. It excluded capital expenditure but included depreciation, maintenance of assets and capital grants.

The 2010 IER found that the Territory spent \$2.16 billion on services related to Indigenous people in 2008-09. This equates to 53.9 per cent of the Territory's total general government expenditure. In comparison, Indigenous people comprise 30.4 per cent of the Territory's population. The 2010 IER findings were consistent with the Northern Territory's 2006-07 Indigenous Expenditure Review, which found that 52.4 per cent of Territory general government expenditure on services related to Indigenous people. Table 5.9 shows the proportion of expenditure on services related to Indigenous people by function from the 2010 IER.

Table 5.9: Estimate of Indigenous Share, 2008–09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust Gov
	%	%	%	%	%	%	%	%	%
Early child development, education and training	5.6	1.4	8.0	9.1	5.5	7.1	3.0	52.5	4.9
Healthy lives	3.8	1.4	7.7	8.8	5.9	2.7	3.1	60.6	3.8
Economic participation	2.6	0.9	7.5	3.0	2.3	3.5	1.3	34.5	4.3
Home environment	3.6	1.2	6.8	8.0	3.6	5.9	2.1	57.0	6.5
Safe and supportive communities	10.1	4.1	15.0	20.3	10.2	7.9	6.4	62.5	6.9
Other government services	2.2	0.7	5.1	4.5	2.4	3.9	1.3	32.7	2.5
Total	5.2	1.9	8.5	10.7	5.7	5.4	3.2	53.9	4.1
<i>Population share</i>	<i>2.3</i>	<i>0.7</i>	<i>3.5</i>	<i>3.4</i>	<i>1.8</i>	<i>3.9</i>	<i>1.3</i>	<i>30.4</i>	<i>2.5</i>

Source: 2010 Indigenous Expenditure Report

On a per capita basis, the 2010 IER reported that Territory expenditure on services related to Indigenous people was 2.7 times higher than that related to non-Indigenous people. Table 5.10 shows that the Territory's ratio of Indigenous to non-Indigenous-related expenditure was the fourth highest behind Western Australia (3.4), South Australia (3.3) and Victoria (2.9).

Table 5.10: Ratio of Indigenous to Non-Indigenous \$ Per Capita Expenditure, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust Gov
Indigenous	16 500	20 588	20 269	27 462	26 801	12 035	24 658	32 230	24 688
Non-Indigenous	6 929	7 164	8 035	7 990	8 195	8 581	9 803	11 827	14 690
Ratio	2.4	2.9	2.5	3.4	3.3	1.4	2.5	2.7	1.7

Source: 2010 Indigenous Expenditure Report

Although the Territory has the fourth highest ratio of per capita expenditure related to Indigenous population relative to non-Indigenous population, the per capita expenditure on services related to Indigenous Territorians was the highest of all jurisdictions and around 17.4 per cent higher than Western Australia, the second highest jurisdiction. The Territory's ratio reflects the higher costs of providing services to Territorians as a result of high fixed costs, high costs associated with the scale of service delivery in

the Territory and the increased costs associated with providing services to a highly dispersed population across a large and remote geographical area.

The 2010 IER is the first in a series that will be published biennially. During the interim period, further work will be undertaken by all governments to ensure continual improvement in the reporting of Indigenous expenditure, particularly in the areas of identifying Indigenous data gaps, improving the quality of existing Indigenous datasets and ensuring consistency of Indigenous expenditure reporting between jurisdictions.

Over time, the IER will provide a time series of government expenditure on services for Indigenous people. The IER will complement existing publications, including the *Overcoming Indigenous Disadvantage Report* and the reporting under the National Indigenous Reform Agreement. The IER will provide governments with a better understanding of the impact of government expenditure on Indigenous Australians and underpin governments' commitment to overcoming Indigenous disadvantage.

Chapter 6 Territory Taxes and Royalties

Overview

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

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

This chapter provides details of the Territory's own-source revenue categories of taxes and royalties, information on revenue collection forecasts and a comparison of the Territory's taxes revenue with other jurisdictions. It also includes a statement of the Territory's forecast tax expenditure as a result of concessions and exemptions for 2011-12 through to 2014-15, as required by the *Fiscal Integrity and Transparency Act*.

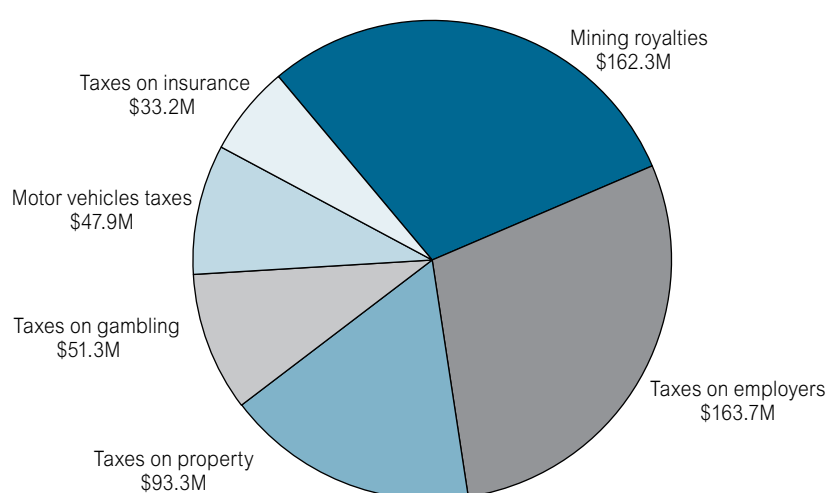
Full details of all the Territory's own-source revenues are set out in Budget Paper No 3.

Analysis of Territory Taxes and Royalties

The projected revenue for 2011-12 from taxes and royalties totals \$551.8 million and the main contributors are expected to be taxes on employers (payroll tax) at \$163.7 million or 30 per cent; mining royalties at \$162.3 million or 29 per cent; and taxes on property (stamp duties on capital transactions) at \$93.3 million or 17 per cent.

Chart 6.1 shows the Territory's estimated main own-source revenues in 2011-12 according to the classification used in the Uniform Presentation Framework adopted for the Territory's reporting requirements.

Chart 6.1: Main Own-Source Revenue Categories, 2011-12



Note: Excludes payroll tax from general government entities.

Source: Northern Territory Treasury

The estimated revenue in 2010-11 from taxes and royalties totals \$530.5 million, compared to the forecast total of \$555.2 million. The reduction of \$24.7 million from the original forecast is due to lower taxes on property, and gambling and mining royalties, offset by an increase in taxes on

employers and insurance. Estimates for 2010-11 and 2011-12 are shown in Table 6.1 below.

Table 6.1: Main Own-Source Revenue Categories

	2010-11 Budget	2010-11 Estimate	2011-12 Budget
	\$000	\$000	\$000
Mining royalties	156 630	145 732	162 293
Taxes on employers	151 566	163 964	163 736
Taxes on property	113 127	92 608	93 319
Taxes on gambling	57 014	50 109	51 287
Motor vehicle taxes	47 065	46 467	47 950
Taxes on insurance	29 803	31 640	33 222
Total	555 205	530 520	551 807

Source: Northern Territory Treasury

Mining and Petroleum Revenue

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

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

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

Under recent Commonwealth legislation, royalty on any new uranium mines in the Territory will be imposed based on the Territory's *Mineral Royalty Act*, with those royalties paid to the Territory as a grant in lieu of royalty. This will place the Territory in a similar position to the states in respect of access to royalties from the mining of uranium.

A key feature of the Territory's mineral royalty scheme is that both prices and mining costs, including mine set-up costs carried forward to profitable years, are taken into account in royalty calculations. If commodity prices,

production costs or the value of the Australian dollar rise or fall, royalty liabilities vary accordingly. This variability produces stronger growth in royalty revenues in times of high mineral prices than under ad valorem royalties, which is the reason for the Territory's significant royalty receipts in recent years.

In 2010-11, it is expected that the Territory will receive \$145.7 million in mining revenue, \$10.9 million less than forecast in the 2010-11 Budget. This is a result of lower than estimated receipts due to industry profitability moderating slightly, in part because of the strength of the Australian dollar.

Mining revenue forecasts are reliant on advice from mining companies of their estimated liability for the financial year and their estimates of commodity price movements, production levels and the value of the Australian dollar. The forecast for royalty revenue in 2011-12 is \$162.3 million. This is based on advice from royalty payers that profitability and royalty payments are expected to be broadly similar to, but slightly better than, that for the 2010-11 financial year.

Taxation Revenue

The Territory's taxation revenue for 2010-11 is expected to total \$384.8 million. In 2011-12, taxation revenue is expected to increase by 1.2 per cent to \$389.5 million, as a result of slightly higher motor vehicle duty, gambling tax and insurance duty receipts.

The components of the Territory's taxation revenue are payroll tax, stamp duty on conveyances, taxes on gambling, taxes on insurance and motor vehicle fees and taxes. Table 6.2 shows the estimate of the Territory's taxation revenue for 2010-11 and forecast for 2011-12.

Table 6.2: Northern Territory Taxation Revenue

	2010-11 Estimate	2011-12 Budget
	\$000	\$000
Taxes on employers		
Payroll tax ¹	163 964	163 736
Taxes on property		
Conveyance duty	91 833	92 537
Other duty	775	782
Taxes on the provision of goods and services		
Taxes on gambling	50 109	51 287
Taxes on insurance	31 640	33 222
Taxes on use of goods and performance of activities		
Motor vehicle taxes	46 467	47 950
Total	384 789	389 514

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

Source: Northern Territory Treasury

Payroll Tax

Payroll tax is payable in the Territory when the total annual Australian wages of an employer (or group of employers) exceed the Territory's annual threshold amount, which is increasing on 1 July 2011 from \$1.25 million to \$1.5 million. The threshold reduces proportionately if an employer pays wages in another state or territory.

Payroll tax is calculated based on taxable wages paid by an employer for services rendered by employees in the Territory. The Government is reducing the payroll tax rate from its current rate of 5.9 per cent to 5.5 per cent from 1 July 2011. This brings forward the Government's election commitment, which was to reduce the payroll tax rate by 2012.

The threshold amount formerly operated as a general exemption such that payroll tax was only payable on wages above the threshold. From 1 July 2011, the threshold amount will be increased to \$1.5 million and will be changed to a deduction from taxable wages. This approach is similar to that adopted in Queensland. The deduction from taxable wages operates so that businesses with total Australian wages of up to \$1.5 million do not pay any payroll tax but the deduction reduces by \$1 for every \$4 in wages paid by an employer above the \$1.5 million threshold. This means that an employer who pays wages of \$7.5 million or more does not receive a deduction. The combination of the higher, but reducing threshold, and lower payroll tax rate will exclude more small and medium businesses, particularly Territory businesses, from having to register for and pay payroll tax.

Chapter 4 provides further information on this revenue measure.

In 2010-11, payroll tax revenue is expected to be \$164 million, an increase of \$12.4 million from 2009-10, reflecting employment and wages growth in the Territory as well as an increase in full-time working hours following the global financial crisis (GFC).

In 2011-12, a number of factors will influence payroll tax collections. Receipts are expected to be slightly lower than 2010-11, reflecting an increase in revenue from employment growth and growth in average weekly earnings, offset by payroll tax savings to businesses as a result of the Government's increase of the annual threshold and the reduction of the payroll tax rate.

Consequently, payroll tax revenue in 2011-12 is forecast to reduce by 0.1 per cent to \$163.7 million. Over the forward estimates period, payroll tax revenue is expected to increase by the long-term growth rate of 5 per cent.

Stamp Duty

Conveyance Duty

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

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

Currently, the Territory's maximum duty rate is 4.95 per cent, applying to a dutiable property with a dutiable value of \$525 000 or more. As part of the 2011-12 Budget, from 1 July 2011 the maximum rate will increase to 5.45 per cent for high value properties with a dutiable value of \$3 million or more. The rate of 4.95 per cent will continue to apply to dutiable property valued from \$525 000 to under \$3 million.

This initiative will have no impact on small to medium business or on most home buyers and will provide a return to the Territory on very high value transactions that is more consistent with the average of the transfer duty rate for other states and territories. The Territory's new maximum rate of 5.45 per cent is lower than the highest rate in the Australian Capital Territory, New South Wales, Victoria and South Australia.

Chapter 4 provides further information on this revenue measure.

In 2010-11, the Territory is expected to collect \$91.8 million in stamp duty on conveyances, compared with \$112.8 million estimated in the 2010-11 Budget. The reduction in conveyance duty collections is mainly due to the significant moderation in the number of residential and commercial transactions to date, which is expected to continue over the remainder of 2010-11.

In 2011-12, conveyance duty is estimated to increase by \$0.7 million to \$92.5 million, reflecting expectations that residential property sales and commercial property sales will be at similar levels to 2010-11 and the effect of the increase in the stamp duty rate from 4.95 per cent to 5.45 per cent for transactions with a dutiable value of \$3 million or more.

Forward estimates for stamp duty are based on the long-term growth rate of 2.5 per cent. However, as part of the Intergovernmental Agreement on Federal Financial Relations, stamp duty on the non-land component of business conveyances is scheduled for abolition from 1 July 2012, decreasing the 2012-13 forecast by \$8.2 million.

Stamp Duty on Insurance

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

Revenue from insurance duty is forecast to be \$31.6 million in 2010-11. Based on historical growth rates, insurance duty is forecast to grow by 5 per cent to \$33.2 million in 2011-12.

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 2010-11 is estimated to be \$20.1 million. In 2011-12, it is expected to increase to \$20.6 million which includes the long-term growth rate that has been applied to the forward estimates of 2.5 per cent.

Motor vehicle registrations comprise heavy vehicle and light vehicle registrations. Heavy vehicle registration fees are uniform across Australia and are set by the National Transport Commission. Light vehicle registration fees are determined by each state. In the Territory, the light vehicle fee is calculated by reference to a differential rate scale based on the engine

capacity of the vehicle. In 2010-11, the Territory is forecast to receive \$26.3 million in motor vehicle registration fees, increasing to \$27.3 million in 2011-12. The increase in 2011-12 revenue reflects long-term growth rates plus the expected consumer price index (CPI) adjustments to light vehicle registration fees as these fees are expressed in revenue units which are indexed annually.

Gambling Taxes

Gambling taxes constitute a significant, although reducing, proportion of state and territory revenues and in 2011-12 gambling tax revenue is forecast to be \$51.3 million, or the fourth largest contributor to own-source revenue. The components of gambling taxes in the Territory are community gaming machine tax, lotteries tax, wagering tax, bookmaker turnover tax, casino/internet tax and the community benefit levy.

In 2010-11, the Territory is estimated to received \$50.1 million in gambling taxes, a decrease of \$7 million from the 2010-11 Budget. This is largely attributable to a reduction in casino and community gaming machine taxes resulting from a decline in gambling that may be attributable to indoor smoking reforms rolled out from 2 January 2010 and 2 January 2011.

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

Table 6.3: Estimated Revenue from Gambling Taxes

Tax/Duty	2010-11	2011-12
	\$000	\$000
Wagering taxes	4 571	4 198
Casino/internet tax	10 994	11 269
Bookmakers – racing and sports betting	2 244	2 359
Community gaming machines	16 357	17 175
Lotteries	13 729	14 073
Community benefit levy	2 214	2 214
Total	50 109	51 288

Source: Northern Territory Treasury and Department of Justice

In 2011-12, bookmaker tax is expected to remain largely constant, increasing slightly to reflect the increase in the tax threshold from \$250 000 to \$255 000 as a result of the increase in the value of revenue units from 1 July 2011.

Lotteries tax and wagering tax for 2011-12 is expected to increase reflecting long-term growth rates of 2.5 per cent used in the forward estimates. Similarly, casino and community gaming machine taxes are expected to record moderate growth in 2012, reflecting the experience in other states as venues adjust to smoking reforms.

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

Interstate Tax Comparison

The composition of state taxes is broadly similar between the states, however there are differences in the application. These differences primarily relate to rates, exemptions and thresholds. The ability of states to modify their rates and tax base promotes competition between states, and provides the

autonomy and capacity to structure their tax system to accommodate their specific fiscal, economic and social circumstances.

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

Commonwealth Grants Commission

Revenue Effort

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

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

Table 6.4 provides a comparison of CGC's assessment of own-source revenue-raising effort in 2009-10 (the latest year that an assessment is available). The total own-source revenue figure includes taxation, mining revenue, contributions by trading enterprises and public safety user charges. The table shows that the Territory's own-source revenue-raising effort is the second highest of the states behind the ACT and similar to South Australia. However, in relation to taxation effort, the Territory's effort is the lowest of all the states and is significantly below the national average of 100 per cent.

Table 6.4: 2009-10 Revenue Effort by Jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Total taxation	107	101	87	95	112	92	108	85
Total own-source revenue	100	100	101	89	112	87	143	117

Source: Commonwealth Grants Commission 2011 Update

The Territory's low total taxation effort reflects the position adopted by the Territory not to impose a land tax and to levy significantly lower than average motor vehicle taxes. By contrast, one of the reasons that the Territory was assessed as having a high effort for total own-source revenue in 2009-10 is that it was assessed as having the second highest effort for mining revenues behind Western Australia. This is because Territory miners experienced high profitability, largely from increased production, record mineral prices and the favourable exchange rate for the Australian dollar that applied in 2008-09.

CGC's assessment is based on state royalty collections on an average ad valorem basis. As indicated above, the Territory's profit-based scheme means that mining royalty revenue is highly variable in line with fluctuations in profit levels. CGC's 2009-10 revenue effort assessment shows the impact of the profitable conditions for miners in that year.

A further reason for the high assessment of own-source revenue effort is that it includes other revenue such as user charges. These revenues are assessed on an equal per capita basis and so are not adjusted to reflect the Territory's circumstances.

Revenue Capacity

States are constrained from growing their own-source revenue to either replacing current taxes with a new growth tax or by expanding existing tax bases. This is evident as nationally, state own-source revenue comprises only about 50 per cent of total state revenue. However, the Territory's taxation and royalty own-source revenue is much lower, comprising about 11 per cent of total revenue.

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

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

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

Table 6.5: Assessed Revenue Raising Capacity, 2009-10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	106	101	90	123	78	72	107	84
Land tax	100	99	109	135	61	46	62	69
Conveyance duty	101	102	99	126	65	60	119	92
Insurance duty	112	94	95	96	98	78	93	80
Motor vehicle duty	88	103	104	126	101	105	88	91
Total taxation	101	101	98	120	81	76	100	88
Mining revenue	45	3	162	453	36	28	0	214

Source: Commonwealth Grants Commission 2011 Update

For all the major state taxes, the Territory is assessed as having a relatively low capacity to raise revenue. This reflects the Territory's different circumstances such as:

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

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

Representative Taxpayer Model

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

Payroll Tax Table 6.6 compares the payroll tax rates and thresholds for each jurisdiction. The table shows that, from 1 July 2011, the Territory's payroll tax annual threshold is equal highest in Australia and its payroll tax rate is the equal third highest, but below the national average.

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

	NSW	Vic	Qld ¹	WA	SA	Tas	ACT	NT ²	Average
Threshold (\$M)	0.66	0.55	1.00	0.75	0.60	1.01	1.50	1.50	0.91
Rate (%)	5.45	4.90	4.75	5.50	4.95	6.10	6.85	5.50	5.58

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

2 From 1 July 2011, the Northern Territory's threshold will reduce as an employer's wages increase so that no exemption is provided for employers with wages over \$7.5 million and the rate will reduce to 5.5 per cent

Source: State legislation and information available at 30 March 2011

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

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

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

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
\$M	%	%	%	%	%	%	%	%	%
1	1.9	2.2	0.0	1.4	2.0	0.0	0.0	0.0	0.9
2	3.7	3.6	3.0	3.4	3.5	3.0	1.7	1.7	2.9
3	4.3	4.0	4.0	4.1	4.0	4.0	3.4	3.4	3.9
4	4.6	4.2	4.5	4.5	4.2	4.6	4.3	4.3	4.4
5	4.7	4.4	4.8	4.7	4.4	4.9	4.8	4.8	4.7
10	5.1	4.6	4.8	5.1	4.7	5.5	5.8	5.5	5.1
20	5.3	4.8	4.8	5.3	4.8	5.8	6.3	5.5	5.3

Source: State legislation and information available at 30 March 2011

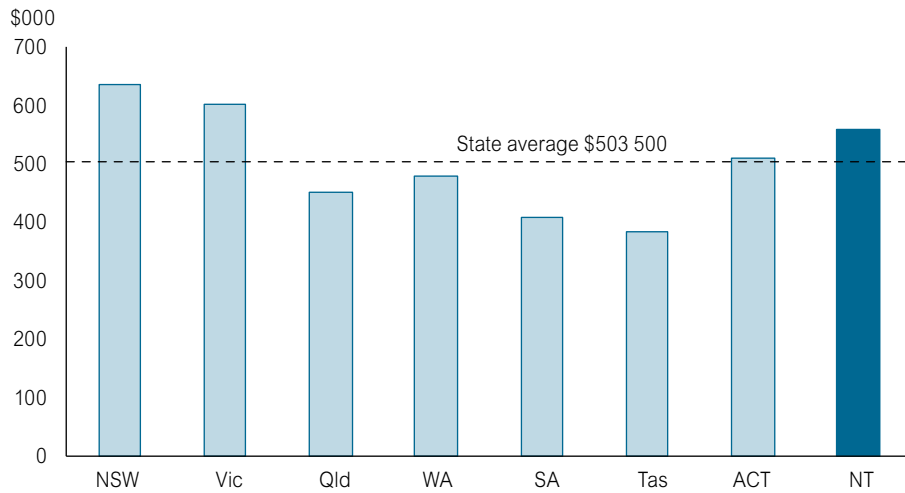
Stamp Duty on Conveyances

Territory first home buyers pay no stamp duty on the first \$540 000 of their purchase of a home valued up to \$750 000, a total saving of up to \$26 730. In addition, a new concession was introduced in May 2010 for seniors (persons aged 60 years or older) and Northern Territory Pensioner and Carer Concession cardholders who receive a concession of \$8500 on the purchase of a principal place of residence for property values up to \$750 000. This is equivalent to a stamp duty concession on the first \$252 970 of the value of the residence.

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

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

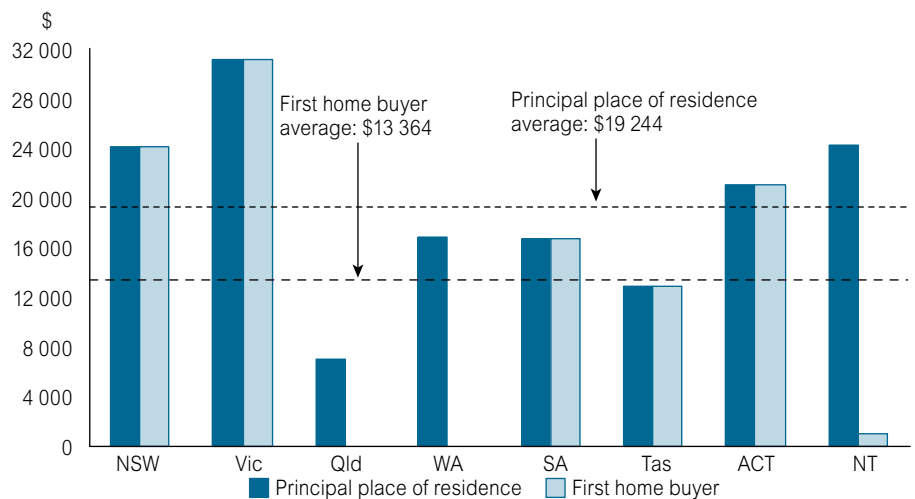
Chart 6.2: Median House Prices



Note: Median house prices as at December 2010.
Source: Real Estate Institute of Australia

Chart 6.3 provides an interjurisdictional comparison of the amount of stamp duty levied on principal places of residence and first homes valued at the median house price of the relevant capital city. For first home buyers, only about \$900 in stamp duty is payable in the Territory, which is significantly below the national average and is the third lowest behind Queensland and Western Australia. However, as a result of the Territory having the third highest median house price, stamp duty on a median-priced home is above the national average for purchasers of a principal place of residence.

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



Note: Median house prices as at December 2010.

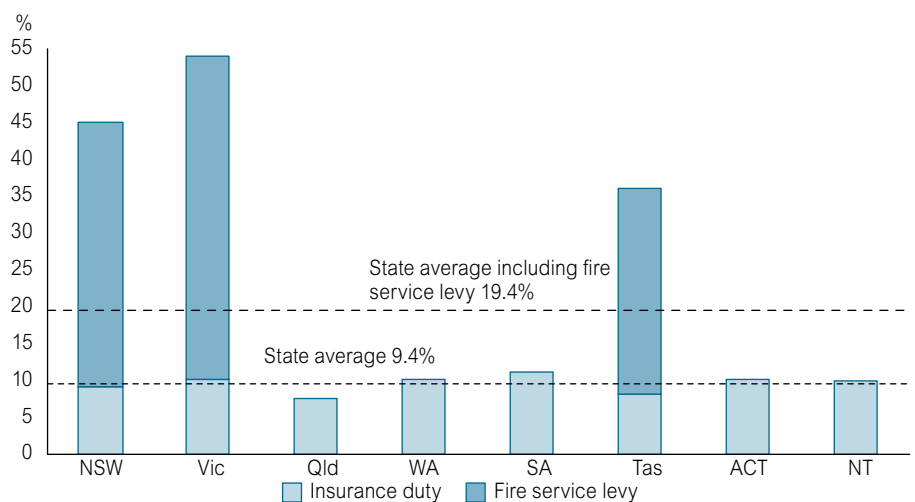
Source: Real Estate Institute of Australia; state legislation and information available at 30 March 2011

Insurance Duty

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

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

Chart 6.4: Average State Tax Rate on General Insurance Premiums

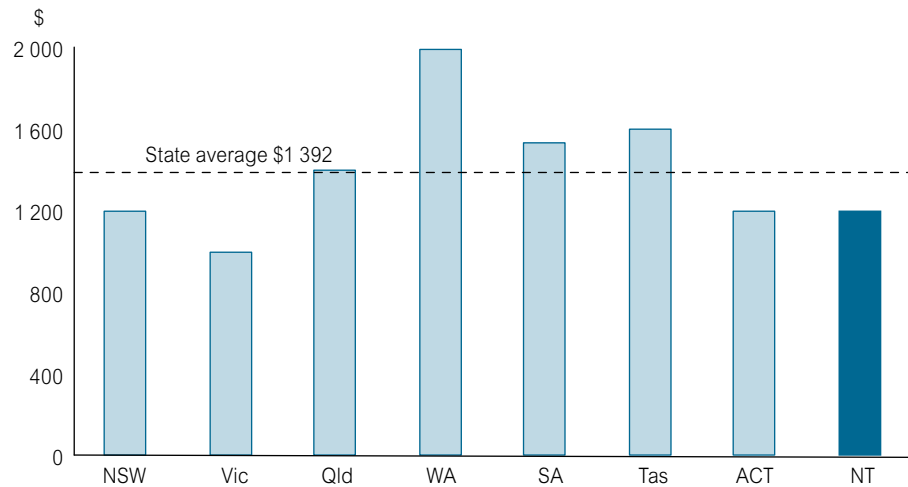


Source: State legislation and information available at 30 March 2011

Stamp Duty on Motor Vehicles

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

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

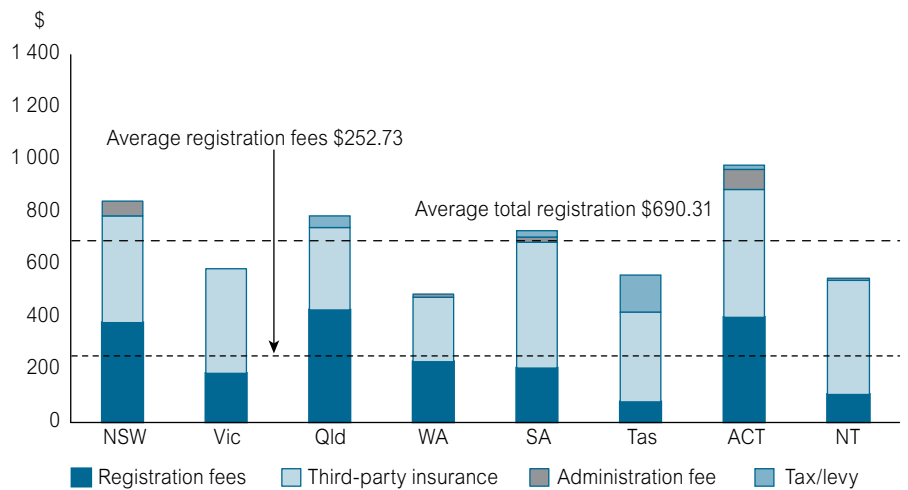


Source: State legislation and information available at 30 March 2011

Motor Vehicle Registration

Motor vehicle registration fees comprise registration, compulsory third party and other fees and, as such, vary significantly between jurisdictions. Chart 6.6 compares the costs of registering a medium sized passenger vehicle in each jurisdiction. At \$548, the Territory has the second lowest total registration cost in Australia after Western Australia. Excluding third-party compulsory insurance and other fees, the Territory's registration fee of \$108 is the second lowest in Australia after Tasmania.

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



Note: Based on 6-cylinder, Holden Commodore Omega.
Source: State legislation and information available at 30 March 2011

The higher compulsory third party premiums in the Territory reflect the inherently higher costs associated with third-party insurance due to the small size of the Territory and relatively high road accident casualties. Motor Accident Compensation scheme premiums aim to ensure that likely compensation claims for the upcoming year can be met and that the scheme maintains a prudent solvency margin. Motor Accident Compensation scheme will increase by 2.8 per cent from 1 July 2011, consistent with new arrangements whereby premium increases are automatically linked to CPI.

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

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

Land tax is an important source of income for states, generating about \$5.9 billion in revenue in 2009-10. Land tax is levied on the total holding of commercial land and investment residential property, although generally an exclusion is provided for land used for primary production. Land tax rates are generally progressive and most jurisdictions have tax-free thresholds.

The Territory does not impose a land tax. However, in its 2011 Update, CGC assessed that the Territory could raise about \$41.1 million if it adopted the average state policies on land tax.

Tax Expenditure

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

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

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

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

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

Measuring tax expenditure requires the identification of:

- a benchmark tax base;

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

The establishment of a benchmark tax base provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditure rather than structural elements of the tax.

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

Payroll Tax

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

Table 6.8: Payroll Tax Expenditure

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax expenditure (\$M)	144.7	137.3	143.1	149.1	155.6

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

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

Small Business Exclusion

From 1 July 2011, employers with wages below \$1.5 million (previously \$1.25 million) are not required to pay tax, a saving of up to \$82 500. Prior to 1 July 2011, the entire \$1.25 million was exempt from tax and employers only paid tax only on the wages in excess of that amount. From 1 July 2011, employers with payrolls exceeding \$1.5 million receive a deduction of up to \$1.5 million which reduces by \$1 for every \$4 in wages paid by the employer where the wages paid by the employer exceeds \$1.5 million. This means employers with wages of \$7.5 million or more will not receive a deduction and will pay tax on the total wages paid by the employer.

Charities and Other Exempt Bodies

Non-profit organisations having a sole or dominant purpose, that is, charitable, benevolent, philanthropic or patriotic, are exempt from payroll tax to the extent that wages are paid for an employee's services that relate directly to the purpose for which the organisation was established. In addition, employment agencies providing temporary staff to exempt organisations are able to claim payroll tax exemption for these wages.

Apprentices, Graduates and Others

Businesses receive payroll tax exemptions for apprentices, graduates of approved tertiary institutions and employees receiving wages funded under the Community Development Employment Projects program.

Other Exemptions From 1 July 2009, several new exemptions were introduced as part of national payroll tax harmonisation:

- wages paid to employees participating in voluntary work for bush fires and emergency relief; and
- wages paid as paternity, maternity and adoption leave for a maximum of 14 weeks.

Stamp Duty on Conveyances

The benchmark tax base is assumed to be sales of all dutiable property, including chattels that are part of a transaction that conveys other dutiable property. The benchmark tax scale is the stamp duty scale that applies in 2010-11 and for the forward estimates includes the changes introduced in the 2011-12 Budget that will apply from 1 July 2011.

Table 6.9: Stamp Duty on Conveyances Expenditure

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax expenditure (\$M)	37.0	36.5	32.8	33.7	33.8

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

Corporate Reconstructions Exemption	Corporate groups formed by commonly owned corporations are able to reorganise the ownership of assets without incurring a stamp duty liability. The estimated tax expenditure is the actual stamp duty forgone for approved reconstruction exemptions.
First Home Owner Concession	First home buyers are eligible for a stamp duty concession on the first \$540 000 of the value of a home, a saving of up to \$26 730. Tax expenditure is estimated by actual collections in relation to the concession.
Principal Place of Residence Rebate	Other home buyers were entitled to a rebate of \$3500 when purchasing a principal place of residence to a maximum value of \$750 000. Tax expenditure is estimated by actual collections in relation to the rebate.
Seniors, Pensioner and Carers Concession	A concession of \$8500 is provided for seniors (aged 60 years and over) and Northern Territory Pensioner and Carers Concession cardholders when purchasing a principal place of residence. Tax expenditure is estimated by actual collections in relation to the rebate.
Other Conveyance Duty Exemptions	Several other conveyance stamp duty exemptions are provided that together result in significant revenue being forgone by the Territory, the largest of these being exemptions for: <ul style="list-style-type: none"> • property transferred to charitable organisations having a sole or dominant purpose that is charitable, benevolent, philanthropic or patriotic; • the transfer of a company's property, on its winding up, to a shareholder of the company entitled to the property on a distribution in-kind; • an exemption under the Commonwealth <i>Family Law Act</i> for instruments made pursuant to a court order that alter the interests of the parties to a marriage or de facto partnership; and • the conveyance of property between partners of a de facto relationship on the breakdown of the relationship.

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

Stamp Duty on General Insurance Policies

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

Table 6.10: Stamp Duty on General Insurance

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax expenditure (\$M)	16.6	17.3	17.9	18.6	19.4

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

Motor Vehicle Registration Fees

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

Table 6.11: Motor Vehicle Registration Fees Expenditure

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax expenditure (\$M)	1.6	1.6	1.6	1.6	1.6

Mineral Royalties

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

Table 6.12: Mineral Royalties Expenditure

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax expenditure (\$M)	3.6	3.2	3.4	3.4	3.4

The first \$50 000 of profit is not subject to royalty and royalty payers are able to reduce the amount of royalty they pay in the Territory for eligible exploration expenditure (EEE) incurred in their mining operations in the Territory. In addition, until 1 July 2010, they have been able to utilise exploration expenditure incurred by others, through acquiring exploration expenditure certificates, to also reduce the amount of royalty that they are required to pay. However, the amount by which royalty may be reduced through the use of EEE is limited to a maximum of 25 per cent of the amount that would otherwise be payable.

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

Chapter 7 The Territory Economy

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

The Territory's economic base is also relatively concentrated, with the top four industries (mining, public administration, construction and manufacturing) accounting for 49.0 per cent of gross state product (GSP), compared to 35.4 per cent for the top four industries nationally.

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

In the five years to 2008-09, the Territory recorded the highest annual average economic growth among the jurisdictions at 5.2 per cent, significantly above the national average of 3.0 per cent. However, economic growth in the Territory moderated to 1.3 per cent in 2009-10, mainly due to a significant decline in private sector investment following the completion of several major projects, the temporary cessation of development at the Montara oilfield and the absence of new major projects in the aftermath of the global financial crisis (GFC).

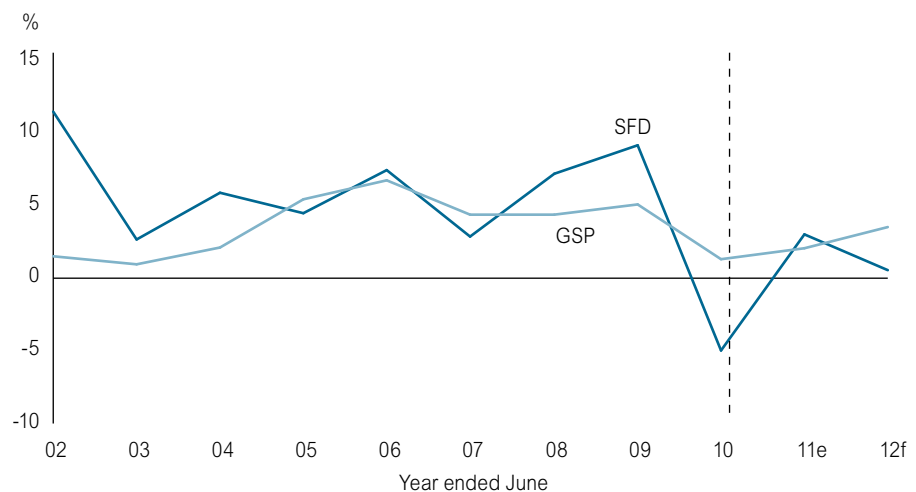
Conversely, economic growth nationally strengthened to 2.3 per cent in 2009-10, reflecting stronger household consumption, public sector investment and net exports. The contrasting economic experience between the Territory and national economy in 2009-10 largely reflected the timing of several major projects in the Territory that were approved and financed prior to the GFC. These projects supported employment and investment growth in the Territory in 2008-09, delaying much of the impact of the GFC on the Territory until 2009-10.

This chapter outlines estimated economic growth for the Territory for 2010-11 and the outlook for 2011-12. The forecasts do not include the construction of the INPEX liquefied natural gas (LNG) plant and associated facilities that, if the project proceeds, are expected to have a significant positive impact on the Territory's economic and population growth.

2010-11 Territory GSP growth is estimated to have strengthened by 2.2 per cent to \$17.3 billion in 2010-11, reflecting increased public sector investment and consumption, which are expected to have more than offset a decline in private investment and a smaller trade surplus. Territory state final demand (SFD) is expected to have increased by 3.2 per cent (Chart 7.1).

Consumption is estimated to have increased by 2.0 per cent to \$13.2 billion. Household consumption is expected to have risen by a modest 1.2 per cent, constrained by an increased propensity to save and debt aversion among households, the ongoing impact of higher interest rates, and moderating employment and population growth. Public sector consumption growth is estimated to have strengthened to 3.2 per cent, mainly reflecting increased Commonwealth consumption associated with higher benefit payments.

Chart 7.1: Territory State Final Demand and Gross State Product (year-on-year percentage change)¹



e: estimate; f: forecast

¹ Inflation adjusted

Source: ABS Cat. No. 5220.0 and Northern Territory Treasury

Investment in the Territory is estimated to have increased by 5.8 per cent to \$5.8 billion in 2010-11, as increased public sector investment more than offset lower investment by the private sector.

Declining private sector investment reflects lower machinery and equipment purchases, mineral and energy exploration, non-residential construction investment, and a significant fall in dwelling transfer costs following slower property sales in 2010-11. Higher engineering construction investment associated with the Kitan and Montara oilfield developments in the second half of 2010-11 and a slight increase in residential construction activity are expected to have partially offset the declines. However, reported investment for the Territory will be sensitive to the timing of the Kitan and Montara developments.

Public sector investment is expected to have increased strongly in 2010-11, due to the Territory Government's record capital works program, including Commonwealth stimulus measures and increased Commonwealth investment (mainly Defence purchases).

The Territory's international trade surplus is estimated to have decreased by 7.5 per cent to \$3.8 billion, largely reflecting timing issues associated with a scheduled maintenance shutdown at the Darwin LNG plant in the previous year that resulted in a significant drop in feedstock gas imports but a smaller drop in LNG exports.

Population

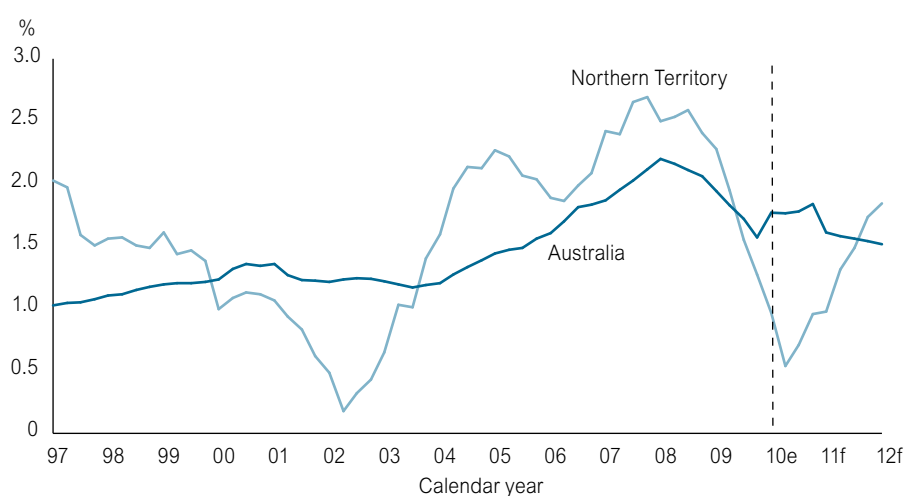
The Territory has the smallest population and the third largest land mass among the states and territories, making the Territory the most sparsely populated jurisdiction in Australia. The Territory is also highly urbanised, despite its low population density, with more than half the population living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

Population and economic growth are highly interdependent in the long-term through the impact of population growth on aggregate demand, employment and construction. Natural increase (births minus deaths) is the largest component of population growth in the Territory. However, net interstate migration drives changes in growth.

In 2010, annual population growth in the Territory fell below the national rate for the first time since 2003 (Chart 7.2) due to:

- lower net interstate migration reflecting moderating economic and employment growth in the Territory following the completion of several major projects; and
- lower levels of net overseas migration due to changes in national immigration policies.

Chart 7.2: Annual Population Growth



e: estimate; f: forecast

Note: The ABS changed the net overseas migration estimation methodology in 2007, representing a break in the series. As such, long-term trends need to be interpreted with caution.

Source: Northern Territory Treasury, ABS Cat. No. 3101.0

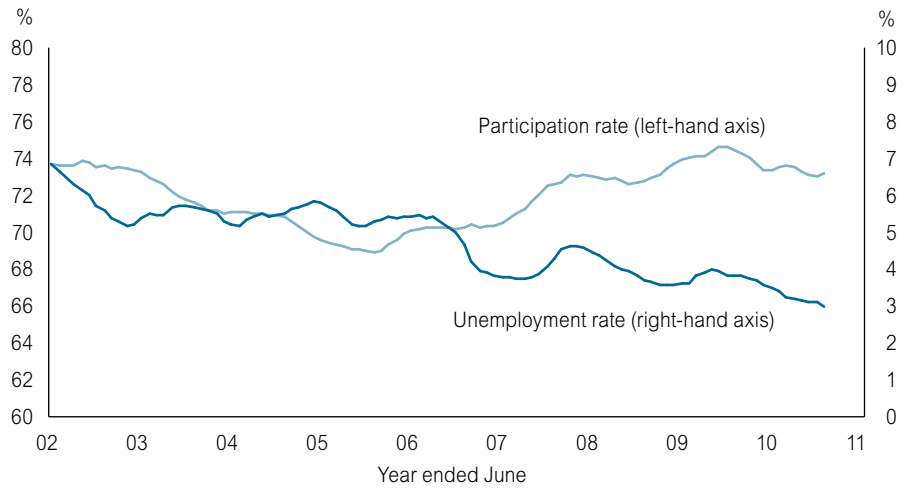
Employment

The government administration, health, retail trade and construction industries are the largest employers in the Territory. The Territory's labour market is characterised by a large services sector, which accounted for 90.1 per cent of employment in the Territory in 2009-10, compared to 86.0 per cent nationally. In addition, the Territory has a relatively young, mobile workforce, and there are significant differences in labour market characteristics between non-Indigenous and Indigenous persons in the Territory.

Following strong growth of 4.4 per cent in 2008-09, employment growth in the Territory moderated to 2.5 per cent in 2009-10, and an estimated 2.2 per cent in 2010-11, reflecting subdued labour demand due to the completion of several major projects.

In 2009-10, the average unemployment rate in the Territory was 3.4 per cent, the lowest among the jurisdictions. The unemployment rate is estimated to have fallen further in 2010-11 to 2.7 per cent, reflecting employment growth, albeit at a slower rate than in previous years.

Chart 7.3: Territory Participation and Unemployment Rates (moving annual average)

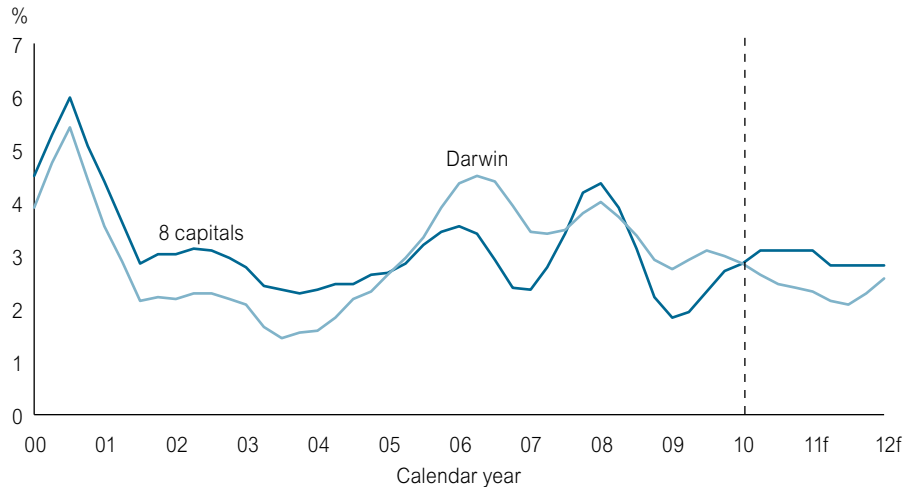


Source: ABS Cat. No. 6202.0

Prices

Inflation in Darwin, as measured by the consumer price index (CPI), was constrained in 2010 by higher interest rates, moderating population growth and an appreciation of the Australian dollar that reduced import prices. Year-on-year growth in Darwin's CPI was stable at 2.8 per cent as higher food, petrol, housing and utilities prices exerted upward pressure on Darwin's inflation rate, while lower prices for clothing, footwear and recreation partially offset growth (Chart 7.4).

Chart 7.4: Consumer Price Index



f: forecast

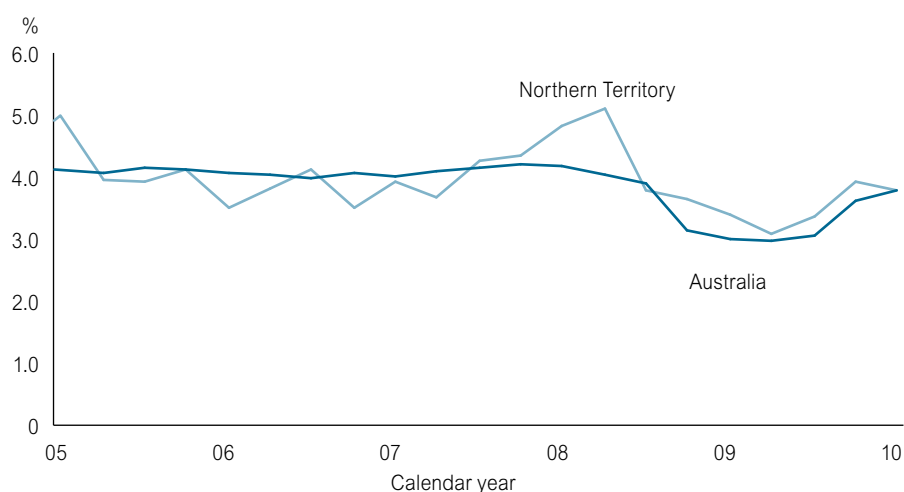
Source: Northern Territory Treasury, ABS Cat. No. 6401.0, ABARES

Wages

Following the resources boom, wage growth in Australia and the Territory has been relatively strong. However, growth in the wage price index (WPI) moderated in the Territory and nationally following the GFC (Chart 7.5).

In 2010, growth in the Territory WPI moderated to 3.5 per cent, reflecting public sector WPI growth of 3.8 per cent and private sector growth of 3.4 per cent. The stronger increase in the public sector in 2010 primarily reflects growth in wages paid to Commonwealth employees. Restructuring of Northern Territory Public Service classifications following the introduction of a new enterprise bargaining agreement, and increased wages for medical staff and teachers, also contributed to growth.

Chart 7.5: Wage Price Index
(year-on-year percentage
change)



Source: ABS Cat. No.6345.0

Outlook for 2011-12 and Beyond

The International Monetary Fund expects the world economy to continue to recover in 2011-12. However, growth in the global economy is expected to remain uneven, with emerging economies projected to continue to grow significantly faster than developed economies. Growth in the emerging economies is expected to be led by Asian economies, including China, India and Indonesia. Strong demand from these economies is expected to sustain commodity prices at high levels, driving increased mineral and energy exploration and development in Australia and the Territory as well as encouraging capacity increases at existing operations.

The Economy

The Territory's GSP is forecast to increase by 3.2 per cent to \$17.8 billion in 2011-12, driven by a widening trade surplus, increased private sector investment and a recovery in household consumption. Public sector consumption and investment are forecast to decline as Commonwealth stimulus measures conclude.

The Territory's international trade surplus is forecast to increase by 13.2 per cent to \$4.3 billion due to solid export growth and weak import growth. The rise in goods exports reflects higher oil, uranium and manganese exports due to anticipated increased production at existing mines and commencement of production from the Kitan and Montara oilfields.

Population

The Territory's population growth is forecast to remain at 1.0 per cent in 2011, impacted by the relocation of the 1st Brigade's 7th Battalion Royal Australian Regiment to South Australia. The Territory's population growth in 2011 may also be affected by the Queensland floods, large interstate mining projects coming online and changes to interest rates.

Population growth is expected to strengthen to 1.8 per cent in 2012, reflecting stronger employment growth arising from increased private sector investment, residential construction activity and increased Defence personnel.

Employment

Employment growth is forecast to strengthen to 2.8 per cent in 2011-12 due to improved economic growth and increased construction activity. Construction is expected to increase due to major oilfield developments in the Timor Sea as well as stronger residential construction growth in the latter half of 2011-12 following the Territory Government's accelerated land release in Palmerston East. The average unemployment rate in the Territory is forecast to remain at historically low levels at 3.0 per cent.

Prices and Wages

Inflation in Darwin is forecast to moderate to 2.3 per cent in 2011, reflecting subdued aggregate demand in the local economy, moderating employment and population growth and passive inflationary expectations following seven increases in interest rates between October 2009 and November 2010. However the impact of severe flooding and Cyclone Yasi may result in a spike in food inflation early in 2011, similar to the impact of Cyclone Larry on banana prices in 2006.

In 2012, Darwin's CPI is forecast to strengthen to 2.6 per cent due to a recovery in household consumption that is expected to strengthen aggregate demand in the economy.

WPI in the Territory is forecast to grow by 3.7 per cent in 2011 and by 4.0 per cent in 2012, reflecting strengthening economic activity in the Territory and ongoing skills shortages.

Future Potential

The following are key projects expected to contribute to the Territory economy over the next decade:

- development of the Ichthys gas field by INPEX. A final investment decision on the proposed INPEX LNG plant is expected in late 2011;
- production of phosphate from Minemakers Wonarah deposit, subject to securing finance and buyers;
- Sherwin Iron's proposed \$180 million Roper River iron ore project located 475 kilometres south-east of Darwin;
- the Nolan's Bore rare earths mine north-west of Alice Springs;
- recommencement of the Redbank Mines Limited copper mine at the Sandy Flat deposit;
- the HNC (Australia) Resources Pty Ltd Browns Oxide operation near Batchelor. HNC is also interested in developing Area 55 located near Litchfield, which contains copper, cobalt and nickel;
- recommencement of production at the Puffin oilfield by AED OIL/Sinopec after closure in 2009 due to a gas leak. The field is located around 50 kilometres north-west of Montara in the Bonaparte basin;
- start up of production at the Talbot oilfield by AED Oil/Sinopec;
- construction of a \$600 million condensate processing facility by Darwin Clean Fuels in Middle Arm. Feedstock for the plant will be shipped from the Timor Sea, North West Shelf and other regional natural gas fields;

- the Crux liquids project led by Nexus Energy, which is looking to develop a floating condensate processing facility located 700 kilometres west of Darwin in the Timor Sea;
- a floating LNG processing facility in the Bonaparte basin led by the French company GDF Suez;
- development of the Greater Sunrise gas field by Woodside Petroleum;
- construction of the new city of Weddell south of Palmerston to meet expected population growth in the Darwin region over the medium term; and
- construction of a marine supply base to service the offshore oil and gas exploration and production industries.

Chapter 8 Uniform Presentation Framework

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

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

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

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

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

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

- taxes;
- grant revenue and expenses;
- dividend and income tax equivalent income;
- expenses and purchases of non financial assets by function; and
- a revised 2011-12 Loan Council Allocation.

The financial statements for the general government, public non financial corporation and non financial public sectors include the revised 2010-11 Estimate, 2011-12 Budget and 2012-13 to 2014-15 Forward Estimates. The statements for the public financial corporation sector and total public sector present the 2010-11 Estimate only, with the remaining supplementary tables presenting both the 2010-11 Estimate and the 2011-12 Budget.

Table 8.1

General Government Sector Comprehensive Operating Statement

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	384 789	389 514	395 834	411 168	429 935
Current grants	3 238 409	3 441 246	3 453 512	3 562 875	3 708 373
Capital grants	607 343	316 936	149 023	61 418	51 378
Sales of goods and services	203 033	185 579	186 060	183 628	184 670
Interest income	71 918	56 307	57 173	58 317	59 611
Dividend and income tax equivalent income	32 912	34 292	36 539	39 432	39 323
Other	183 720	198 525	197 786	197 830	197 902
TOTAL REVENUE	4 722 124	4 622 399	4 475 927	4 514 668	4 671 192
<i>less</i> EXPENSES					
Employee benefits expense	1 640 910	1 711 437	1 721 357	1 763 482	1 840 108
Superannuation expenses					
Superannuation interest cost	143 650	147 133	150 515	153 277	155 453
Other superannuation expenses	151 640	151 374	149 035	146 766	145 086
Depreciation and amortisation	199 154	204 272	206 946	210 135	213 079
Other operating expenses	1 036 234	1 169 621	1 164 014	1 182 126	1 254 951
Interest expenses	141 225	151 125	168 146	186 224	200 571
Other property expenses					
Current grants	754 635	764 858	749 574	724 001	717 325
Capital grants	158 463	104 151	52 932	48 671	51 066
Subsidies and personal benefit payments	112 171	123 493	124 388	127 533	130 768
TOTAL EXPENSES	4 338 082	4 527 464	4 486 907	4 542 215	4 708 407
<i>equals</i> NET OPERATING BALANCE	384 042	94 935	- 10 980	- 27 547	- 37 215
<i>plus</i> Other economic flows – included in operating result	196 235	29 015	30 419	29 610	36 152
<i>equals</i> OPERATING RESULT	580 277	123 950	19 439	2 063	- 1 063
<i>plus</i> Other economic flows – other non-owner changes in equity	156 598	166 923	152 381	147 110	161 569
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	736 875	290 873	171 820	149 173	160 506
NET OPERATING BALANCE	384 042	94 935	- 10 980	- 27 547	- 37 215
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	1 053 381	833 155	592 647	517 041	480 446
Sales of non financial assets	- 95 078	- 99 291	- 99 887	- 93 978	- 100 478
<i>less</i> Depreciation	199 154	204 272	206 946	210 135	213 079
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets	- 267				
<i>equals</i> Total net acquisition of non financial assets	758 882	529 592	285 814	212 928	166 889
<i>equals</i> FISCAL BALANCE	- 374 840	- 434 657	- 296 794	- 240 475	- 204 104

Table 8.2
General Government Sector Balance Sheet

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	250 037	134 663	95 778	76 768	92 266
Advances paid	134 028	134 419	134 810	135 201	135 592
Investments, loans and placements	813 898	651 646	652 189	655 432	658 476
Receivables	126 866	131 410	135 649	141 676	143 529
Equity					
Investments in other public sector entities	2 424 534	2 633 117	2 849 303	3 078 413	3 239 982
Investments – other	100	100	100	100	100
Other financial assets					
Total financial assets	3 749 463	3 685 355	3 867 829	4 087 590	4 269 945
Non financial assets					
Inventories	9 468	9 468	9 468	9 468	9 468
Property, plant and equipment	9 360 713	9 913 871	10 224 050	10 459 881	10 655 523
Investment property	44 157	38 800	33 443	28 086	22 729
Other non financial assets	4 441	4 438	4 425	4 412	4 399
Total non financial assets	9 418 779	9 966 577	10 271 386	10 501 847	10 692 119
TOTAL ASSETS	13 168 242	13 651 932	14 139 215	14 589 437	14 962 064
LIABILITIES					
Deposits held	214 855	109 636	112 944	118 042	111 701
Advances received	236 468	228 617	220 296	211 470	202 100
Borrowing	1 821 254	2 057 535	2 318 466	2 572 010	2 768 126
Superannuation	2 581 276	2 640 615	2 689 065	2 727 242	2 755 979
Other employee benefits	479 776	489 976	499 404	509 256	509 312
Payables	116 273	116 400	116 627	116 891	116 930
Other liabilities	131 450	131 390	132 830	135 770	138 654
TOTAL LIABILITIES	5 581 352	5 774 169	6 089 632	6 390 681	6 602 802
NET ASSETS/(LIABILITIES)	7 586 890	7 877 763	8 049 583	8 198 756	8 359 262
Contributed Equity					
Accumulated surplus/(deficit)	1 785 473	1 909 423	1 928 862	1 930 925	1 929 862
Reserves	5 801 417	5 968 340	6 120 721	6 267 831	6 429 400
NET WORTH	7 586 890	7 877 763	8 049 583	8 198 756	8 359 262
NET FINANCIAL WORTH ¹	- 1 831 889	- 2 088 814	- 2 221 803	- 2 303 091	- 2 332 857
NET FINANCIAL LIABILITIES ²	4 256 423	4 721 931	5 071 106	5 381 504	5 572 839
NET DEBT³	1 074 614	1 475 060	1 768 929	2 034 121	2 195 593

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

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	383 941	387 774	393 902	409 039	428 180
Receipts from sales of goods and services	205 290	188 492	189 545	187 288	188 430
Grants and subsidies received	3 845 752	3 758 182	3 602 535	3 624 293	3 759 751
Interest receipts	71 858	56 247	57 113	58 257	59 551
Dividends and income tax equivalents	22 970	31 548	34 292	35 594	39 285
Other receipts	386 609	381 022	379 647	379 466	379 387
Total operating receipts	4 916 420	4 803 265	4 657 034	4 693 937	4 854 584
Cash payments for operating activities					
Payments for employees	- 1 840 600	- 1 936 601	- 1 959 161	- 2 011 578	- 2 107 941
Payment for goods and services	- 1 227 804	- 1 358 951	- 1 351 844	- 1 368 456	- 1 441 281
Grants and subsidies paid	- 1 024 908	- 992 457	- 926 849	- 900 160	- 899 114
Interest paid	- 141 184	- 150 998	- 167 919	- 185 960	- 200 532
Other payments					
Total operating payments	- 4 234 496	- 4 439 007	- 4 405 773	- 4 466 154	- 4 648 868
NET CASH FLOWS FROM OPERATING ACTIVITIES	681 924	364 258	251 261	227 783	205 716
Cash flows from investments in non financial assets					
Sales of non financial assets	95 078	99 291	99 887	93 978	100 478
Purchases of non financial assets	- 1 053 381	- 833 155	- 592 647	- 517 041	- 480 446
Net cash flows from investments in non financial assets	- 958 303	- 733 864	- 492 760	- 423 063	- 379 968
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 276 379	- 369 606	- 241 499	- 195 280	- 174 252
Net cash flows from investments in financial assets for policy purposes ¹	- 111 313	- 42 051	- 64 196	- 82 391	- 391
Net cash flows from investments in financial assets for liquidity purposes	352 423	173 072	10 892	8 845	9 736
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 717 193	- 602 843	- 546 064	- 496 609	- 370 623
Net cash flows from financing activities					
Advances received (net)	- 7 414	- 7 851	- 8 321	- 8 826	- 9 370
Borrowing (net)	209 596	236 281	260 931	253 544	196 116
Deposits received (net)	- 227 130	- 105 219	3 308	5 098	- 6 341
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 24 948	123 211	255 918	249 816	180 405
NET INCREASE/DECREASE IN CASH HELD	- 60 217	- 115 374	- 38 885	- 19 010	15 498
Net cash flows from operating activities	681 924	364 258	251 261	227 783	205 716
Net cash flows from investments in non financial assets	- 958 303	- 733 864	- 492 760	- 423 063	- 379 968
CASH SURPLUS (+)/(DEFICIT) (-)	- 276 379	- 369 606	- 241 499	- 195 280	- 174 252
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/(DEFICIT) (-)	- 276 379	- 369 606	- 241 499	- 195 280	- 174 252
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 276 379	- 369 606	- 241 499	- 195 280	- 174 252
Future infrastructure and superannuation contributions/earnings ²	- 19 099	- 17 718	- 18 780	- 19 907	- 21 101
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 295 478	- 387 324	- 260 279	- 215 187	- 195 353

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

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Current grants	121 228	124 366	126 602	129 771	133 022
Capital grants	21 324	28 802	16 402	16 812	17 232
Sales of goods and services	803 293	574 375	607 890	631 001	672 039
Interest income	4 131	1 982	2 007	1 873	1 900
Other	36 004	25 924	25 559	26 124	26 703
TOTAL REVENUE	985 980	755 449	778 460	805 581	850 896
<i>less</i> EXPENSES					
Employee benefits expense	93 667	79 876	83 956	93 484	98 817
Superannuation expenses	12 416	13 069	13 371	13 681	13 997
Depreciation and amortisation	118 775	131 028	143 429	153 914	163 767
Other operating expenses	709 959	468 813	458 407	478 719	494 269
Interest expenses	65 539	79 010	93 059	104 468	115 950
Other property expenses	168	168	1 113	315	
Current grants					
Capital grants					
Subsidies and personal benefit payments	10 656	17 519	19 488	19 309	19 080
TOTAL EXPENSES	1 011 180	789 483	812 823	863 890	905 880
<i>equals</i> NET OPERATING BALANCE	- 25 200	- 34 034	- 34 363	- 58 309	- 54 984
<i>plus</i> Other economic flows – included in operating result	- 852	17 439	- 1 261	- 1 590	- 939
<i>equals</i> OPERATING RESULT	- 26 052	- 16 595	- 35 624	- 59 899	- 55 923
<i>plus</i> Other economic flows – other non-owner changes in equity	130 065	144 037	141 085	152 249	162 732
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	104 013	127 442	105 461	92 350	106 809
NET OPERATING BALANCE	- 25 200	- 34 034	- 34 363	- 58 309	- 54 984
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	377 935	350 327	326 319	292 436	255 746
Sales of non financial assets	- 126	- 126	- 126	- 126	- 126
<i>less</i> Depreciation	118 775	131 028	143 429	153 914	163 767
<i>plus</i> Change in inventories	- 1 507	221	438	449	460
<i>plus</i> Other movements in non financial assets	8 500	10 000	8 712	8 930	9 154
<i>equals</i> Total net acquisition of non financial assets	266 027	229 394	191 914	147 775	101 467
<i>equals</i> FISCAL BALANCE	- 291 227	- 263 428	- 226 277	- 206 084	- 156 451

Table 8.5
Public Non Financial Corporation Sector Balance Sheet

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	140 093	36 814	39 024	43 672	44 878
Advances paid					
Investments, loans and placements					
Receivables	99 071	96 212	108 250	113 893	118 614
Equity					
Other financial assets					
Total financial assets	239 164	133 026	147 274	157 565	163 492
Non financial assets					
Inventories	17 823	18 044	18 482	18 931	19 391
Property, plant and equipment	3 089 868	3 476 517	3 809 199	4 108 894	4 372 752
Investment property					
Other non financial assets	20 945	27 035	27 261	27 261	27 994
Total non financial assets	3 128 636	3 521 596	3 854 942	4 155 086	4 420 137
TOTAL ASSETS	3 367 800	3 654 622	4 002 216	4 312 651	4 583 629
LIABILITIES					
Deposits held	123	123	123	123	123
Advances received					
Borrowing	1 122 703	1 246 837	1 426 577	1 561 353	1 723 340
Superannuation					
Other employee benefits	36 740	36 327	35 777	36 782	36 694
Payables	77 369	69 615	65 820	63 791	64 496
Other liabilities	2 233	4 183	7 313	9 843	11 605
TOTAL LIABILITIES	1 239 168	1 357 085	1 535 610	1 671 892	1 836 258
NET ASSETS/(LIABILITIES)					
Contributed Equity	474 245	515 905	579 710	661 710	661 710
Accumulated surplus/(deficit)	690 267	673 475	637 654	577 558	521 438
Reserves	964 120	1 108 157	1 249 242	1 401 491	1 564 223
TOTAL EQUITY	2 128 632	2 297 537	2 466 606	2 640 759	2 747 371
NET FINANCIAL WORTH ¹	- 1 000 004	- 1 224 059	- 1 388 336	- 1 514 327	- 1 672 766
NET DEBT²	982 733	1 210 146	1 387 676	1 517 804	1 678 585

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

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Receipts from sales of goods and services	774 002	566 052	602 892	626 068	668 160
Grants and subsidies received	142 432	153 168	143 004	146 583	150 254
Interest receipts	4 131	1 979	2 003	1 870	1 897
Other receipts	13 856	25 005	8 263	14 824	14 967
Total operating receipts	934 421	746 204	756 162	789 345	835 278
Cash payments for operating activities					
Income tax equivalents paid	- 181	- 168	- 168	- 168	- 168
Payments for employees	- 111 594	- 99 860	- 104 364	- 112 632	- 120 025
Payment for goods and services	- 700 095	- 468 697	- 453 570	- 472 469	- 485 709
Grants and subsidies paid	- 10 656	- 17 519	- 19 488	- 19 309	- 19 080
Interest paid	- 64 447	- 78 635	- 93 517	- 104 388	- 115 260
Other payments					
Total operating payments	- 886 973	- 664 879	- 671 107	- 708 966	- 740 242
NET CASH FLOWS FROM OPERATING ACTIVITIES	47 448	81 325	85 055	80 379	95 036
Cash flows from investments in non financial assets					
Sales of non financial assets	126	126	126	126	126
Purchases of non financial assets	- 377 935	- 350 327	- 326 319	- 292 436	- 255 746
Net cash flows from investments in non financial assets	- 377 809	- 350 201	- 326 193	- 292 310	- 255 620
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 330 361	- 268 876	- 241 138	- 211 931	- 160 584
Net cash flows from investments in financial assets for policy purposes ¹	979				
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 376 830	- 350 201	- 326 193	- 292 310	- 255 620
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	179 274	124 134	179 740	134 776	161 987
Deposits received (net)					
Dividends paid	- 213	- 197	- 197	- 197	- 197
Other financing (net)	110 922	41 660	63 805	82 000	
NET CASH FLOWS FROM FINANCING ACTIVITIES	289 983	165 597	243 348	216 579	161 790
NET INCREASE/DECREASE IN CASH HELD	- 39 399	- 103 279	2 210	4 648	1 206
Net cash flows from operating activities	47 448	81 325	85 055	80 379	95 036
Net cash flows from investments in non financial assets	- 377 809	- 350 201	- 326 193	- 292 310	- 255 620
Dividends paid	- 213	- 197	- 197	- 197	- 197
CASH SURPLUS (+)/(DEFICIT) (-)	- 330 574	- 269 073	- 241 335	- 212 128	- 160 781
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/(DEFICIT) (-)	- 330 574	- 269 073	- 241 335	- 212 128	- 160 781
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 330 574	- 269 073	- 241 335	- 212 128	- 160 781

¹ Includes equity acquisitions, disposals and privatisations (net)

Table 8.7

Non Financial Public Sector Comprehensive Operating Statement

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	377 487	381 048	387 176	402 313	420 878
Current grants	3 238 390	3 441 246	3 453 512	3 562 875	3 708 373
Capital grants	607 343	316 936	149 023	61 418	51 378
Sales of goods and services	976 392	730 612	765 190	786 115	828 190
Interest income	71 924	56 367	57 233	58 317	59 611
Dividend and income tax equivalent income	32 547	33 927	35 229	38 920	39 130
Other	216 139	221 805	220 823	221 382	221 982
TOTAL REVENUE	5 520 222	5 181 941	5 068 186	5 131 340	5 329 542
<i>less</i> EXPENSES					
Employee benefits expense	1 734 577	1 791 313	1 805 313	1 856 966	1 938 925
Superannuation expenses					
Superannuation interest cost	143 650	147 133	150 515	153 277	155 453
Other superannuation expenses	160 895	162 035	159 934	157 925	156 510
Depreciation and amortisation	317 929	335 300	350 375	364 049	376 846
Other operating expenses	1 708 800	1 600 390	1 584 953	1 623 426	1 711 598
Interest expenses	202 639	228 213	259 258	288 819	314 621
Other property expenses					
Current grants	704 229	713 018	696 377	669 412	661 307
Capital grants	136 872	75 349	36 530	31 859	33 834
Subsidies and personal benefit payments	51 986	68 486	70 471	71 660	72 844
TOTAL EXPENSES	5 161 577	5 121 237	5 113 726	5 217 393	5 421 938
<i>equals</i> NET OPERATING BALANCE	358 645	60 704	- 45 540	- 86 053	- 92 396
<i>plus</i> Other economic flows – included in operating result	195 383	46 454	29 158	28 020	35 213
<i>equals</i> OPERATING RESULT	554 028	107 158	- 16 382	- 58 033	- 57 183
<i>plus</i> Other economic flows – other non-owner changes in equity	182 847	183 715	188 202	207 206	217 689
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	736 875	290 873	171 820	149 173	160 506
NET OPERATING BALANCE	358 645	60 704	- 45 540	- 86 053	- 92 396
<i>less</i> Net acquisition of non financial assets					
Purchases of non financial assets	1 431 316	1 183 482	918 966	809 477	736 192
Sales of non financial assets	- 95 204	- 99 417	- 100 013	- 94 104	- 100 604
<i>less</i> Depreciation	317 929	335 300	350 375	364 049	376 846
<i>plus</i> Change in inventories	- 1 507	221	438	449	460
<i>plus</i> Other movements in non financial assets	8 233	10 000	8 712	8 930	9 154
<i>equals</i> Total net acquisition of non financial assets	1 024 909	758 986	477 728	360 703	268 356
<i>equals</i> FISCAL BALANCE	- 666 264	- 698 282	- 523 268	- 446 756	- 360 752

Table 8.8

Non Financial Public Sector Balance Sheet

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	250 067	134 693	95 808	76 798	92 296
Advances paid	134 028	134 419	134 810	135 201	135 592
Investments, loans and placements	813 898	651 646	652 189	655 432	658 476
Receivables	216 627	216 569	229 965	239 356	244 344
Equity					
Investments in other public sector entities	295 902	335 580	382 697	437 654	492 611
Investments – other	100	100	100	100	100
Other financial assets					
Total financial assets	1 710 622	1 473 007	1 495 569	1 544 541	1 623 419
Non financial assets					
Inventories	27 291	27 512	27 950	28 399	28 859
Property, plant and equipment	12 450 581	13 390 388	14 033 249	14 568 775	15 028 275
Investment property	44 157	38 800	33 443	28 086	22 729
Other non financial assets	25 386	31 473	31 686	31 673	32 393
Total non financial assets	12 547 415	13 488 173	14 126 328	14 656 933	15 112 256
TOTAL ASSETS	14 258 037	14 961 180	15 621 897	16 201 474	16 735 675
LIABILITIES					
Deposits held	74 914	72 974	74 072	74 522	66 975
Advances received	236 469	228 618	220 297	211 471	202 101
Borrowing	2 943 957	3 304 372	3 745 043	4 133 363	4 491 466
Superannuation	2 581 276	2 640 615	2 689 065	2 727 242	2 755 979
Other employee benefits	516 516	526 303	535 181	546 038	545 950
Payables	186 164	178 534	174 962	173 194	173 935
Other liabilities	131 851	132 001	133 694	136 888	140 007
TOTAL LIABILITIES	6 671 147	7 083 417	7 572 314	8 002 718	8 376 413
NET ASSETS/(LIABILITIES)	7 586 890	7 877 763	8 049 583	8 198 756	8 359 262
Contributed Equity					
Accumulated surplus/(deficit)	2 475 740	2 582 898	2 566 516	2 508 483	2 451 300
Reserves	5 111 150	5 294 865	5 483 067	5 690 273	5 907 962
NET WORTH	7 586 890	7 877 763	8 049 583	8 198 756	8 359 262
NET FINANCIAL WORTH ¹	- 4 960 525	- 5 610 410	- 6 076 745	- 6 458 177	- 6 752 994
NET FINANCIAL LIABILITIES ²	5 256 427	5 945 990	6 459 442	6 895 831	7 245 605
NET DEBT³	2 057 347	2 685 206	3 156 605	3 551 925	3 874 178

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

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	377 487	381 048	387 176	402 313	420 878
Receipts from sales of goods and services	949 437	725 202	763 677	784 842	828 071
Grants and subsidies received	3 845 613	3 758 182	3 602 535	3 624 293	3 759 751
Interest receipts	71 864	56 307	57 173	58 257	59 551
Dividends and income tax equivalents	22 574	31 183	33 927	35 229	38 920
Other receipts	400 310	405 791	387 860	394 240	394 304
Total operating receipts	5 667 285	5 357 713	5 232 348	5 299 174	5 501 475
Cash payments for operating activities					
Payments for employees	- 1 945 738	- 2 029 735	- 2 056 799	- 2 117 484	- 2 220 664
Payment for goods and services	- 1 897 889	- 1 798 070	- 1 776 604	- 1 812 361	- 1 898 421
Grants and subsidies paid	- 892 993	- 856 808	- 803 333	- 772 886	- 767 940
Interest paid	- 201 506	- 227 714	- 259 493	- 288 478	- 313 895
Other payments					
Total operating payments	- 4 938 126	- 4 912 327	- 4 896 229	- 4 991 209	- 5 200 920
NET CASH FLOWS FROM OPERATING ACTIVITIES	729 159	445 386	336 119	307 965	300 555
Cash flows from investments in non financial assets					
Sales of non financial assets	95 204	99 417	100 013	94 104	100 604
Purchases of non financial assets	- 1 431 316	- 1 183 482	- 918 966	- 809 477	- 736 192
Net cash flows from investments in non financial assets	- 1 336 112	- 1 084 065	- 818 953	- 715 373	- 635 588
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 606 953	- 638 679	- 482 834	- 407 408	- 335 033
Net cash flows from investments in financial assets for policy purposes ¹	588	- 391	- 391	- 391	- 391
Net cash flows from investments in financial assets for liquidity purposes	352 423	173 072	10 892	8 845	9 736
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 983 101	- 911 384	- 808 452	- 706 919	- 626 243
Net cash flows from financing activities					
Advances received (net)	- 7 414	- 7 851	- 8 321	- 8 826	- 9 370
Borrowing (net)	388 870	360 415	440 671	388 320	358 103
Deposits received (net)	- 189 089	- 1 940	1 098	450	- 7 547
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	192 367	350 624	433 448	379 944	341 186
NET INCREASE/DECREASE IN CASH HELD	- 61 575	- 115 374	- 38 885	- 19 010	15 498
Net cash flows from operating activities	729 159	445 386	336 119	307 965	300 555
Net cash flows from investments in non financial assets	- 1 336 112	- 1 084 065	- 818 953	- 715 373	- 635 588
CASH SURPLUS (+)/(DEFICIT) (-)	- 606 953	- 638 679	- 482 834	- 407 408	- 335 033
Additional information to the Cash Flow Statement					
CASH SURPLUS (+)/(DEFICIT) (-)	- 606 953	- 638 679	- 482 834	- 407 408	- 335 033
Acquisitions under finance leases and similar arrangements					
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 606 953	- 638 679	- 482 834	- 407 408	- 335 033
Future infrastructure and superannuation contributions/ earnings ²	- 19 099	- 17 718	- 18 780	- 19 907	- 21 101
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 626 052	- 656 397	- 501 614	- 427 315	- 356 134

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

	2010-11 Estimate
	\$000
REVENUE	
Current grants	
Capital grants	
Sales of goods and services	167 040
Interest income	252 192
Other	3 324
TOTAL REVENUE	422 556
<i>less</i> EXPENSES	
Employee benefits expense	19 112
Superannuation expenses	1 829
Depreciation and amortisation	3 300
Other operating expenses	96 863
Interest expenses	218 306
Other property expenses	18 060
Current grants	3 493
Capital grants	
Subsidies and personal benefit payments	
TOTAL EXPENSES	360 963
<i>equals</i> NET OPERATING BALANCE	61 593
<i>plus</i> Other economic flows – included in operating result	14 881
<i>equals</i> OPERATING RESULT	76 474
<i>plus</i> Other economic flows – other non-owner changes in equity	12
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	76 486
NET OPERATING BALANCE	61 593
<i>less</i> Net acquisition of non financial assets	
Purchases of non financial assets	3 047
Sales of non financial assets	- 3 795
<i>less</i> Depreciation	3 300
<i>plus</i> Change in inventories	
<i>plus</i> Other movements in non financial assets	
<i>equals</i> Total net acquisition of non financial assets	- 4 048
<i>equals</i> FISCAL BALANCE	65 641

Table 8.11

Public Financial Corporation Sector Balance Sheet

	2010-11 Estimate
	\$000
ASSETS	
Financial assets	
Cash and deposits	58 661
Advances paid	244 644
Investments, loans and placements	3 972 141
Receivables	140 481
Equity	
Other financial assets	
Total financial assets	4 415 927
Non financial assets	
Inventories	
Property, plant and equipment	52 523
Investment property	
Other non financial assets	1 806
Total non financial assets	54 329
TOTAL ASSETS	4 470 256
LIABILITIES	
Deposits held	496 392
Advances received	258 768
Borrowing	2 823 616
Superannuation	
Other employee benefits	5 516
Payables	74 697
Other liabilities	515 365
TOTAL LIABILITIES	4 174 354
NET ASSETS/(LIABILITIES)	295 902
Contributed Equity	58 054
Accumulated surplus/(deficit)	219 826
Other reserves	18 022
TOTAL EQUITY	295 902
NET FINANCIAL WORTH¹	241 573
NET DEBT²	- 696 670

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

	2010-11 Estimate \$000
Cash receipts from operating activities	
Receipts from sales of goods and services	178 931
Grants and subsidies received	
Interest receipts	250 799
Other receipts	4 905
Total operating receipts	434 635
Cash payments for operating activities	
Income tax equivalents paid	- 6 772
Payments for employees	- 21 996
Payment for goods and services	- 109 915
Grants and subsidies paid	- 3 493
Interest paid	- 214 141
Other payments	- 2 357
Total operating payments	- 358 674
NET CASH FLOWS FROM OPERATING ACTIVITIES	75 961
Cash flows from investments in non financial assets	
Sales of non financial assets	3 795
Purchases of non financial assets	- 3 047
Net cash flows from investments in non financial assets	748
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	76 709
Net cash flows from investments in financial assets for policy purposes ¹	
Net cash flows from investments in financial assets for liquidity purposes	- 520 273
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 519 525
Net cash flows from financing activities	
Advances received (net)	- 5 414
Borrowing (net)	179 482
Deposits received (net)	- 36 097
Dividends paid	- 15 802
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	122 169
NET INCREASE/DECREASE IN CASH HELD	- 321 395
Net cash flows from operating activities	75 961
Net cash flows from investments in non financial assets	748
Distributions paid	- 15 802
CASH SURPLUS (+)/(DEFICIT) (-)	60 907
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/(DEFICIT) (-)	60 907
Acquisitions under finance leases and similar arrangements	
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	60 907

¹ Includes equity acquisitions, disposals and privatisations (net)

Table 8.13
Total Public Sector Comprehensive Operating Statement

	2010-11 Estimate
	\$000
REVENUE	
Taxation revenue	376 432
Current grants	3 238 390
Capital grants	607 343
Sales of goods and services	1 139 552
Interest income	126 838
Dividend and income tax equivalent income	
Other	216 969
TOTAL REVENUE	5 705 524
<i>less</i> EXPENSES	
Employee benefits expense	1 753 689
Superannuation expenses	
Superannuation interest cost	143 650
Other superannuation expenses	162 691
Depreciation and amortisation	321 229
Other operating expenses	1 798 267
Interest expenses	223 667
Other property expenses	2 357
Current grants	707 722
Capital grants	136 872
Subsidies and personal benefit payments	51 986
TOTAL EXPENSES	5 302 130
<i>equals</i> NET OPERATING BALANCE	403 394
<i>plus</i> Other economic flows – included in operating result	210 264
<i>equals</i> OPERATING RESULT	613 658
<i>plus</i> Other economic flows – other non-owner changes in equity	123 217
<i>equals</i> COMPREHENSIVE RESULT – Total change in net worth before transactions with owners in their capacity as owners	736 875
NET OPERATING BALANCE	403 394
<i>less</i> Net acquisition of non financial assets	
Purchases of non financial assets	1 434 363
Sales of non financial assets	- 98 999
<i>less</i> Depreciation	321 229
<i>plus</i> Change in inventories	- 1 507
<i>plus</i> Other movements in non financial assets	8 233
<i>equals</i> Total net acquisition of non financial assets	1 020 861
<i>equals</i> FISCAL BALANCE	- 617 467

Table 8.14
Total Public Sector Balance Sheet

	2010-11 Estimate
	\$000
ASSETS	
Financial assets	
Cash and deposits	279 707
Advances paid	129 597
Investments, loans and placements	1 962 336
Receivables	317 821
Equity	
Investments in other public sector entities	
Investments - other	100
Other financial assets	
Total financial assets	2 689 561
Non financial assets	
Inventories	27 291
Property, plant and equipment	12 503 104
Investment property	44 157
Other non financial assets	27 192
Total non financial assets	12 601 744
TOTAL ASSETS	15 291 305
LIABILITIES	
Deposits held	542 285
Advances received	254 382
Borrowing	2 935 650
Superannuation	2 581 276
Other employee benefits	522 032
Payables	252 005
Other liabilities	616 785
TOTAL LIABILITIES	7 704 415
NET ASSETS/(LIABILITIES)	7 586 890
Contributed Equity	
Accumulated surplus/(deficit)	2 695 566
Reserves	4 891 324
NET WORTH	7 586 890
NET FINANCIAL WORTH¹	- 5 014 854
NET DEBT²	1 360 677

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

	2010-11 Estimate
	\$000
Cash receipts from operating activities	
Taxes received	376 432
Receipts from sales of goods and services	1 124 488
Grants and subsidies received	3 845 613
Interest receipts	126 578
Other receipts	402 754
Total operating receipts	5 875 865
Cash payments for operating activities	
Payments for employees	- 1 966 679
Payment for goods and services	- 2 001 463
Grants and subsidies paid	- 896 486
Interest paid	- 219 562
Other payments	- 2 357
Total operating payments	- 5 086 547
NET CASH FLOWS FROM OPERATING ACTIVITIES	789 318
Cash flows from investments in non financial assets	
Sales of non financial assets	98 999
Purchases of non financial assets	- 1 434 363
Net cash flows from investments in non financial assets	- 1 335 364
NET CASH FROM OPERATING ACTIVITIES AND INVESTMENTS IN NON FINANCIAL ASSETS	- 546 046
Net cash flows from investments in financial assets for policy purposes ¹	588
Net cash flows from investments in financial assets for liquidity purposes	214 579
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 1 120 197
Net cash flows from financing activities	
Advances received (net)	- 5 424
Borrowing (net)	178 519
Deposits received (net)	- 40 180
Other financing (net)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	132 915
NET INCREASE/DECREASE IN CASH HELD	- 197 964
Net cash flows from operating activities	789 318
Net cash flows from investments in non financial assets	- 1 335 364
CASH SURPLUS (+)/(DEFICIT) (-)	- 546 046
Additional information to the Cash Flow Statement	
CASH SURPLUS (+)/(DEFICIT) (-)	- 546 046
Acquisitions under finance leases and similar arrangements	
ABS GFS SURPLUS (+)/DEFICIT (-) including finance leases and similar arrangements	- 546 046
Future infrastructure and superannuation contributions/earnings ²	- 19 099
UNDERLYING SURPLUS (+)/DEFICIT (-)	- 565 145

1 Includes equity acquisitions, disposals and privatisations (net)

2 Contributions for future infrastructure and superannuation requirements

Table 8.16

General Government Sector Taxes

	2010-11 Estimate	2011-12 Budget
	\$M	\$M
Taxes on employers' payroll and labour force	164	164
Payroll taxes	164	164
Taxes on property	93	93
Stamp duties on financial and capital transactions	93	93
Taxes on the provision of goods and services	82	85
Taxes on gambling	50	52
Taxes on insurance	32	33
Taxes on the use of goods and performance of activities	46	48
Motor vehicle registration fees	46	48
TOTAL TAXES	385	390

Table 8.17

State and Territory General Government Sector Grant Revenue

	2010-11 Estimate	2011-12 Budget
	\$M	\$M
Current grant revenue		
Current grants from the Commonwealth (including for on-passing)		
National partnership payments	350	288
Specific purpose payments	360	359
General purpose grants	2 528	2 794
Total current grant revenue	3 238	3 441
Capital grant revenue		
Capital grants from the Commonwealth (including for on-passing)		
National partnership payments	590	312
Specific purpose payments		
General purpose grants	17	5
Total capital grant revenue	607	317
TOTAL GRANTS REVENUE	3 846	3 758

Table 8.18

State and Territory General Government Sector Grant Expense

	2010-11 Estimate	2011-12 Budget
	\$M	\$M
Current grant expense including subsidies and personal benefit payments		
Local Government	55	57
Private and not-for-profit sector (including for on-passing)	584	608
Grants to other sectors of Government	50	52
Other	178	171
Total current grant expense including subsidies and personal benefit payments	867	888
Capital grant expense		
Local Government	9	2
Private and not-for-profit sector (including for on-passing)	126	71
Grants to other sectors of Government	21	29
Other	2	2
Total capital grant expense	158	104
TOTAL GRANT EXPENSE	1 025	993

Table 8.19

General Government Sector Dividend and Income Tax Equivalent Income

	2010-11 Estimate	2011-12 Budget
	\$M	\$M
Dividend and income tax equivalent income from PNFC sector		
Dividend and income tax equivalent income from PFC sector	33	34
TOTAL DIVIDEND AND INCOME TAX EQUIVALENT INCOME	33	34

Table 8.20
General Government Sector Expenses

	2010-11	2011-12
	Estimate	Budget
	\$M	\$M
General public services	111	116
Public order and safety	507	549
Education	940	968
Health	975	1 058
Social security and welfare	251	273
Housing and community amenities	477	469
Recreation and culture	162	155
Fuel and energy	100	101
Agriculture, forestry, fishing and hunting	61	57
Mining, manufacturing and construction	32	30
Transport and communications	237	243
Other economic affairs	169	173
Other purposes	316	335
TOTAL OPERATING EXPENSES	4 338	4 527

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

	2010-11	2011-12
	Estimate	Budget
	\$M	\$M
General public services	11	14
Public order and safety	52	80
Education	109	53
Health	72	81
Social security and welfare		
Housing and community amenities	529	383
Recreation and culture	26	45
Fuel and energy	0	0
Agriculture, forestry, fishing and hunting	7	4
Mining, manufacturing and construction	32	32
Transport and communications	209	134
Other economic affairs		
Other purposes	6	7
TOTAL PURCHASES OF NON FINANCIAL ASSETS	1 053	833

Table 8.22

2011-12 Loan Council Allocation

	Loan Council Allocation	Budget-time Estimate
	\$M	\$M
General government sector cash deficit (+)/surplus (-)	334	370
Public non financial corporations sector cash deficit (+)/surplus (-)	217	269
Non financial public sector cash deficit (+)/surplus (-)	551	639
Acquisitions under finance leases and similar arrangements		
<i>equals</i>		
ABS GFS cash deficit (+)/surplus (-)	551	639
<i>less</i>		
Net cash flows from investments in financial assets for policy purposes		
<i>plus</i>		
Memorandum items		
2011-12 LOAN COUNCIL NOMINATION	551	639
Tolerance limit (2% of non financial public sector cash receipts from operating activities)	105	
Change in loan council allocation	88	

Note: This table sets out the Territory's 2011-12 Loan Council Allocation (LCA) Budget update of \$639 million as compared to that nominated and endorsed with the Loan Council of \$551 million. This is inside the tolerance limit of 2 per cent of non financial public sector operating cash receipts that applies between the LCA and Budget time nomination. Nominations for 2011-12 were provided by all jurisdictions on the basis of policies commenced up to and included in their Mid-Year budget updates. The budget-time estimate of \$639 million reflects the prevailing economic conditions affecting the Territory, together with the continuing significant investment in infrastructure.

Appendix Classification of Entities in the Northern Territory

Total Public Sector

Non Financial Public Sector

General Government

Aboriginal Areas Protection Authority
 Auditor-General's Office
 AustralAsia Railway Corporation³
 Batchelor Institute of Indigenous Tertiary Education³
 Central Holding Authority
 Construction Division¹
 Darwin Waterfront Corporation³
 Data Centre Services¹
 Department of Business and Employment
 Department of the Chief Minister
 Department of Children and Families
 Department of Construction and Infrastructure
 Department of Education and Training
 Department of Health
 Department of Housing, Local Government and Regional Services
 Department of Justice
 Department of Lands and Planning
 Department of the Legislative Assembly
 Department of Natural Resources, Environment, The Arts and Sport
 Department of Resources
 Desert Knowledge Australia³
 Government Printing Office¹
 Land Development Corporation
 Natural Resource Management Board³
 Nominal Insurer's Fund³
 Northern Territory Electoral Commission
 Northern Territory Legal Aid Commission³
 Northern Territory Major Events Company Pty Ltd³
 Northern Territory Police, Fire and Emergency Services
 Northern Territory Treasury
 NT Build Statutory Corporation³
 NT Fleet¹
 NT Home Ownership¹
 Office of the Commissioner for Public Employment
 Ombudsman's Office
 Territory Discoveries¹
 Territory Wildlife Parks¹
 Tourism NT

Public Non Financial Corporations

Darnor Pty Ltd³
 Darwin Bus Service¹
 Darwin Port Corporation¹
 Gasgo Pty Ltd³
 Indigenous Essential Services Pty Ltd³
 Power and Water Corporation^{2,3}

Public Financial Corporations

Northern Territory Treasury Corporation¹
 Territory Insurance Office³

¹ Government business divisions

² Government owned corporation

³ Non budget sector entity

Glossary

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

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

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

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

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

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

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

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

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

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

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

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