

Fiscal and Economic Outlook

2004-05

Budget Paper No. 2

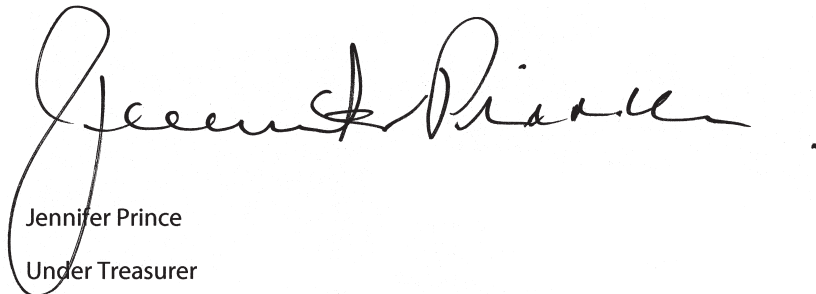
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In this book, the term ‘state’ or ‘states’ includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

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 2004 Budget documentation were based on Government decisions that I was aware of or that were made available to me by the Treasurer before 13 May 2004. The projections are presented in accordance with the Uniform Presentation Framework.

A handwritten signature in black ink, appearing to read "Jennifer Prince". The signature is fluid and cursive, with a large initial "J" and "P".

Jennifer Prince
Under Treasurer

15 May 2004

Overview

The 2004-05 Budget has been developed in accordance with the *Fiscal Integrity and Transparency Act*, with this Budget Paper meeting the requirements of the *Fiscal Integrity and Transparency Act* by including:

- updated financial projections for the Budget year and following three years;
- economic and other assumptions on which the updated financial projections are based;
- an analysis of the degree to which updated financial projections are likely to be affected by changes in circumstances on which economic and other assumptions are based;
- an overview of estimated tax expenditures for the Budget year and three forward estimate years;
- a statement of the risks, quantified as far as practicable, that could materially affect the updated financial projections, including any contingent liabilities and any Government negotiations that have yet to be finalised;
- an explanation of the factors and considerations that contributed to any material differences between the updated financial projections and the equivalent projections published in the last fiscal outlook report; and
- an explanation of the factors and considerations that contributed to any material differences between the updated financial projections and the expected outcomes for the key fiscal indicators as specified in the Government's fiscal strategy statement.

The Territory Budget is developed on a Uniform Presentation Framework basis, as agreed by all Australian jurisdictions, with a focus on the general government sector.

Fiscal Strategy

This Budget is the Territory's third accrual Budget, with accrual estimates now stabilising, as expected, due to improved understanding of the new framework and accrual systems being refined.

The 2004-05 Fiscal Strategy has been revised with a greater emphasis on accrual, rather than cash, measures and having regard to emerging fiscal pressures.

Three key financial pressures arose during 2003-04:

- the pick up in the economy was slower than anticipated;
- the Commonwealth Grants Commission released its major review of relativities which resulted in the Territory's relative share of the goods and services tax (GST) pool significantly decreasing from 2004-05; and
- significant additional funding increases were identified, particularly in the areas of health, education and community safety.

A detailed discussion of the Fiscal Strategy is presented in Chapter 2 of this paper.

2003-04 Estimated Outcome and 2004-05 Budget

Table 1.1: Estimated Outcomes

	2003-04 Estimate	2004-05 Budget	2005-06	2006-07	2007-08
			Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Cash Outcome	34	0	-16	-9	-6
Operating Result	49	-12	-31	-18	-5

On a cash basis, the estimated outcome for 2003-04 is a surplus of \$34 million. However this is due to an additional \$36 million in GST revenue as a direct result of the higher GST collections estimates included, in the Commonwealth Budget released on 11 May 2004. The underlying result is a deficit of \$2 million, consistent with that presented in the 2003-04 Mid Year Report.

For 2004-05, the Government's target of a balanced cash budget is expected to be achieved, again due to the higher GST pool. The Budget is expected to return to deficit in 2005-06 due to continued low growth in GST revenue and escalations in new initiatives approved during 2003-04.

On an accrual basis, the expected net operating result for 2003-04 is a surplus of \$49 million, an improvement of \$47 million from the original Budget announced in May 2003.

For 2004-05, the net operating result is a projected deficit of \$12 million. Currently, the operating deficit is expected to plateau in 2005-06 at \$31 million and then improve from 2006-07. This is consistent with the Fiscal Strategy target to achieve an operating balance within 10 years of when it was first established, that is, by 2012-13.

A full discussion of the movements during 2003-04 and increases for 2004-05, along with a statement of risks, is outlined in Chapter 3 of this paper.

Other Information Presented

Chapter 4 presents Budget Initiatives for 2004-05, according to the Government's key priority areas. Initiatives include revenue, expenditure and capital projects. There is also a more detailed discussion outlining the significant policy and procedural changes for Territory own-source revenue.

Chapter 5 includes a discussion of Commonwealth grants with an emphasis on GST revenue.

Chapter 6 presents information on the Territory's own-source revenue.

Chapter 7 outlines a number of the Government's commercial issues including a discussion of community service obligation payments to government business divisions and dividends and taxes paid by government business divisions.

Chapter 8 presents an overview of the economy, with greater detail provided in the Northern Territory Economy paper.

Chapter 9 provides the financial statements on a sectoral basis, prepared in accordance with the Uniform Presentation Framework.

Fiscal Strategy

This chapter outlines the Territory Government's medium-term fiscal objectives and financial targets. The Fiscal Strategy which guided the 2002-03 and 2003-04 Budgets was initially set out in the 2002-03 Budget. This Budget includes an amended Fiscal Strategy for 2004-05 and the following three years.

The *Fiscal Integrity and Transparency Act* requires the Treasurer to deliver a fiscal strategy statement at the time of each Budget which specifies the Government's medium-term fiscal objectives and key fiscal indicators. Under the Act, the Fiscal Strategy Statement must be based on principles of sound fiscal management where the Government must:

- formulate and apply spending and taxation policies having regard to the effect of these policies on employment, economic prosperity and 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.

Economic Overview

The Northern Territory economy is relatively small and has significant exposure to the world economic cycle because of the importance of the tourism and mining and energy sectors in the economy.

In the five years to 1999, the defence force relocation to the Top End was a major contributor to strong economic growth in the Territory. As employment and population growth associated with the relocation began to weaken, the Territory recorded negative gross state product (GSP) growth in 1999-00. Onshore economic activity was weak in 2000-01 but was masked by the sharp increase in offshore oil production, which boosted GSP. Onshore economic activity strengthened a little in 2001-02, but population growth was low and tourism suffered significant external setbacks.

In 2002-03, offshore oil production fell sharply and, although consumption and business investment strengthened onshore, employment, population growth and tourism were lower than previous years.

The recovery in the onshore economy continued to gain momentum in 2003-04, although headline GSP growth was affected by declining offshore oil production. At the time of the 2003-04 Budget, GSP growth had been expected to increase by 3.4 per cent as onshore activity strengthened and Bayu-Undan stage one production commenced. Employment growth was forecast to strengthen toward 2 per cent and population growth was expected to recover to 0.9 per cent. Since then, employment has continued to be affected by external events affecting the tourism sector, and the early completion of the Alice Springs to Darwin rail link with Adelaide. Population growth has remained weaker than expected, associated with lower interstate inflows. The latest estimate is for GSP growth of 0.3 per cent in 2003-04 is primarily lower due to offshore factors, particularly the delay in commencement of Bayu-Undan production and lower production from Laminaria-Corallina.

The economic recovery is expected to broaden in 2004-05, with strengthening in the construction, mining and tourism industries, accompanied by solid employment

growth of 2.9 per cent. Population growth is expected to be positive but remain low at 0.3 per cent in 2004-05. It is forecast to strengthen in the forward years.

2004-05 Fiscal Strategy

A combination of sound financial management over the past two and a half years and improved goods and services tax (GST) revenue has resulted in the Territory making progress in achieving the fiscal targets established in the 2001 Mini Budget.

Since the formulation of the 2003-04 Budget, three key fiscal challenges have led to the Government revising the Fiscal Strategy first developed for the 2002-03 Budget. Firstly, the Territory economy, although showing clear signs of recovery in 2003-04, has not recovered as quickly as first anticipated. Therefore, the Government has departed from its previously announced strategy to provide additional support and stimulus for economic growth, both by increasing spending and by reducing taxes in the 2004-05 Budget.

Secondly, the Commonwealth Grants Commission's 2004 Major Review of State and Territory GST Relativities, released at the end of February 2004, recommended a reduction in the Territory's share of national GST revenue. This has had a significant negative impact on revenue estimates for 2004-05 and the forward years.

Finally, the decision to boost service provision, particularly in the areas of health, education and community safety, has resulted in significant recurrent expenditure beyond that anticipated in the previous Fiscal Strategy.

The Government's strategic response to the three fiscal challenges which have emerged in 2003-04 will result in a deterioration in fiscal outcomes for the forward estimate years from the targets published in the 2003-04 Budget and the Mid Year Report. Following the release on 11 May of revised GST estimates in the 2004-05 Commonwealth Budget, it is now likely that the outcome for 2004-05 will be close to the targets published in the 2003-04 Budget. However, on the basis of current estimates, the achievement of a balanced budget will be deferred for around five years, but is dependent on the volatility of GST revenue estimates.

The general government operating deficit is projected to plateau in 2005-06 and then to improve in line with the Government's commitment to achieving a net operating balance. Net lending for the general government sector will show a similar trend with negative net lending plateauing in 2005-06, following additional capital investment to support economic growth and boost service provision in 2003-04 and 2004-05.

The revised medium-term fiscal objectives and targets for 2004-05 are:

Sustainable Service Provision

Target: General Government Net Operating Balance by 2012-13

Infrastructure for Economic and Community Development

Target: Maintain Total Public Sector Infrastructure Investment at Appropriate Levels and Achieve a General Government Net Lending Balance by 2012-13

Competitive Tax Environment

Target: Ensure Territory Taxes and Charges are Competitive with the Average of the States

Prudent Management of Liabilities

Target: Net Debt plus Employee Liabilities as a Proportion of Total Revenue to Fall

Sustainable Service Provision

Since the 2003-04 Budget, and in the development of the 2004-05 Budget, the Government has approved a number of significant initiatives to improve services and to support economic growth.

Major reviews of police, fire services and adult custodial services were presented to Government during 2003-04. In response to review recommendations, Government has:

- committed additional funding over four years to strengthen policing;
- increased funding over four years for reform of adult custodial services, with the aim of reducing offender recidivism rates; and
- increased fire services funding over four years.

Education has received additional funding in the 2004-05 Budget for various initiatives including accelerated learning programs and information technology in schools.

Health and Community Services has also received additional funding, including an increase for mental health services, child protection and critical care services in hospitals.

Government support for economic growth has included:

- reduced taxes;
- additional expenditure over three years to support the tourist industry;
- commencement of a jobs strategy; and
- maintaining infrastructure spending.

Target: General Government Net Operating Balance by 2012-13

The 2002-03 Fiscal Strategy was framed in the context of the transition from cash to accrual accounting. While the target of a general government net operating balance within 10 years, that is by 2012-13, was adopted, the target was supplemented by the Mini Budget target of a balanced general government cash budget by 2004-05.

It was noted in 2002-03, when the previous fiscal strategy was first introduced, that there would be a gradual move from cash to actual targets consistent with other jurisdictions. The prime measure is now the accrual operating balance measure. However, it is noted that the general government cash outcome for 2004-05 is expected to be close to the previous cash target for a balanced budget, but returns to deficit in 2005-06. The achievement of a balanced cash budget is likely to be delayed for 5 years.

The target of achieving a general government net operating balance by 2012-13 was first established in the 2002-03 Budget and has been maintained in the revised fiscal strategy for the 2004-05 Budget. In 2001-02, the operating balance outcome was -\$116 million (-5.3 per cent of total revenue). At the time of the 2003-04 Budget, it was projected that positive net operating balances would generally be achieved in the general government sector from 2005-06. This will be delayed and affected significantly by volatility in GST revenue estimates, however, the target of balance by 2012-13 will be achieved.

As a proportion of total revenue, the net operating balance for 2003-04 is estimated to be 1.9 per cent due to increased GST revenue in 2003-04. It is expected to deteriorate to -0.5 per cent in 2004-05, plateau in 2005-06, and then improve thereafter.

Table 2.1: General Government Cash Target/Net Operating Balance

	2002-03 Outcome	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
Cash Surplus (+)/Deficit(-) (\$M)	9	34	0	-16	-9	-6
Net Operating Balance (\$M)	-1	49	-12	-31	-18	-5
As a Proportion of Total Revenue (%)	0.0	1.9	-0.5	-1.2	-0.7	-0.2

Source: Northern Territory Treasury

By comparison with the states, the Territory's net operating balance to revenue is consistent with the state average in 2003-04, but worsens slightly in 2004-05, associated with very low growth in GST revenue.

Table 2.2: Net Operating Balance as a Proportion of Revenue

	2002-03 Outcome	2003-04 Estimate	2004-05 Budget
	%	%	%
New South Wales	5	3	2
Victoria	6	2	2
Queensland	0	2	1
Western Australia	2	1	0
South Australia	5	1	2
Tasmania	7	1	-2
Australian Capital Territory	7	4	0
State Average	4	2	1
Northern Territory	0	2	0

Source: Northern Territory Treasury

Infrastructure for Economic and Community Development

Target: Maintain Infrastructure Investment at Appropriate Levels and Achieve Net Lending Balance by 2012-13

Net lending provides a measure of the Territory's investment balance (that is, as a lender or a borrower). Net lending includes the effect of both capital and operating transactions after excluding the effect of depreciation.

Table 2.3: General Government Net Lending (+)/ Borrowing (-)

	2002-03 Outcome	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
Net Lending / Borrowing (\$M)	-73	12	-29	-31	-19	-9
As a Proportion of Total Revenue (%)	-3.1	0.5	-1.1	-1.2	-0.7	-0.3

Source: Northern Territory Treasury

In 2001-02, the net lending outcome was -\$331 million (-14.4 per cent of total revenue), with expenditure on major projects such as the Alice Springs to Darwin railway and East Arm Port significantly influencing the outcome. It is estimated that net lending will improve to a surplus of \$12 million (0.5 per cent of total revenue) for 2003-04, an improvement of \$38 million on the 2003-04 Budget forecast.

The reduced share of GST revenue and additional Government expenditure to support economic growth and improve services will result in net lending returning to deficit over the Budget and forward estimates period. The Government is committed to a balanced position for this measure by 2012-13.

Table 2.4 shows net operating balance and net lending borrowing as a proportion of revenue for each jurisdiction.

Table 2.4: General Government Net Lending (+)/ Borrowing (-) as a Proportion of Total Revenue

	2002-03 Outcome	2003-04 Estimate	2004-05 Budget
	%	%	%
New South Wales	2	0	-1
Victoria	2	-2	-3
Queensland	-1	-3	-2
Western Australia	2	-1	-1
South Australia	4	0	1
Tasmania	8	3	0
Australian Capital Territory	8	2	-4
State Average	2	-1	-1
Northern Territory	-3	0	-1

Source: Northern Territory Treasury, State Mid Year and Outcome Reports

Table 2.5 presents the actual level of infrastructure investment for 2002-03 and estimates from 2003-04 to 2007-08. The Government's infrastructure investment comprises purchases of non financial assets (including construction and capital items) and capital grants to non government organisations. When considering capital investment in the Northern Territory, it is more appropriate to look at the non financial public sector.

Table 2.5: Capital Investment – Non Financial Public Sector

	2002-03 Outcome	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
	\$M	\$M	\$M	\$M	\$M	\$M
Purchases of Non Financial Assets	319	301	307	254	263	270
Capital Grants	52	50	43	44	45	46
Total	371	351	350	298	308	317

Source: Northern Territory Treasury

Higher levels of investment in 2002-03 and 2003-04 are largely associated with the railway and the development of East Arm Port. In 2003-04, this includes the completion of railway passenger terminals (\$9 million), Darwin Business Park (\$9 million), ongoing construction of East Arm Port (\$13 million) and support infrastructure for the Wickham Point Liquefied Natural Gas project.

In 2005-06 and forward years, capital expenditure is forecast to return to more historical levels which meet the social and economic needs of current and future Territorians.

Competitive Tax Environment

Target: Ensure Territory Taxes and Charges are Competitive with the Average of the States

The Government is committed to maintaining taxation at levels that are competitive with other states. Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. Taxation revenue per capita is a simple summary measure.

In the 2004-05 Budget, the Government has announced tax reduction initiatives worth \$6.7 million in 2004-05, rising to \$16.1 million in 2005-06 to further enhance the Territory's tax environment and to stimulate economic and employment growth.

Table 2.6: Taxation Revenue Per Capita – General Government

	2002-03	2003-04	2004-05
	\$ per capita	\$ per capita	\$ per capita
New South Wales	2 126	2 230	2 237
Victoria	1 894	2 000	1 969
Queensland	1 491	1 609	1 562
Western Australia	1 749	1 947	1 902
South Australia	1 597	1 732	1 746
Tasmania	1 179	1 254	1 211
Australian Capital Territory	2 122	2 320	2 318
State Average	1 844	1 963	1 943
Northern Territory	1 243	1 319	1 326

Source: Northern Territory Treasury, State Mid Year and Outcome Reports

In 2004-05, the Territory is expected to have the second lowest level of taxation revenue per capita after Tasmania. While taxation per capita is a useful comparative measure, it is limited in that it does not make any allowances for differences in states' capacities to raise revenue.

A more sophisticated measure of tax competitiveness is the Commonwealth Grants Commission's analysis of 'tax effort', which adjusts for the extent to which a particular state's capacity to raise revenue is above or below average. Table 2.7 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2002-03, the latest year assessed by the Commonwealth Grants Commission.

Table 2.7: Northern Territory Revenue-Raising Capacity and Effort 2002-03
Australian Average = 100 per cent

	Capacity ¹	Effort ²
	%	%
Total Taxation	79	90
Total Own-Source Revenue	90	90

Source: Commonwealth Grants Commission 2004 Review of Relativities

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

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

The Commonwealth Grants Commission's assessment shows that the Territory's tax effort (90 per cent) is below the Australian average (100 per cent) as the simple per capita measure implies. Further interjurisdictional comparisons of individual tax revenue measures are provided in Chapter 6.

Prudent Management of Liabilities

The effective management of liabilities gives considerable focus to targeting, monitoring and maintaining net debt at prudent levels.

For benchmarking the Territory against other jurisdictions, the broader non financial public sector scope is used, rather than the general government sector. This broader focus is appropriate because of substantial differences between the states in the allocation of assets and liabilities between general government and the non financial public sector.

Target: Net Debt and Employee Liabilities as a Proportion of Total Revenue to Fall

Net Debt as a Proportion of Revenue

The level of net debt has been a focus for all jurisdictions over the last decade. The Territory's debt level increased during the 1980s when deficits were incurred at a time of significant asset growth. Debt levels moderated in the 1990s, although not as much as other jurisdictions where reductions were largely driven by significant asset sales. In the last five years, however, the Territory's net debt has increased due to significant infrastructure initiatives such as the Alice Springs to Darwin railway and East Arm Port, as well as ongoing cash deficits.

As a result, Territory debt levels are high relative to the states, as shown in Table 2.8.

Table 2.8: Net Debt to Revenue – Non Financial Public Sector

	2002-03	2003-04	2004-05
	(%)	(%)	(%)
New South Wales	29	29	28
Victoria	9	12	12
Queensland	1	0	1
Western Australia	32	38	42
South Australia	27	27	n.a.
Tasmania	53	47	n.a.
Australian Capital Territory	-46	-49	-49
State Average	19	19	19
Northern Territory	64	57	58

Source: Northern Territory Treasury, State Mid Year, Outcome Reports and 2004-05 Budget Papers.

The Territory's commitment to gradual improvement of its fiscal performance will contribute to ongoing reductions to the burden of debt as shown in Table 2.9.

Table 2.9: Northern Territory Net Debt – Non Financial Public Sector

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Outcome	Estimate	Budget	Forward Estimate		
Net Debt (\$M)	1 723	1 681	1 717	1 724	1 722	1 713
Revenue (\$M)	2 679	2 951	2 953	3 040	3 122	3 209
Net Debt to Revenue (%)	64	57	58	57	55	53

Source: Northern Territory Treasury

Net Debt Plus Employee Liabilities as a Proportion of Revenue

Unfunded employee entitlements, consisting largely of unfunded superannuation, are a major liability for the Territory and most states.

Traditional superannuation schemes were based on defined benefits that were not paid until retirement and not funded until benefits were payable. In line with an increasing recognition that previous methods were inappropriate, most governments have reviewed their superannuation arrangements and have closed these schemes in favour of fully funded arrangements. Some states have also decided to partially fund past liabilities. In the Territory fully funded superannuation arrangements were introduced for new employees from August 1999.

A broader measure than superannuation liabilities is employee liabilities, which includes all other employee entitlements such as workers' compensation and long service leave. The sum of net debt and employee liabilities provides a comprehensive measure of the Territory's overall liability position. Table 2.10 shows

that the Territory has the highest level of net debt plus employee liabilities in 2003-04, at 118 per cent of total revenue.

Table 2.10: Net Debt Plus Employee Liabilities as a Proportion of Revenue – Non Financial Public Sector

	2002-03	2003-04	2004-05
	(%)	(%)	(%)
New South Wales	91	93	96
Victoria	71	74	76
Queensland	64	61	66
Western Australia	76	82	84
South Australia	84	101	n.a.
Tasmania	124	115	n.a.
Australian Capital Territory	31	34	46
State Average	79	81	82
Northern Territory	131	118	120

Source: Northern Territory Treasury, State Mid Year, Outcome Reports and 2004-05 Budget Papers.

Table 2.11 shows the effect of the Government's commitment to prudently manage debt and employee liabilities.

Table 2.11: Northern Territory Net Debt Plus Employee Liabilities – Non Financial Public Sector

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Outcome	Estimate	Budget	Forward Estimate		
Employee Liabilities (\$M)	1 785	1 799	1 833	1 852	1 867	1 876
Net Debt + Employee Liabilities (\$M)	3 508	3 480	3 549	3 575	3 590	3 589
Revenue (\$M)	2 679	2 951	2 953	3 040	3 122	3 209
Net Debt + Employee Liabilities to Revenue (%)	131	118	120	118	115	112

Source: Northern Territory Treasury

Territory net debt and employee liabilities as a proportion of total revenue are expected to decline to 118 per cent in 2003-04 which represents the effect of a cash surplus caused by high GST revenue receipts offset by moderate growth in expenses. In 2004-05, the proportion is expected to increase to 120 per cent of total revenue reflecting a cash deficit caused by a reduction in the Territory's share of national GST revenue, the Government's budget initiatives and continued cost and demand pressures in health and education. Over the forward estimates period, the proportion is expected to decline to 112 per cent of total revenue by 2007-08 due to lower cash deficits, a small increase in employee liabilities and higher revenue growth.

Further information on budget aggregates and financial projections which underlie the Territory's fiscal strategy are included in Chapter 3 of this Budget Paper.

Fiscal Position and Outlook

This chapter presents information on the financial statements for the 2003-04 Estimate, the 2004-05 Budget and three forward estimate years. It also provides a discussion of the movement between estimates and between years and possible risks to the Territory Budget.

The discussion on the cash targets and operating statement focuses on the general government sector as this is the sector supported by tax revenues and provides the core services of government.

The majority of Territory assets and liabilities are located in the general government sector because of the comparative stage of Territory development. However, in most states, a significant level of assets and liabilities are held within their public non financial corporations sector, making comparative analysis of either sector's balance sheet difficult.

Therefore, the discussion on the balance sheet focuses on the non financial public sector (includes both the general government and non financial public corporations sectors), as it provides a better basis for comparative analysis of the Territory's financial position with other states.

Fiscal Outlook

Since the 2003-04 Budget, the Government has been presented with a number of fiscal challenges that contributed to a revised fiscal strategy for 2004-05. These pressures resulted in increased service provision, particularly in police and community safety, health and education services, as well as in areas designed to stimulate economic growth such as tourism. Even though spending increased in these areas, the net operating balance in 2003-04 improved significantly from the Budget-time estimate because of growth in GST revenue. However, the 2004-05 outcome worsens as a result of minimal GST revenue growth.

The cash outcome for 2004-05 is consistent with previously published targets for 2004-05, although both operating receipts and payments are higher. However, it is expected that 2005-06 will return to a deficit and the achievement of a balanced cash budget outcome will be deferred for around five years.

General Government

Table 3.1 shows the movement in the cash outcome between the 2003-04 Budget and the 2004-05 Budget. Variations are categorised by parameter and policy effects.

Table 3.1: Summary of Cash Variations Since May 2003

	2003-04	2004-05
	\$M	\$M
Cash Surplus/Deficit - May 2003	- 24	0
<i>/ess</i> Parameter Variations		
CPI reduced from 2.5% to 2.1%		- 3
Additional 1% Productivity Dividend		- 7
Revised Tax Estimates	- 6	- 6
Revised GST Revenue	- 92	- 50
Net Specific Purpose Payments	- 9	- 19
Lower Interest Payments	- 5	0
Lower Superannuation Benefits Payments	- 4	- 6
Revised Treatment of Budget Balancing Assistance Grants received in 2002-03	17	
Total Parameter Variations	- 99	- 91
<i>/ess</i> Policy Variations ¹		
Economy and Business	9	20
Jobs and Training	6	4
Community Safety	12	27
Schools	6	13
Health	2	16
Lifestyle	6	10
Regional		1
Total Policy Variations	41	91
Cash Surplus/Deficit - May 2004	34	0

¹ See chapter 4 for a list of initiatives under these priority areas

In 2003-04, the general government cash target has improved from a forecast deficit of \$24 million to a surplus of \$34 million. Policy variations have added \$41 million to the Budget outcome. However, large revenue parameter variations (specifically increases in GST revenue) have exceeded policy variations causing a significant turnaround in the Territory's cash position.

In 2004-05, the Government has increased expenditure on its key priority areas by \$91 million through a number of policy initiatives. These increases have been offset by a \$91 million improvement due to parameter variations, significantly higher GST revenue (\$50 million) than projected in the original 2003-04 Budget. Prior to the Commonwealth Budget in May 2004, GST revenue was \$22 million higher, resulting in a projected deficit of \$28 million. The increase in GST revenue means the target of a balanced cash budget by 2004-05 is expected to be achieved. However, the combination of the step up of policy decisions made during 2003-04 and low GST revenue growth will result in deficits in the forward estimate years, plateauing in 2005-06 before trending to balance.

Operating Statement

Table 3.2: General Government Sector Operating Statement Aggregates and Measures

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	2 361	2 407	2 558	2 557	2 625	2 697	2 767
Expenses	2 362	2 405	2 509	2 569	2 655	2 715	2 772
Net Operating Balance	- 1	2	49	- 12	- 31	- 18	- 5
Net Lending (+) /Borrowing (-)	- 73	- 26	12	- 29	- 31	- 19	- 9

For 2003-04, the net operating balance is expected to be a surplus of \$49 million, an improvement of \$47 million on the original Budget. In 2004-05, a deficit of \$12 million is projected, a turnaround from 2003-04 of \$61 million. The net operating balance represents the effect of no revenue growth in 2004-05, primarily due to low growth in GST revenue, combined with a \$59 million increase in expenses associated with the Government's policy initiatives. Over the forward estimates period, net operating balance deficits are expected to improve in line with the Territory's fiscal strategy target of achieving an operating balance by 2012-13.

Net lending / borrowing follows a similar trend to the net operating balance, with a projected surplus of \$12 million in 2003-04 and a deficit of \$29 million in 2004-05. This represents the effect of the net operating balance (-\$12 million) plus net acquisitions of non financial assets (\$17 million).

Operating Revenue

Of all the states, the Northern Territory is the most dependent on revenue assistance from the Commonwealth. In 2003-04 and 2004-05, GST revenue comprises 66 per cent of total Territory revenue. Other Commonwealth grants and subsidies comprise 15 per cent of total revenue and include grants such as national competition payments, uranium royalties and natural disaster relief arrangement payments.

This means that GST revenue and other grants and subsidies account for 81 per cent of the Territory's total revenue in both 2003-04 and 2004-05, compared to 50 per cent of total revenue for other states and territories.

Territory own-source revenue accounts for the remaining 19 per cent, with taxation comprising 10 per cent of total revenue. Territory taxation is largely comprised of payroll tax (37 per cent) and taxes on property (27 per cent). The remaining 9 per cent of total Territory revenue comes from sales of goods and services, interest income, dividends from the public financial and non financial corporations sectors, tax equivalent payments and royalty income.

Table 3.3: General Government Sector Operating Revenues

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Taxation Revenue	246	254	262	264	267	273	279
Current Grants and Subsidies	1 805	1 878	1 998	2 003	2 074	2 137	2 212
Capital Grants	84	75	69	68	68	69	69
Sales of Goods and Services	81	85	95	92	92	92	92
Interest Income	18	15	20	17	17	17	17
Other	127	101	114	114	107	109	98
Total Revenue	2 361	2 407	2 558	2 557	2 625	2 697	2 767
Year on Year Percentage Increase (%)			8.3	0.0	2.6	2.8	2.6

Total operating revenue for the general government sector is expected to decrease by \$1 million to \$2 557 million in 2004-05.

Over the forward estimates period, on average, total Territory revenue is expected to increase by approximately 2.7 per cent per annum to \$2 767 million in 2007-08. Table 3.3 provides details of actual Territory revenue for 2002-03 and estimates for 2003-04 and forward years.

In 2003-04, estimates of total Territory revenue have increased significantly. At the time of the Territory's Mid Year Report, total Territory revenue had increased by \$48 million to \$2 455 million. This increase was mainly due to higher GST revenue estimates (\$41M), following revised Commonwealth estimates for the national GST revenue pool available for distribution.

Following the Mid Year Report, total Territory revenue for 2003-04 has been revised upwards to \$2 558 million. This reflects a number of changes to revenue estimates including higher GST revenue (\$51 million), other Commonwealth grants (\$19 million), property taxes (\$9 million), sales of goods and services (\$8 million) and tax equivalents (\$14 million) from Territory public financial and non financial corporations.

Total Taxation

During 2003-04, general government taxation revenue estimates have increased by \$8 million to \$262 million. This has been due to increased activity in the residential and commercial property markets, offset by a reduction in payroll collections.

In the 2004-05 Budget, taxation is projected to increase by \$2 million to \$264 million. This increase is minimal due to the increase in the payroll tax threshold and an expected reduction in conveyancing duty.

Changes to taxation revenue estimates for 2004-05 are based on:

- stronger employment growth, offset by reductions in the payroll tax threshold resulting in a \$5 million increase in payroll tax estimates; and
- the effect of slower property market activity in 2004-05 resulting in a reduction in property tax revenue (\$3 million).

In the forward estimates period, forecast collections are expected to grow by 1.2 per cent in 2005-06, 2.1 per cent in 2006-07, and 2.0 per cent in 2007-08 and incorporate the effect of:

- changes in economic growth forecasts;
- the increase in the payroll tax threshold from \$800 000 to \$1 million from July 2005;
- the cessation of the community gaming allowance tax offset for MGM Darwin Casino from 1 July 2005; and
- the abolition of debits tax on 1 July 2005.

Grants and Subsidies

Estimates of total grants and subsidies are expected to increase by 0.2 per cent (or \$4 million) to \$2 071 million in 2004-05 from 2003-04. This comprises an \$8 million increase in GST revenue offset by a \$4 million decrease in other grants and subsidies.

GST Revenue

The GST revenue estimates used in the 2004-05 Budget reflect the Territory's estimates of population growth, the Territory's (reduced) 2004 relativity and the Commonwealth's latest estimates of GST revenue and growth (based on the 11 May 2004 Commonwealth Budget estimates).

While all jurisdictions believe that this growth is likely to be too high, only the Commonwealth has access to GST collections data, and therefore all jurisdictions have agreed to use these estimates.

There is a risk to all jurisdictions in using the high Commonwealth estimates, however, the risk for the Territory is much greater due to the greater reliance on GST revenue.

In 2004-05, the risk is considered minor, however, the downside risk in the forward estimates period increases from \$36 million in 2005-06 to \$68 million in 2007-08. This is dealt with more fully in the Statement of Risks later in the chapter.

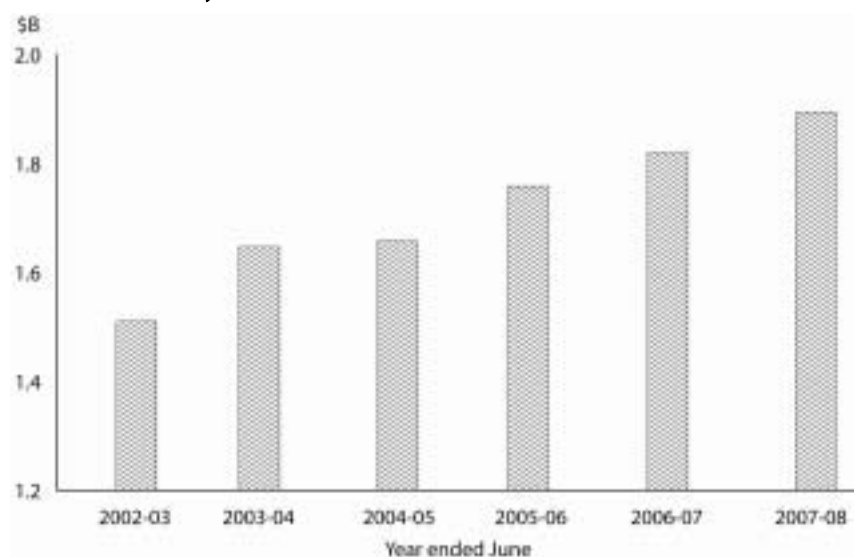
The Territory's GST revenue is expected to increase by 0.5 per cent to \$1 693 million in 2004-05. Low GST revenue growth for the Territory is the result of relatively low population growth and the lower 2004 relativity resulting in a reduced share of the national GST revenue pool.

A trend towards lower population growth has been evident in the Territory for a number of years. In addition, the Commonwealth Grants Commission recently completed its five yearly review of state and territory relativities which resulted in a reduction in the Territory's relative share of GST revenue.

While increases in the size of the national GST revenue pool have offset negatives in the other two parameters to some extent, the combined effect of lower population growth and relative share have resulted in the Territory receiving a minimal increase in GST revenue in 2004-05, from an increased national GST revenue pool. This has resulted in a lower level of growth in GST revenue in 2004-05 and the forward estimates period, compared to the rate of growth in GST revenue experienced since the introduction of national tax reform in 2000-01.

Chart 3.1 shows actual and projected Territory GST revenue from 2002-03 to 2007-08.

Chart 3.1: Territory GST Revenue



Based on Commonwealth estimates, GST revenue is expected to increase to \$1 750 million, \$1 819 million, and \$1 889 million in 2005-06, 2006-07 and 2007-08 respectively. This represents the effect of a stable but declining relative GST revenue share, increased population growth, and average growth of 5.7 per cent in the national GST revenue pool. The downside risk is discussed later in this chapter. For more information on GST revenue, see Chapter 5 of this Budget Paper.

Other Grants and Subsidies

Other current grants and subsidies include untied grants (over which the Territory has discretion as to their use) and tied funding (which it does not).

The Territory is expected to receive \$378 million in other grants and subsidies in 2004-05 which is a 1.2 per cent decline on 2003-04. This represents the effect of changing priorities in Commonwealth policy areas. In the forward estimates, other current grants and subsidies are expected to increase to \$391 million, \$387 million and \$392 million in 2005-06, 2006-07 and 2007-08 respectively. This reflects the effect of various parameters (population, inflation, wage costs, etc.) which are stipulated in some of the agreements.

Other Revenue

The remaining 9 per cent of total Territory general government revenue comprises sales of goods and services, interest, dividends from government businesses, tax equivalents, royalties and other revenue.

Other revenue has increased by \$28 million to \$229 million since the 2003-04 Budget. This represents the effect of increased goods and services revenue (\$9 million), interest income (\$5 million) and other revenue (\$14 million). Significant changes include:

- interest income has increased due to higher interest rates and cash balances; and
- tax equivalents from public financial and non financial corporations have been revised upwards since the Budget.

In 2004-05, other revenue is expected to decrease from 2003-04 by 2.6 per cent (or \$6 million) to \$223 million. This represents the effect of lower goods and services revenue (-\$3 million) and lower interest income (-\$3 million).

Operating Expenses

Operating expenses have increased since the 2003-04 Budget largely due to policy decisions taken through the year. Major initiatives in 2004-05 include:

- additional funding of \$2.5 million for tourism;
- additional schools funding of \$13 million in 2004-05 for the final stage of the employment of an additional 100 teachers, accelerated literacy programs, continuation of the previously Commonwealth-funded Aboriginal Islander Education Workers program, and improved information technology infrastructure for schools;
- increased funding for community safety programs of \$15.1 million in 2004-05 to increase front-line police numbers, strengthen fire services, enhance counter terrorism capability, reduce offender recidivism and provide additional funding to the justice system. This is in addition to increased funding of \$11.6 million in 2003-04 for additional resource requirements as recommended in the O'Sullivan Review of Police Resourcing and the Northern Territory Fire Service Assessment Report and additional funding for the Safe Pool Grant Scheme; and
- additional Health and Community Services funding of more than \$23 million in 2004-05, including \$2 million for Alice Springs Hospital intensive care and high dependency acute care services, \$2.5 million for Royal Darwin Hospital critical care services, \$2.6 million for mental health, \$2 million for disease control, \$1.4 million for child protection, \$1.2 million for disability services and \$3 million for renal dialysis in remote communities.

Table 3.4 shows general government sector operating expenses for 2002-03 and estimates for 2003-04 and forward years.

Table 3.4: General Government Operating Expenses

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Depreciation	125	133	138	141	144	147	150
Employee Expenses	937	960	979	1 000	1 031	1 066	1 100
Other Operating Expenses	600	625	611	661	713	723	726
Nominal Superannuation							
Interest Expense	82	84	87	89	91	91	92
Other Interest Expense	144	137	142	128	121	121	127
Current Transfers	414	415	483	495	499	509	519
Capital Transfers	60	52	70	55	56	57	59
Total Expenses	2 362	2 405	2 509	2 569	2 655	2 715	2 772
Year on Year Expenditure Growth (%)			6	2	3	2	2
Average growth 2002-03 to 2004-05 (%)				4			

General government sector operating expenses are expected to increase by 2.4 per cent in 2004-05 from 2003-04, however, 2003-04 includes significant one-off expenditure, particularly carry over from 2002-03.

Therefore, a more appropriate method of calculating expenditure growth for 2004-05 is to use average expenditure growth since 2002-03.

Employee Expenses

During 2003-04, employee expenses have increased by \$19 million. Major variations include:

- additional police resources (\$5 million);
- additional resources for health (\$18 million) with a large proportion of the increase due to the outcome of the nurses and doctors enterprise bargaining outcomes (\$8.3 million); and
- additional resources for the Department of Community Development, Sport and Cultural Affairs (\$5.2 million) including additional employees for a number of new initiatives.

In 2004-05, employee expenses are expected to increase by \$21 million since the 2003-04 Budget, an average increase of 3.4 per cent, when one-offs are removed, which is in line with wages growth and the stepping up of new initiatives approved during 2003-04. Other major variations include additional police resources (\$8.4 million).

Over the forward estimates period, employee expenses are expected to increase by 3.1 per cent, 3.4 per cent and 3.2 per cent in 2005-06, 2006-07 and 2007-08 respectively.

Other Operating Expenses

During 2003-04, estimates for other operating expenses have decreased by \$14 million. Major variations include:

- additional resources for health (\$8 million), including increased operational funding for hospitals;
- additional resources for Police, Fire and Emergency Services (\$5 million), largely as a result of the Police Resources Review implementation;
- additional resources for the Northern Territory Tourist Commission (\$7.5 million); and

- reclassification of the Indigenous Essential Services power and water fee to an operational grant (-\$35.7 million).

In 2004-05, other operating expenses will increase by \$49 million from 2003-04 as a result of new initiatives commencing in 2004-05 and increases in those approved during 2003-04.

Current Transfers

During 2003-04, current transfers are expected to increase by \$69 million largely due to the reclassification of the Indigenous Essential Services payment to PowerWater from other operating expenses to grants and an increase in specific purpose payments with associated expenditure commitments.

In 2004-05, current transfers will increase by \$12 million largely due to an increase in the community service obligation payment to PowerWater for the Tranche 4 electricity community service obligation.

Capital Transfers

Capital transfers estimates have increased by \$18 million since the 2003-04 Budget. Major variations include:

- \$4.4 million for renewable remote power generation funded by the Commonwealth;
- an additional \$6 million for various capital grants paid by the Department of Community Development, Sport and Cultural Affairs; and
- \$3.8 million to PowerWater to provide electricity to Dundee.

In 2004-05, estimates for capital transfers have decreased by \$7 million as a result of one-off grants being paid in 2003-04.

Balance Sheet

Table 3.5: General Government Sector Balance Sheet

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Total Assets	5 694	5 688	5 657	5 650	5 675	5 703	5 758
Total Liabilities	3 784	3 637	3 720	3 732	3 783	3 822	3 868
Net Worth (Assets - Liabilities)	1 910	2 051	1 937	1 918	1 892	1 881	1 890
Net Debt	1 344	1 412	1 299	1 290	1 295	1 294	1 289
Year on Year Change in Net Debt (%)			- 45	- 9	6	- 1	- 5

The Government's actual and projected stock of assets and liabilities as at 30 June each financial year are recorded in the Territory's Balance Sheet. A comprehensive measure of the position of these assets and liabilities is net worth, which comprises total assets less total liabilities. Positive net worth indicates that the Territory Government has more assets at its disposal than liabilities it must satisfy in the future. While net worth is a useful measure of the Territory's financial position, it does not take account of the inability of governments to realise certain assets should they be called upon by creditors. This leads to the use of supplementary measures in the public sector to gauge financial position such as net debt.

Table 3.5 provides a summary of general government sector assets, liabilities and balance sheet measures. Net worth for the general government sector is expected to decline from \$1 937 million in 2003-04 to \$1 918 million in 2004-05, representing changes in the value of asset and liability stocks (\$19 million).

In 2004-05, general government net debt is expected to decrease by \$9 million to \$1 290 million reflecting the effect of the revaluation of net debt stocks.

As discussed previously, the non financial public sector provides a more comprehensive basis for balance sheet analysis as set out in Table 3.7 below.

Non Financial Public Sector

Operating Statement

Table 3.6: Non Financial Public Sector Operating Statement Aggregates and Measures

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	2 679	2 801	2 951	2 953	3 040	3 122	3 209
Expenses	2 653	2 756	2 879	2 958	3 059	3 128	3 195
Net Operating Balance	27	46	72	- 5	- 20	- 6	14
Net Acquisition of Non Financial Assets	72	13	70	64	8	13	18
Net Lending (+) / Borrowing (-)	- 46	32	2	- 69	- 28	- 19	- 4

As shown in Table 3.6, the non financial public sector net operating statement largely follows the trend for general government. However, net lending peaks in 2004-05 due to high levels of capital expenditure by public non financial corporations in that year. In the forward estimates period, public non financial corporations operating surpluses are expected to fund that sector's capital acquisition program.

However, continuing general government operating deficits will ensure the continuation of net lending / borrowing deficits for the non financial public sector.

Balance Sheet

Table 3.7: Non Financial Public Sector Balance Sheet

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Financial Assets	962	785	896	885	917	946	958
Non Financial Assets	5 353	5 575	5 370	5 414	5 408	5 407	5 411
Total Assets	6 315	6 360	6 266	6 300	6 326	6 353	6 369
Total Liabilities	4 405	4 309	4 329	4 382	4 433	4 473	4 479
Net Worth (Assets - Liabilities)	1 910	2 051	1 937	1 918	1 892	1 881	1 890
Net Debt	1 723	1 825	1 681	1 717	1 724	1 722	1 713
Year on Year Change in Net Debt (%)			- 42	36	7	- 1	- 9

Table 3.7 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector. Non financial public sector net worth is expected to decline from \$1 937 million in 2003-04 to \$1 918 million in 2004-05. This represents the effect of a number of events including:

- a non financial public sector cash deficit;
- ongoing efforts to revalue the Government's non financial assets to more realistic levels; and
- the effect of Government policy such as the abolition of the HIH levy which has reduced the level of Territory receivables.

Over the forward estimates period, principally due to the effect of ongoing cash deficits, net worth is expected to decline slightly to \$1 890 million in 2007-08.

Net Debt

Debt finance is an important source of funding for publicly provided infrastructure.

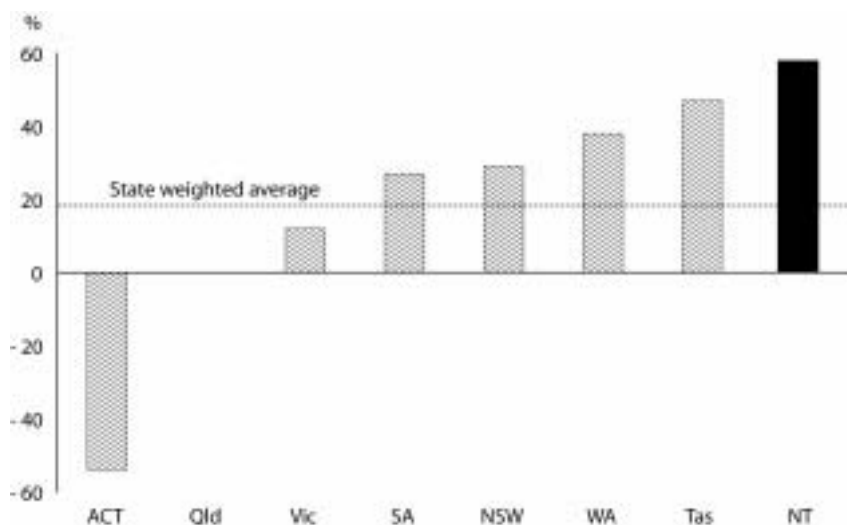
In 2004-05, net debt is expected to increase by 2.1 per cent to \$1 717 million as the result of a \$45 million cash deficit for the non-financial public sector, offset by net debt stock revaluations of \$9 million. As with the other key financial measures, net debt is expected to plateau in 2005-06 and then begin to improve over the forward estimates period.

In 2003-04, net debt is expected to improve by \$144 million from the time of the 2003-04 Budget to \$1 681 million. This is the result of the improved cash estimate for 2003-04 and final outcome for 2002-03.

The Territory's current level of debt is high compared to other states. The Territory is still a developing economy which has required, and will continue to require, debt financing to further develop the Territory's social and physical infrastructure. Other states, with more mature economies, have been able to reduce debt by privatising government businesses. In the Territory's case, this has not been possible, as Territory specific factors (eg market size) limit private sector involvement.

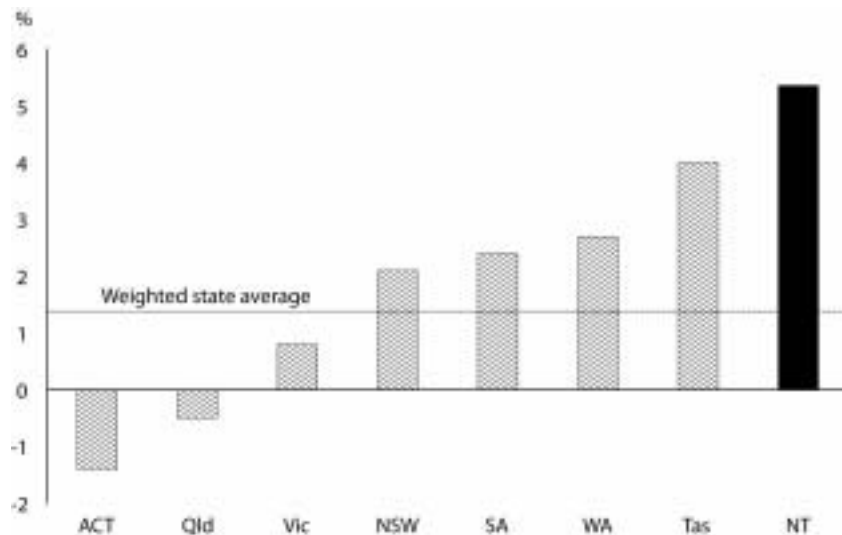
The proportion of net debt to total Territory revenue provides a meaningful measure of the Territory's debt position compared to other states. As shown in Chart 3.2, in 2003-04, the Territory's proportion of net debt to total revenue is expected to be 58 per cent compared to the states average of 19 per cent of total revenue. While this shows the Territory has a high level of debt compared to the states, the Territory has a similar level of debt to that of Tasmania (47 per cent).

Chart 3.2: Non Financial Public Sector Net Debt to Revenue 2003-04



Another measure of debt sustainability is the ratio of net interest payments to net revenue. This measure nets interest receipts from revenue and interest payments to provide a comparative measure of serviceability. As shown in Chart 3.3, in 2003-04, the Territory's ratio of net interest to net revenue is expected to be 5.4 per cent. Similar to net debt, this ratio is similar to that of Tasmania (4.0 per cent), but significantly higher than the State average of 1.4 per cent. While this indicates that the Territory has less budget flexibility than other states due to a higher level of interest payments, Territory interest payments are maintained at manageable levels.

Chart 3.3: Non Financial Public Sector Net Interest Payments to Net Revenue 2003-04



Statement of Risks

The *Fiscal Integrity and Transparency Act* 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

GST Revenue

In the 2004-05 Budget, one of the largest risks to the estimates is GST revenue. GST revenue contributes 66 per cent to the Territory’s total revenue base. Therefore, movements in estimates have a significant effect on the Government’s funding capacity.

The estimation of GST revenue is difficult in any year due to the potential volatility of the components that contribute to the GST distribution calculation. These factors are:

- the Territory’s population;
- the relative need for budgetary assistance compared to other states; and
- the level of, and growth in, national GST revenue collections.

In developing the 2004-05 Budget and forward estimates, the estimates for population and relative share of the GST pool have been based on the latest Territory estimates. However, the level of GST revenue collections and the growth in those collections is based on Commonwealth estimates.

Growth in GST Revenue Collections

The Commonwealth does not provide the basis for its estimates to the states and territories and as only it has access to GST revenue collections data, its estimates are all that is available to jurisdictions. Therefore, while all jurisdictions are of the view that the Commonwealth’s current GST revenue estimates are likely to be too high, all jurisdictions have agreed to use those estimates as there is no authoritative alternative.

For the Northern Territory, the downside risk of using these high estimates is greater than for other jurisdictions due to the extent of the Territory's reliance on GST revenue. The potential risk to the estimates is minimal in 2004-05 (\$4 million), however, the risk increases significantly in 2005-06, 2006-07 and 2007-08 with the potential to worsen the outcome by up to \$36 million, \$53 million and \$68 million respectively.

While there is a possibility that GST revenue may increase rather than decrease in the forward estimates, this is considered less likely.

A more reliable estimate of GST revenue is unlikely to be available until the update provided at the Treasurers Conference in March 2005.

Population

In estimating GST revenue for the Budget and forward estimates, the Territory's population estimates have been used. While population is difficult to project, the estimates are more reliable, relative to the estimates of GST revenue collections. A variation in population of 0.25 per cent equates to around +/- \$5 million. While the Territory's population has been revised down in recent years, this does not preclude the possibility of higher than expected population growth as net interstate migration flows return to historical levels.

Relativity

The Commonwealth Grants Commission released its 5 yearly report on the review of relativities in February 2004. The relativity used for the forward estimates in the 2004-05 Budget already includes the likelihood of a reduction in the GST relativity from 2005-06. This accounts for the cyclical pattern of relativities and the slowing of property markets in southern states which are factors likely to reduce the Territory's relativity. There is some risk that the relativities used in the forward estimates will vary.

The outcome of the Commonwealth Grants Commission's updates are inherently uncertain. Based on the outcome of previous updates following the Commission's 1999 Review, the estimated risk from 2005-06 onwards is +/- \$20 million.

Specific Purpose Payments

Specific purpose payment agreements pose risks to state budgets in several ways. Importantly, the budgetary flexibility of state governments is restricted by certain features of specific purpose payment agreements, such as matching and maintenance of effort provisions, which are used by the Commonwealth to leverage its own financial contributions.

Inadequate indexation of specific purpose payment grants can also cause pressure on state budgets, particularly where the injection of Commonwealth specific purpose payment funding generates a rate of growth in demand for services which is more rapid than the rate of growth in Commonwealth funding.

Through fixed-term specific purpose payment agreements, it is also possible for the Commonwealth to seed-fund programs, leaving state governments to meet their financial burden when the original agreements expire. The level of risk in this instance cannot be quantified.

Own-Source Revenue

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

the performance of the various economic factors and indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment and prices.

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 conveyance stamp duty, as it is linked to activity in the property market, which can be volatile. It is considered that the unusually high activity in the property market experienced in 2003-04 will not be sustained throughout 2004-05, however, the extent and timing of any drop in activity is difficult to predict and could have a significant impact on conveyance stamp duty collections.

It is estimated that a variation of +/- 1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$3 million for 2004-05.

Expenses

The forward estimates for expenses are based on known policy decisions, with adjustments for parameters. The parameters used in the 2004-05 Budget are wages growth of 3 per cent, inflation of 2.1 per cent and a productivity dividend of 2 per cent for 2004-05 and 1 per cent from 2005-06.

The most significant risk to these estimates on the expense side are potential decisions with financial implications, not yet factored into the Budget. Management of budget pressures in health and education, particularly, will continue to be a challenge.

A potential risk in the estimates is the commercial negotiations to be undertaken during 2004-05 in regards to the Darwin City Waterfront redevelopment. All public private partnership negotiations are complex and vary according to the commercial imperatives associated with the project. However, the Territory has expertise in such negotiations and has engaged appropriate expert advisors to mitigate any risk in the negotiations.

The other possible risk is in relation to the Northern Territory Public Sector enterprise bargaining agreement due to be renegotiated later this year. Other agreements to be negotiated in 2004-05 include the police enterprise bargaining agreement and the teachers enterprise bargaining agreement. An increase of 1 per cent equates to around \$10 million in additional expenses.

Contingent Liabilities

Contingent liabilities are costs that the Government is required to meet should a particular event occur. Usually, contingent liabilities consist of guarantees and indemnities, as well as legal and contractual claims and constitute a risk to the Territory's financial position.

Details of estimated amounts at 30 June 2003 of material contingent liabilities resulting from guarantees or indemnities include:

- Amadeus Basin to Darwin Gas Pipeline (\$291 million);
- Pine Creek/McArthur River Electricity Purchase Agreements (\$106 million);
- Alice Springs to Darwin Railway (\$25 million);
- Territory Insurance Office (\$625 million); and
- Public Trustee Common Fund (\$25 million).

For more information on contingent liabilities, refer to Chapter 7 of this Budget Paper.

Budget Initiatives

Highlights

- Initiatives in the 2004-05 Budget to support economic development and business include tax reductions worth \$6.7 million, increasing to \$16.1 million in 2005-06, \$7.5 million additional funding for tourism in 2003-04, increasing to \$10 million in 2004-05, stage 1 of two major tourism infrastructure projects – \$10 million for the Mereenie Loop road in Central Australia and \$4.5 million for the Litchfield Loop road in the Top End – and \$1.5 million for the Indigenous Economic Development Strategy. The Capital Works Program also includes key economic infrastructure projects for East Arm Port totalling \$19.3 million and the Darwin City Waterfront redevelopment, including a cruise ship terminal, totalling \$8.5 million.
- Jobs and training initiatives announced since the 2003-04 Budget in May 2003 include \$0.8 million in 2003-04, rising to \$2.6 million in 2004-05, for the Jobs Plan, \$3 million to Charles Darwin University Alice Springs campus, \$1 million for the Northern Territory Public Sector Remote Workforce Strategy and \$1 million to establish a Territory Research Fund.
- Community safety has been enhanced with \$15.1 million additional funding in 2004-05 to increase front-line police numbers, strengthen fire services, enhance counter terrorism capability, reduce offender recidivism and provide additional funding to the justice system.
- There has been a \$13.1 million boost to schools funding in 2004-05, as well as \$4 million in new capital projects for school upgrades.
- Department of Health and Community Services funding has been boosted by more than \$23 million in 2004-05, including \$2 million for Alice Springs Hospital intensive care and high dependency acute care services, \$2.5 million for Royal Darwin Hospital critical care, \$2.6 million for mental health, \$2 million for disease control, \$1.8 million for child protection, \$1.2 million for disability services and \$1.5 million for renal dialysis in remote communities, plus \$2.5 million on the 2004-05 Capital Works Program for the Darwin Birth Centre.
- There are a number of initiatives to enhance lifestyle and the environment in 2004-05, including an increase to sports grants of \$0.5 million, \$0.7 million for festivals and events, \$0.9 million for environment-related initiatives, \$0.5 million for multicultural community facility grants and \$2.8 million for public transport. Headworks for the Palmerston Recreation Centre, the soccer stadium and the Katherine Cultural Centre are also included in the capital works program.
- Regional initiatives in 2004-05 include \$13 million for construction and upgrading of Government employee housing in regional centres and remote areas, and an additional \$0.5 million for Indigenous Essential Services.
- 2004-05 also sees full implementation of the Government's election commitments outlined in Labor's Financial Statement and funded in the 2001-02 Mini Budget, including increases to teacher and nurse numbers.

Overview

This chapter summarises the Government's new and expanded initiatives for expenditure and revenue included in the 2004-05 Budget, along with the significant new works on the 2004-05 Capital Works Program.

Expenditure initiatives, including operating and capital payments, are either one-off or ongoing in nature. The Capital Works Program shows the total cost of each project, often completed over more than one year, and therefore does not

necessarily represent an expenditure commitment for a financial year. Initiatives in this chapter are presented according to the Government's priority areas of:

- Economy and Business;
- Jobs and Training;
- Community Safety;
- Schools;
- Health;
- Lifestyle and Environment; and
- Regional Initiatives.

For a list of initiatives and capital projects, including capital works projects continuing from 2003-04, by agency see *Budget Paper No. 3* and *Budget Paper No. 4*.

A more detailed discussion of revenue initiatives including changes in procedures as well as revenue policy changes, is also presented in this chapter.

Economy and Business

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Increases in Payroll Tax Threshold		4.0	7.2	7.2	7.2
Cease HIH levy		2.7	2.7	2.7	2.7
Abolish Debits Tax			6.2	6.5	6.5
Domestic Investment Missions		1.0	1.0	1.0	1.0
Investing in Territory Tourism	7.5	10.0	10.0	10.0	10.0
Indigenous Economic Development	0.4	1.5	1.5	1.5	1.5
Indigenous Arts Strategy	1.0	1.1	1.1	1.1	1.1
Total Initiatives	8.9	20.3	29.7	30.0	30.0

- In accordance with the Government's election commitment to reduce the payroll tax burden on businesses, the payroll tax general exemption threshold is to increase to \$1 million over the next two years. From 1 July 2004, the threshold will increase from \$600 000 to \$800 000 and then to \$1 million from 1 July 2005. This change is expected to reduce payroll tax collections by \$4 million per year from 1 July 2004 and by a further \$3.2 million per year from 1 July 2005. These reductions will benefit over 1400 businesses.
- This means 83 businesses (comprising 66 locally-based businesses and 17 interstate-based businesses) will not pay payroll tax from 1 July 2004 and a further 79 (including 61 locally-based Territory businesses and 18 interstate-based businesses) from 1 July 2005. Locally-based Territory businesses still paying payroll tax after 1 July 2005 will save around \$20 500 each year.
- The HIH levy is to cease being levied on workers' compensation insurance policies written or renewed on or after 18 May 2004. With the cessation of the levy, the Government will meet the remaining liability, estimated at around \$22 million over the next seven to eight years, saving more than 6 600 employers \$2.7 million in levy contributions. This will mean that the Government, assisted by reinsurance recoveries, will meet an estimated 90 to 95 per cent of the total outstanding workers' compensation liability left by the collapse of HIH.
- Debits tax will be abolished from 1 July 2005 as part of national tax reform, reducing Territory tax collections by \$6.2 million in 2005-06 and \$6.5 million in 2006-07.

- A new independent taxation and mineral royalty administrative appeals tribunal is to be established in 2004-05 to provide an alternative and inexpensive option to appeal decisions following taxpayers' objections to a tax or royalty assessment. The current appeal route is the Supreme Court.
- \$1 million ongoing funding from 2004-05 for domestic investment missions and associated investment campaigns to market the Territory interstate.
- A further \$2.5 million for tourism in 2004-05, bringing the funding level to \$10 million, to undertake additional marketing, tourism industry development and other support activities.
- Funding of \$0.4 million in 2003-04 and \$1.5 million from 2004-05 for the Government's long-term strategy for Indigenous Economic Development. The strategy seeks to assist the economic development of Indigenous people through the provision of jobs and enterprise creation, and includes funding for specific strategies for the horticulture, fisheries and pastoral industries.
- Funding of \$1.1 million per annum has been allocated to the Northern Territory's Indigenous arts strategy, Building Strong Arts Business. This strategy will support sustainable Indigenous arts development through export and employment opportunities, initiatives to develop Indigenous performing arts and cross-border partnerships.

In addition, the following Economy and Business initiatives will be funded by a reallocation of resources.

- The production of a Seniors' Card Tourism and Leisure Directory, at a cost of \$0.56 million, will ensure Territory businesses are promoted to both local and interstate seniors.
- An integrated business services channel, called Territory Business Channel, will be further developed at a cost of \$0.8 million over two years to provide online businesses information, licensing, registration and payments and other internet-based transactions between businesses and the Government.
- \$0.35 million for implementation of the Business and Skilled Migration Strategy to attract skilled workers and businesses from overseas.
- Making it in the Territory, the Territory's manufacturing industry strategy, will be implemented in partnership with industry and unions.

Following are the new capital works projects for 2004-05 for Economy and Business.

2004-05 Major New Capital Works Projects	\$M
Darwin City Waterfront redevelopment – stage 2, ongoing decontamination and demolition works and electrical works	6.0
Fort Hill Wharf – cruise ship terminal incorporating appropriate all weather access, shelter and related facilities	2.5
Construction and upgrade of roads and bridges on national highways	13.6
Mereenie Loop – stage 1, including Namatjira and Larapinta Drives, various reconstruction and sealing works	10.0
Litchfield Loop – stage 1, seal first 9 kilometres of the Litchfield Park Road from Cox Peninsula Road turnoff and extend Park boundary seal 6 kilometres	4.5
Tanami Road – selected flood immunity upgrading and sealing	1.0
East Arm Port – stage 2, oil pipelines providing the necessary infrastructure to transfer fuel from the new bulk liquids terminal	10.3
East Arm Port – bulk loading facility	7.0
East Arm Port – incinerator to manage quarantine and hazardous waste	2.0
Darwin – mineralised drill core building, including a core-handling workshop	0.4

Jobs and Training

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Charles Darwin University – Alice Springs Campus	3.0				
Jobs Plan – Labour Market Program	0.8	1.6	1.6	0.8	
Jobs Plan – Northern Territory Public Sector Trainees		1.0	1.0	1.0	
Footprints Forward	0.2	0.2			
NTPS Remote Workforce Development Strategy	1.0	1.0	1.0	1.0	1.0
Establishment of a Territory Research Fund	1.0				
Total Initiatives	6.0	3.8	3.6	2.8	1.0

- Additional one-off grant funding of \$3 million in 2003-04 for Charles Darwin University to build a higher education facility in Alice Springs (\$2.5 million) and to meet additional costs associated with the merger of Centralian College and Charles Darwin University (\$0.5 million).
- A further \$0.8 million, to a total of \$1.6 million in 2004-05, for the introduction of new labour market programs. The Jobs Plan – Building the Northern Territory Workforce strategic framework aims to maximise employment opportunities for Territorians.
- \$1 million per annum over three years to manage public sector employment of an additional 200 trainees as part of the Jobs Plan. This initiative will attract an additional \$0.49 million in Commonwealth funding.
- Additional Government financial assistance of \$0.4 million in 2004 for Footprints Forward to assist with employment opportunities for Indigenous youth in Alice Springs.
- \$1 million ongoing for the Northern Territory Public Sector Remote Workforce Development Strategy, to attract and retain teachers, nurses and other Government service providers in remote areas.
- Additional \$1 million one-off in 2003-04 to establish a research fund to support projects recommended by the Territory's new Research and Development Council over the next three years. The fund will be administered through the Charles Darwin University.
- Resources will be reallocated for a new NT WorkSafe Information System to improve administration and management of claims, insurance policies, occupational licences and workplace visits documentation.
- Work has commenced on the \$30 million project for the Desert Knowledge Precinct, and will continue through 2004-05 and 2005-06.

Community Safety

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Police Resources Review	9.8	16.5	20.4	28.2	28.0
Adult Custodial Services Review		3.1	5.2	5.5	4.8
Increased caseload for Public Prosecutions		0.1	0.1	0.1	0.1
Increased demand in the Courts system		1.3	1.3	1.3	1.3
Increased prison costs		2.6	2.6	2.6	2.6
Community Justice Centre trial		0.1			
Safe Pool Grant Scheme	1.4	0.8	0.7	0.7	0.7
Counter terrorism initiative		0.4	0.3	0.3	
NT Fire Service Assessment Report	0.3	0.8	0.8	0.5	0.5
Extra Fire Officers		0.6	0.6	0.6	0.6
Arnhem Land Fire Control		0.2	0.2	0.2	0.2
Volunteer Bushfire Brigades		0.3	0.3	0.3	0.3
Total Initiatives	11.5	26.8	32.5	40.3	39.1

- A further \$6.7 million has been provided in 2004-05, increasing to a total of \$28 million ongoing by 2007-08, to fund additional resource requirements recommended in the O'Sullivan Review of Police Resourcing which include:
 - increasing the number of uniformed police on the street;
 - measures to accelerate recruitment and minimize attrition;
 - improving conditions of service, and
 - enhanced capital replacement and maintenance funding.
- A further \$0.2 million in 2004-05 and 2005-06, to a total of \$0.5 million per annum, for the development and implementation of a marketing plan to support the recruitment of Territorians into the police force as part of a four year strategy to address issues outlined in the O'Sullivan Review.
- Funding of \$3.1 million in 2004-05 to implement the recommendations of the Review of Adult Custodial Services in the Northern Territory.
- Funding increase of \$0.1 million from 2004-05 onwards has been allocated for additional prosecutorial services for increased sitting hours and an extension of sittings to new locations.
- Funding to meet increased demand in the court system \$1.3 million will be provided from 2004-05.
- Additional funding of \$2.6 million from 2004-05 will be allocated to Adult Custodial Services for increases in staffing, medical services and operational costs.
- One-off funding in 2004-05 of \$0.1 million to extend the Community Justice Centre trial, which provides a mediation process for dispute resolution as an alternative to the traditional court system.
- Resources of \$0.84 million will be redirected for a partnership to be established between the Territory, the Commonwealth and the community to reduce the over-representation of Indigenous people in the criminal justice system, through rehabilitating and reintegrating repeat offenders and implementing diversion programs that address the causes of crime.
- \$1.4 million in 2003-04, \$0.8 million in 2004-05 and \$0.7 million ongoing has been provided for administrative and communications costs of the Safe Pool Grant Scheme, part of the Government's overall strategy to improve pool safety in the

community. In addition, \$5 million from 2004-05 onwards has been set aside for the Safe Pool Grant Scheme. This new scheme will assist pool owners with compliance costs associated with the revised Community Safety Standard.

- Provision of \$1 million over three years from 2004-05 to build on the Northern Territory's counter terrorism capability with training and equipment to enable an effective response to incidents in the Territory.
- Initial funding of \$0.3 million, to a total of \$0.8 million in 2004-05 and 2005-06 and \$0.5 million ongoing, to implement the recommendations of the Northern Territory Fire Services Assessment Report.
- Additional funding of \$0.6 million in 2004-05, to a total of \$1.5 million ongoing, to fulfil the Government's commitment to employ 16 additional fire officers.
- \$0.2 million from 2004-05 ongoing to establish a new Arnhem Land Fire Control Region to improve fire control and management services to the various Indigenous communities in Arnhem Land.
- \$0.3 million in 2004-05 ongoing for volunteer bushfire brigades to meet extra demand for services resulting from increased development in the rural area, the expanding role of brigades, and the need to provide additional training and other support services.

The following table presents the significant new capital projects for 2004-05 for Community Safety.

2004-05 Major New Capital Works Projects	\$M
Darwin Correctional Centre – low security facility including administration and program areas	8.0
Numbulwar – new police post comprising reception area, office, interview room, two cells, exercise area, and separate visitors' area and communications facilities	1.0
Batchelor, Maranboy and Ti Tree – modify and upgrade cells to meet contemporary standards	0.7

Schools

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Final Implementation of Mini Budget School Initiatives		3.5	3.5	3.5	3.5
Accelerated Literacy Program		1.3	1.3	1.3	1.3
Aboriginal Islander Education Workers		1.2	2.6	2.6	2.6
Improved IT in schools	2.0	2.0	2.0	2.0	2.0
Improving Bandwidth	0.3	0.3	0.3	0.3	0.3
Inclusion Support Assistance	0.3	0.3	0.3	0.3	0.3
Laptop Computers for Teachers	0.5	1.3	1.6	1.6	1.7
Furniture for Remote Teachers	1.0	0.8			
Equipment for Schools	1.0	0.5			
Schools in need Grants Program		0.3	0.3	0.3	0.3
Priority Education Team		0.3	0.3	0.3	
Non-Government Schools					
– Additional Assistance	0.6	0.6	0.6	0.6	0.6
– Capital and Interest Subsidy Scheme		0.5	0.5	0.5	0.5
Teacher Registration Board		0.5	0.4	0.4	0.4
Total Initiatives	5.7	13.4	13.7	13.7	13.5

- An additional \$3.5 million ongoing has been allocated in 2004-05 for the final phase of program expansions commenced in 2001-02. This includes the recruitment of 100 additional teachers over four years, the introduction of a student bursary scheme, the commencement of an alternative education provision scheme and the recruitment of additional school attendance officers. The total cost of the expanded programs will be \$10.9 million from 2004-05 onwards.
- Additional recurrent funding of \$1.3 million will expand the Accelerated Literacy program across Territory schools. The program is an intensive professional development model for teachers, designed to improve literacy levels and educational outcomes for students.
- Additional funding of \$1.2 million in 2004-05 and \$2.6 million ongoing will continue the Aboriginal Islander Education Workers program established in 1991 and previously funded by the Commonwealth. This will fund 44 full-time equivalent Aboriginal Islander Education Workers in urban Government schools who provide additional support to Indigenous students.
- Further commitment is made to improving information technology infrastructure in schools at a cost of \$2 million. This will continue the infrastructure support for major projects in place such as the Interactive Distance Learning and the Student Administration Management System, as well as information and communication technology professional development for teachers.
- Recurrent funding of \$0.3 million will expand bandwidth by 15 per cent (1.25Mbps) to increase schools' access to the internet.
- Recurrent funding of \$0.3 million to support an increased number of students with learning difficulties to access the Inclusion Support Assistance program.
- New funding will provide every Government classroom teacher with a laptop computer to strengthen teachers' computer literacy and increase access to online school resources. Around \$5 million will be spent over the next four years and \$1.7 million ongoing to implement this initiative.

- One-off funding of \$0.8 million is provided in 2004-05 to replace and upgrade domestic furniture in remote teacher housing. This funding follows \$1 million in the 2003-04 Budget for this purpose.
- Increased funding of \$0.5 million is allocated in 2004-05 to upgrade capital equipment in Government schools and community education centres. This supplements the existing pool for schools' minor equipment and repairs, and the one-off additional \$1 million provided in 2003-04 to address immediate equipment needs in schools.
- A new \$0.3 million grant program will commence in 2004-05 to provide additional financial assistance to Government schools in need to purchase equipment and fund projects.
- Additional funding of \$0.3 million per annum for three years is provided for the Priority Education Team to assist with public consultation and implementing initiatives to improve secondary education in the Territory.
- An increase of \$0.6 million ongoing from 2003-04 for additional financial assistance to non-government schools reflects increased education delivery costs associated with curriculum, special student services and information technology.
- Financial assistance to non-government schools under the Capital Assistance and Interest Subsidy Scheme increases by \$0.5 million ongoing to support new capital projects in non-government schools.
- As part of Government's pre-election commitments, a new independent Teacher Registration Board will be established in 2004-05 to enhance the status of the teaching profession and address teacher quality issues through a registration system and professional development function. While the board will receive revenue from teacher registration fees, Government assistance of \$0.28 million in 2004-05 and \$0.23 million ongoing will support the operations of the board.
- The \$7.2 million upgrade of Darwin High School will continue through 2004-05, as will consultation on the \$10 million secondary facility at Palmerston.

Resources will be reallocated for the following Schools initiatives.

- Support units in regional locations, each comprising two staff, will be established to improve living conditions for teachers in remote communities with dedicated support and service. A unit will be trialed in the Barkly region in 2004-05 and expanded to other regions in the following year if successful, at a cost of \$0.15 million in 2004-05 and \$0.75 million ongoing.
- Implementation of locally-developed, animation-based software, Marvin, to deliver education and health information in a range of Indigenous languages at a cost of \$0.18 million ongoing.
- Literacy and numeracy testing will be enhanced, for testing Years 3, 5 and 7 at a cost of \$0.61 million per annum. The enhanced program is currently being trialed and will be progressively rolled out across all schools during 2004-05.
- An updated strategic plan for Indigenous education (2005-2008), at a cost of \$0.25 million, will build on progress made from the *Indigenous Education Strategic Plan 2000-2004*, which was originally developed as a framework for implementing the Learning Lessons recommendations.

The following table presents the significant new capital projects for 2004-05 for Schools.

2004-05 Major New Capital Works Projects	\$M
Nakara Primary School – stage 1, redevelop to current design parameters and appropriately cater for 360 students	1.0
Alawa Primary School – stage 1, redevelop to current design parameters and appropriately cater for 360 students	1.0
Remote schools – stage 3, improvements and upgrades to various remote schools	2.0

Health

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Funding for Mental Health	1.1	3.7	5.2	5.2	5.2
Alice Springs Intensive Care/ High Dependency Unit		2.0	3.0	3.0	3.0
HIV/AIDS Treatment and Prevention		2.0	2.5	2.5	2.5
Child Protection Services	1.0	2.8	3.9	5.6	7.5
Disability Services		1.2	2.7	2.7	2.7
Dental Health		0.6	1.2	1.2	1.2
Renal Dialysis		1.5	3.5	4.0	4.5
RDH Emergency Department		2.5	2.5	2.5	2.5
Total Initiatives	2.1	16.3	24.5	26.7	29.1

- A further \$2.6 million in 2004-05, increasing to \$5.2 million by 2005-06 is provided, for essential mental health services. A range of community-based services will be developed to treat and support people who are at risk of experiencing, or are recovering from, an acute mental health episode.
- Additional recurrent funding of \$2 million in 2004-05, increasing to \$3 million in 2005-06, will expand intensive care services at Alice Springs Hospital to a combined intensive care/high dependency unit. The expanded unit will establish a minimum threshold enabling the recruitment of medical specialists, reducing the need to transfer critically-ill patients to Darwin or interstate.
- In 2004-05, a \$2 million HIV/AIDS treatment and prevention program enhancement will commence, increasing to \$2.5 million from 2005-06 onwards, to address health issues raised by the Bansemer Review.
- \$1.4 million is being reallocated in 2004-05 to commence phasing out single nurse posts. Four clinics will gain additional staff this year, including Kings Canyon, Titjikala and Yuelamu in Central Australia and Minjilang in the Top End.
- An increase of \$2.8 million from 2004-05 as part of a 10 per cent per annum increase in funding for child protection services over the next 5 years. \$1.4 million has been provided by way of additional funding; the balance is by way of redirection.
- \$1.2 million has been allocated in 2004-05, increasing to \$2.7 million ongoing in 2005-06, for disability services to improve generic and specialist services to people with a disability and their carers across the Territory.
- Oral health programs will receive an additional \$0.6 million in 2004-05, increasing to a total of \$1.2 million ongoing in 2005-06 to improve clinical dental services throughout the Territory.

- Additional funding of \$1.5 million in 2004-05, increasing to \$4.5 million in 2007-08, has been allocated for renal dialysis across the Territory.
- \$2.5 million additional funding has been provided to the Royal Darwin Hospital emergency department for critical care services.
- The following table presents the significant capital works projects for 2004-05 for Health.

2004-05 Major New Capital Works Projects	\$M
Darwin Birth Centre – appropriately designed birthing suites, ancillary services and facilities for staff, visitors and the public	2.5
Kalkaringi – construct a new health centre to improve primary health services to the community and surrounding region	1.5
Renal facilities – stage 2, appropriately designed renal units to provide local, community-based renal services at selected locations across the Territory	0.9
Alice Spring Hospital – fire safety upgrade	0.9
Tennant Creek Hospital – fire safety upgrade	0.8

Lifestyle and Environment

Budget Initiatives

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
'Bass in the Grass' Event		0.3	0.3	0.3	0.3
Relocation of Palmerston Magpies	2.0				
Katherine sports ground lighting	0.5				
Traeger Park grandstand	0.7	1.7			
Multicultural Facilities Grants		0.5	0.5	0.5	
AFL Match Support	0.3	0.3	0.3		
Sports Grants		0.5	0.5	0.5	0.5
Festival Support		0.4	0.4	0.4	0.4
Soccer Administration in the NT	0.6	0.1	0.1		
Leanyer Water Park		0.5	0.5	0.5	0.5
Litter Abatement Strategy	0.3	0.3	0.3		
Darwin Harbour Management Plan		0.4	0.1	0.1	0.1
Funding for Cane Toads Control		0.2	0.1	0.1	0.1
Public Transport	1.1	2.8	2.8	2.8	2.8
Environmental Grants		0.2	0.2	0.2	0.2
Parks Agenda	0.5	2.0	3.0	3.0	3.0
Total Initiatives	6.0	10.2	9.1	8.4	7.9

- \$0.3 million ongoing funding has been allocated to the 'Bass in the Grass' event to stage contemporary music concerts annually in both Darwin and Alice Springs.
- \$2 million will be provided in 2003-04 to the Charles Darwin University to facilitate the relocation of the Palmerston Magpies Football Club to the University's Palmerston campus.
- \$0.5 million will be paid in 2003-04 for lighting at the Katherine sports ground.
- \$0.74 million to commence construction of a grandstand at Traeger Park in 2003-04 and \$1.7 million to complete it in 2004-05.
- \$0.5 million in grants to improve ethnic community facilities under the new Multicultural Community Development Program.
- \$0.3 million from 2003-04 to stage Australian Football League matches at Marrara Oval in Darwin and at Traeger Park in Alice Springs and to fund players and coaches camps in the Territory.

- Sports grants to develop facilities and assist sporting and recreation bodies will be increased by \$0.5 million from 2004-05.
- An additional \$0.4 million per annum will support the Festival of Darwin, the Alice Springs Desert Song, the Garma Festival and the International Guitar Festival.
- Funding of \$50 000 in 2003-04 and \$0.1 million in 2004-05 and 2005-06 will boost soccer administration in the Northern Territory. In addition, funding of \$0.5 million has been provided in 2003-04 for a grants program to upgrade facilities used by junior soccer.
- Commitment to an expanded national and international sporting events program including cricket, football and hockey events.
- \$0.5 million ongoing from 2004-05 to manage and administer recreation services at Leanyer Water Park.
- \$0.3 million per annum is for three years for the Litter Abatement Strategy, as part of the agreement with the Beverage Industry Environment Council (BIEC).
- \$0.4 million in 2004-05 and \$0.1 million ongoing is for the Darwin Harbour Regional Plan of Management.
- \$0.2 million in 2004-05 is provided and \$0.1 million ongoing to control the effects and the spread of cane toads in the Territory. Current year funding consists of a one-off payment to contribute to the development of cane toad traps and ongoing funding for a biological solution being researched by CSIRO.
- Additional funding of \$1.1 million in 2003-04 will increase to \$2.8 million ongoing from 2004-05 to boost public transport services.
- \$0.2 million from 2004-05 ongoing for a new environment protection grants program will provide funding to community-based environmental organisations.
- Resources will be redirected to implement the Northern Territory Heritage 2010 Package for planning and maintenance for all Territory heritage assets.
- Additional funding of \$1.5 million in 2004-05 increasing to a total of \$3 million in 2005-06 has been allocated to implement the Government's Parks Agenda.
- The following table presents the significant new capital projects for 2004-05 for Lifestyle and Environment.

2004-05 Major New Capital Works Projects	\$M
Hidden Valley Raceway – remedial works relating to overall safety standards	1.0
Headworks for Palmerston Recreation Centre, Darwin Soccer Stadium and Katherine Cultural Precinct	2.8
Construct general-purpose public housing in Alice Springs	1.0
Community renewal of public housing in urban centres	3.0
Security screens for public dwellings to improve the safety of tenants	1.5
Community Harmony Strategy – short term accommodation and day centres	1.6
Urban enhancement and heritage program	3.0
Mt Johns Valley – stage 1, headworks for residential subdivision	1.0
Cox Peninsula Road – complete seal to Belyuen	1.6
Improve access to Borroloola – stage 1	4.8
Oenpelli Link – Cahill's Crossing to Central Arnhem Road	1.0
2004-05 Major Capital Grants	
Undergrounding of powerlines in Darwin, stage 3	3.0

Regional Initiatives

	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimates	2006-07 Forward Estimates	2007-08 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
Chief Minister's Task Force on Priority Partnerships	0.1	0.4	0.4	0.4	0.4
Groote Eylandt Regional Coordinator	0.07	0.2	0.06		
IES Growth		0.5	1.0	1.6	2.1
Total Initiatives	0.2	1.1	1.5	2.0	2.5

- Two additional staff will be employed at a cost of \$0.4 million as part of the Chief Minister's Task Force on Priority Partnerships to coordinate partnerships between agencies that develop services to remote areas, with an initial focus on the Indigenous Communities Coordination Pilot at Wadeye.
- Funding of \$0.07 million in 2003-04, increasing to \$0.2 million in 2004-05 and \$0.06 million in 2005-06, to employ a regional coordinator at Groote Eylandt to coordinate Government service delivery and provide strategic direction for community developments in the region.
- A further \$0.5 million in 2004-05, increasing to \$2.1 million by 2007-08, for Indigenous Essential Services.
- The following table presents the significant new capital works projects for 2004-05 for regional areas.

2004-05 Major New Capital Works Projects	\$M
Replace Government employee housing in remote localities	2.0
Upgrade Government employee housing to current design standards	5.0
Construct Government employee housing in remote localities	6.0
Land servicing for housing programs in remote communities	3.0

Revenue Initiatives

The Government has announced a number of key revenue measures in the 2004-05 Budget. These were summarised in the Economy and Business section. More details are provided below.

Payroll Tax Reduction

In accordance with the Government's election commitment to reduce the payroll tax burden on businesses, the payroll tax general exemption threshold is to increase to \$1 million over the next two years. From 1 July 2004, the threshold will increase from \$600 000 to \$800 000 and then to \$1 million from 1 July 2005. This change is expected to reduce payroll tax collections by \$4 million per year from 1 July 2004 and by a further \$3.2 million per year from 1 July 2005. These reductions will benefit over 1400 businesses.

This means 83 businesses (comprising 66 locally-based Territory businesses and 17 interstate-based businesses) will not pay payroll tax from 1 July 2004 and a further 79 (comprising 61 locally-based Territory businesses and 18 interstate-based businesses) from 1 July 2005. Locally-based Territory businesses still paying payroll tax after 1 July 2005, will save around \$20 500 each year.

Abolition of the HIH Levy

The HIH levy is to cease being levied on workers' compensation insurance policies written or renewed on or after 18 May 2004.

When HIH Insurance collapsed in August 2001, the liability for its outstanding workers' compensation claims in the Territory was initially estimated to be around \$50 million. Responsibility for dealing with outstanding claims then fell to the nominal insurer as the Government's safety net in the instance that a workers' compensation insurance provider fails.

The estimate of this outstanding liability was reduced to around \$30 million following a \$9 million grant from the Territory Government and reinsurance recoveries of around \$11 million.

To fund the remaining liability, a 4 per cent levy on workers' compensation insurance premiums commenced on 1 July 2002. The levy included all employers who self-insure – including the Territory Government.

With the cessation of the levy, the Government will meet the remaining liability, estimated at around \$22 million over the next seven to eight years, saving employers \$2.7 million per annum in levy contributions. This will mean that the Government, assisted by reinsurance recoveries, will meet an estimated 90 to 95 per cent of the total outstanding workers' compensation liability left by the collapse of HIH.

Abolition of Debits Tax from 1 July 2005

As part of national tax reform, the Commonwealth, states and territories signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement). Part of this Agreement secured the abolition of some state and territory taxes and the consideration of the need to retain a list of other 'business' taxes.

In accordance with the Intergovernmental Agreement, the Territory abolished tourism marketing duty from 1 July 2000, and both stamp duty on quoted marketable securities and financial institutions duty from 1 July 2001. These changes have reduced the Territory's tax collections by over \$20 million per year.

The Intergovernmental Agreement includes a requirement for the Commonwealth, states and territories to review the abolition of debits tax by 2005. On 26 March 2004, Commonwealth, state and territory Treasurers agreed to abolish debits tax from 1 July 2005. This change will reduce Territory tax collections by \$6.2 million in 2005-06, and \$6.5 million ongoing.

Under the Intergovernmental Agreement, the Commonwealth, state and territory Treasurers have agreed to review by 2005 the need to retain:

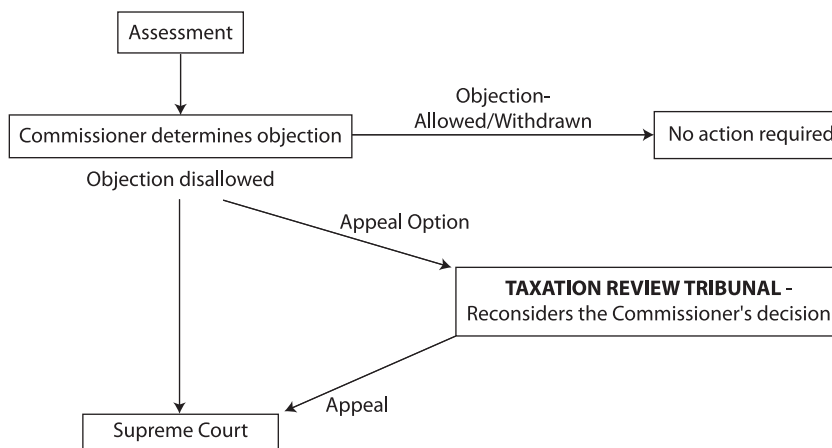
- Stamp Duty on Non-Residential Conveyances;
- Stamp Duty on Non-Quotable Marketable Securities;
- Stamp Duty on Leases;
- Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities;
- Stamp Duty on Credit Arrangements, Installment Purchase Arrangements and Rental Arrangements; and
- Stamp Duty on Cheques, Bills of Exchange and Promissory Notes.

New Tribunal for Tax and Mineral Royalty Cases

A new independent taxation and mineral royalty administrative appeals tribunal is to be established in 2004-05, to provide an alternative and inexpensive option to appeal decisions of the Commissioner of Taxes following taxpayers' objections to a tax assessment. The current appeal route is the Supreme Court.

The new tribunal, consisting of a Magistrate of the Local Court, will on request reconsider the Commissioner's objection determination. The Supreme Court appeal option will still be available, but the tribunal will provide an extra, optional step in the appeal process. The tribunal will consider the objection determination on the basis of all previously considered material, however it will also allow further submissions or grounds for objections to be lodged and considered. Figure 4.1 gives a diagrammatic representation of the proposed process.

Chart 4.1: Proposed Appeal Process for Tax and Mineral Royalty Measures



The first step in the review process will continue to be the lodgement of an objection with the Commissioner, as is the case in all other states and the Commonwealth. This allows the Commissioner to quickly rectify mistakes without the involvement of the Court system, identify and act on areas where greater taxpayer awareness may be required, and to consider changes to the tax legislation where outcomes are unfair or anomalous.

The new tribunal is expected to commence towards the end of 2004.

Equity, efficiency and administrative enhancements

The Government has approved a package of changes that enhance simplicity, efficiency and equity of the Territory's taxation and mineral royalty regime. These measures:

- clarify the operation of some aspects of the payroll tax grouping provisions;
- provide a stamp duty exemption for conveyances arising from the addition of trustees to a trust, subject to certain conditions;
- provide a stamp duty exemption for a statutory vesting that occurs under the *Administration and Probate Act*, the *Associations Incorporation Act* or the *Local Government Act*;
- provide a stamp duty credit for an acquisition that has been exempted from land rich stamp duty under the corporate reconstruction provisions, when a further dutiable interest is acquired; and
- other minor changes that clarify the operation of the payroll tax and mineral royalty legislation.

These measures commence from 1 July 2004.

Anti-Avoidance Measures

In order to maintain the integrity of the Territory's taxes, the Government has approved measures that:

- condition the stamp duty exemption available on the change of a trustee to instances where the property being transferred was acquired by the retiring trustee by virtue of an instrument for which stamp duty has been paid, exempted from duty, or was not otherwise subject to duty;
- limit the stamp duty concession applying to compromises and arrangements under the *Corporations Act* to Court-approved compromises and arrangements made with a corporation's creditors or a class of creditors, which the Commissioner of Taxes is satisfied are not made for the purpose of avoiding tax;
- clarifying that the land rich stamp duty provisions do not apply if the land to which a company is entitled could have been conveyed without incurring conveyance stamp duty; and
- rectify a deficiency in the land rich stamp duty definition of "acquisition" by aligning it with the definition provided for direct conveyances.

These measures commence from 18 May 2004.

Commonwealth Grants

Overview

Commonwealth grants are an important source of revenue for all states. The grants are made necessary by the substantial mismatch between states' service delivery responsibilities and their capacity to raise own-source revenues.

The Territory is much more reliant on Commonwealth grants than other states, with about 81 per cent of its revenue sourced from the Commonwealth. In other states, Commonwealth grants account for about 50 per cent of revenues. This greater reliance on Commonwealth grants reflects the higher cost and demand for government services and the low revenue raising capacity of the Territory relative to other states.

There are two types of Commonwealth grants to states:

- general purpose grants, which include GST revenue payments and national competition payments. These are untied payments that can be used by the states for any purpose; and
- specific purpose payments (SPPs), which are generally earmarked for specific purposes.

The table below provides a summary of Commonwealth grants to the Territory and the states in 2004-05.

Table 5.1: Summary of Commonwealth Grants to Northern Territory and All States, 2004-05

	Northern Territory		All States	
	\$M	% of Total	\$M	% of Total
General Purpose Payments	1 700.1	83.7	35 567.7	59.4
GST	1 692.5	83.3	34 790.0	58.1
National Competition Payments	7.6	0.4	777.7	1.3
Specific Purpose Payments	330.2	16.3	24 287.7	40.6
Total	2 030.3	100.0	59 855.4	100.0

Note: To allow comparison with other states, SPP figures in this table are sourced from the 2004-05 Commonwealth Budget, and will not necessarily match the Territory's 2004-05 Budget estimates.

Source: Commonwealth Budget 2004-05

Intergovernmental Agreement

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement), signed by the Commonwealth and the states in June 1999, is the centre-piece of current financial relations between the two levels of government. Under the Intergovernmental Agreement, all GST revenue is provided to the states and distributed in accordance with the principle of horizontal fiscal equalisation.

The agreement requires the states to:

- forgo financial assistance grants, which provided the bulk of untied grants to the states before the introduction of the GST (\$17.3 billion in 1999-00);
- abolish a range of their own taxes, including financial institutions duty, stamp duty on shares and marketable securities and bed taxes;
- review the need to maintain debits tax (debits tax will be abolished in the Territory from 1 July 2005); and
- review the need to maintain a number of other taxes by 2005.

A key feature of the agreement is a guarantee that no state will be financially disadvantaged from the introduction of the GST. To satisfy that commitment, the Commonwealth provides budget balancing assistance to offset any shortfall. The Territory has been 'better off' since 2002-03, and therefore has not needed budget balancing assistance. It is expected that no state will require budget balancing assistance in 2004-05.

The Intergovernmental Agreement provided for the establishment of a Ministerial Council from 1 July 1999 to oversee its operation. The Ministerial Council comprises the Commonwealth and all state Treasurers.

The fourth annual meeting of the Ministerial Council, also known as the Treasurers' Conference, was convened in Canberra on 26 March 2004. The highlights of the meeting were:

- an agreement by all states to abolish debits tax from 1 July 2005;
- a discussion on the recommendations of the 2004 Review of the Commonwealth Grants Commission (the Commission); and
- establishment of a joint Commonwealth-State work program aimed at simplifying the Commission's methodology.

The Intergovernmental Agreement also provides for the establishment of a GST Administration Subcommittee to monitor the operation of the GST, make recommendations on changes to the GST and monitor the Australian Taxation Office's performance in administering the tax. The subcommittee reports and makes recommendations to the Ministerial Council.

GST Revenue

The Territory expects to receive \$1 684.2 million in GST revenue in 2003-04, an 11 per cent increase from 2002-03. For 2004-05, a comparatively small increase of 0.5 per cent to \$1 692.5 million is expected, reflecting the lower outcome of the Commission's 2004 Review.

Commonwealth Grants Commission

The Commission is responsible for recommending the distribution of GST revenue among the states. The Intergovernmental Agreement requires these recommendations to be based on the principle of horizontal fiscal equalisation, which is defined as:

State governments should receive funding from the pool of goods and services tax revenue and health care grants such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard. (CGC 2004 Report)

The Commission's recommendations are expressed as per capita relativities for each state, which are used to determine the distribution of GST revenue among the states. They take into account differences in:

- states' expenditure needs, including both the cost and demand for government services; and
- states' capacity to raise their own revenues.

2004 Review

The *Report on State Revenue Sharing Relativities 2004 Review* details the results of the Commission's latest five-yearly review. It is the culmination of an extensive consultation process to review the methodology that underpins the Commission's

recommendations. Significantly, the outcome of this review will broadly determine the methodology to be applied to the distribution of GST revenues among the states over the next five years (2004-05 to 2008-09).

The table below shows the change in per capita relativities and each state's share of GST revenue using the 2003 GST pool for the 2003 Update (based on the 1999 Review methods) and the 2004 Review.

Table 5.2: Impact of the 2004 Review

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003 Update									
Relativity	0.89117	0.87010	1.01902	0.96946	1.21215	1.59948	1.14979	4.38638	1.00000
Grant Share (%)	30.0	21.6	19.5	9.5	9.3	3.8	1.9	4.4	100.0
2004 Review									
Relativity	0.86750	0.86534	1.05504	1.03054	1.20407	1.55939	1.12930	4.26538	1.00000
Grant Share (%)	29.2	21.5	20.2	10.1	9.2	3.7	1.8	4.2	100.0
Impact (\$M)	-317.0	-51.2	262.7	230.9	-26.3	-37.9	-13.4	-47.7	0.0
Impact (\$ per capita)	-47.1	-10.3	68.6	117.3	-17.2	-79.8	-41.2	-240.4	0.0

Source: Commonwealth Grants Commission, Report on State Revenue Sharing Relativities 2004 Review

The outcome for the Territory was a decrease in its relativity from 4.38638 to 4.26538, which translates to a \$47.7 million decrease in the Territory's share of GST revenue based on the 2003 GST pool. In per capita terms, the Territory's loss of \$240 per capita is easily the largest of all states; Tasmania experienced the next biggest loss, about \$80 per capita. Queensland (\$69 per capita) and Western Australia (\$177 per capita) made significant gains, while all other jurisdictions suffered moderate losses.

The table below summarises the calculation of the relativities recommended by the Commission for 2004-05.

Table 5.3: Per Capita Relativities and Needs (\$ per capita)

		NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Equal per capita Share of GST Pool	a	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02	1 912.02
Expenditure	b	-90.59	-392.30	50.14	414.17	-11.37	483.19	-52.15	6 676.77	0.00
Revenue	c	-170.58	96.28	66.90	-361.98	429.58	679.33	308.13	153.69	0.00
SPP	d	7.82	38.55	-11.80	6.22	-28.02	-92.95	-8.77	-587.00	0.00
Total Needs	e=b+c+d	-253.35	-257.47	105.24	58.40	390.19	1069.57	247.21	6243.45	0.00
Grant Entitlement	f=a+e	1 658.67	1 654.55	2 017.26	1 970.42	2 302.21	2 981.59	2 159.23	8 155.47	1 912.02
Relativity	g=f/a	0.86750	0.86534	1.05504	1.03054	1.20407	1.55939	1.12930	4.26538	1.00000

Source: Northern Territory Treasury

The table above shows that the Territory requires about 4.3 times its per capita share of GST funding in order to provide a standard level of government services. High needs in the Territory are primarily due to the higher cost and demand for services relative to other states. The Territory needs to spend \$6 677 more per person than the national average to provide a standard (or Australian average) level of services. Tasmania, Queensland and Western Australia also have expenditure needs, whereas the remaining states are assessed as needing to spend less than the Australian average to provide standard services. The high cost of delivering government services in the Territory is mainly due to substantial health and education needs,

particularly among the Territory's Indigenous population, and its small and widely dispersed population.

In addition, the Territory has low revenue-raising capacity relative to other states. The Territory's annual revenue-raising capacity is \$154 per capita below that of the 'average' state. The third broad component of the Commission's assessment is SPPs. The Territory has negative SPP needs as it receives greater than its per capita share of SPP funding, largely due to programs for Indigenous services.

Overall, the Territory needs \$8 155 per capita, compared to the national average of \$1 912, to provide a standard level of government services. New South Wales and Victoria are the only jurisdictions that require less than the national average.

The decline in the Territory's relativity is mainly due to a decrease in the Commission's assessment of the cost of providing services in the Territory and, to a lesser extent, an increase in the Territory's assessed capacity to raise revenue. By far the most significant change, compared to the Commission's last review, is the assessment of capital-related expenditures, where the Territory's needs were reduced by \$102 million. A more detailed discussion is provided in the following section.

Territory Special Needs

In its report, the Commission has identified an incapacity to fully recognise the unique circumstances of the Territory. The Commission has confirmed that the terms of reference for the 2004 Review constrained it from considering the special needs of the Territory, most notably in capital-related needs as assessed through the debt charges and depreciation categories. The changes in these two areas since the 1999 Review have resulted in a loss of about \$102 million.

In its assessment of debt charges, the Commission has assessed that the Territory would need to spend just \$6.8 million annually to meet the 'average' state benchmark, yet the Territory's actual expenditure is \$221.3 million, or about 33 times greater. The following extract from the Commission's Report refers:

As with depreciation expenses, we are concerned at the very large difference between the amount the Northern Territory spends on debt charges and the amount we assess it would spend under standard policies... we suspect that the Northern Territory's unique circumstances give it borrowing needs that we have been unable to capture.

(CGC 2004 Report)

In contrast to the Territory's assessment, the Australian Capital Territory, the next smallest jurisdiction, is assessed as needing to spend \$19.3 million annually on debt charges – about four times more than the Territory.

In the depreciation assessment, the Commission assesses the Territory as needing to spend \$53.2 million annually, compared to actual expenditure of \$115.2 million.

The Northern Territory Treasurer has sought assurance from the Commonwealth Treasurer that the Commission's terms of reference for 2005-06 will include an additional reference that will allow consideration of the Territory's special needs. The Commonwealth Treasurer has not, as yet, responded to that request.

Work Program on Simplicity

At the 2004 Treasurers' Conference, the Commonwealth Treasurer, supported by a majority of states, agreed to a joint Commonwealth-State work program aimed at simplifying the Commission's methodology. It was agreed that this work program will be overseen by Commonwealth and state Heads of Treasuries and use resources

and expertise both from within and external to the Commission. The following areas would be covered:

- whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of states, is appropriate and necessary;
- the size and trend of the redistributions;
- simplification – the Commission’s current approach is based on high levels of disaggregation and large numbers of adjustments (is this necessary and does it deliver a better equalisation outcome than possible alternatives?); and
- data issues – a consultative examination of the robustness and comparability of key data sets and likely data availability in the future.

GST Revenue Projections

The Territory’s high dependence on GST revenue, and the inherent difficulties in forecasting GST revenue, pose a significant risk to the Territory’s budget position. This risk is managed, to the extent possible, through informed assumptions and forecasts of the factors which determine GST revenue. The level of uncertainty increases with time. For 2005-06 to 2007-08, a down-side risk scenario has been developed. It should be considered as a conservative estimate of risk.

The Territory’s GST revenue grant is determined principally by:

- the total level of GST collected nationally;
- the Territory’s share of national population; and
- the Territory’s per capita revenue sharing relativity as determined by the Commission.

GST Collections

National GST collections in any given year form the pool from which GST revenue is distributed among the states. Variations in the size of this pool have a direct impact on the size of the Territory’s GST revenue.

The Commonwealth provides the states with estimates of GST collections in its Budget and in its Mid Year Economic Fiscal Outlook (MYEFO). Limited experience since 2000 has shown GST collection estimates to be volatile. It is expected that GST collection estimates will become more accurate over time as forecasting expertise improves and as the relatively immature tax is ‘bedded down’.

The Commonwealth’s Budget estimate of \$34.8 billion in GST collections in 2004-05 is an increase of \$0.7 billion compared to its MYEFO estimates and growth of around 4.5 per cent on collections in 2003-04. The Commonwealth has direct and timely access to key statistical and collection data in preparing its estimates, and as such is considered to be the most informed source of estimates. On that basis, the Territory has adopted the Commonwealth estimate, however it should be cautioned that these estimates are heavily reliant on assumptions and judgement.

For 2005-06 and beyond, there is a greater level of uncertainty surrounding the Commonwealth’s GST collection estimates. The Commonwealth has forecast annual growth of 5.2 per cent and 5.8 per cent for 2005-06 and 2006-07 respectively. Although the states have agreed to adopt these estimates, a number of leading economic forecasters, including Access Economics and Econtech, are predicting a substantial national decline in dwelling investment and household consumption growth affecting GST growth. If these projections are realised, GST collections growth in 2005-06 of about 3.0 per cent is more likely. On that basis, 3.0 per cent growth has been used in calculating the down-side risk scenario. If realised, it would

translate to a decline in the Territory's GST revenue of about \$32 million per annum in 2005-06 and beyond. Commonwealth projections of a return to growth between 5 and 6 per cent in 2006-07 are broadly consistent with most private economic forecasts.

Territory's Share of the National Population

The Territory's share of the national population is a second factor in determining its share of GST revenue.

The Territory's share of the national population decreased from 1.0026 per cent to an estimated 0.9927 per cent between 2002-03 and 2003-04, based on Commonwealth Budget estimates. The 2003-04 population estimates will be finalised in June 2004, when the Australian Statistician makes his determination of the population as at 31 December 2003.

Population growth of 0.3 per cent is forecast for 2004-05, below the expected national growth rate of 1.2 per cent, resulting in a decline in the Territory's share of national population to 0.9832 per cent. The Territory population estimates for 2003-04 and 2004-05 are consistent with Commonwealth Budget estimates.

For 2005-06 and beyond, the Commonwealth is forecasting Territory population growth to be between 0.7 and 1.1 per cent, slightly below national growth estimates, and therefore a small decline in the Territory's population share is expected. The Territory has adopted a more conservative estimate of 0.5 per cent growth over this period for its forward estimates. Population growth of 0.25 per cent has been used in calculating the down-side risk scenario. If realised, it would translate to a decline in Territory GST revenue of about \$5 million in 2005-06 and beyond.

Commonwealth Grants Commission's Relativities

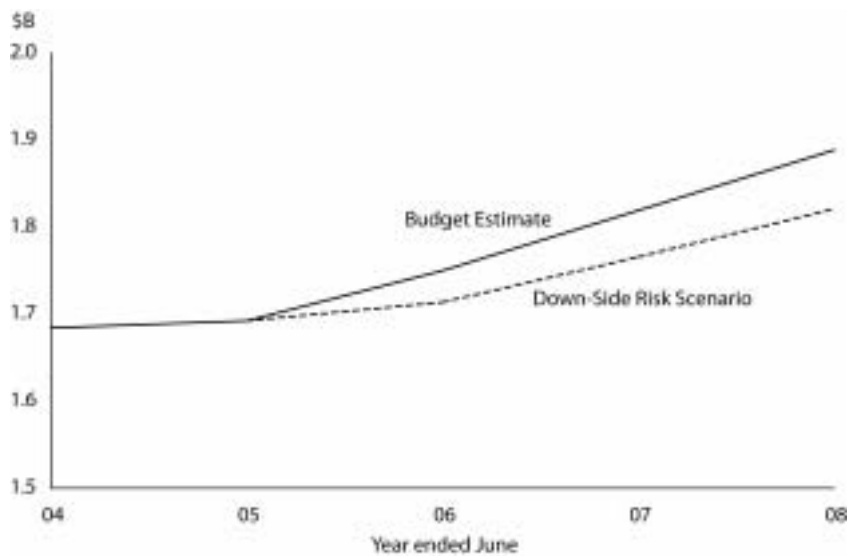
The third element in determining the Territory's share of GST revenue are the recommendations of the Commission. For 2004-05, the Commission has assessed a relativity of 4.26538 for the Territory. For 2005-06 and beyond, the Commission's relativities remain a source of considerable uncertainty. Neither the Commonwealth nor the Commission provides forecasts of future relativities as these depend on annual changes in underlying financial and non financial data for each state. A moderate decline in 2005-06 and 2006-07 is expected, reflecting the cyclical pattern of relativities and associated with a likely slowing of the property market in southern states and the resultant decline in property tax revenues. Under the Commission's assessment methods, any such decline would result in an increase in the grant shares of those states and a corresponding decline in the grant share of other states including the Territory. A relativity of 4.24538 is forecast for 2005-06 and 4.22538 for 2006-07 in the forward estimates. It should be noted that relativities are often subject to large unpredictable variations, however this has not been included in the down-side risk scenario.

The table and chart below show the budget and forward projections of the Territory's GST revenue and each of the key parameters. Also shown is the down-side risk scenario.

Table 5.4: Northern Territory GST Revenue Projections

	2003-04	2004-05	2005-06	2006-07	2007-08
Budget Estimates (\$M)	1 684.2	1 692.5	1 750.1	1 819.2	1 888.5
Total GST (\$M)	33 297	34 790	36 610	38 720	40 850
Growth (%)	9.2	4.5	5.2	5.8	5.5
Population	198 613	199 107	200 103	201 103	202 109
Growth (%)	0.3	0.3	0.5	0.5	0.5
Share ¹ (%)	0.9927	0.9832	0.9769	0.9713	0.9666
CGC Relativities	4.38638	4.26538	4.24538	4.22538	4.20538
Change (%)	3.3	-2.8	-0.5	-0.5	-0.5
Down-side Risk (\$M)			1 713.8	1 765.8	1 820.9
Total GST (\$M)			35 834	37 625	39 507
Growth (%)			3.0	5.0	5.0
Population			199 605	200 104	200 604
Growth (%)			0.25	0.25	0.25
Share ¹ (%)			0.9745	0.9666	0.9594
CGC Relativities			4.24538	4.22538	4.20538
Change (%)			-0.5	-0.5	-0.5
Variation (\$M)			-36.3	-53.4	-67.6

Source: Northern Territory Treasury

¹ Share of national population**Chart 5.1: GST Revenue Projections**

National Competition Payments

Competition payments were introduced in 1997, in accordance with the National Competition Policy agreements between the Commonwealth and states signed in 1995. Under these agreements, the Territory is required to review legislation that restricts competition, ensure competitive neutrality in the operations of government businesses and comply with national reform frameworks relating to the gas, water and road transport sectors. The payments are conditional on compliance with reform commitments, as assessed by the National Competition Council (NCC).

In the negotiations in the lead up to the signing of the agreements, it was generally recognised that the costs of the reform program – in lost revenues and managing the adjustment process – would largely be borne by the states. On the other hand the Commonwealth, through its broader tax base, would capture most of the fiscal benefits. Therefore, competition payments were devised as the mechanism through which the Commonwealth would share the dividends of national micro-economic reform with the states.

Competition payments are distributed among the states on an equal per capita basis. The Territory was entitled to about \$7.4 million in competition payments in 2003-04. However, similar to other states, as the Territory's legislation review program was incomplete as at the 30 June 2003 deadline, the NCC recommended that 2003-04 payments be reduced by 20 per cent (\$1.5 million). Of this amount, \$1.1 million was a temporary suspension, with reinstatement of payments dependent on completion of reforms by June 2004. The Territory's competition payment entitlement for 2004-05 is about \$7.6 million. This amount has been included as the estimate for 2004-05, however the amount will be contingent upon the Commonwealth Treasurer's consideration of the NCC's recommendations for the Territory.

Specific Purpose Payments

Specific Purpose Payments (SPPs) are grants from the Commonwealth which are usually tied to some specific program or function against which they must be acquitted. SPPs are a major mechanism by which the vertical fiscal imbalance between the Commonwealth and state levels of government is addressed.

SPPs represent about 40 per cent of all Commonwealth grants to the states, including GST revenue. In 2004-05, the Territory will receive about \$317 million in SPPs, representing about 40 per cent of Commonwealth grants and about 12 per cent of total general government revenue.

SPPs are usually governed by formal agreements between Commonwealth and state agencies which set out conditions such as:

- the programs / functions for which the funds may be used;
- restrictions on how funded programs may be delivered;
- matching obligations of states;
- performance and reporting requirements; and
- punitive sanctions for the breach of other conditions in the agreements.

General Issues with SPPs

SPPs are a means of addressing vertical fiscal imbalance while also allowing the Commonwealth to exert policy influence over areas of service provision which are the historical or constitutional responsibility of the states. Although SPPs can be used

effectively to promote consistent policy among the states in areas of common interest, they are also used by the Commonwealth to modify the delivery of state services to better align with its own policy objectives.

SPPs are an accepted feature of Australian intergovernmental financial relations, and are an important source of revenue for the states. Nonetheless, there exist numerous problems with the current implementation of SPP arrangements.

Reduced Accountability

The blurring of accountability is an immediate consequence of the Commonwealth's use of SPPs to selectively influence services which it does not directly deliver.

Inefficiency

SPPs are a major source of administrative duplication and inefficiency. The administration of SPP agreements, including negotiation, performance reporting, and financial reporting, requires a layer of bureaucracy, at both the Commonwealth and state levels of government, which is not directly engaged in the delivery of services. For a small jurisdiction such as the Territory, the cost of meeting Commonwealth reporting requirements and other controls can sometimes exceed the value of the funding offered under minor SPP agreements.

Further inefficiencies arise if SPPs are too narrowly targeted and fail to accommodate the broader policy context within which a particular service is delivered. Health is a function which has attracted large numbers of small SPPs as Commonwealth priorities have evolved, potentially contributing to a loss of coherence in the delivery of health services.

Distortion of Services

The Commonwealth policy objectives underlying many SPP agreements are notionally protected by the use of input controls, typically relating to the acquittal of Commonwealth funds, the matching of Commonwealth funds by the states and the maintenance of pre-existing funding levels by the states. However input controls do not directly reflect performance against policy objectives, and the budgetary inflexibility imposed by input controls can have the effect of diverting available public funds from more effective to less effective areas of service delivery.

Risks to State Budgets

SPP agreements pose risks to state budgets in several ways. Importantly, the budgetary flexibility of state governments is restricted by certain features of SPP agreements, such as matching and maintenance of effort provisions, which are used by the Commonwealth to leverage its own financial contributions.

Inadequate indexation of SPP grants can also cause pressure on state budgets, particularly where the injection of Commonwealth SPP funding generates a rate of growth in demand for services which is more rapid than the rate of growth in Commonwealth funding.

Through fixed-term SPP agreements, it is also possible for the Commonwealth to seed-fund programs, leaving state governments to meet their financial burden when the original agreements expire.

The Way Forward

The states have approached the Commonwealth repeatedly in recent years to obtain agreement on a set of principles and guidelines for the negotiation of future SPP agreements. These may include:

- the simplification of reporting requirements;
- the broadbanding of SPPs;

- the use of output performance measures in preference to input controls; and
- greater flexibility in the use of SPP funding.

No resolution of the states' concerns has yet been achieved, and recent SPP negotiations have suggested a hardening of the Commonwealth stance on SPP policy.

Recent Developments

SPP negotiations finalised in 2003-04, including the Australian Health Care Agreements (AHCA) and the Commonwealth-State Housing Agreement (CSHA), produced poor outcomes for the states. Aspects of the negotiation and outcome of these two agreements suggest that the Commonwealth is not prepared to accommodate the major criticisms of existing SPP arrangements, and in fact that it has hardened its position on the administration of SPPs. In addition to funding reductions, the new AHCA and CSHA impose more stringent reporting burdens and non-compliance penalties than previous agreements.

The Commonwealth also appears to be using SPPs more aggressively to promote its broader agenda. Following the Cole Royal Commission into the Building and Construction Industry, the Commonwealth has indicated that, in the future, it will require all significant construction projects to which it contributes funds to be subject to the National Code of Practice for the Construction Industry and the Commonwealth Implementation Guidelines. Although the states have never endorsed the guidelines, SPP funding for significant capital items will be conditional on both the code and guidelines being applied.

A concern among the states is that the tightening of Commonwealth SPP policy partially reflects a misconception that growth in GST revenue will, over time, reduce state reliance on SPP funding. Contrary to this view, unless aggregate SPPs are maintained in at least real per capita terms, the proportion of national revenue directed towards state services will continue to decline. The Intergovernmental Agreement provides recognition of the ongoing importance of SPPs to state finances, however it does not guarantee the adequacy of future levels of SPP funding.

Major Agreements Negotiated in 2003-04

Australian Health Care Agreements (AHCA)

The AHCA is a primary source of funding for public hospital services. The 2003-2008 AHCA for the Northern Territory was finalised in August 2003, following protracted negotiations and despite the Territory's serious reservations about aspects of the new agreement. New indexation arrangements applying to the new agreement will reduce funding to the Territory by at least \$16 million over the next five years compared with projected funding under previous arrangements. Nationally, the funding reduction amounts to \$1 billion over five years.

New reporting requirements and non-compliance penalties have also been introduced in the 2003-2008 AHCA, including a grant reduction for failure to meet required rates of growth in state own-source funding, or other conditions specified by the Commonwealth. Compliance penalties of up to \$13.5 million may be applied to the Territory in 2004-05.

The new agreement was formulated without reasonable regard for valid concerns expressed by the states, and amounts to a reduced Commonwealth commitment to the provision of public hospital services.

The AHCA will deliver an estimated \$96 million to the Territory in 2004-05.

Commonwealth-State Housing Agreement (CSHA)

The CSHA provides for public housing assistance, Indigenous housing and short-term crisis accommodation. A five year multilateral agreement between all states and the Commonwealth was signed in 2003-04, setting out aggregate funding levels, indexation arrangements and matching state contributions for the term of the agreement.

The new CSHA reduces base funding through the abolition of GST compensation for the cost of providing housing services, and the continuation of an annual 1 per cent efficiency dividend. However, grant indexation has been restored to provide some growth in CSHA funding over the next five years.

Reporting and performance measures for the CSHA are detailed in a bilateral agreement between the Northern Territory and the Commonwealth. The bilateral agreement was due to be signed by October 2003, but was delayed over the negotiation of an acceptable suite of performance measures. CSHA funds past 31 December 2003 have been withheld until bilateral agreements have been signed, however all outstanding funds are expected to be repaid when the bilateral agreement is signed. The Northern Territory's bilateral CSHA is expected to be finalised before the end of 2003-04.

CSHA funding to the Territory in 2004-05 is estimated to be \$34 million, including \$19 million through the Aboriginal Rental Housing Program.

Commonwealth-State/Territory Disability Services Agreement (CSTDA)

The CSTDA provides a framework between the Commonwealth and the states for the provision of specialist services for those under 65 years of age experiencing severe disabilities. A new CSTDA was finalised in 2003 following difficult negotiations.

The most contentious issue was the Commonwealth's insistence that states match growth in total Commonwealth funding under the agreement. This condition places a disproportionate burden on state budgets, as the states contribute the majority (70 to 80 per cent) of the cost of providing disability services covered by the agreement. In addition, states will be required to match notional growth in Commonwealth funding of around 6 per cent per annum, due to its funding of disability employment programs, even though funding to the states will only increase by around 3.7 per cent per annum.

The Territory is estimated to receive \$5.8 million in CSTDA funding in 2004-05.

Major Agreements Due for Negotiation in 2004-05

AusLink

The Federal Minister for Transport and Regional Services launched the Commonwealth Green Paper "AusLink – Towards the National Land Transport Plan" on 7 November 2002. AusLink proposes a new approach to planning, developing and managing Australia's national land transport infrastructure. The Commonwealth has indicated its intention to release a White Paper in May 2004. The Commonwealth also announced a four year extension to the Roads to Recovery Program in February 2004 as part of a \$1.2 billion funding boost to transport infrastructure, particularly in regional and outer-metropolitan areas.

The development of an Intergovernmental Agreement on national transport planning is expected to commence in 2004-05.

Australian National Training Agreement (ANTA)

The ANTA provides funding to the states for the provision of vocational education and training. Negotiations for a new ANTA for 2004-2006 broke down at the end of 2003.

In December 2003, the Commonwealth issued the states with an ultimatum to accept the Commonwealth offer for the new agreement or face financial penalties totalling \$109.5 million for the three years 2004 to 2006.

All states rejected the Commonwealth's offer and expressed a preference, if issues could not be resolved, to roll-over the 2001-2003 agreement for a further year while negotiations continued on a new agreement.

In January 2004 the Commonwealth agreed to roll-over the 2001-2003 ANTA and imposed the threatened financial penalties. The 2004 ANTA is now in place.

Negotiations on a new agreement have not continued. The Commonwealth has indicated its intention not to commence negotiations regarding a new agreement for 2005 onwards until late October 2004. The states are seeking an earlier return to negotiations.

The Territory will receive an estimated \$14 million in ANTA funding in 2004-05.

Government Schools Grants

The Government Schools (Primary and Secondary) SPP is due to expire on 31 December 2004. The Commonwealth is yet to make an offer to the states for a new agreement, however the Commonwealth provided some insight into what might feature in the offer when the Hon. Dr Brendan Nelson, MP, Commonwealth Minister for Education, released his National Education Framework in November 2003.

Previous agreements have been relatively free of matching or reporting requirements. However, in launching the framework, Dr Nelson stated clearly that he will "use funding as a lever" and insist the states adhere to some of the Commonwealth policies "as a condition of funding".

Government schools grants to the Territory are estimated to be \$21 million in 2004-05.

Indigenous Education Strategic Initiatives Program (IESIP)

The current IESIP Agreements are due to expire on 31 December 2004.

The Commonwealth has indicated its intention to focus Commonwealth Indigenous education funding on areas of need, and to redirect resources to comparatively successful programs. The reform agenda referred to in a speech by the Hon. Dr Brendan Nelson, MP, Commonwealth Minister for Education, in November 2003 – 'Taking Schools to the Next Level' – is a likely feature of the upcoming IESIP negotiations.

Negotiations over the 2005-2008 IESIP agreements are expected to commence in the first half of 2004.

The Northern Territory has budgeted to receive \$12 million in IESIP funding in 2004-05.

Reconciliation of Specific Purpose Payment Revenue

Table 5 provides a reconciliation of SPPs reported by the Commonwealth and Territory governments. Variations between Commonwealth and Territory budget estimates are attributable to a number of differences in scope and treatment.

Payments to Off-Budget Entities

Payments identified by the Commonwealth as SPPs may be paid to organisations outside the scope of the Northern Territory Budget. The most significant is an estimated \$5.4 million from the Indigenous Education Strategic Initiatives Program which is paid directly to school councils and other non-government organisations.

SPPs Classified as Goods and Services Revenue

A payment classified as an SPP by the Commonwealth may be treated as goods and services revenue in the Territory budget if the funding agreement has the characteristics of a fee for service. Health Program Grants are the only payments affected by this difference in treatment in 2004-05.

Provision for Unfinalised Agreements and Contingencies

The Commonwealth makes provision for the payment of SPPs that have not yet been negotiated, or which will only become payable if particular circumstances eventuate. These amounts are not incorporated in the Territory budget as there is no basis for estimating whether provisional grants will be paid, or in what amount. A significant example is the Commonwealth provision for \$11 million in natural disaster relief in 2004-05, an amount the Territory is unlikely to receive.

New Payments in the 2004-05 Commonwealth Budget

New payments announced in the 2004-05 Commonwealth Budget cannot be incorporated in the 2004-05 Territory Budget due to time constraints.

Differences Due to Timing, Estimation and Takeup

Commonwealth and Territory SPP estimates may vary due to different information on budget year funding, legitimate differences of opinion about the parameters used to escalate previous years' grants, and on the timing of the receipt of payments. In addition, some program funds notionally available to the Territory cannot be accessed due to lack of opportunity in the Territory's environment, or may be only partially accessed where payments are conditional upon matching funding and other controls.

The most significant difference in the 2004-05 Budget is the \$29 million overestimate of roads programs funding; this funding has been rolled into the broader AusLink initiative. Details of the Territory's share of AusLink funding will not be known until the release of the Commonwealth White Paper in June 2004.

Differences in estimates of schools grants, remote power generation and aged care assessment are largely the result of funding increases announced in the 2004-05 Commonwealth Budget.

Natural Heritage Trust funding also increased substantially in the 2004-05 Commonwealth Budget, contributing to a \$4.3 million difference compared with the Territory budget estimate.

Table 5.5: Reconciliation of Specific Purpose Payment Revenue

	2004-05 Budget
	\$000
TOTAL SPECIFIC PURPOSE PAYMENTS - COMMONWEALTH	330 237
<i>less</i>	
Payments to off-budget entities and non-government organisations ¹	10 033
Indigenous Education Strategic Initiatives Program ²	5 439
Legal Aid	3 324
Petroleum Products Freight Subsidy Scheme	1 270
<i>less</i>	
SPPs classified as general revenue or goods and services revenue	650
Health Program Grants ³	650
<i>less</i>	
Commonwealth provision for unfinalised agreements and contingencies ⁴	13 416
State Senior's Card Reciprocal Transport Concessions	8
Native Title	2 000
Natural Disaster Relief	11 000
Federal Flood Mitigation Program	192
Skilling Farmers for the Future	180
<i>less</i>	
New payments announced in the Commonwealth 2004-05 Budget ⁵	1 960
Disaster Mitigation Package	960
Roads to Recovery - unincorporated areas	1 000
<i>less</i>	
Net differences attributable to timing, estimation and takeup	-12 988
Commonwealth payments lower than Northern Territory estimates:	
Road Programs ⁶	-29 091
Vocational Education and Training Funding Act	-1 073
National Public Health	- 722
Targeted Programs - Government Schools and Joint Schools Programs	- 382
Highly Specialised Drugs	- 536
Other ⁷	-4 249
Commonwealth payments exceeding Northern Territory estimates: ⁸	
Natural Heritage Trust	4 315
Housing Assistance for Indigenous People ⁹	3 715
Government Schools	2 768
Targeted Programs Non-Government Schools	2 152
National Action Plan for Salinity and Water Quality	1 000
Renewable Remote Power Generation	995
Aged Care Assessment	555
Other ⁷	7 565
TOTAL SPECIFIC PURPOSE PAYMENTS - NORTHERN TERRITORY	317 166

¹ Includes payments to off-budget agency trust accounts.

² Difference between Commonwealth and Territory estimates of IESIP funding.

³ Recorded as Goods and Services revenue by the Department of Health and Community Services.

⁴ No provision is made in the Northern Territory Budget for new agreements still under negotiation.

⁵ New initiatives which have not been incorporated in the Northern Territory Budget.

⁶ Funding for Roads Programs was rolled into the new AusLink initiative in the 2004-05 Commonwealth Budget.

⁷ Differences less than ± \$0.5 million.

⁸ Large variations mostly relate to funding increases announced in the 2004-05 Commonwealth Budget.

⁹ A portion of the funds available under this agreement are not incorporated in the Territory Budget estimate as matching funding arrangements have not been finalised.

Territory Own-Source Revenue

Overview

Northern Territory own-source revenue comprises taxes, fees, charges, miscellaneous property income, interest received and profit or loss on disposal of assets. Full details of revenue collected from Territory sources are set out in *Budget Paper No. 3*.

Details of the key revenue measures announced in this Budget are detailed in Chapter 4. In summary, these measures include:

- an increase in the payroll tax exemption threshold from \$600 000 to \$800 000 from 1 July 2004, with a further increase to \$1 000 000 with effect from 1 July 2005;
- cessation of the HIH levy for workers' compensation insurance policies written or renewed on or after 18 May 2004;
- abolition of debits tax from 1 July 2005;
- creation of a taxation administrative appeals tribunal that can hear appeals relating to stamp duty, payroll tax and mineral royalties; and
- a number of anti-avoidance measures and other amendments to enhance the efficiency and effectiveness of the Territory's taxes and royalty regimes.

This chapter provides an explanation of the Territory's revenue regime and an analysis on how it compares with the other jurisdictions. This comparison is based on independent assessments by the Commonwealth Grants Commission of state and territory revenue regimes.

This analysis and the comparison of tax regimes confirm the Territory's revenue regime is the lowest of the states. The Northern Territory Fiscal Strategy commits the Territory to having a competitive tax regime.

This chapter also provides a brief summary on the status of the taxes set out in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Intergovernmental Agreement) to be abolished or reviewed as part of national tax reform.

In addition, this chapter presents a statement of the Territory's forecast tax expenditures for 2004-05 through to 2007-08. Tax expenditures are the revenues forgone by Government as a result of the provision of concessions and exemptions.

Appended to this chapter is an interjurisdictional comparison of a selection of household charges imposed by Government-related entities.

Commonwealth Grants Commission Assessments of Effort and Capacity

The ability of the states to generate revenue from their own-sources is a result of the size of each jurisdiction's revenue base and the tax rates the Government applies.

The relative magnitude of each jurisdiction's revenue base is determined by economic activity and natural resource endowments. Revenue capacity represents potential revenue levels if national average tax rates are applied to each jurisdiction's revenue base. This is usually expressed as a ratio of the national average revenue capacity.

Revenue capacity is calculated as the ratio of:

- the Commonwealth Grants Commission assessment of per capita revenue a state could raise by applying average rates (standardised revenue per capita); to
- the Australian average per capita revenue actually raised (standard revenue per capita).

Revenue effort compares actual revenue collections with revenue capacity. Average revenue effort is set at 100 per cent. Above average revenue effort will be greater than 100 per cent and below average effort will be less than 100 per cent.

The Commonwealth Grants Commission (the Commission) assesses revenue capacity in its analysis of the relative fiscal needs of the states for Commonwealth financial assistance. The comparisons of the states' assessed revenue-raising capacity and effort contained in this chapter were made using 2002-03 data, as this was the most recent data used by the Commission.

Table 6.1 provides a comparison of the Commission's assessment of total state own-source revenue-raising effort in 2002-03 for the states. The Commission's assessment of total state own-source revenue includes taxation, mining revenue and contributions by trading enterprises, including government owned corporations.

Table 6.1: 2002-03 Revenue Effort by Jurisdiction – Total State Own-Source Revenue

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
100.70	100.94	90.15	103.62	118.03	101.24	95.43	89.97

Note: 100 per cent represents national average

Source: Commonwealth Grants Commission 2004 Update Report

The assessment in Table 6.1 shows that the Territory has the lowest state own-source revenue-raising effort of the states.

Table 6.2 provides a comparison of the Commission's assessment of total taxation-raising effort in 2002-03 for the states.

Table 6.2: 2002-03 Revenue Effort by Jurisdiction – Total Taxation

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
100.98	107.23	85.77	99.48	111.04	91.87	101.63	90.11

Note: 100 per cent represents national average

Source: Commonwealth Grants Commission 2004 Update Report

The assessment in Table 6.2 shows that the Territory has the second lowest taxation-raising effort of the states behind Queensland.

This is the most recent assessment by the Commission, but it relates to 2002-03, which covers a period before the removal of the \$90 Temporary Budget Improvement Levy from 1 July 2003 and the payroll tax rate reduction from 6.3 per cent to 6.2 per cent. It is expected that the removal of this levy and the payroll tax rate reduction will further reduce the Territory's assessed effort in the 2003-04 assessment.

Although the Commission has assessed the Territory's tax-raising effort as the second lowest of the states, total own-source revenue-raising effort has been assessed as the lowest of the states. However, there are various taxes, user charges and royalties assessed by the Commission where the Territory's rate of tax varies from the Australian average rate, or where the Territory does not impose tax at all, such as land tax, mortgage stamp duty and fire/emergency services levies. When total taxation, mineral royalties and public safety charges (including fire/emergency service levies) are taken into account, the Territory's effort is assessed by the Commission as the lowest of all the states.

Table 6.3 details this comparison.

Table 6.3: 2002-03 Tax Effort of Significant Revenue Streams

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Payroll tax	108	97	84	96	103	101	124	111
Conveyance duty	96	126	75	114	120	106	106	108
Land tax	91	125	65	112	190	280	118	0
Gambling taxes	102	131	90	31	116	82	62	92
Vehicle registration fees ¹	136	62	112	93	86	66	108	52
Total Taxation ²	101	107	86	99	111	92	102	90
Public safety charges	76	130	134	71	104	207	10	28
Mineral and petroleum royalties	88	73	98	107	96	67	0	76
Total Taxation, Royalties, and Public Safety and Emergency Services Charges ³	100	108	88	101	110	95	100	87

Note: 100 per cent represents a national average revenue effort.

Note: The above figures are rounded to the nearest whole number.

¹ Vehicle registration fees exclude heavy vehicles and includes the full impact of the Temporary Budget Improvement Levy, which ceased at the end of the CGC assessment period (30 June 2003).

² The total taxation figure is not the total for the taxes appearing in the table.

³ The total taxation, royalties, and public safety and emergency services charges figure is not a total for the table.

Source: Commonwealth Grants Commission 2004 Update Report

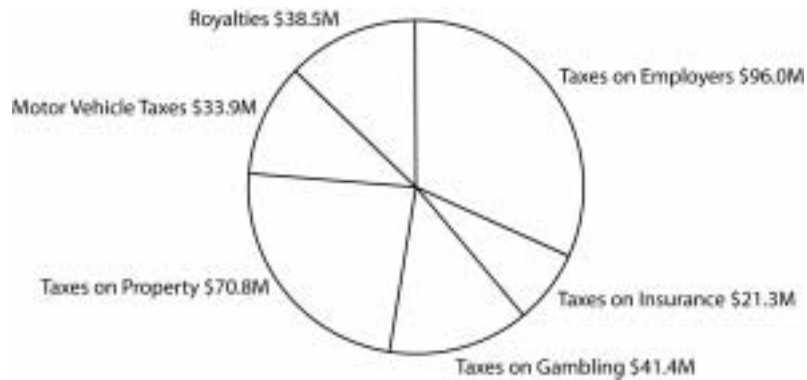
As detailed in Table 6.3, on 2002-03 figures, the Territory's payroll tax (111 per cent) and conveyance duty (108 per cent) revenue-raising efforts are higher than the national average (100 per cent). This would indicate that during 2002-03 the Territory's payroll tax and conveyance duty regimes drew relatively more tax than those of most other jurisdictions. The relatively high payroll tax and conveyance duty effort is offset by the Territory not applying a land tax and having a low revenue-raising effort in relation to vehicle registration fees and taxes in the assessment period. Raising the payroll tax exemption threshold on 1 July 2004 and again on 1 July 2005 will reduce the Territory's assessed payroll tax effort in the 2006 and 2007 assessments relative to other jurisdictions. In addition, the Northern Territory and the Australian Capital Territory are the only jurisdictions that did not raise stamp duty on mortgages during 2002-03. The Territory's remaining taxes during the assessment period were either less significant or on a par with the other jurisdictions.

To further understand the Territory's position, a more detailed analysis of the major components of own-source revenue is provided later in this chapter.

Analysis of Territory Revenue

Chart 6.1 provides an overview of the Territory's major own-source revenues broken down by Uniform Presentation Framework categories. More detail on the Uniform Presentation Framework is provided in Chapter 9.

Chart 6.1: 2004-05 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from public sector entities.
Source: Northern Territory Treasury

The projected revenue for 2004-05 from these main own-source revenue categories totals \$302 million. As indicated in Chart 6.2, the most significant portion is derived from taxes on employers (payroll tax), which comprises \$96.1 million, or 32 per cent of these own-source revenue categories. Taxes on property (comprising stamp duties on financial and capital transactions as well as financial institutions' transaction taxes) are expected to comprise 23 per cent of the Territory's own-source tax and royalty revenue in 2004-05.

The following section provides an interjurisdictional comparison by selected revenue sources.

Payroll Tax

Payroll tax is payable at a rate of 6.2 per cent on the amount by which wages paid by employers exceed the general exemption threshold of \$800 000 (as from 1 July 2004).

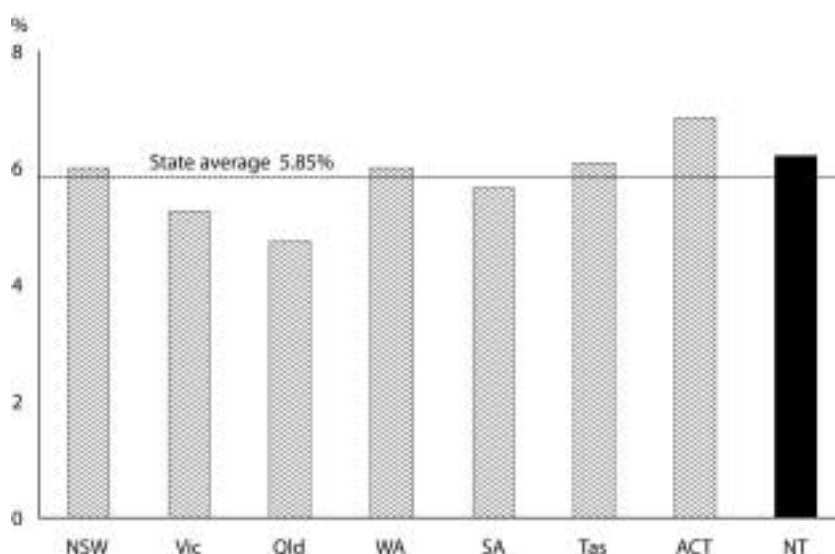
The threshold is reduced if an employer:

- pays wages in the Northern Territory and elsewhere in Australia. In this case, the threshold is reduced to reflect the level of wages paid outside the Territory. For example, if an employer pays 70 per cent of their wages in the Territory and 30 per cent interstate, the general exemption threshold is reduced by 30 per cent to \$560 000; or
- only employs for part of a financial year. In this case, the threshold is reduced to reflect the period that the employer paid wages during the year. For example, if an employer only pays wages for three months of the year, the general exemption threshold is reduced by 75 per cent to \$200 000.

Revenue from payroll tax is forecast to be \$96.1 million in 2004-05 (excluding that raised from the general government sector) and continues to be the Territory's single most significant own-source tax revenue.

The Territory's payroll tax rate has steadily reduced from 6.75 per cent in 1999 to its current 6.2 per cent rate. As shown in Chart 6.2, the Territory's payroll tax rate of 6.2 per cent is slightly higher than the states' average payroll tax rate.

Chart 6.2: 2003-04 Payroll Tax Maximum Rates

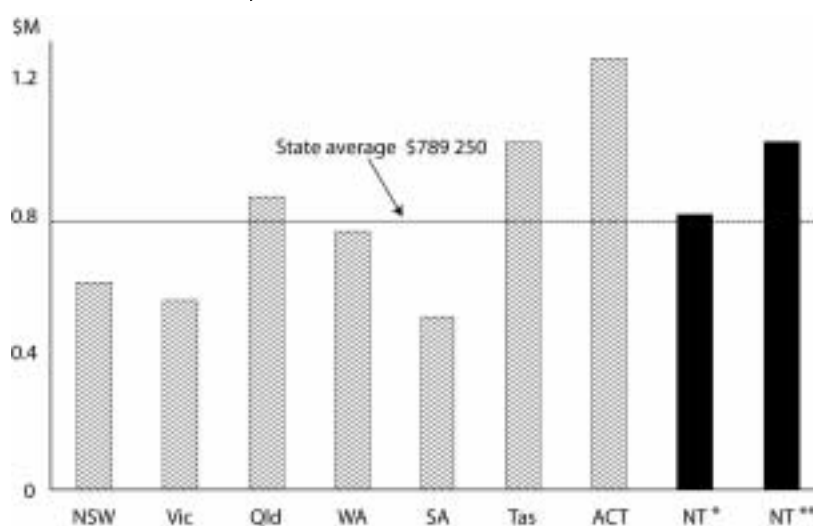


Note: As at 1 July 2004

Source: State legislation and Budget Papers available as at 18 May 2004

Following the increases in the Territory's payroll tax exemption threshold announced in the Budget (from \$600 000 to \$800 000 on 1 July 2004, then from \$800 000 to \$1 000 000 on 1 July 2005), the threshold where payroll tax commences in the Territory will be higher than the majority of states. The threshold has not altered since 1 July 1999. Chart 6.3 shows that from 1 July 2004, the Territory will have a payroll tax threshold that is above average, and greater than all states other than Queensland, Tasmania and the ACT. After 1 July 2005, the Territory payroll tax threshold will also be higher than that applying in Queensland. Furthermore, the threshold provided by Queensland diminishes such that employers with Australia-wide wages in excess of \$3.4 million receive no exemption.

Chart 6.3: 2004-05 Payroll Tax – Tax-Free Threshold



* Effective from 1 July 2004

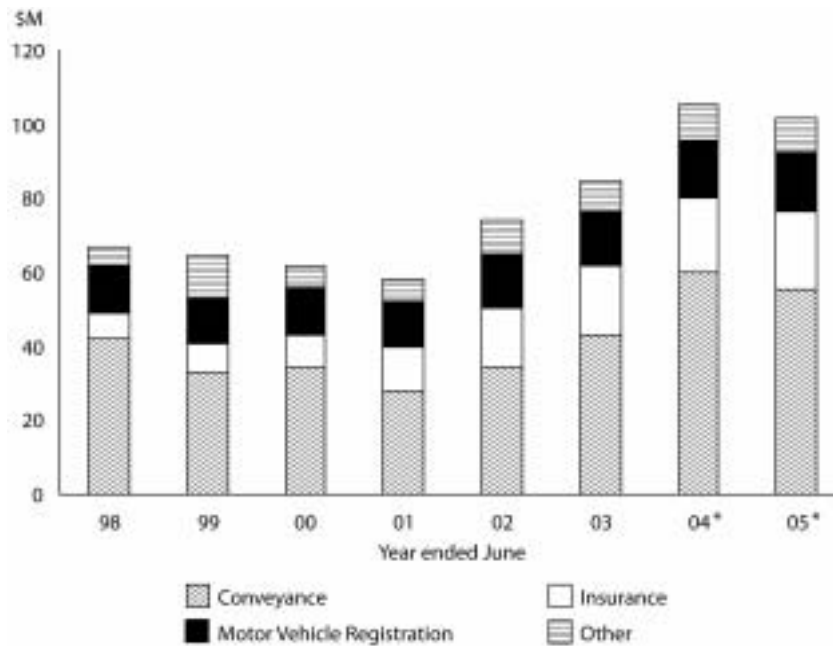
** Effective from 1 July 2005

Source: State legislation and Budget Papers available as at 18 May 2004.

Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$101.6 million in 2004-05. The main components of stamp duty are conveyance, insurance and motor vehicle transfer of registration duties. These are shown in Chart 6.4.

Chart 6.4: Stamp Duty Collections



* Estimated figures

Source: Northern Territory Treasury

The 2003-04 estimate is characterised by a high number of residential property sales, which departs from the experience in previous years, where business-related property sales dominated this stamp duty category. The conveyance stamp duty projection for 2003-04 is \$59.78 million, up from actual receipts in 2002-03 of \$43.22 million.

In 2004-05, conveyance stamp duty collections are expected to be \$55.24 million, reflecting a return to a more normal level of duty from residential property sales.

Conveyance Duty

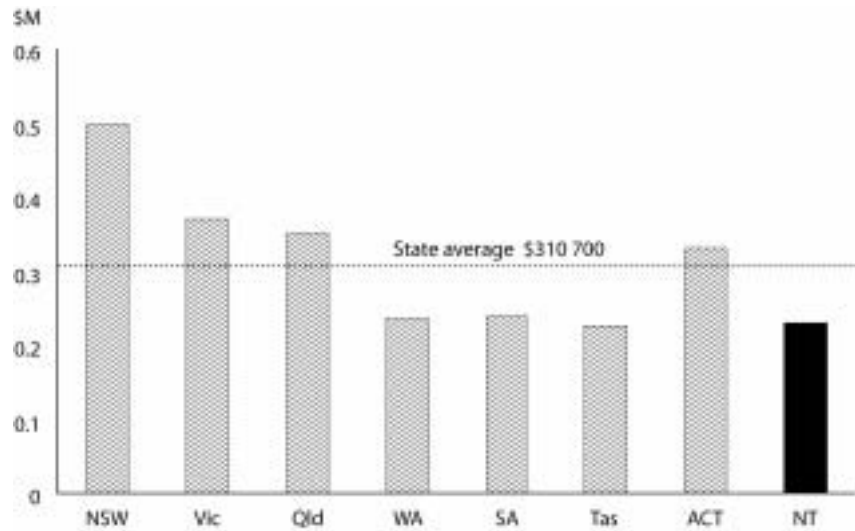
Conveyance duty remains the most significant component of stamp duty in all jurisdictions. The Territory's conveyance duty is derived from conveyances of dutiable property in the Territory. Such property mainly comprises real estate and transfers of businesses.

The Commission assessed the Territory's capacity to raise stamp duty on conveyances as the lowest in Australia, and less than half the national average. This is primarily because the majority of transactions in the Territory were at the lower end of the value range.

The Territory's revenue-raising effort in this category is the fourth highest between the states, and slightly above the national average. However, there are aspects of the Territory's conveyance stamp duty regime on which the duty load is comparatively less than other jurisdictions. In the main, this includes the Territory's home purchase stamp duty concessions.

A more practical comparison of the impact of state and territory conveyance stamp duty is obtained by comparing the conveyance stamp duty payable on the purchase of a median-priced home in each capital city. Chart 6.5 sets out the median house prices for the December 2003 quarter for Australian capital cities. These prices are used as the basis for the stamp duty comparisons in Charts 6.6, 6.7 and 6.8 below.

Chart 6.5: Median House Prices for Australian Capital Cities for the December 2003 Quarter

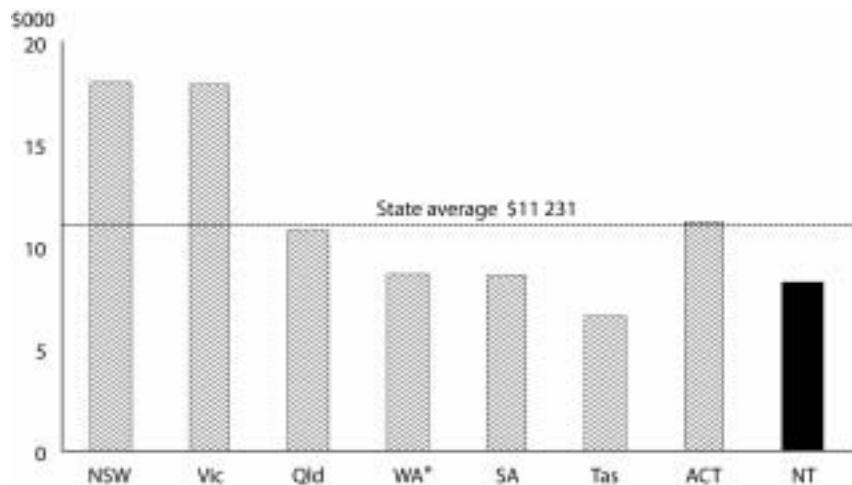


Source: Real Estate Institute of Australia

As can be seen from Chart 6.5, median house prices in Darwin are similar to those in Perth, Adelaide and Hobart, but significantly lower than in Sydney, Melbourne, Brisbane and Canberra.

As an example of the Territory's comparative effort, Chart 6.6 indicates the effect of the Territory's conveyance duty rate as applied to the purchase of a median-priced residence in Darwin without the benefit of the stamp duty principal place of residence rebate or first home owner concession.

Chart 6.6: Conveyance Duty Payable on Purchase of a Median-Priced Residence in Capital Cities Based on Rates as at 1 July 2004



* Effective from July 2004

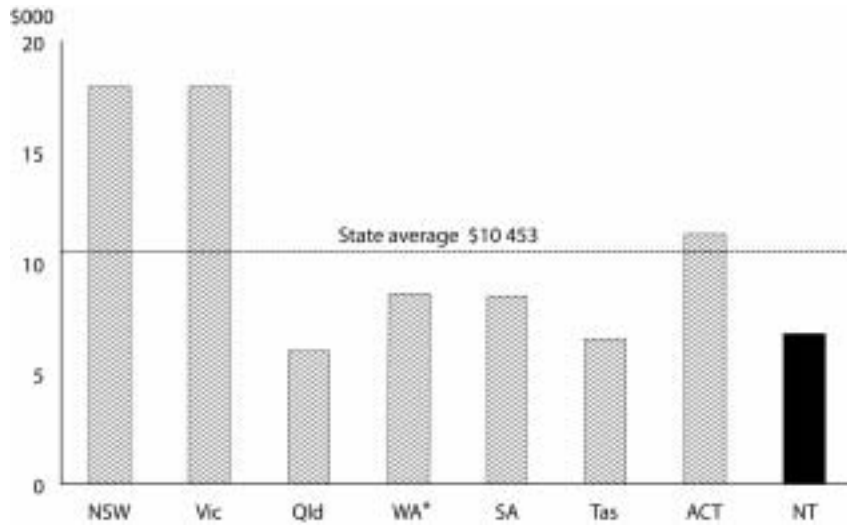
Source: Real Estate Institute of Australia and State legislation and Budget Papers available as at 18 May 2004

As shown in Chart 6.6, the Territory's conveyance duty on a median-priced residence in a capital city is lower than all states other than Tasmania.

Chart 6.7 shows that the Territory's conveyance duty on a principal place of residence in a capital city is below the national average, and lower than all states other than Queensland and Tasmania. This is partially the result of the introduction of the \$1 500 stamp duty principal place of residence rebate as part of the 2002-03 Budget. Although not reflected in Chart 6.7, Territory homebuyers also benefit from

not having to pay stamp duty on any mortgage security or, for investors, land tax (which is normally payable annually) or sales stamp duty (which will soon apply to investors who sell New South Wales real estate).

Chart 6.7: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence Based on Rates as at 1 July 2004

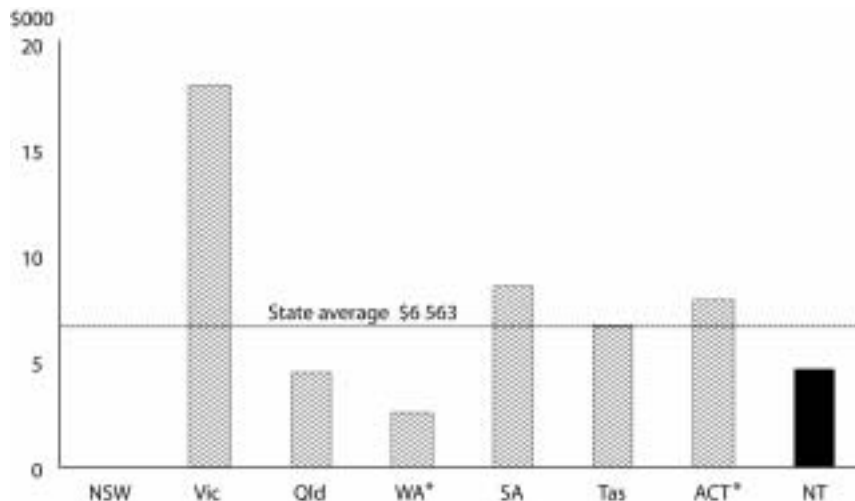


* Effective from July 2004

Source: Real Estate Institute of Australia and State legislation and Budget Papers available as at 18 May 2004

Chart 6.8 provides an interjurisdictional comparison of the stamp duty levied for a first home owner on the purchase of a median-priced home in a capital city. As indicated below, the stamp duty payable in the Territory on a median priced home in a capital city is well below the national average, and the fourth lowest in Australia. This is because Territory first homebuyers are given stamp duty relief on the first \$125 000 of their purchase.

Chart 6.8: Conveyance Duty Payable on Purchase of a Median-Priced First Home Based on Rates as at 1 July 2004



* Effective from 1 July 2004

Note: Victoria has introduced a \$5 000 First Home Bonus for first homebuyers who are eligible for the \$7 000 First Home Owner Grant. The bonus is available on contract to purchase Victorian properties where the contract is entered into on or after 1 May 2004 and before 1 July 2005, and where the consideration paid under the contract is no more than \$500 000.

Insurance Duty

Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty.

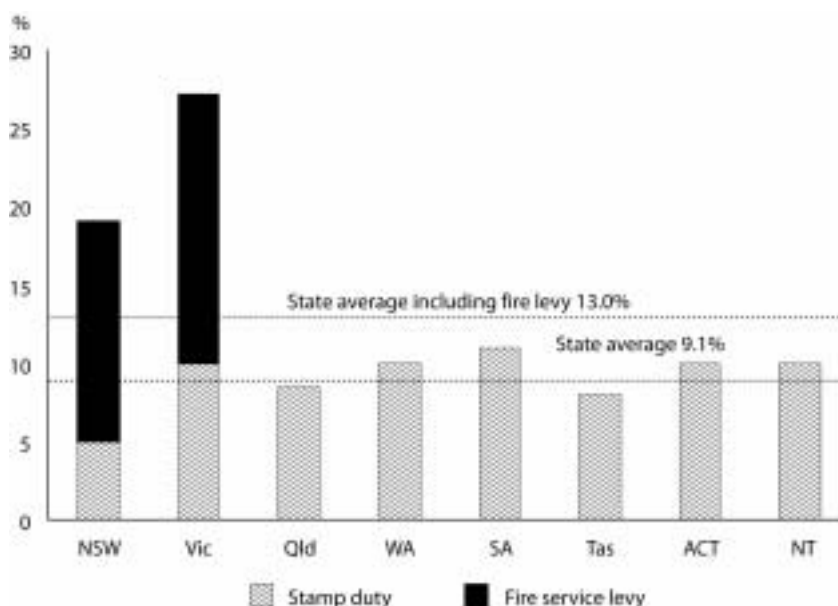
Queensland and Western Australia are the only states to raise stamp duty on workers' compensation premiums (although Western Australia will cease collecting stamp duty on these premiums from 1 July 2004).

As shown in Chart 6.9, the total tax load on *domestic* insurance in New South Wales and Victoria is significantly above the national average when fire services levies are taken into account, with the Territory being one of the lower taxing jurisdictions. These states collect their fire services levy as a rate applied to insurance premiums.

Rather than utilising the domestic insurance base, Tasmania, Queensland, South Australia and Western Australia each impose their emergency or fire services levies on property owners through local councils. Tasmania also raises the levy on certain types of non-domestic insurance, while Queensland recently introduced an ambulance levy on general public electricity accounts.

The Territory does not impose any emergency or fire service levies on the general public, although in line with the states it does impose some fines and charges for the provision of fire services in private towns and fire alarm monitoring.

Chart 6.9: Total State and Territory Taxes on Domestic Insurance as at 18 May 2004



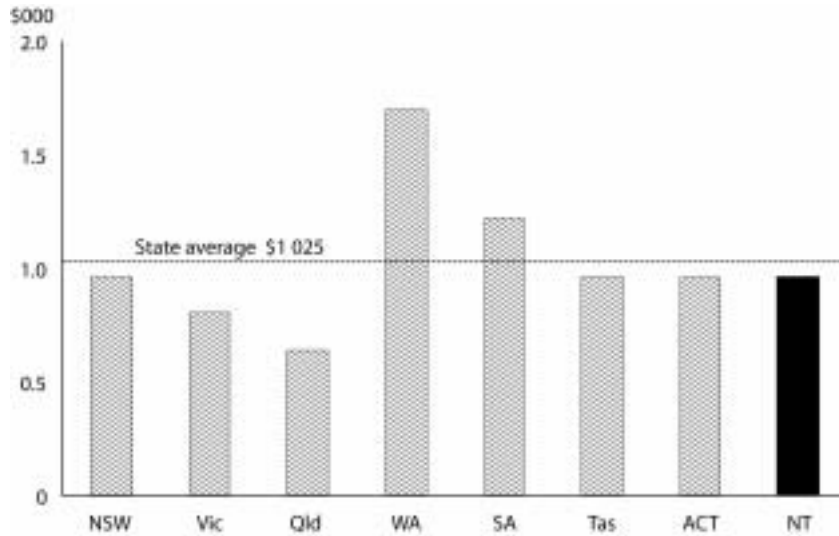
Source: State legislation and Budget Papers available as at 18 May 2004

Motor Vehicle Registration Duty

Stamp duty is levied on the transfer and initial registration of motor vehicles. Generally, the duty is levied on the purchase price of the vehicle. Revenue from this source in 2004-05 is forecast to be \$15.7 million.

The Territory rate of duty, as shown in Chart 6.10, is slightly below the national average for a new vehicle valued at \$32 000. Furthermore, unlike most jurisdictions, the Territory does not impose a higher rate of duty on luxury cars.

Chart 6.10: Motor Vehicle Registration Duty on a New Vehicle Valued at \$32 000 as at 18 May 2004



Source: State legislation and Budget Papers available as at 18 May 2004

Land Revenue

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

Land tax is generally levied on commercial land and investment residential property, although a general exclusion is provided for land used for primary production.

For the purposes of its 2004 assessment, the Commonwealth Grants Commission has assessed a notional land tax collection of approximately \$23 million based on an average of the other states' land tax regimes if the Territory collected a land tax.

Gambling Taxation

Gambling taxes constitute a significant proportion of state and territory revenues. Revenue from the Territory's gambling taxes (including the Community Benefit Levy) is forecast to be \$41.4 million in 2004-05.

The Territory raises gambling revenues from taxes levied on the value of bets placed with bookmakers, taxes levied on the value of investments in lotteries, taxes levied on the turnover of gaming machines in clubs and hotels and taxes levied on player losses at casinos. Similar taxes are raised in all other jurisdictions.

The Darwin MGM Grand casino receives a partial rebate of the casino tax that it is required to pay, in consideration for relinquishing exclusive rights to operate gaming machines.

The rebate for the Darwin MGM Grand casino ceases from 30 June 2005. Lasseters Casino in Alice Springs received a similar rebate. However, this ceased from 30 June 2003.

Table 6.4 provides a breakdown of the revenue that the Territory's gambling taxes are expected to raise in 2004-05.

Table 6.4: Estimated Revenue from Gambling Taxes for 2004-05

Tax/Duty	\$000
Wagering Taxes	5 345
Internet Gaming	625
Casino	2 694
Bookmakers – Racing and Sports Betting	4 434
Community Gaming Machines	16 475
Lotteries	10 439
Lottery Taxes – Agency Revenue (Community Benefit Levy)	1 383
Total	41 395

Source: Northern Territory Treasury

Financial Taxes

From 1 July 2001, financial taxes generally comprise debits tax and stamp duty on leases, mortgages, hiring arrangements and electronic debits.

Debits tax is imposed on debits to cheque accounts or accounts with cheque facilities. The rates vary according to the amount of the debit. Debits tax rates and thresholds are similar in all jurisdictions except New South Wales, where the tax has been abolished, and Tasmania, where the rates that apply per threshold are half of the other states.

In March 2004, all state and territory Treasurers confirmed that debits tax will be abolished by July 2005 as part of the national tax reform arrangements.

While the Territory does not charge stamp duty on mortgages, it does apply stamp duty to a broad hiring arrangement base, and a stamp duty on electronic debits made to bank accounts.

Table 6.5 sets out the revenue that the Territory's financial taxes and duties are expected to raise in 2004-05.

Table 6.5: Estimated revenue from financial taxes and duties for 2004-05

Tax/Duty	\$000
Debits Tax	6 273
Lease Duty	1 400
Mortgage Duty	0
Hiring Arrangement Duty	4 643
Electronic Debits Duty	2 434
Total	14 750

Source: Northern Territory Treasury

Mining Revenue

Mining revenue includes collections of royalties or rent equivalents levied on mining activity. Mining revenue is forecast to be \$38.5 million in 2004-05.

The Territory's mining royalty revenues are based on both profits-based and *ad valorem* regimes, whereas *ad valorem* regimes predominate in other jurisdictions.

National Tax reform

National tax reform commenced on 1 July 2000. Key to the new arrangements was the replacement of wholesale sales tax with a broad-based goods and services tax, agreed removal of certain state taxes and the review of others. While the original tax reform package provided sufficient capacity to remove a number of state taxes, the removal of food from the GST base meant that the final tax reform package had

limited capacity for removal of additional taxes beyond some financial taxes and tourism marketing duty.

Territory taxes that have already been abolished

In accordance with the Intergovernmental Agreement, the Territory has abolished tourism marketing duty from 1 July 2000 and stamp duty on quoted marketable securities and financial institutions duty from 1 July 2001.

Debits tax to be abolished from 1 July 2005

The Intergovernmental Agreement also set out that the abolition of debits tax by 2005 was to be reviewed by the Ministerial Council.

As mentioned earlier in this Chapter, the Commonwealth, states and territories agreed to abolish debits tax from 1 July 2005 at the Ministerial Council meeting on 26 March 2004.

Other Taxes subject to Ministerial Council review

Under the Intergovernmental Agreement, the Commonwealth, states and territories have agreed to the Ministerial Council reviewing, by 2005, the need to retain the stamp duties listed below.

Stamp Duty on Non-Residential Conveyances

Stamp duty levied on the value of conveyances other than residential property conveyances.

Stamp Duty on Non-Quotable Marketable Securities

Stamp duty levied on transfers of marketable securities in private companies and trusts, and in public companies and trusts where the securities are not quoted on the Australian Stock Exchange or another recognised stock exchange.

Stamp Duty on Leases

Stamp duty levied on the rental payable under tenancy agreements.

Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities

Stamp duty levied on the value of a secured loan property. The Territory does not levy this form of stamp duty.

Stamp Duty on Credit Arrangements, Instalment Purchase Arrangements and Rental Arrangements

Stamp duty levied on the value of the loan under credit arrangements.

Stamp duty levied on credit business in respect of loans made, discount transactions and credit arrangements.

Stamp duty levied on the price of goods purchased under instalment purchase arrangements.

Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods.

Stamp Duty on Cheques, Bills of Exchange and Promissory Notes

Stamp duty levied on cheques, bills of exchange, promissory notes, or other types of payment orders, promises to pay or acknowledgment of debts, including duty on electronic debits.

Tax Expenditures

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 as spending programs.

Tax expenditures can be provided in a variety of ways including by way of exemption, deduction, rebate or reduced 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 Government. Identifying this expenditure assists in providing a more accurate picture of what the Government is intending to spend to assist various groups or industries.

The tax expenditures identified in this statement only relate to the more important concessions applicable in the Northern Territory and are not intended to be exhaustive. Tax expenditures in relation to exemptions or concessions provided to general government agencies are not included.

In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides forecast information for 2004-05 and the three following financial years.

Methodology

Tax expenditures have been estimated by applying the benchmark rate of taxation to the forecast volume of activities or assets exempted by a particular concession. Only those 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 expenditures (for example, the Government's commitment to reduce payroll tax in 2004-05 and 2005-06). Otherwise, the existing taxation arrangements have been assumed to apply for future years.

Measuring tax expenditures requires the identification of:

- a benchmark tax base;
- concessionary taxed components of the benchmark tax base, such as a 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 tax benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Payroll Tax

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	72.4	77.4	78.6	79.8

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements paid in the Northern Territory, as defined in the *Pay-roll Tax Act*. The benchmark tax rate is assumed to be the payroll tax rate that will apply in 2004-05, being 6.2 per cent. The Government's revenue initiatives announced in this Budget to reduce payroll tax in 2004-05 and 2005-06 has been factored into the tax expenditure forecasts for payroll tax.

The estimated tax expenditure reported above comprises of the following.

Small Business Exemption

From 1 July 2004, the first \$800 000 of an employer's wages are exempt from payroll tax in the Territory. This will increase to \$1 million from 1 July 2005. Accordingly,

employers with wages less than these amounts in the relevant years are not required to pay tax and employers with wages that exceed this amount only pay tax on the excess.

At the payroll tax rate of 6.2 per cent, the \$800 000 exemption reduces an employer's annual payroll tax liability by \$49 600. This increases to \$62 000 for an exemption of \$1 million.

Information about most employers whose wages do not exceed the exemption threshold is not collected for payroll tax purposes, as these employers are not generally required to register for payroll tax. Therefore, the cost of this concession has been estimated using a combination of data collected from the Australian Bureau of Statistics and the Australian Taxation Office for persons employed by small business.

Apprentices, Graduates and Others

An exemption applies for wages that are paid or payable to:

- apprentices within the meaning of the *Northern Territory Employment and Training Authority Act*;
- employees receiving wages funded under the Community Development Employment Projects program; or
- graduates of approved tertiary institutions employed under trainee arrangements approved by the Commissioner of Taxes.

The exemption replaced a rebate scheme that applied prior to 1 July 1999.

Actual wage data collected in past years from payroll tax registered employers in respect of these employees has been used as the basis of the estimate for this item.

Private Educational Institutions and Local Government

Payroll tax does not apply to wages paid or payable by the following organisations, to the extent that those wages are paid for an employee's services that relate directly to the purpose for which the organisation was established:

- private non-tertiary schools or colleges;
- local governing bodies; or
- religious institutions, public benevolent institutions or public hospitals.

Tax expenditures in relation to a number of these concessions cannot be estimated with a high level of confidence, since payroll tax data is not collected from exempt organisations. However, estimates have been made for local government, private educational institutions and some public benevolent institutions for which information is available. These groups would receive the majority of the payroll tax benefits provided under this exemption. Australian Bureau of Statistics and Australian Taxation Office information relating to wages paid by these industry groups has been used as the basis for this estimate.

Trade Development Zone Exemptions

Prior to 1 July 2003, a broad Territory tax exemption was available to all businesses that held a Trade Development Zone licence. To obtain a licence, a business must have operated in the Trade Development Zone and satisfied any of the following criteria:

- the whole or part of the business involved the operation of a bonded warehouse for the purposes of the *Customs Act* of the Commonwealth;

- the substantial part of the business that, in the opinion of the Trade Development Zone Authority, included or was intended to include a substantial amount of importing and exporting; or
- that a business, in the opinion of the Trade Development Zone Authority, provided or would provide goods or services necessary for, or ancillary to, the carrying on of another business that holds a Trade Development Zone licence.

The Trade Development Zone was established to attract manufacturing and high technology industries based on exports.

From 1 July 2003, the *Trade Development Zone Act* was repealed and these exemptions were removed. However, a transitional payroll tax concession will apply, such that the payroll tax (if applicable) of all Trade Development Zone licensees will be waived until such time as their current licences expire.

The cost of the payroll tax concession has been estimated, based on wage estimates of employees working for large employers based in the Trade Development Zone.

Stamp Duty on Conveyances

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	10.6	10.7	10.9	11.2

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 assumed to be the stamp duty scale that will apply in 2004-05.

The estimated tax expenditure reported above comprises of the following.

Corporate Reconstructions Exemption

An exemption for transfers of property between commonly-owned corporations was introduced from 10 October 2002. The exemption is to allow corporate groups to reorganise the ownership of assets into more efficient structures.

The estimated value of the concession is based on the actual amount of stamp duty forgone as a result of approved corporate reconstruction exemptions and how this relates to overall conveyance stamp duty collections.

First Home Owner Concession

Prior to 20 August 2002, a stamp duty concession equalling the stamp duty payable up to the first \$80 000 in value (that is, up to \$2 096 in stamp duty) applied to the purchase of a person's first home in the Northern Territory.

From 20 August 2002, the criteria for the concession was aligned with the \$7 000 First Home Owner Grant, such that it is only available to "true" first homebuyers. In addition, the value of the concession was increased to the stamp duty payable up to the first \$125 000 in value (that is, up to \$3 640.60 in stamp duty).

The overall effect of these changes is to reduce the tax expenditure for this concession. However, any notional savings have been channelled into the Principal Place of Residence Rebate (outlined below).

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the concession and how this relates to overall conveyance stamp duty collections.

Principal Place of Residence Rebate

From 20 August 2002, a new stamp duty rebate of up to \$1 500 of the duty payable on the purchase of a person's principal place of residence in the Northern Territory is

available. This is equivalent to a rebate of the stamp duty on the first \$60 200 of a property's value. This concession is not available to first homebuyers.

The combination of the First Home Owner Concession and the Principal Place of Residence Rebate has had the effect of increasing tax expenditures when compared to the former First Home Owner Concession.

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the rebate and how this relates to overall conveyance stamp duty collections.

Other Conveyance Stamp Duty Exemption

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:

- 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;
- instruments made pursuant to a court order that alter the interests of the parties to a marriage. This exemption is provided under the Commonwealth's *Family Law Act*;
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship; and
- property transferred to public benevolent institutions, religious institutions, public hospitals and public education institutions for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity.

The estimated tax expenditure for this concession 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

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	12.8	13.3	13.6	14.0

The benchmark tax base is assumed to be 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 assumed to be the stamp duty rate that will apply in 2004-05, being 10 per cent of the premium.

The estimated tax expenditure reported above comprises the following.

Workers' Compensation Insurance Exemption

An exemption is provided for workers' compensation insurance to help reduce labour oncosts.

This item of tax expenditure has been estimated, based on total work health insurance policy premiums paid during 2002-03.

Private Health Insurance Exemption

An exemption is provided for private health insurance to help reduce the cost of such insurance.

The estimated tax expenditure for this exemption is based on private health insurance premium data obtained from the Private Health Insurance Administration Council.

Stamp Duty on Leases

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	0.9	1.0	1.0	1.0

The benchmark tax base is assumed to be any lease, agreement for a lease or franchise agreement. The benchmark tax rate is assumed to be the stamp duty rate that will apply in 2004-05, being 50 cents per \$100 of total rent.

The estimated tax expenditure reported above comprises of the following.

Residential Property Exemption

An exemption is provided for residential leases to reduce the cost of leased accommodation.

Information is not collected in relation to residential leases, as they are not subject to stamp duty. Therefore, Australian Bureau of Statistics data on occupied private dwellings has been utilised to estimate the value of this exemption.

Exemption for Commercial Leases with Annual Rent of \$30 000 or Less

From 1 July 2003, all commercial leases with annual rents of \$30 000 or less are not subject to stamp duty.

The estimated value of this concession is based on information collected for leases with an annual rent of \$30 000 or less in years to 1 July 2003.

Motor Vehicle Registration Fees

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	0.7	0.7	0.7	0.7

The estimated tax expenditure reported above comprises the following.

Pensioner Vehicle Concession

The holder of a Pensioner Concession Card is able to receive a flat \$104 concession from motor vehicle registration fees.

Actual historical motor vehicle registration fee data has been used to estimate this item of tax expenditure.

Mineral Royalties

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	10.9	10.6	11.4	8.8

The benchmark tax base is assumed to be all profitable mining operations in the Northern Territory. The benchmark tax rate is assumed to be the rate of royalty that will apply in 2004-05, being 18 per cent.

The estimated tax expenditure reported above comprises the following.

Eligible Exploration Expenditure

Royalty payers are able to reduce the amount of royalty that they pay in the Territory for eligible exploration expenditure (EEE) they incur for their mining operations in the Territory. However, the amount by which royalty may be reduced in this manner is limited to a maximum of 25 per cent of the amount that would otherwise be payable. Prior to 1 July 2003, EEE could be used to reduce royalty by up to 35 per cent.

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

Gambling Taxes

	2004-05	2005-06	2006-07	2007-08
Tax expenditure (\$ million)	14.1	8.1	8.5	8.9

The estimated tax expenditure reported above comprises the following.

Gaming Machines Concessions for Licensed Clubs

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in the Northern Territory. The benchmark tax rate is assumed to be the highest marginal tax rate that will apply in 2004-05 (including the 10 per cent Community Benefit Levy), being 52.91 per cent.

A concessional graduated tax scale applies to gaming machines operated by licensed clubs. The marginal tax rates are applied to the monthly gaming machine metered win revenue, with the top tax rate applying to the portion of such revenue that exceeds \$150 000 for any licensed club.

The cost of this concession is based on projected gaming machine revenue from licensed community gaming machine operators.

Casino Tax Concessions – Community Gaming Machine Allowance

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in the Northern Territory. The benchmark tax rate is assumed to be the rate of rebate that will apply in 2004-05, being 22 per cent.

The Darwin MGM Grand casino receives a partial rebate of the casino tax that it is required to pay, in consideration for relinquishing exclusivity over gaming machines. The amount of the rebate is 22 per cent of the monthly gaming machine metered win revenue of licensed community gaming machine operators. However, the rebate amount is capped, based on the revenue generated from 500 community gaming machines in the northern region of the Territory.

The rebate for the Darwin MGM Grand casino ceases from 30 June 2005. Lasseters Casino in Alice Springs received a similar rebate. However, this ceased from 30 June 2003.

The cost of this concession is based on projected gaming machine revenue from licensed community gaming machine operators.

Conclusion

The Territory has substantially the same revenue-raising powers as the states. However, constitutional and other arrangements limit the revenue-raising base that is available to all the states and territories.

Thus, while the Territory, like the states, has limited discretion on the range of taxes that can be applied, it has discretion over the rates of these taxes.

National tax reform has given the states and territories access to a more robust and growing revenue base but it has also further reduced the range of taxes directly available to the states and territories. This has meant states and territories are paying greater attention to the efficiency and comparability of their remaining taxes.

Appendix

Comparison of Selected State and Territory Charges

As is the case for all jurisdictions, the Territory Government levies user charges for some of the services it provides. These include electricity, water, sewerage and motor vehicle registration charges. This appendix provides comparative data on these and other selected charges.

Electricity Charges

PowerWater became the Territory's first government owned corporation on 1 July 2002. The PowerWater Board is responsible for making recommendations about tariffs to the shareholding Minister.

The Government has committed to maintain current electricity charges for domestic users during its first term in office.

Commercial

Commercial customers who use more than 750 mWh per year are able to choose their electricity supplier. On 28 February 2003, the Treasurer announced that due to the lack of competition to PowerWater in the Territory's electricity market, the timetable for full retail contestability (originally by April 2005) has been deferred until 2010.

Contestability refers to the ability of customers to choose their electricity supplier in a competitive market.

Table 6.6 compares contestability (choice of supplier) thresholds between the jurisdictions.

Table 6.6: Threshold for Choice of Supplier

New South Wales (from 1 January 2002)	Fully Contestable
Victoria (from 1 January 2002)	Fully Contestable
Queensland (from 1 January 2000)	≥ 200 mWh
Western Australia (from 1 January 2003)	34 kWh
South Australia (from 1 January 2003)	Fully Contestable
Australian Capital Territory (from 1 July 2003)	Fully Contestable
Northern Territory (from 1 April 2002)	750 mWh

Source: Electricity Supply Association of Australia Limited

Tariffs for commercial customers in the contestable market are commercial in confidence and as such cannot be readily compared between states. The following electricity charging options are available to all non-contestable commercial customers in the Territory.

The standard tariff for non-contestable commercial customers in the Territory (using less than 750 mWh) comprises a fixed charge of 43.14 cents per day and a usage charge of 16.30 cents per kWh. The GST component of the charge is creditable and lowers the net cost for GST-registered customers.

Another option is the commercial time-of-use tariff. It comprises a fixed charge of 43.14 cents per day, and usage charges of 20.87 cents per kWh for consumption between 6am and 6pm, and 11.74 cents per kWh for consumption between 6pm and 6am.

Standard demand tariffs are also available to customers with 24 hour operations or both day and night-time usage. Table 6.7 provides further details of the standard demand tariff regime.

Table 6.7: Standard demand tariffs as gazetted in January 2003

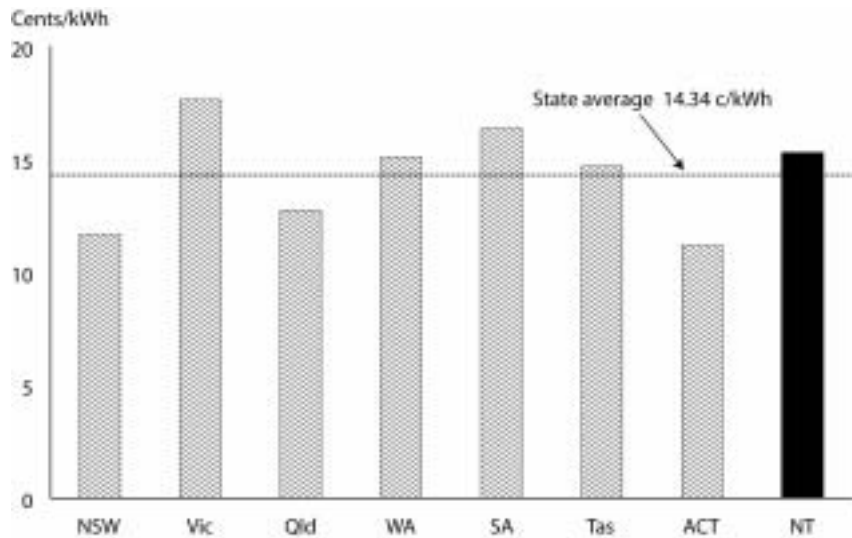
Monthly Usage kWh	Peak cents/kWh	Off peak cents/kWh
First 10 000	10.8	9.86
Next 20 000	10.7	9.75
Next 50 000	10.6	9.64
Next 100 000	10.49	9.54
Next 200 000	10.38	9.43
Next 200 000	10.28	9.33
Balance	10.17	9.22
<i>plus</i>		
Monthly Demand kVa	Peak \$/kVa	Off peak \$/kVa
First 50	24.13	3.18
Next 100	22.03	2.91
Next 300	19.93	2.65
Next 500	17.84	2.38
Next 1000	15.74	2.23
Balance	14.68	2.12
<i>plus</i>		
System charge		\$3.48 per day

Source: PowerWater website – Power Tariffs

Domestic

Domestic electricity charges (generally applying to households) in the Territory comprise a fixed daily charge of 27.62 cents and usage charge of 14.02 cents per kWh for a standard meter. Chart 6.11 provides a comparison of domestic charges for the consumption of 2 000 kWh per quarter. Based on Chart 6.11, the average domestic electricity charge in the Territory is 15.28 cents per kWh. This is higher than the national average of 14.34 cents per kWh. Higher charges in the Territory are cost reflective and influenced by the absence of cheaper fuel sources and economies of scale. The bulk of fuel costs in the Territory are fixed costs associated with financing the Amadeus Basin to Darwin gas pipeline.

Chart 6.11: Domestic Average cents/kWh Charges for 2 000 kWh per Quarter as at 30 June 2003



Source: PowerWater Annual Report 2002-03

Water and Sewerage Charges

Water

Water is charged in the Territory at 67.65 cents per kilolitre (kL), as well as a fixed daily charge based on the size of the meter (as set out in Table 6.8).

Table 6.8: Water Meter Charges Effective January 2003

Meter Size	Daily Charge
Up to 25mm	28.25c
26 to 40mm	72.32c
41 to 50mm	\$1.1275
51 to 100mm	\$4.5203
101 to 150mm	\$10.1680
151 to 200mm	\$18.0810

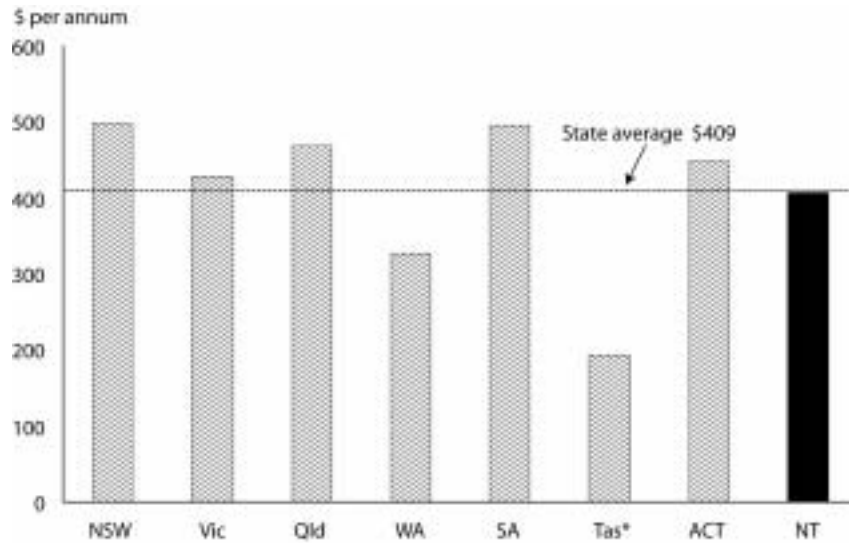
Source: PowerWater Annual Report 2002-03

The charge is proportional to the meter size for meters greater than 200mm. In most instances, meters up to 25mm are used for domestic customers.

The average Darwin domestic consumption is 437 kL per annum compared to the national average of 450 kL per annum.

Based on 450 kL consumption per annum, Territory water charges of \$407 are marginally lower than the national average of \$409, and less than those of all jurisdictions other than Tasmania and Western Australia (Chart 6.12).

Chart 6.12 Domestic Water Charges Based on Annual Consumption of 450 kL as at June 2003

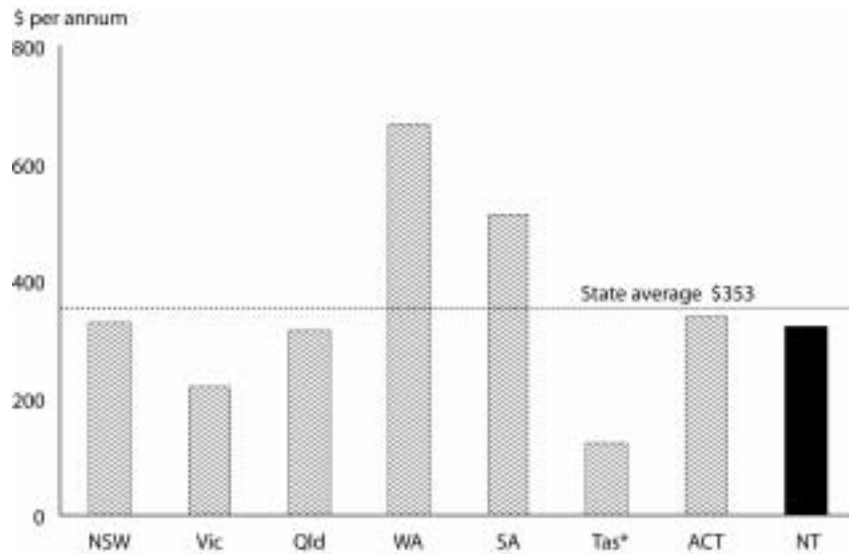


* Comparatively low due to water charges being based on property value.
Source: PowerWater Annual Report 2002-03 and website

Sewerage

Chart 6.13 shows the Territory's domestic sewerage charge, at \$322 per annum, is below the national average, and third lowest of the jurisdictions.

Chart 6.13: Annual Sewerage Charges for a Home as at June 2003



* Heavy cross-subsidy of domestic by commercial customers
Source: PowerWater Annual Report 2002-03

Bus Fares

Chart 6.14 shows the Territory's standard adult bus fare for travelling one "zone" at 1 March 2004 (\$1.40) is the lowest in Australia.

Chart 6.14: Adult Bus Fare for Travelling One Zone as at 1 March 2004



Source: Department of Infrastructure, Planning and Environment

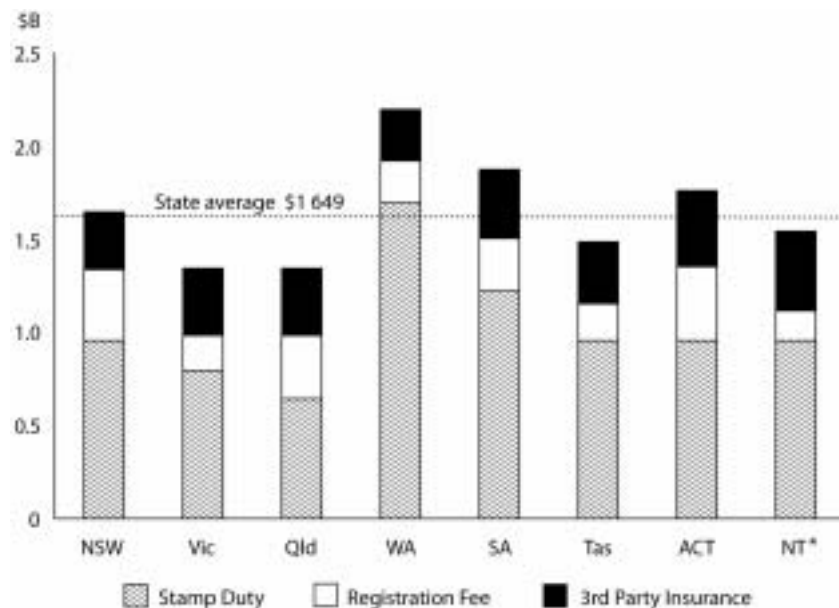
Vehicle Registration Fees

Vehicle registration fees and taxes comprise revenue collections from motor vehicle number plate and registration fees and surcharges on all vehicles other than heavy vehicles.

This includes privately-registered passenger vehicles, caravans, trailers, motorcycles, trucks and commercial vehicles.

Chart 6.15 below shows that as at 1 July 2004, the Territory's on-road costs for a medium \$32 000 passenger vehicle are below the national average.

Chart 6.15: On-Road Costs for Medium \$32 000 Passenger Vehicle



* Third Party Insurance will increase by \$24.15 from 1 July 2004

Source: Department of Infrastructure, Planning and Environment, based upon information available as at 18 May 2004

The Territory's registration fees (excluding third party insurance) are the lowest in Australia and well below the Australian average.

Third party insurance is not a Government-imposed tax. The Territory's compulsory third party premiums are greater than the national average and reflect the higher costs and risks inherent in third party insurance arrangements in the Territory, including potentially expensive common law claims available to non-resident drivers and passengers.

The Territory's stamp duty cost payable on the purchase of such a vehicle is the equal third lowest in Australia and below the Australian average.

Public Safety and Emergency Services

Public safety and emergency services charges consist of fire insurance or emergency service levies and other charges.

The Northern Territory and the Australian Capital Territory are the only jurisdictions that do not tax residents and businesses by imposing a general fire or emergency services levy. These charges are imposed in a variety of ways among the states, including through recurrent levies based on insurance premiums and land ownership.

However, the Territory does impose user charges on the monitoring of smoke alarms under its NTFAST scheme and for the provision of fire services in private towns.

Conclusion

The Territory's household user charges are, in total, competitive with the average of the states. All of the Territory's selected household charges are less than the average of the states, with the exception of domestic electricity charges.

The Territory's higher domestic electricity charges reflect the higher costs of production and are influenced by the absence of cheaper fuel sources and economies of scale.

Commercial Issues

Overview

This section outlines the commercial policies affecting the way in which Territory Government businesses operate and the way in which the Territory Government deals with the private sector.

It provides an overview of:

- the Government Business Divisions and Government Owned Corporations frameworks which recognise that some activities of Government should operate on a more commercial basis than general government agencies;
- the public private partnership policy of the Territory, *Territory Partnerships*, which outlines the framework for commercial dealings between the Territory Government and the private sector; and
- the risks faced by the Territory, in particular the risks created by contingent liabilities from guarantees and indemnities that the Territory has granted in its dealings with the private sector and with other governments.

Commercial Frameworks

The Northern Territory Government has established Government Business Divisions and Government Owned Corporations frameworks to recognise that some areas of Government require a more commercial focus as:

- their operations are similar to those of private sector businesses; and/or
- they operate in a commercial environment or in competition with private sector businesses.

Government businesses that are considered to be in a position to operate commercially can be declared government business divisions by the Treasurer. These businesses do not receive direct budget appropriation for their commercial activities, as they are recognised as being capable of generating revenue themselves. This revenue could be generated either from sales of goods and services to other government agencies, the private sector or a combination of both. Budget appropriation is provided to Government agencies to enable them to pay for these goods and services on a commercial basis or for community service obligations (CSOs) where government business divisions are required to undertake non-commercial activities.

Government business divisions are subject to the Territory's financial management framework contained in the *Financial Management Act* and the chief executive officer for a government business division is accountable to the responsible Minister for the performance of the business division.

The Government Owned Corporations framework replicates as far as possible the shareholder model of corporate governance. The Power and Water Corporation (PowerWater) is the Territory's only government owned corporation.

Similar to government business divisions, PowerWater does not receive direct budget appropriation. However, through other Government agencies, it receives payments for services provided and CSO funding where it is required to undertake non-commercial activities. These CSO payments contribute to the funding of the Territory's uniform tariff policy, electricity subsidies provided to medium-sized businesses, and electricity and water subsidies provided to pensioners.

PowerWater's Board is accountable for the performance of the corporation.

Government owned corporations are not subject to the *Financial Management Act*.

PowerWater owns three subsidiary companies that operate under the *Corporations Act 2001*.

Apart from the Government Business Divisions and Government Owned Corporations frameworks which apply generally to businesses owned by Government, the Territory Insurance Office, another Government business, operates under its own legislative framework.

Government Business Divisions

Government business divisions (GBDs) are included in the Northern Territory Budget Sector. They are declared by the Treasurer under the *Financial Management Act*.

The Territory Government has been actively pursuing improvements in the efficiency and operation of GBDs since the mid 1990s. The key objective of GBD reform is to reduce Government and business costs, thereby freeing up Government resources for other expenditure priorities.

The following commercial practices have been implemented for GBDs:

- full attribution of costs (including tax equivalents);
- efficient pricing based on costs;
- commercial accounting, operation under a charter of operation and establishment of an audit committee;
- identification and budget funding of CSOs, to compensate GBDs for undertaking non-commercial activities at the direction of Government; and
- performance monitoring.

GBDs are required to comply with competitive neutrality principles which ensure a level playing field with private sector counterparts, and that resources controlled by GBDs are determined by relative efficiency rather than advantages accruing as a result of Government ownership.

GBDs that provide services in competition with private sector businesses may be the subject of competitive neutrality complaints. Northern Territory Treasury has been charged with investigating any such complaints and advising the Treasurer and the responsible Minister of the results of such investigations. If a complaint should be upheld, the Government will decide, on a case by case basis, what action should be taken to overcome any net competitive advantage identified by the report.

Reform of GBDs is continuous, with the current emphasis to build on initiatives to date by encouraging greater commercial focus, improved management practices, additional efficiency and productivity gains, ensuring value for money from expenditure on CSOs and more rigorous performance monitoring. Charters of operation are being reviewed to ensure that operational and commercial boundaries are appropriate in the light of market developments that have occurred since GBDs were established in the mid 1990s.

Government Owned Corporations

The *Government Owned Corporations Act* adopts the shareholder model of corporate governance. It replicates as far as possible the model that applies to private sector businesses which operate through a company structure incorporated under the *Corporations Act 2001*. PowerWater became the Territory's first government owned corporation (GOC) on 1 July 2002.

Key elements of the Territory model are:

- corporations established under their own legislation but governed by the overarching *Government Owned Corporations Act* which adopts the Commonwealth's *Corporations Act 2001* principles;

- a commercial Board of Directors that is responsible for the operation of the business and accountable to the shareholding Minister for the financial performance of the business;
- a shareholding Minister (usually the Treasurer) who monitors the financial performance of the corporation;
- a portfolio Minister (the Minister for Essential Services in the case of PowerWater) who monitors the service performance of the corporation and has broad industry policy responsibilities; and
- a Statement of Corporate Intent, which is essentially a performance agreement between the shareholding Minister and the Board of the corporation.

The shareholding Minister concept represents a significant change from governance arrangements for general government agencies and for GBDs under the *Financial Management Act*. Under the Act, the chief executive officer is directly accountable to Government for his or her management of activities and the performance of the Government entity. Where Boards are associated with GBDs, they generally have an advisory role to the business and to Ministers. Ministers make business decisions which may or may not be on the advice of the Board.

Under the Government Owned Corporations framework, the commercial Board of Directors is the decision-making body and is accountable for its decisions. The Board is accountable to the shareholding Minister for financial performance and to the portfolio Minister for the service quality aspects of a corporation's business.

Community Service Obligations

Where Government specifically requires a GBD or a GOC to carry out an activity which it would not elect to do on commercial grounds, or would only undertake commercially at higher prices, such functions are designated as CSOs.

CSOs are undertaken to achieve identifiable community or social benefits.

Explicit identification of CSOs through either budget funding or acceptance of a lower shareholder return has two important implications:

- it enables the GBD to manage its commercial activities without having to cross subsidise its non-commercial activities. The development of a commercial culture within GBDs is fundamental to improvements in operational efficiency; and
- it provides opportunity for an annual review of those activities funded as CSOs.

The 2004-05 Budget for CSOs is \$75.71 million, representing an increase of \$4.16 million from an estimated \$71.56 million in 2003-04.

Significant variations in CSO funding between 2003-04 and 2004-05 include:

Uniform Tariff (\$39.08 million in 2003-04 and \$40.39 million in 2004-05)

This CSO is paid to PowerWater and provides that tariffs paid by small business and household customers are the same, irrespective of where a customer lives or the cost of providing the service. The increase in the payment for 2004-05 reflects anticipated growth in usage by customers and inflation of costs, less an efficiency dividend.

The CSO is partially budget funded, with the remainder accepted through a lower rate of return from PowerWater. This means that the shareholding Minister accepts a lower rate of return on the Government's investment in the corporation. PowerWater bears some of the costs of the Government's uniform tariff policy through lower profits than would otherwise be achievable. The Utilities Commission has valued the electricity component of the CSO at \$62.39 million, of which \$35.41 million is budget funded in 2004-05.

Table 7.1: Community Service Obligation Payments

PURCHASING AGENCY/Provider/Description	2003-04 Estimate	2004-05 Budget
	\$000	\$000
NORTHERN TERRITORY TREASURY	41 189	48 939
PowerWater		
Uniform Tariffs	39 084	40 385
Tranche 4 Electricity Customers	2 105	8 554
NORTHERN TERRITORY TOURIST COMMISSION	448	448
Territory Discoveries		
Tourism Marketing	448	448
DEPARTMENT OF COMMUNITY DEVELOPMENT, SPORT AND CULTURAL AFFAIRS	13 666	13 799
Housing Business Services		
Rent Subsidies	11 507	11 507
Low Interest Home Loans	499	532
Early Start - Deposit Assistance Scheme	400	500
Fringe Benefits Tax on Employee Loans	68	68
Assist, Interest Subsidy	480	480
Stamp Duty Differential	60	60
Police Rent Forgone	652	652
DEPARTMENT OF HEALTH AND COMMUNITY SERVICES	2 488	2 488
PowerWater		
Pensioner Concession Scheme	2 488	2 488
DEPARTMENT OF INFRASTRUCTURE, PLANNING AND ENVIRONMENT	13 765	10 040
Territory Wildlife Parks	9 125	7 675
Territory Wildlife Park - Tourism	3 790	3 840
Territory Wildlife Park - Threatened Species	475	475
Territory Wildlife Park - Education	118	118
Territory Wildlife Park - Equity Arrangement	45	
Alice Springs Desert Park - Tourism	2 100	2 100
Alice Springs Desert Park - Threatened Species	222	222
Alice Springs Desert Park - Education	277	277
Alice Springs Desert Park - Botanic Gardens	643	643
Alice Springs Desert Park - Equity Arrangement	1 455	
Darwin Port Corporation	4 640	2 365
Small Craft Services (Marine Industry Support)	841	280
East Arm Port Capital and Operating Costs	1 830	
NT Express	79	56
Cruise and Defence (Wharf Precinct)	794	1 549
Tourism and Real Estate (Wharf Precinct)	431	480
Cathodic Protection (Wharf Precinct)	525	
Dredging of City Wharves	140	
TOTAL	71 556	75 714

Tranche 4 electricity customers (\$2.10 million in 2003-04 and \$8.55 million in 2004-05)

This CSO is paid to PowerWater and came into effect on 1 April 2004. The CSO represents the shortfall between cost-reflective tariffs and regulated maximum prices for medium-sized electricity customers (Tranche 4) that used between 750 megawatt hours and 2 gigawatt hours per annum when they became contestable. As Tranche 4 customers are fully contestable, this CSO is fully budget funded.

East Arm Port Capital and Operating Costs (\$1.83 million in 2003-04 and nil in 2004-05)

The CSO is to provide support to the Darwin Port Corporation (DPC) for the duplicated operating costs incurred during construction of the new East Arm Wharf until such

time as it is fully operational and essentially replaces the existing city wharves including Fort Hill Wharf and Iron Ore Wharf. The CSO ceases after 30 June 2004.

Tax Equivalent Regime

The Territory (and all states) imposes an income tax equivalents regime on GBDs in order to ensure competitive neutrality with the private sector.

PowerWater and Darwin Port Corporation pay the equivalent of local government rates liability into the Central Holding Authority.

The most significant variation relates to PowerWater. PowerWater has not had to pay income taxes prior to 2004-05 as it had significant carry forward tax losses which have offset taxes that would otherwise have been payable on profits.

Table 7.2: Tax Equivalents Paid to Government

	2003-04 Estimate	2004-05 Budget
	\$000	\$000
Income Tax Equivalents from GBDs		
NT Fleet	2 021	1 956
Data Centre Services	479	1 009
Darwin Bus Service	174	35
Treasury Corporation	7 071	6 144
Total Tax Equivalents from GBDs	9 745	9 144
Income Tax Equivalents from GOCs		
PowerWater		18 002
Local Government Rates Equivalents from GBDs		
Darwin Port Corporation	141	143
Local Government Rates Equivalents from GOCs		
PowerWater	194	197
Total Tax Equivalents Paid to Government	10 080	27 486

Note: GBDs that are not shown did not pay tax in 2003-04 and are not expected to in 2004-05.

Dividend Policy

The Territory Government provides equity capital to its GBDs and GOCs.

Under the *Financial Management Act*, the Treasurer may determine that a GBD is to pay a dividend, if the Treasurer is satisfied that it has the resources to do so. The Board of a GOC is to declare the amount of a dividend on the shares of a GOC, but the shareholding Minister may direct the Board of a GOC to declare a special dividend.

The Government has discretion to allow GBDs or GOCs to retain profits as equity capital. Generally, the Territory Government's primary benchmark is an ordinary dividend of 50 per cent of after tax profit. However, a dividend payout ratio of 50 per cent may not always be appropriate, particularly where:

- a GBD's capital structure is appropriate; and/or
- where a GBD has significant capital expenditure commitments.

Special dividends can be declared where there are sufficient resources to pay an extra amount. An example is Northern Territory Treasury Corporation. The corporation operates as the Government's Central Financing Authority. It generates its revenue from the positive margin between its borrowing and lending rates. It does not need to accumulate retained profits to meet capital depreciation and, therefore, it is more appropriate for the corporation to pay a dividend of 100 per cent of after tax profit.

Dividend receipts from GBDs in 2004-05 are budgeted at \$17.07 million compared to estimated receipts of \$17.85 million in 2003-04. The main variation relates to Data Centre Services, where a number of clients are expected to move away from mainframe systems.

PowerWater's projected dividend in 2004-05 is \$19.68 million which is 50 per cent of its net profit after tax of \$39.36 million. This profit level is reached after the payment by the Territory of the \$51 million CSO to be paid in 2004-05, and a further \$14 million provided by Government in the form of capital contributions towards construction of assets that will be owned by PowerWater. Therefore, it is only through Government contributions that PowerWater makes a profit from its operations. The 50 per cent dividend paid to Government is less than half of the assistance provided by the Government to PowerWater and recognises that the Territory has provided equity capital to the corporation. PowerWater retains the remaining 50 per cent of net profit after tax to support its investment requirements.

Table 7.3 – Dividends Payable to Government

	2003-04 Estimate	2004-05 Budget
	\$000	\$000
Dividends from GBDs		
Data Centre Services	1 177	245
NT Fleet	2 282	2 380
Darwin Bus Service	41	4
Northern Territory Treasury Corporation	14 354	14 437
Total Dividends from GBDs	17 854	17 066
Dividend from GOC		
PowerWater	18 594	19 681
Total Dividends to Government	36 448	36 747

Public Private Partnerships

Public private partnerships (PPP) is a term used to describe a method of procuring Government infrastructure and associated services. PPPs create opportunities with the private sector for increasing investment in social and economic infrastructure and defines a way in which commercial dealings between the public and private sectors could work.

Generally projects considered for PPP arrangements are those with significant whole of life costs (say greater than \$50 million in today's dollars) and which are long term in nature (20 to 30 years). Usually a PPP project will be attractive to the private sector, where it presents a viable commercial business opportunity. A commercial opportunity is more likely to be created where third party revenues are available (such as from road tolls on a roadway) or where economies of scale can be achieved in construction and ongoing maintenance (such as with a group of schools).

From the Government's perspective, value for money will be achieved where private sector experience and expertise in delivery of the project exists and there is an environment of competitive tension to deliver the best outcome to Government. To achieve this, a PPP requires a rigorous and structured project evaluation process which assists in allocation of risks to the party best able to manage them. With these elements present, the bidding process will ensure that efficient and optimal risk transfer occurs at realistic cost and that service delivery and innovation is maximised.

The Territory released its draft *Territory Partnerships* framework for public comment in March 2003 and the *Territory Partnerships* policy and guidance material is now in the process of being finalised and formally released. In line with a move by all governments in Australia towards uniform policy in this area, the policy is largely based on the policies of both the Victorian and New South Wales governments. The *Territory Partnerships* framework is premised on:

- the primary decision-making criteria as to whether to pursue a PPP being value for money and whether the project is considered to be within the public interest;
- all potential PPP projects requiring development of a public sector cost benchmark or comparator;
- projects of sufficient scale (\$50 million net present value whole of life costs would normally be the minimum size) and duration;
- projects with capacity for optimal risk allocation between the public and private sectors;
- projects which allow scope for innovative solutions from the private sector;
- projects which provide a genuine business opportunity for the private sector; and
- fostering of a competitive bidding environment.

In progressing a uniform Australia-wide approach to PPPs, the Territory is represented on a PPP inter-jurisdictional working group which meets biannually. Victoria has proposed the establishment of a National PPP Forum which will focus on fostering and promoting a national PPP market. The first forum has been held in mid May 2004.

The Territory's first project under the *Territory Partnerships* framework is a component of the Darwin City Waterfront project. This project involves the redevelopment of 25 hectares of waterfront land in Darwin. The project involves the construction and long-term operation of the Darwin Convention and Exhibition Centre, as well as residential and commercial components.

Commercial Risks in Relation to the Budget

This section outlines risk issues that relate to formulation of the Budget and the performance of the public sector against the Budget. All forecasts are subject to a degree of risk and therefore some risk attaches to the Budget and forward estimates.

The Budget and forward estimates have been developed based on a range of factors about which consensus exists at the time the Budget is framed. However, events occurring after the Budget has been tabled may affect actual budget outcomes in current and future years.

In addition to changes in economic or other parameters, such as inflation rates, interest rates and exchange rates, factors which may affect the Budget outcome result from the commercial relationships and dealings between the Territory Government and other governments or the private sector. These encompass matters such as the:

- exclusion of certain items from forecasts because of uncertainty about timing; and
- crystallisation of contingent liabilities.

In any discussion about the Budget, it is important to consider that the largest source of revenue for the Territory Government is Goods and Services Tax (GST) revenue paid by the Commonwealth. While it is expected that national GST collections will grow over time, the revenue base is subject to significant volatility. Additionally, the recommendations of the Commonwealth Grants Commission are of greater importance to the Territory than to other jurisdictions because of the Territory's

greater reliance on GST revenue, and they therefore pose greater risks to the Territory than to other jurisdictions. Further discussion on the risks to GST revenue estimates is provided in Chapter 6.

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.

Details of estimated amounts of material contingent liabilities at 30 June 2003 resulting from guarantees or indemnities granted by the Territory are presented in Table 7.4 below.

Table 7.4: Material Quantifiable Contingent Liabilities

	Estimated Quantifiable Contingent Liability at 30 June 2003
	\$M
Amadeus Basin to Darwin Gas Pipeline	291
Pine Creek/McArthur River Electricity Purchase Agreements	112
Alice Springs to Darwin Railway	25
Territory Insurance Office	623
Public Trustee Common Fund	25

Material contingent liabilities of the Territory cover guarantees and indemnities of the Territory and are disclosed in annual financial statements of the Territory in accordance with Australian Accounting Standards requirements. Quantifiable and unquantifiable contingent liabilities of the Territory are outlined briefly below.

Quantifiable Contingent Liabilities

Electricity, Gas and Water Supply

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

PowerWater has been a government owned corporation (GOC) since 1 July 2002. Under the *Government Owned Corporations Act*, a GOC is not within the shield of the Crown and the obligations of a GOC are not guaranteed by the Territory except where the Treasurer specifically agrees to this. The following Territory commitments were given prior to PowerWater 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 company which constructed the natural gas pipeline from the Amadeus Basin to Darwin in support of obligations of PowerWater to the company. The Territory has also supported the corporation's financing obligations to the pipeline company and its financiers. Should this facility be terminated prior to the end of the contract term, the Territory has undertaken to stand behind and, if necessary, underwrite the refinancing of the outstanding facility amount including a lease residual due to be paid at the end of the facility term.

The Territory has guaranteed gas producers in support of the obligations of a subsidiary company of PowerWater under gas purchase contracts and provided a letter in support of a loan to the corporation's subsidiary company used to meet the company's development obligations under a gas purchase agreement.

In the event that PowerWater experiences a significant decline in its sales of electricity, there is a risk that the corporation may have a lesser requirement for natural gas to be delivered through the Amadeus Basin to Darwin gas pipeline. In circumstances where the decline was severe, both gas purchase contracts and the pipeline financing arrangements could present a severe risk to the corporation and the Territory that there would be ongoing payments made despite reduced need for delivered gas. This situation is considered highly improbable, especially given that existing gas purchase and pipeline obligations will cease within the next seven years.

On the other hand, there is a risk that contracted supplies of gas will prove inadequate to meet the fuel needs for a public electricity supply. Although most installed capacity that generates electricity for public supply can use alternative liquid fuels, there is presently a very significant price differential between gas and liquid fuels at all locations where gas can be delivered through existing infrastructure.

PowerWater has advised that it expects to be able to meet its needs and those of the public electricity market at least for the next five years. Within this timeframe, the corporation is planning to contract for additional gas supplies, most likely from one of the gas fields located in waters adjacent to the Top End of the Territory. All risks related to gas supply shortfall are, of course, not associated with guarantees or indemnities in contracts, as they relate to situations where existing contracts cannot meet the market's needs.

Electricity and Gas Supply to Pine Creek and McArthur River

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

The contingent liability is unquantifiable. However, a major portion of the value of the contingent liability is the cost of overhauling turbine machinery owned by the electricity producers, where damage has been caused by the provision of non-conforming gas.

In relation to the electricity purchase agreements, the Territory has provided an indemnity against possible actions of the Territory in relation to the structure or operations of PowerWater. The Territory's maximum exposure is equivalent to the net present value of lease and operating charges under the purchase agreements.

Under PowerWater'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 easily avoidable. Accordingly, the prospect of these undertakings being called upon is considered to be negligible.

Transport

Contingent liabilities in this category 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 Alice Springs to Darwin railway on a build, own, operate and transfer-back basis.

Quantifiable contingent liabilities of the Territory in relation to the project arise from commitments to provide a capped amount of equity and contingent equity of which 50 per cent has or will be provided by the Commonwealth. Under this arrangement, the Territory paid \$17.7 million in 2002-03, 50 per cent of which was funded by the Commonwealth.

A further \$25 million representing the Territory's commitment to contingent equity, 50 per cent funded by the Commonwealth, may conceivably be called commencing in 2004-05.

Unquantifiable Contingent Liabilities

Further to the quantifiable contingent liabilities listed above, unquantifiable contingent liabilities also exist which could pose a risk to the Government's financial projections.

Transport

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;
- indemnities granted in relation to title over the railway corridor (title is secure but the indemnity continues);
- agreement to compensate in the case of early termination of the Project (where a termination event is caused by the Territory); and
- indemnities in favour of the Commonwealth for the Commonwealth's financial contribution.

The railway is now complete and interfaces with the East Arm Port. The Darwin Port Corporation has entered into agreements with Asia Pacific Transport Pty Ltd to lease new facilities at the port. There are contingent liabilities which arise out of the performance of the facilities under the agreements.

Although the majority of contingent liabilities arising from the above guarantees and indemnities are unquantifiable, AARC and the governments have comprehensive risk management procedures in place for all events that would give rise to liabilities.

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.

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

Government Administration

Where the Territory has invited the participation of private sector persons and Government officers on Boards of Government owned or funded companies or corporations, the Territory has granted an indemnity to the Board member which covers them for any losses which may result from good faith actions. This indemnity is 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.

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.

Indemnities are granted to the Commonwealth Government and other entities involved in funding or sponsoring activities and programs initiated or undertaken by the Territory. Under the indemnities, the Government 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.

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

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

The Territory Government also generally self insures its insurable risk. The size of the Government budget, coupled with the spread of risk, the small size and high degree of centralisation of Government activities, have been considerations in determining that self insurance is appropriate. Government's primary exposure is to natural disaster risks that are outside Government control, for example, cyclones. In previous years, where catastrophic natural disasters result in major loss, the Commonwealth Government has provided assistance, even beyond the terms of the Natural Disaster Relief Arrangements.

Finance

The Territory financial management framework is underpinned by centralised banking arrangements. The sole provider of banking-related services has been granted indemnities under the whole of government banking contract.

Property and Business Services

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.

Statutory Contingent Liabilities

A number of statutory contingent liabilities also exist, however, the prospect of these contingent liabilities being called upon is considered to be negligible.

Territory Insurance Office Act

Section 30(1) of the *Territory Insurance Office Act* provides that the Territory guarantees every policy or contract of insurance or indemnity; and the repayment of, and the interest payable on, each deposit with the Territory Insurance Office in pursuance of a contract or other agreement.

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 Fund is invested according to the directions issued by an Investment Board.

Negotiations Not Yet Finalised

Negotiations not yet finalised have the capacity to influence the achievement of budget projections and have the potential to affect both revenue and expenses, as well as the Statement of Financial Position.

However, as indicated above, the Budget and forward estimates have been developed based on a range of factors about which consensus exists at the time the Budget is framed.

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. The Budget and forward estimates have been developed based on consensus existing at the time the Budget is framed.

Economy Overview

Structure of the Economy

The structure of the Northern Territory economy is markedly different to other Australian jurisdictions, reflecting its abundance of natural resources and the importance of the public sector and the large defence presence.

A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed which, in conjunction with a high reliance on tourism (particularly international), contributes to an economy that has significant exposure to the world economic cycle.

This growth volatility in the Territory is exacerbated by the relatively small size of the economy, which comprises 1.2 per cent of the Australian economy.

A key driver in the structure of the Territory economy was the increase in defence numbers over the 1990s, leading to a major cycle in economic activity and a construction boom, followed by a downturn in the early years of this decade.

The next few years will see another phase of infrastructure and resource investment, including increased transport capacity (with the completed Adelaide to Darwin rail link) and mining and energy (mainly oil and gas), which in turn will broaden the economy in key industries such as manufacturing and services.

Economic Growth

Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means that large, typically resource-based, projects can have a substantial impact on investment and income streams.

During the mid to late 1990s, the Territory economy outperformed the rest of Australia. The impetus provided by the defence relocation program led to increased population growth, creating strong demand and fuelling a construction boom.

As the stimulus from the defence force program eased back, growth began to weaken, with negative Gross State Product (GSP) growth in 1999-00.

In 2000-01 and 2001-02, GSP was boosted by increases in offshore oil production, which acted to mask the weakness in the onshore economy.

GSP growth is estimated at 0.3 per cent in 2003-04. Offshore oil production declined significantly for the second consecutive year, but was more than offset by the strengthening in the onshore economy.

Improving onshore economic conditions in recent years are reflected in solid growth in State Final Demand (SFD), notably for private consumption and investment. SFD growth for 2003-04 is estimated at 4.4 per cent.

Economic growth is forecast to strengthen to 5.8 per cent in 2004-05. Although moderating, consumption is expected to be the major contributor to growth. Employment will be boosted by work for the construction of the liquefied natural gas (LNG) plant at Wickham Point and a pick up in the tourism sector.

Table 8.1: Summary of Territory Economic Indicators

Year on Year Percentage Change	1999-00	2000-01	2001-02	2002-03	Estimate 2003-04	Forecast 2004-05
Real GSP	-1.2	6.0	2.2	-0.8	0.3	5.8
Employment	-2.3	1.1	5.4	-0.1	-1.4	2.9
Population*	1.6	1.0	0.9	0.1	0.3	0.3
Darwin CPI [#]	2.4	5.2	2.1	2.1	1.5	2.2

* Annual percentage change to 31 December [#]Consumer Price Index, annual percentage change to June quarter
Source: Northern Territory Treasury, ABS Cat. Nos 3101.0, 5220.0, 6202.0, 6401.0

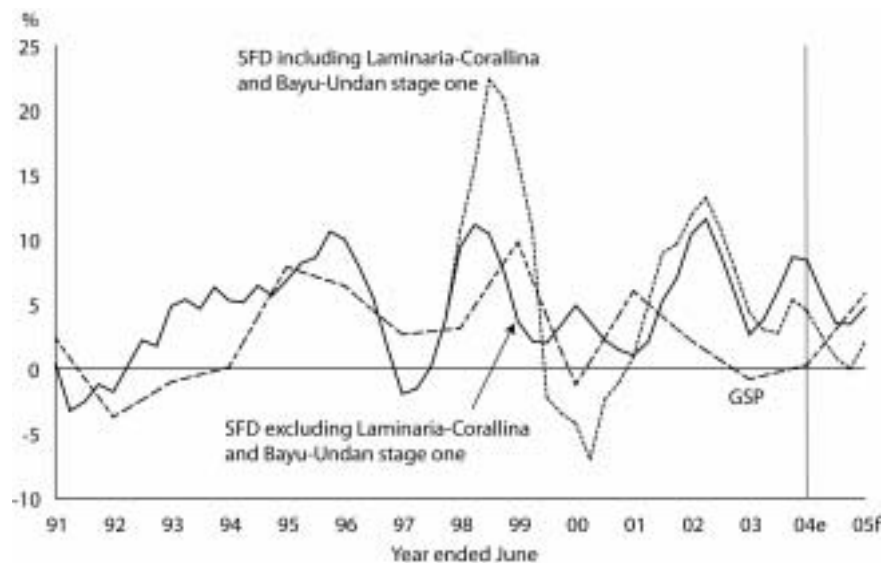
Table 8.2: Territory Economic Growth Profile

Period	GSP (Annual % Change)	Comment
Five years 1994 to 1999	5.9	Strong growth phase. Associated with impetus from defence force relocation program. High population growth, strong demand for housing and other economic and social infrastructure, construction boom.
1999-00	-1.2	Downturn. Loss of defence impetus. Weak construction, decline in new motor vehicle sales, negative employment growth.
2000-01	6.0	Weak onshore activity. Headline GSP boosted by offshore oil. Falling retail sales, rising unemployment rate. Major net interstate migration outflow.
2001-02	2.2	Pick up in onshore activity. Recovery in consumption. Rail-related investment surge boosting construction and property and business services. Stronger defence-related output, partially offset by a fallback in offshore oil production, weak population growth and the setback to tourism.
2002-03	-0.8	Sharp fall in offshore oil production major influence on weak headline result. Onshore economic performance mixed. Consumption strengthened and business investment at a high level. Further weakening in population growth. Employment growth fell and further tourism shocks.
2003-04	0.3 (e)	Offshore oil production continues to fall. Recovery in onshore economy gained momentum, boosted by strong construction activity. Employment and population growth weak, but start to recover. Continued weak tourism activity.
2004-05	5.8 (f)	Onshore recovery broadens. Strengthening in construction, mining and tourism. Consumption growth moderates and business investment falls somewhat, but greater level of local value-adding. Strong employment growth. Population growth continues to recover, but remains weak.

e: estimate f: forecast

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

Chart 8.1: Territory SFD and GSP (chain volume, annual percentage change)



e: estimate f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos 5206.0, 5220.0

Population

Population growth, through natural increase and interstate and overseas migration, is a key driver of Territory economic growth.

Despite significant net average annual migration outflows, the Territory has a recent history of strong population growth: 4 to 5 per cent annually in the early 1980s, 1 to 2 per cent in the late 1980s and early 1990s, and 2 per cent annually during the late 1990s.

Completion of the main defence force build up in the Top End saw growth decline to 1.1 per cent in 2000-01 and 0.5 per cent in 2001-02.

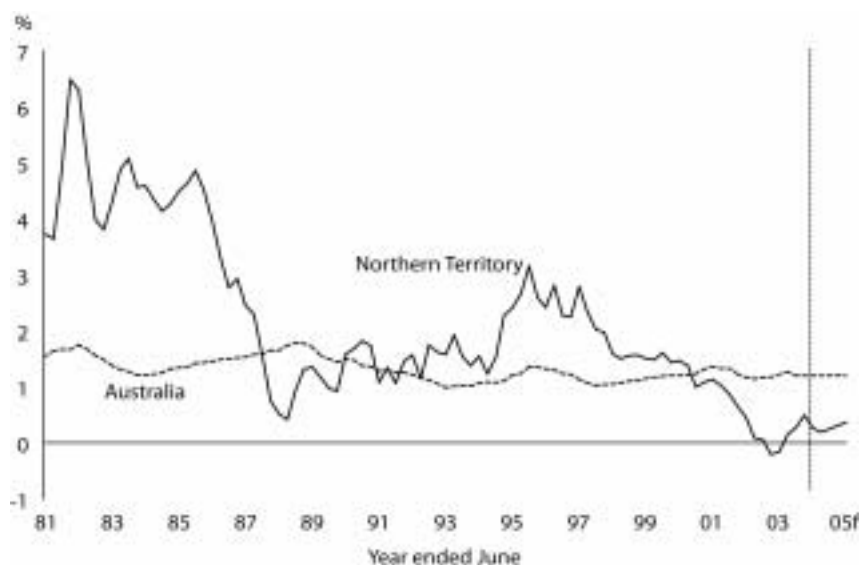
A net interstate migration outflow of 3 389 people, associated with weaker economic growth, was the major contributor to the 0.2 per cent population decline in the year to 30 June 2003 to 198 351. Latest available data show an increase to 198 617 as at September 2003.

Changes in interstate migration patterns in recent years indicate annual outflows have remained relatively stable at 17 000 to 18 000, but inflows have declined steadily since 1997 from a peak of more than 18 000 to less than 15 000.

Treasury estimates population growth of 0.3 per cent for 2003-04, and forecasts 0.3 per cent for 2004-05, and 0.5 per cent for both 2005-06 and 2006-07.

As the Territory's population ages into the future, the proportion which is of working age (15-64 years) is likely to increase rather than decline, as is the situation in the rest of Australia.

Chart 8.2: Annual Population Growth Rates, Australia and the Northern Territory



f: forecast

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

Employment

The Territory workforce of approximately 100 000 people is typically young, mobile and transient, and includes around 8 000 Indigenous participants on the Community Development Employment Projects (CDEP) program. In addition, there are about 5 500 defence force personnel resident in the Territory who are not included in workforce estimates.

The past decade has seen the creation of about 20 000 non-defence force jobs in the Territory.

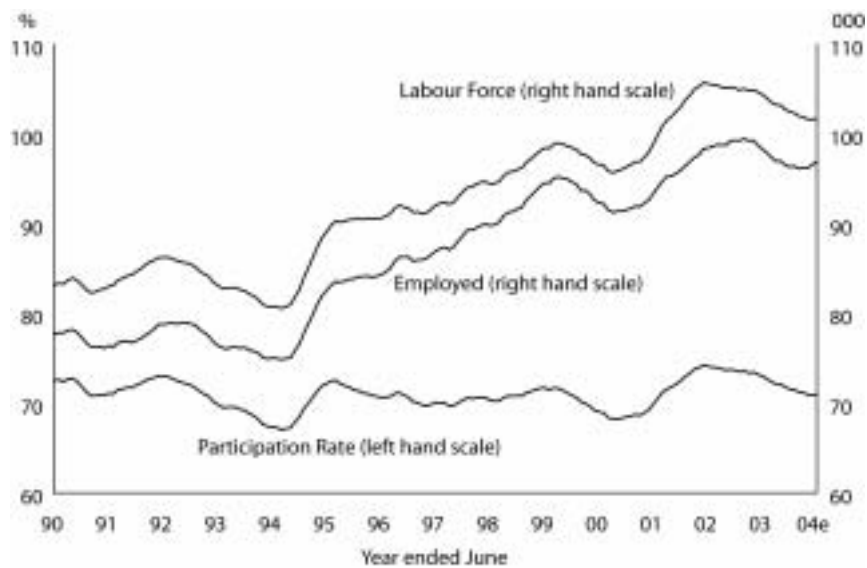
Participation rates are typically close to, or about, 70 per cent and the unemployment rate typically in the 4-6 per cent range, both better than national averages.

The Territory's labour force is heavily dependent on large interstate migration flows to overcome skills and expertise shortages, and to meet the short to medium term employment demands of major infrastructure projects.

Recent employment growth has been negative (-0.1 per cent in 2002-03 and an estimated 1.4 per cent in 2003-04) following completion of the Alice Springs to Darwin rail link.

Employment is forecast to increase by 2.9 per cent in 2004-05, boosted by work associated with the construction of the Wickham Point LNG plant, and stronger tourism-related employment.

Chart 8.3: Territory Labour Market (moving annual average)



e: estimate
 Source: Northern Territory Treasury, ABS Cat. No. 6202.0

Prices and Wages

Price pressures in Australia are expected to increase in 2004-05, although inflation is forecast to remain within the Reserve Bank of Australia's (RBA) 2 to 3 per cent target band.

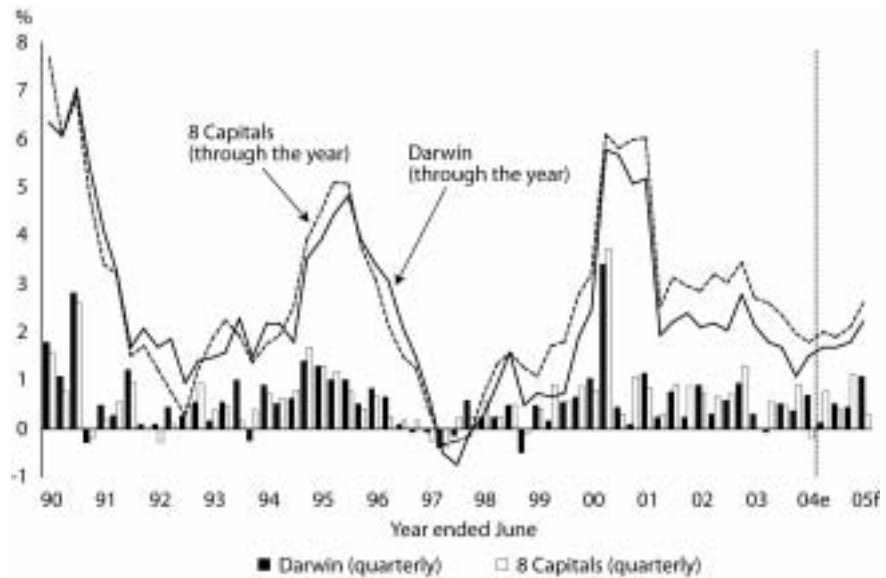
Nationally, annual growth in the Consumer Price Index (CPI) is expected to increase from 1.8 per cent in the June quarter 2004 to 2.6 per cent in the June quarter 2005.

In the Territory, upward wage and price pressures are expected to result in CPI growth for Darwin increasing from an estimated 1.5 per cent in the June quarter 2004 to 2.2 per cent in the June quarter 2005.

Based on CPI and other data, the relative difference in consumer prices between Darwin and the other Australian capitals continues to narrow.

With inflation largely contained at present and domestic demand moderating, the RBA has capacity to keep interest rates on hold in the coming year, although upside risks include a tightening labour market and increasing labour costs, capacity constraints and a softer Australian dollar.

Chart 8.4: Consumer Price Index



e: estimate f: forecast

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

External Economic Environment

The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in key export markets.

Demand for Territory-produced goods and services comes from the rest of the world and from other Australian states and territories.

The global economic recovery continued to gain momentum in 2003, led by the United States and China.

Global growth has been supported by expansionary monetary and fiscal policy settings in many of the world's major economies.

Despite weaker exports, the Australian economy has maintained a solid pace in recent years due to strong domestic demand and weak Australian dollar.

Solid growth, nationally and internationally, in coming years is expected to boost demand for Territory exports, including tourism-related exports.

Table 8.3: Australian and Overseas Real GDP Growth Forecasts (percentage change, calendar year)

	1998	1999	2000	2001	2002	2003	2004e	2005f
United States	4.3	4.1	3.8	0.3	2.4	3.1	4.6	3.7
Japan	-1.1	0.2	2.8	0.4	0.3	2.7	2.8	1.6
European Union	2.9	2.8	3.5	1.6	1.0	0.8	2.0	2.2
Australia	5.5	4.4	3.2	2.8	3.8	3.0	3.9	3.3
China	7.8	7.1	8.0	7.3	8.0	9.1	8.3	7.6
Hong Kong	-5.3	3.0	10.4	0.2	1.5	3.1	5.5	4.5
Indonesia	-13.1	0.8	4.8	3.3	3.5	4.1	4.6	4.7
Malaysia	-7.4	6.1	8.3	0.5	3.5	5.2	6.0	5.7
New Zealand	-0.2	3.9	3.8	2.5	3.0	3.5	3.1	2.4
The Philippines	-0.6	3.4	4.4	3.2	4.0	4.5	4.2	4.3
Singapore	-0.1	6.9	10.3	-2.0	3.6	1.1	5.3	4.5
South Korea	-6.7	10.9	9.3	3.0	6.3	2.8	5.3	5.4
Taiwan	4.6	5.4	5.9	-1.9	3.3	3.2	5.2	4.5
Thailand	-10.5	4.4	4.6	1.8	3.5	6.7	7.0	6.2

e: estimate f: forecast

Source: Consensus Economics, International Monetary Fund, Organisation for Economic Cooperation and Development

International Trade

Mineral and energy exports dominate Northern Territory international merchandise exports, while tourism-related activities are the major international services exports.

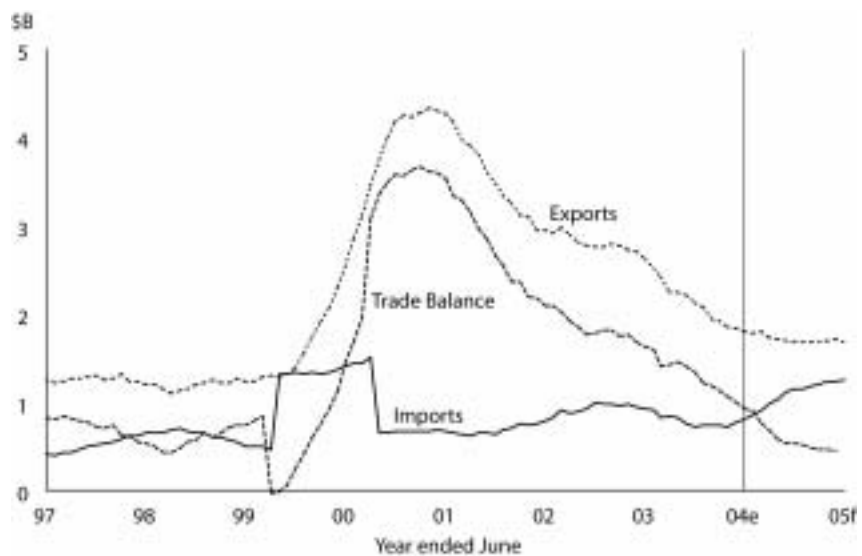
Refined fuels, manufactured goods, machinery and equipment make up the majority of international imports. Significant levels of international imports enter the Territory via other Australian states and are therefore classified as interstate imports.

Oil production has had a significant impact on Territory export levels since the Laminaria-Corallina fields commenced operation in 1999-2000.

Territory exports are forecast to fall by 6.6 per cent to \$1.7 billion in 2004-05, as oil exports fall by 30 per cent. Imports are forecast to increase significantly as importation of material for the construction of the LNG plant and pipeline continues.

Over time, the operational phase of the Adelaide to Darwin railway is expected to generate increased international trade as landbridge-related opportunities develop. By 2007 it is anticipated that 50 000 containers of international freight will be moved by rail through the East Arm Port.

Chart 8.5: Territory International Merchandise Trade (nominal dollars)



e: estimate f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

Mining and Energy

In terms of output, mining is the largest industry in the Territory and was almost 22 per cent of Gross State Product in 2002-03, compared to 4.6 per cent nationally.

Like most commodity-based industries, mining output is volatile. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production and income. Output can also jump markedly as new mines commence production.

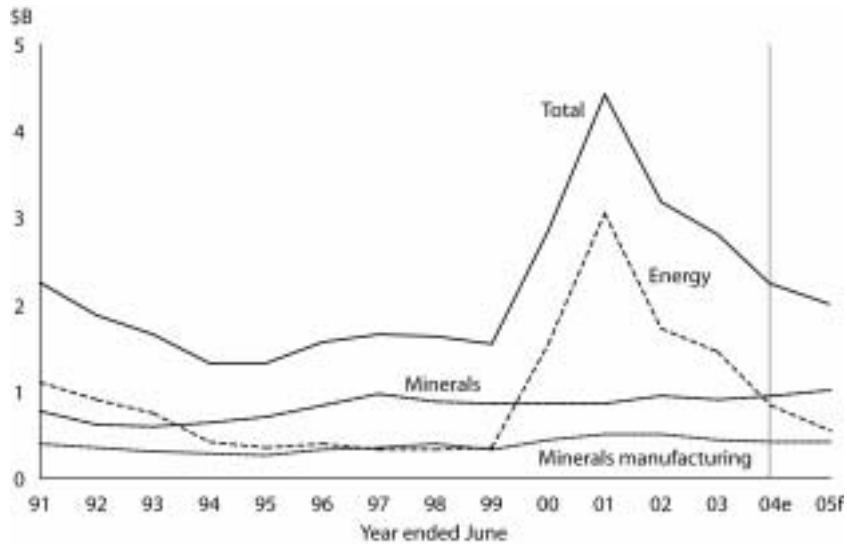
The Territory produces a diverse range of mineral products, most notably oil, bauxite, manganese, lead/zinc and uranium.

Output has been dominated in recent years by oil production from the Laminaria-Corallina oil fields in the Timor Sea.

Half of the production from developments in the Joint Petroleum Development Area in the Timor Sea will be attributed to the Northern Territory for national accounts purposes.

In the short term, strengthening global demand is expected to lead to increased demand for minerals, although increased supply globally is expected to result in price falls for many Territory-produced minerals.

Chart 8.6: Mineral and Energy Production and Processing (nominal dollars)



e: estimate f: forecast

Source: Northern Territory Treasury, Department of Business, Industry and Resource Development

Tourism

During the 1990s, the Territory's tourism sector expanded considerably, driven by solid growth in international visitor numbers, which increased at an average rate of around 10 per cent per annum.

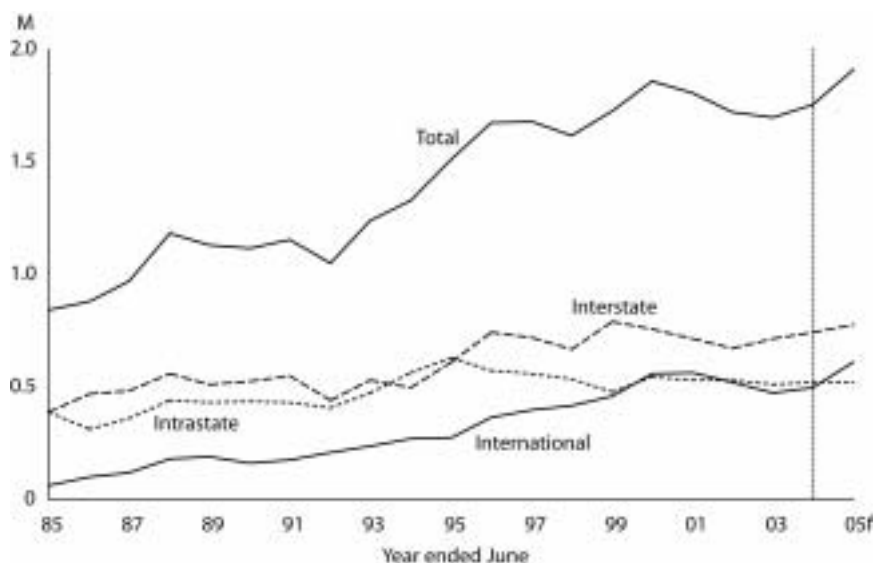
The Northern Territory Tourist Commission estimates that total expenditure by tourists to the Territory increased by 5.2 per cent to \$1 080 million in 2002-03, of which international visitors accounted for 33 per cent, spending an average of \$174 per day each, up from \$148 per day in 2001-02.

Over the past few years, however, international discretionary travel has declined due to weak global economic conditions exacerbated by the threat and reality of terrorist attacks, geopolitical uncertainty and the Severe Acute Respiratory Syndrome (SARS) outbreak.

After three years of negative growth, total visitor numbers are estimated to have increased by around 3 per cent (to 1.75 million) in 2003-04, with growth of 9 per cent (to 1.91 million) expected in 2004-05. International visitor numbers are expected to rebound by 4.4 per cent (to around 500 000) in 2003-04 and by about 23 per cent (to around 600 000) in 2004-05.

The appreciation of the Australian dollar is a major risk to the outlook, as it will act to constrain the strength of the anticipated upswing in international visitors while increasing the likelihood of Australians travelling abroad.

Chart 8.7: Visitor Numbers, Northern Territory



f: forecast

Source: Northern Territory Treasury, Northern Territory Tourist Commission

Rural Industries and Fisheries

Rural industries in the Territory comprise cattle and other livestock (including buffalo, crocodiles, poultry, pigs and camels), horticulture (fruit, vegetables, nursery and cut flowers) and cropping (field crops, hay and seeds). Fisheries include harvesting of wild stock and aquaculture.

The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early-season and out-of-season produce, as well as its 'clean' image.

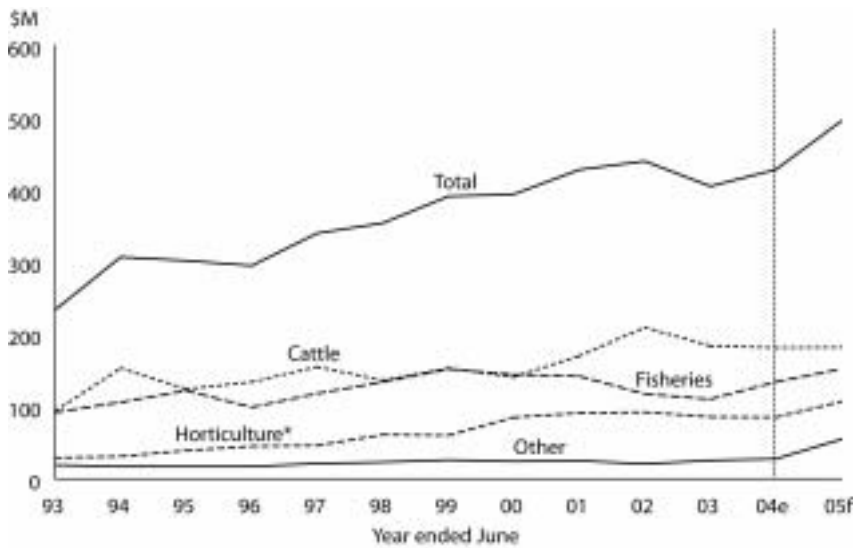
Output growth in the industry tends to be volatile due to variable weather, exchange rate and demand conditions. In the Territory, average annual output growth has been below broader economic growth over the past 10 years.

Rural industries and fisheries accounted for 2.6 per cent of Territory Gross State Product in 2002-03, slightly above the national proportion.

The value of rural industries and fisheries production was estimated at \$428 million in 2003-04, an increase of 5.7 per cent from 2002-03.

The value of production is forecast to increase by 16 per cent to \$495 million in 2004-05. Except for cattle production, the outlook is for strengthening production values.

Chart 8.8: Rural Industries and Fisheries Value of Production (nominal dollars)



*Data for horticulture is for the previous calendar year

e: estimate f: forecast

Source: Department of Business, Industry and Resource Development

Construction

In the Territory, the construction industry accounted for 6.9 per cent of Gross State Product on average during the 1990s, and employed almost 8.0 per cent of the workforce.

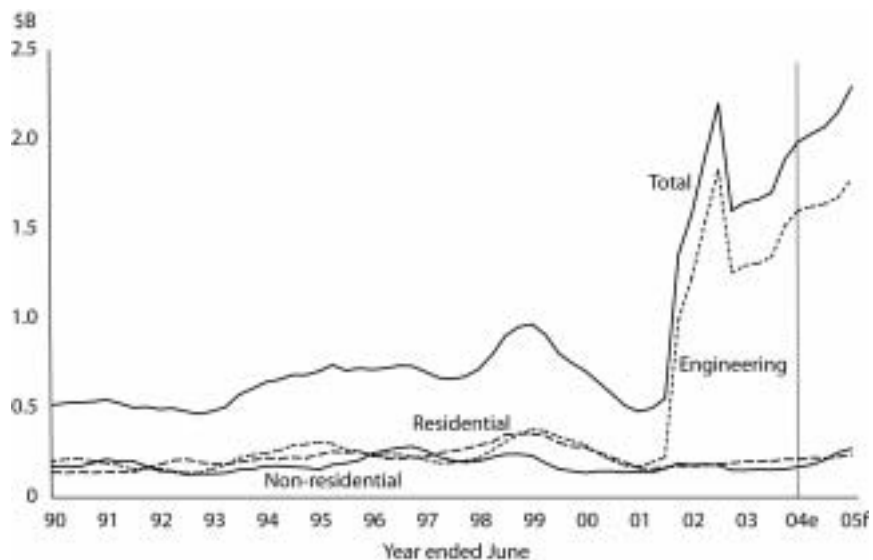
Construction activity slowed markedly in the period immediately following the major defence force relocation to the Top End in the late 1990s as economic and population growth weakened.

Since then, residential and non-residential building and property markets have continued to be relatively weak, and the Territory has not participated in the national construction and property boom in recent years.

Major infrastructure projects such as construction of the Alice Springs to Darwin leg of the rail link with Adelaide, and work to develop the Bayu-Undan oil and gas project, have kept engineering construction at record levels in recent years.

Largely as a consequence of the LNG plant being constructed at Wickham Point, the value of construction is forecast to increase by around 15 per cent to \$2.3 billion in 2004-05, after increasing by around 20 per cent to \$2 billion in 2003-04.

Chart 8.9: Territory Construction Work Done
(moving annual total, 2001-02 dollars)



e: estimate f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos 8752.0, 8762.0, 8782.0.65.001

Manufacturing

Manufacturing is currently a small contributor to the Northern Territory economy, contributing an average 4 per cent of Gross State Product, compared to around 11 per cent nationally, over the past decade.

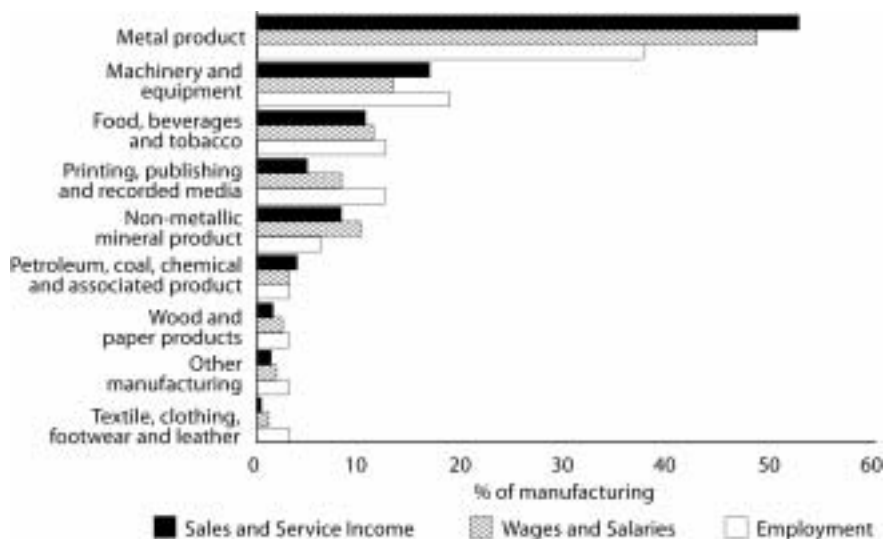
Manufacturing in the Territory is narrowly based and is dominated by the metal product sub-division (primarily alumina production from bauxite feedstock at Nhulunbuy), which is typically around 60 per cent of manufacturing value added.

In the short term, metal products will continue to dominate manufacturing in the Territory. However, in the medium to long term, natural gas extracted from the Timor Sea could be used as an input for gas-related manufacturing industries and potentially as a cheaper energy source in gas-based manufacturing industry, which will significantly broaden the Territory's economic base.

Feasibility studies are being undertaken to expand mineral processing capacity at Nhulunbuy (bauxite to alumina processing) and at McArthur River (zinc smelting) which, if successful, will also boost Territory manufacturing.

The new rail link between Adelaide and Darwin could lead to the further development of export-oriented and other manufacturing opportunities.

Chart 8.10: Territory Manufacturing Industry Selected Indicators (2000-01)



Source: Northern Territory Treasury, ABS Cat. No. 8221.0

Retail Trade

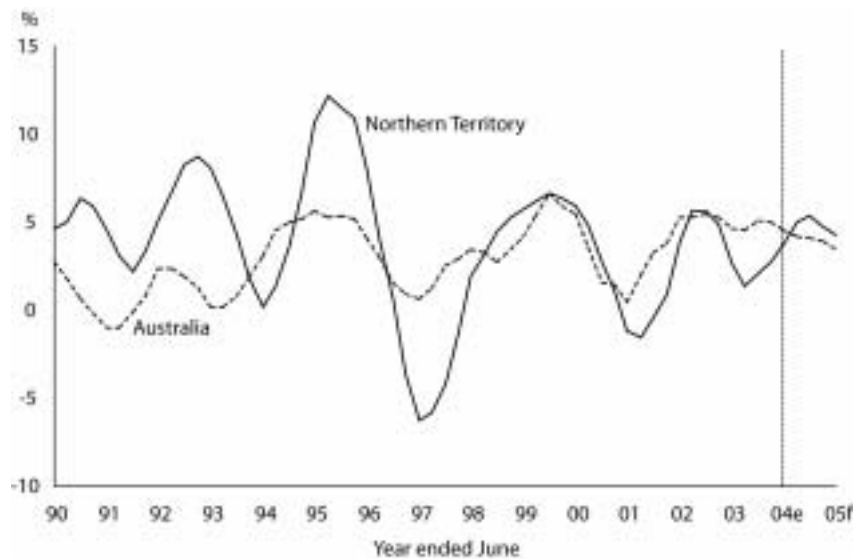
Retail and wholesale trade accounted for 7.0 per cent of Northern Territory Gross State Product in 2002-03, and more than 15 per cent of employed people in the Territory.

Compared to the national average, Territory consumers tend to spend more on food relative to other retail categories (in part due to the higher cost of freighting and storing many food lines), while relatively less is spent on recreational goods and clothing and footwear (reflecting differences in climate and lifestyle).

Following soft growth in 2002-03, Territory real retail turnover is estimated to have grown by 3.8 per cent in 2003-04, boosted by an increase in spending on household goods (such as domestic houseware and hardware, appliances, furniture and the like).

Territory real retail turnover growth of 4.2 per cent is forecast for 2004-05, supported by a steadily improving population growth rate and a healthy increase in employment (particularly from major projects such as the construction of the LNG plant at Wickham Point).

Chart 8.11: Territory Retail Turnover
(moving annual total, annual percentage change)



e: estimate f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 8501.0

Transport and Communication

Efficient transport and communication services are important to the Territory economy, given distance from national distribution centres and a small, dispersed population.

In the 10 years to 2002-03, growth in the transport and communication industries was considerably stronger than broader economic growth, reflecting increasing capacity as infrastructure is developed.

The completion of the Alice Springs to Darwin leg of the rail link with Adelaide, together with Darwin's East Arm Port, have established Darwin as a multimodal transport hub providing a landbridge linking southern Australian and Asian markets.

Lower transport costs will see rail become dominant on the north-south freight route. Nonetheless, road and air transport will continue to serve niche freight markets.

Access to sophisticated information and communications technology and increased coverage has facilitated improved and innovative service provision mechanisms in remote regions.

In the short to medium term, the major influence on the outlook for the transport sector is value adding and trade opportunities associated with the new rail link and port.

Further improvements in communications technology could increase the scope and quality of public and private service provision, particularly in remote areas.

Public Sector

The public sector continues to be a major contributor to the Northern Territory economy and provides a wide range of economic and social services. It consists of the Commonwealth, Territory and local governments.

In 2002-03, government administration and defence, and the other predominantly public sector industries (health and education), together accounted for more than 21 per cent of the Territory's Gross State Product. About 36 per cent of Territory State Final Demand was attributable to public expenditure, of which 89 per cent was consumption related.

The proportion of public sector-related industries in Territory GSP continues to be well above the national average, in part because the cost of public sector service provision is relatively high in the Territory as a consequence of a small and widely dispersed population, compounded by the higher average cost of servicing people in remote communities.

The importance of the public sector in the Territory has not diminished in significance over the past decade, reflecting the defence build up and increases in local and Territory government employment (partially offset by reductions in other Commonwealth Government non-defence employment).

There is expected to be modest growth in public sector employment in the Territory in coming years, due partly to greater defence personnel numbers associated with further defence relocations and expanded Northern Territory Government service delivery initiatives currently being introduced.

Defence

The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from around 6 200 in June 1992 to an estimated 12 900 by June 2004.

Approximately 10 per cent of Australian defence force combat personnel are now based in the Territory.

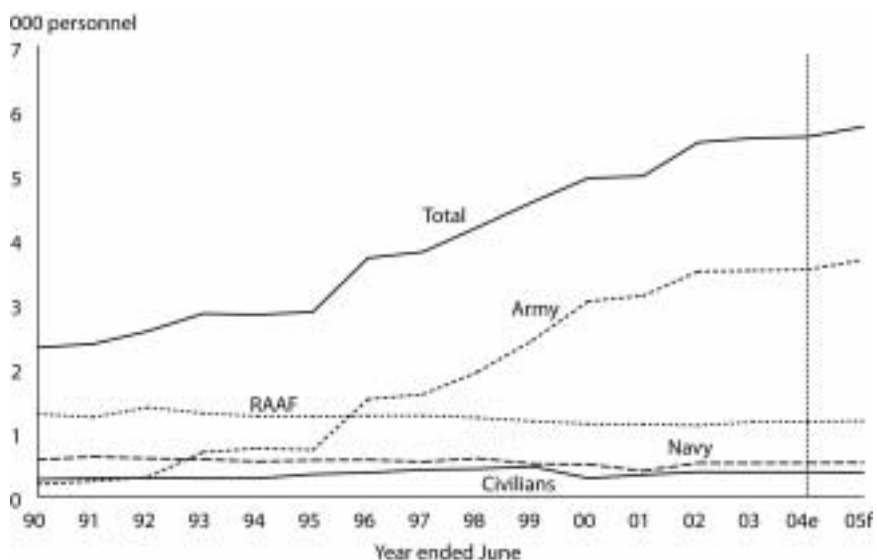
Since 1995, when the Army relocation began in earnest, defence expenditure in the Territory has increased at an average rate of 14.5 per annum.

Major activities under way or planned include the formation of the Army's 1st Aviation Regiment (including 17 new Tiger helicopters and a related \$75 million building program at the Army's Robertson Barracks in Darwin) and around \$50 million of additional work on the Army's Bradshaw Field Training Area (near Timber Creek).

To help accommodate some of the 200 defence personnel and families expected to relocate to Darwin for the 1st Aviation Regiment, the Defence Housing Authority is expected to commission the construction of housing stock worth around \$70 million over the next few years (from 2005) on land at Lee Point in Darwin's northern suburbs.

Emphasis on Territory-based support and maintenance for military hardware such as helicopters, tanks and patrol boats is expected to increase over coming years.

Chart 8.12: Defence Personnel Stationed in the Territory



e: estimate f: forecast

Source: Northern Territory Treasury, Department of Defence

Uniform Presentation Framework

Under the Uniform Presentation Framework (UPF), jurisdictions have agreed to publish information in a standard format in their budget papers. The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics (GFS). The UPF has been adopted by all governments to facilitate a better understanding of governments' budget papers and to provide a basis for meaningful comparisons of each government's financial results and projections.

The reporting requirements of the *Fiscal Integrity and Transparency Act* complement those specified in the UPF Agreement. The Act requires that fiscal outlook reports be prepared in accordance with external reporting standards that include the GFS.

The tables in this chapter meet the Territory's reporting obligations under both the *Fiscal Integrity and Transparency Act* and the UPF. They include an operating statement, balance sheet and cash flow statement for each sector of government. Also included are tables presenting general government sector expenses by function, general government sector taxes and the revised 2004-05 Loan Council allocation.

The financial statements for the general government, public non financial corporations and non financial public sectors include the revised 2003-04 estimate, 2004-05 Budget and 2005-06 to 2007-08 forward estimates. The statements for the public financial corporations sector only present the 2003-04 estimate, with the remaining tables presenting the 2003-04 estimate and the 2004-05 Budget.

In addition to the sectoral financial statements presented in previous budget papers, a set of financial statements has been provided for the total public sector for the revised 2003-04 estimate. While this is not required under the UPF, it will provide an enhanced basis of comparison for the 2003-04 Treasurer's Annual Financial Report.

Table 9.1

GENERAL GOVERNMENT SECTOR
OPERATING STATEMENT

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	261 975	264 089	267 348	273 070	278 653
Current grants and subsidies	1 998 107	2 002 617	2 073 804	2 137 133	2 211 723
Capital grants	69 178	68 210	67 600	68 800	69 374
Sales of goods and services	94 645	91 597	92 147	92 372	92 320
Interest income	19 838	16 942	17 174	17 263	17 363
Other	114 171	114 040	106 693	108 744	97 879
TOTAL REVENUE	2 557 914	2 557 495	2 624 766	2 697 382	2 767 312
EXPENSES					
Gross operating expenses	1 727 675	1 801 834	1 887 550	1 935 773	1 976 280
Depreciation	137 826	141 346	144 101	146 997	149 975
Employee expenses	978 621	999 978	1 030 736	1 065 682	1 099 996
Other operating expenses	611 228	660 510	712 713	723 094	726 309
Nominal superannuation interest expense	86 728	89 220	90 778	91 425	91 880
Other interest expenses	141 873	127 682	121 431	121 492	126 671
Other property expenses					
Current transfers	483 414	495 539	499 322	508 968	519 145
Capital transfers	69 681	55 076	56 246	57 372	58 521
TOTAL EXPENSES	2 509 371	2 569 351	2 655 327	2 715 030	2 772 497
NET OPERATING BALANCE	48 543	- 11 856	- 30 561	- 17 648	- 5 185
<i>less</i>					
Net acquisition of non financial assets					
Purchases of non-financial assets	204 571	182 718	169 490	173 049	176 683
Sales of non-financial assets	- 30 764	- 27 651	- 25 818	- 25 818	- 25 818
<i>less</i> Depreciation	137 826	141 346	144 101	146 997	149 975
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets	580	3 000	1 005	1 077	3 077
Total net acquisition of non financial assets	36 561	16 721	576	1 311	3 967
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal balance)	11 982	- 28 577	- 31 137	- 18 959	- 9 152

Table 9.2

GENERAL GOVERNMENT SECTOR
BALANCE SHEET

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	50 172	88 305	105 723	125 650	157 787
Advances paid	30 822	29 782	29 322	29 322	29 322
Investments, loans and placements	456 347	410 009	421 493	428 525	442 294
Other non-equity assets	130 872	133 067	133 809	137 876	140 207
Equity	1 415 186	1 407 274	1 405 402	1 404 185	1 410 629
Total financial assets	2 083 399	2 068 437	2 095 749	2 125 558	2 180 239
Non financial assets					
Land and fixed assets	3 573 723	3 581 907	3 579 167	3 577 162	3 577 813
Other non financial assets					
Total non financial assets	3 573 723	3 581 907	3 579 167	3 577 162	3 577 813
TOTAL ASSETS	5 657 122	5 650 344	5 674 916	5 702 720	5 758 052
LIABILITIES					
Deposits held	187 160	138 583	137 217	124 944	125 381
Advances received	16 108	15 779	15 450	15 121	15 068
Borrowing	1 632 816	1 663 396	1 699 358	1 737 704	1 777 994
Superannuation liability	1 487 004	1 512 971	1 523 755	1 531 339	1 535 905
Other employee entitlements and provisions	333 561	337 796	342 372	347 055	347 563
Other non-equity liabilities	63 244	63 781	64 487	65 894	66 317
TOTAL LIABILITIES	3 719 893	3 732 306	3 782 639	3 822 057	3 868 228
NET WORTH	1 937 229	1 918 038	1 892 277	1 880 663	1 889 824
NET FINANCIAL WORTH (a)	-1 636 494	-1 663 869	-1 686 890	-1 696 499	-1 687 989
NET DEBT (b)	1 298 743	1 289 662	1 295 487	1 294 272	1 289 040

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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 9.3

GENERAL GOVERNMENT SECTOR
CASH FLOW STATEMENT

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	261 775	263 747	266 848	272 570	278 653
Receipts from sales of goods and services	94 121	90 342	90 546	90 346	92 290
Grants/subsidies received	2 067 285	2 071 327	2 141 404	2 205 933	2 281 097
Other receipts	126 488	124 542	120 243	119 459	107 934
Total operating receipts	2 549 669	2 549 958	2 619 041	2 688 308	2 759 974
Cash payments for operating activities					
Payment for goods and services	-1 646 731	-1 713 986	-1 813 508	-1 861 957	-1 908 134
Grants and subsidies paid	- 552 921	- 550 670	- 555 623	- 566 340	- 577 666
Interest paid	- 141 846	- 127 605	- 121 049	- 121 088	- 126 251
Other payments					
Total operating payments	-2 341 498	-2 392 261	-2 490 180	-2 549 385	-2 612 051
NET CASH FLOWS FROM OPERATING ACTIVITIES	208 171	157 697	128 861	138 923	147 923
Net cash flows from investments in non financial assets					
Sales of non financial assets	30 764	27 651	25 818	25 818	25 818
Purchases of non financial assets	- 204 571	- 182 718	- 169 490	- 173 049	- 176 683
Net cash flows from investments in non financial assets	- 173 807	- 155 067	- 143 672	- 147 231	- 150 865
Net cash flows from investments in financial assets for policy purposes (a)	16 150	1 040	460		
Net cash flows from investments in financial assets for liquidity purposes	43 989	55 788	- 1 494	3 568	- 2 519
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 113 668	- 98 239	- 144 706	- 143 663	- 153 384
Net cash flows from financing activities					
Advances received (net)	- 368	- 329	- 329	- 329	- 53
Borrowing (net)	- 75 522	27 580	34 957	37 269	37 213
Deposits received (net)	- 20 202	- 48 577	- 1 366	- 12 273	437
Distributions paid					
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 96 092	- 21 326	33 262	24 667	37 597
NET INCREASE/ DECREASE IN CASH HELD	- 1 588	38 133	17 418	19 927	32 137
Net cash from operating activities and investments in non financial assets	34 364	2 630	- 14 811	- 8 308	- 2 942
Finance leases and similar arrangements	- 523	- 3 000	- 1 005	- 1 077	- 3 077
SURPLUS (+) / DEFICIT (-)	33 841	- 370	- 15 816	- 9 385	- 6 019

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

Table 9.4

PUBLIC NON FINANCIAL CORPORATION SECTOR
OPERATING STATEMENT

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Current grants and subsidies	111 977	117 825	119 718	120 152	120 682
Capital grants	20 837	13 037	13 037	13 037	13 037
Sales of goods and services	399 954	410 912	414 587	426 204	438 265
Interest income	17 197	13 847	13 751	13 662	13 574
Other	58 811	49 882	49 476	50 347	51 251
TOTAL REVENUE	608 776	605 503	610 569	623 402	636 809
EXPENSES					
Gross operating expenses	496 289	509 539	515 982	526 763	537 200
Depreciation	67 466	71 071	71 095	72 517	73 967
Employee expenses	42 490	46 506	49 499	51 018	51 869
Other operating expenses	386 333	391 962	395 388	403 228	411 364
Other interest expenses	51 679	50 558	49 485	48 113	47 885
Other property expenses	34 278	36 064	31 499	34 177	29 614
Current transfers	1 820	1 820	1 820	1 820	1 820
Capital transfers	988	988	988	988	988
TOTAL EXPENSES	585 054	598 969	599 774	611 861	617 507
NET OPERATING BALANCE	23 722	6 534	10 795	11 541	19 302
<i>less</i>					
Net acquisition of non financial assets					
Purchases of non-financial assets	96 372	123 806	84 253	90 108	93 432
Sales of non-financial assets	- 14 224	- 14 285	- 14 285	- 14 285	- 14 285
<i>less</i> Depreciation	67 466	71 071	71 095	72 517	73 967
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets	19 053	8 500	8 500	8 500	8 500
Total net acquisition of non financial assets	33 735	46 950	7 373	11 806	13 680
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal balance)	- 10 013	- 40 416	3 422	- 265	5 622

Table 9.5

**PUBLIC NON FINANCIAL CORPORATION SECTOR
BALANCE SHEET**

	2003-04 Estimate	2004-05 Budget	2005-06	2006-07	2007-08
			Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	131 105	75 963	57 463	40 066	56 697
Investments, loans and placements	155 981	156 372	156 763	157 154	157 545
Other non-equity assets	83 240	84 292	84 962	85 434	85 951
Equity					
Total financial assets	370 326	316 627	299 188	282 654	300 193
Non financial assets					
Land and fixed assets	1 796 235	1 832 364	1 828 916	1 829 901	1 832 760
Other non financial assets					
Total non financial assets	1 796 235	1 832 364	1 828 916	1 829 901	1 832 760
TOTAL ASSETS	2 166 561	2 148 991	2 128 104	2 112 555	2 132 953
LIABILITIES					
Deposits held	1 363	1 363	1 363	1 363	1 363
Advances received	308 414	308 414	308 414	308 414	308 414
Borrowing	359 307	349 602	332 714	315 496	328 731
Superannuation liability					
Other employee entitlements and provision	80 490	80 702	77 730	79 481	76 497
Other non-equity liabilities	58 405	54 615	53 614	52 812	54 478
TOTAL LIABILITIES	807 979	794 696	773 835	757 566	769 483
<i>Shares and Other Contributed Capital</i>	<i>1 358 582</i>	<i>1 354 295</i>	<i>1 354 269</i>	<i>1 354 989</i>	<i>1 363 470</i>
NET WORTH					
NET FINANCIAL WORTH (a)	- 437 653	- 478 069	- 474 647	- 474 912	- 469 290
NET DEBT (b)	381 998	427 044	428 265	428 053	424 266

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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 9.6

PUBLIC NON FINANCIAL CORPORATION SECTOR
CASH FLOW STATEMENT

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Receipts from sales of goods and services	385 800	409 785	413 698	425 733	437 747
Grants/subsidies received	70 831	63 271	63 777	64 159	64 689
Other receipts	118 937	122 704	122 271	116 119	117 911
Total operating receipts	575 568	595 760	599 746	606 011	620 347
Cash payments for operating activities					
Payment for goods and services	- 421 784	- 442 032	- 444 164	- 446 594	- 454 087
Grants and subsidies paid	- 2 808	- 2 808	- 2 808	- 2 808	- 2 808
Interest paid	- 51 890	- 50 589	- 49 517	- 48 148	- 47 920
Other payments					
Total operating payments	- 476 482	- 495 429	- 496 489	- 497 550	- 504 815
NET CASH FLOWS FROM OPERATING ACTIVITIES	99 086	100 331	103 257	108 461	115 532
Net cash flows from investments in non financial assets					
Sales of non financial assets	14 224	14 285	14 285	14 285	14 285
Purchases of non financial assets	- 96 372	- 123 806	- 84 253	- 90 108	- 93 432
Net cash flows from investments in non financial assets	- 82 148	- 109 521	- 69 968	- 75 823	- 79 147
Net cash flows from investments in financial assets for policy purposes (a)	17 608	- 391	- 391	- 391	- 391
Net cash flows from investments in financial assets for liquidity purposes					
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 64 540	- 109 912	- 70 359	- 76 214	- 79 538
Net cash flows from financing activities					
Advances received (net)					
Borrowing (net)	- 21 943	- 9 705	- 16 888	- 17 218	13 235
Deposits received (net)					
Distributions paid	- 20 333	- 35 856	- 34 510	- 32 426	- 32 598
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 42 276	- 45 561	- 51 398	- 49 644	- 19 363
NET INCREASE/ DECREASE IN CASH HELD	- 7 731	- 55 142	- 18 500	- 17 397	16 631
Net cash from operating activities and investments in non financial assets	16 938	- 9 190	33 289	32 638	36 385
Distributions paid	- 20 333	- 35 856	- 34 510	- 32 426	- 32 598
Finance leases and similar arrangements					
SURPLUS (+) / DEFICIT (-)	- 3 395	- 45 046	- 1 221	212	3 787

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

Table 9.7

**NON FINANCIAL PUBLIC SECTOR
OPERATING STATEMENT**

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
REVENUE					
Taxation revenue	258 618	260 831	263 793	269 435	274 848
Current grants and subsidies	1 998 244	2 002 754	2 073 941	2 137 133	2 211 723
Capital grants	69 178	68 210	67 600	68 800	69 374
Sales of goods and services	458 824	468 316	484 354	496 216	508 225
Interest income	30 718	28 045	28 280	28 279	28 291
Other	135 739	124 848	121 688	121 932	116 534
TOTAL REVENUE	2 951 321	2 953 004	3 039 656	3 121 795	3 208 995
EXPENSES					
Gross operating expenses	2 181 867	2 270 912	2 374 615	2 433 559	2 484 333
Depreciation	205 292	212 417	215 196	219 514	223 942
Employee expenses	1 018 146	1 043 474	1 077 253	1 113 718	1 148 883
Other operating expenses	958 429	1 015 021	1 082 166	1 100 327	1 111 508
Nominal superannuation interest expense	86 728	89 220	90 778	91 425	91 880
Other interest expenses	187 235	175 496	168 271	166 959	171 910
Other property expenses					
Current transfers	373 394	379 671	381 561	390 636	400 283
Capital transfers	49 832	43 027	44 197	45 323	46 472
TOTAL EXPENSES	2 879 056	2 958 326	3 059 422	3 127 902	3 194 878
NET OPERATING BALANCE	72 265	- 5 322	- 19 766	- 6 107	14 117
<i>less</i>					
Net acquisition of non financial assets					
Purchases of non financial assets	300 943	306 524	253 743	263 157	270 115
Sales of non financial assets	- 44 988	- 41 936	- 40 103	- 40 103	- 40 103
<i>less</i> Depreciation	205 292	212 417	215 196	219 514	223 942
<i>plus</i> Change in inventories					
<i>plus</i> Other movements in non financial assets	19 633	11 500	9 505	9 577	11 577
Total net acquisition of non financial assets	70 296	63 671	7 949	13 117	17 647
<i>equals</i>					
NET LENDING/ BORROWING (Fiscal balance)	1 969	- 68 993	- 27 715	- 19 224	- 3 530

Table 9.8

**NON FINANCIAL PUBLIC SECTOR
BALANCE SHEET**

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
ASSETS					
Financial assets					
Cash and deposits	54 241	91 355	109 246	129 620	123 574
Advances paid	186 803	186 154	186 085	186 476	186 867
Investments, loans and placements	456 347	410 009	421 493	428 525	442 294
Other non-equity assets	141 945	144 910	149 509	152 297	158 129
Equity	56 606	52 981	51 135	49 198	47 161
Total financial assets	895 942	885 409	917 468	946 116	958 025
Non financial assets					
Land and fixed assets	5 369 958	5 414 271	5 408 083	5 407 063	5 410 573
Other non financial assets					
Total non financial assets	5 369 958	5 414 271	5 408 083	5 407 063	5 410 573
TOTAL ASSETS	6 265 900	6 299 680	6 325 551	6 353 179	6 368 598
LIABILITIES					
Deposits held	61 487	67 033	84 640	90 211	35 834
Advances received	324 522	324 193	323 864	323 535	323 482
Borrowing	1 992 123	2 012 998	2 032 072	2 053 200	2 106 725
Superannuation liability	1 487 004	1 512 971	1 523 755	1 531 339	1 535 905
Other employee entitlements and provision	346 592	350 758	355 386	360 069	360 577
Other non-equity liabilities	116 943	113 689	113 557	114 162	116 251
TOTAL LIABILITIES	4 328 671	4 381 642	4 433 274	4 472 516	4 478 774
NET WORTH	1 937 229	1 918 038	1 892 277	1 880 663	1 889 824
NET FINANCIAL WORTH (a)	-3 432 729	-3 496 233	-3 515 806	-3 526 400	-3 520 749
NET DEBT (b)	1 680 741	1 716 706	1 723 752	1 722 325	1 713 306

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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 9.9

**NON FINANCIAL PUBLIC SECTOR
CASH FLOW STATEMENT**

	2003-04	2004-05	2005-06	2006-07	2007-08
	Estimate	Budget	Forward Estimates		
	\$000	\$000	\$000	\$000	\$000
Cash receipts from operating activities					
Taxes received	258 418	260 524	263 293	268 935	274 848
Receipts from sales of goods and services	442 067	465 934	481 699	493 719	507 677
Grants/subsidies received	2 067 422	2 071 464	2 141 541	2 205 933	2 281 097
Other receipts	156 834	141 092	136 372	131 476	121 571
Total operating receipts	2 924 741	2 939 014	3 022 905	3 100 063	3 185 193
Cash payments for operating activities					
Payment for goods and services	-2 027 346	-2 118 639	-2 231 563	-2 282 556	-2 336 056
Grants and subsidies paid	- 423 052	- 422 753	- 425 813	- 435 959	- 446 755
Interest paid	- 187 419	- 175 450	- 167 921	- 166 590	- 171 525
Other payments					
Total operating payments	-2 637 817	-2 716 842	-2 825 297	-2 885 105	-2 954 336
NET CASH FLOWS FROM OPERATING ACTIVITIES	286 924	222 172	197 608	214 958	230 857
Net cash flows from investments in non financial assets					
Sales of non financial assets	44 988	41 936	40 103	40 103	40 103
Purchases of non financial assets	- 300 943	- 306 524	- 253 743	- 263 157	- 270 115
Net cash flows from investments in non financial assets	- 255 955	- 264 588	- 213 640	- 223 054	- 230 012
Net cash flows from investments in financial assets for policy purposes (a)	33 758	649	69	- 391	- 391
Net cash flows from investments in financial assets for liquidity purposes	43 989	55 788	- 1 494	3 568	- 2 519
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 178 208	- 208 151	- 215 065	- 219 877	- 232 922
Net cash flows from financing activities					
Advances received (net)	- 368	- 329	- 329	- 329	- 53
Borrowing (net)	- 97 465	17 875	18 069	20 051	50 448
Deposits received (net)	- 11 228	5 546	17 607	5 571	- 54 377
Distributions paid					
Other financing (net)					
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 109 061	23 092	35 347	25 293	- 3 982
NET INCREASE/ DECREASE IN CASH HELD	- 345	37 114	17 891	20 374	- 6 046
Net cash from operating activities and investments in non financial assets	30 969	- 42 416	- 16 032	- 8 096	845
Distributions paid					
Finance leases and similar arrangements	- 523	- 3 000	- 1 005	- 1 077	- 3 077
SURPLUS (+) / DEFICIT (-)	30 446	- 45 416	- 17 037	- 9 173	- 2 232

(a) Includes equity acquisitions, disposals and privatisations (net)

Table 9.10

**PUBLIC FINANCIAL CORPORATION SECTOR
OPERATING STATEMENT**

	2003-04 Estimate
	\$000
REVENUE	
Current grants and subsidies	
Capital grants	
Sales of goods and services	135 094
Interest income	216 448
Other	8 430
TOTAL REVENUE	359 972
EXPENSES	
Gross operating expenses	158 100
Depreciation	1 407
Employee expenses	17 231
Other operating expenses	139 462
Other interest expenses	182 259
Other property expenses	19 230
Current transfers	763
Capital transfers	
TOTAL EXPENSES	360 352
NET OPERATING BALANCE	- 380
<i>less</i>	
Net acquisition of non financial assets	
Purchases of non financial assets	
Sales of non financial assets	- 125
<i>less</i> Depreciation	1 407
<i>plus</i> Change in inventories	
<i>plus</i> Other movements in non financial assets	
Total net acquisition of non financial assets	- 1 532
<i>equals</i>	
NET LENDING/ BORROWING (Fiscal balance)	1 152

Table 9.11

**PUBLIC FINANCIAL CORPORATION SECTOR
BALANCE SHEET**

	2003-04 Estimate
	\$000
ASSETS	
Financial assets	
Cash and deposits	138 163
Investments, loans and placements	2 877 200
Other non-equity assets	132 653
Equity	
Total financial assets	3 148 016
Non financial assets	
Land and fixed assets	3 013
Other non financial assets	
Total non financial assets	3 013
TOTAL ASSETS	3 151 029
LIABILITIES	
Deposits held	354 727
Advances received	316 636
Borrowing	1 928 999
Superannuation liability	
Other employee entitlements and provisions	352 233
Other non-equity liabilities	163 465
TOTAL LIABILITIES	3 116 060
<i>Shares and Other Contributed Capital</i>	34 037
NET WORTH	932
NET FINANCIAL WORTH (a)	31 956
NET DEBT (b)	- 415 001

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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 9.12

PUBLIC FINANCIAL CORPORATION SECTOR
CASH FLOW STATEMENT

	2003-04 Estimate
	\$000
Cash receipts from operating activities	
Receipts from sales of goods and services	138 928
Grants/subsidies received	
Other receipts	215 175
Total operating receipts	354 103
Cash payments for operating activities	
Payment for goods and services	- 157 271
Interest paid	- 164 097
Other payments	
Total operating payments	- 321 368
NET CASH FLOWS FROM OPERATING ACTIVITIES	32 735
Net cash flows from investments in non financial assets	
Sales of non financial assets	125
Purchases of non financial assets	
Net cash flows from investments in non financial assets	125
Net cash flows from investments in financial assets for policy purposes (a)	
Net cash flows from investments in financial assets for liquidity purposes	101 181
NET CASH FLOWS FROM INVESTING ACTIVITIES	101 306
Net cash flows from financing activities	
Advances received (net)	- 4 865
Borrowing (net)	- 71 000
Deposits received (net)	- 1 827
Distributions paid	- 32 716
Other financing (net)	- 15 000
NET CASH FLOWS FROM FINANCING ACTIVITIES	- 125 408
NET INCREASE/ DECREASE IN CASH HELD	8 633
Net cash from operating activities and investments in non financial assets	32 860
Distributions paid	- 32 716
Finance leases and similar arrangements	
SURPLUS (+) / DEFICIT (-)	144

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

Table 9.13

**TOTAL PUBLIC SECTOR
OPERATING STATEMENT**

	2003-04 Estimate
	\$000
REVENUE	
Taxation revenue	258 601
Current grants and subsidies	1 997 481
Capital grants	69 178
Sales of goods and services	593 256
Interest income	58 027
Other	123 660
TOTAL REVENUE	3 100 203
EXPENSES	
Gross operating expenses	2 339 258
Depreciation	206 699
Employee expenses	1 035 347
Other operating expenses	1 097 212
Nominal superannuation interest expense	86 728
Other interest expenses	180 355
Other property expenses	- 1 249
Current transfers	373 394
Capital transfers	49 832
TOTAL EXPENSES	3 028 318
NET OPERATING BALANCE	71 885
<i>less</i>	
Net acquisition of non financial assets	
Purchases of non financial assets	300 943
Sales of non financial assets	- 45 113
<i>less</i> Depreciation	206 699
<i>plus</i> Change in inventories	
<i>plus</i> Other movements in non financial assets	19 633
<i>equals</i> Total net acquisition of non financial assets	68 764
<i>equals</i>	
NET LENDING/ BORROWING (Fiscal balance)	3 121

Table 9.14

**TOTAL PUBLIC SECTOR
BALANCE SHEET**

	2003-04 Estimate
	\$000
ASSETS	
Financial assets	
Cash and deposits	136 488
Advances paid	142 117
Investments, loans and placements	1 070 258
Other non-equity assets	245 418
Equity	21 627
Total financial assets	1 615 908
Non financial assets	
Land and fixed assets	5 372 971
Other non financial assets	
Total non financial assets	5 372 971
TOTAL ASSETS	6 988 879
LIABILITIES	
Deposits held	360 298
Advances received	286 949
Borrowing	1 967 356
Superannuation liability	1 487 004
Other employee entitlements and provisions	678 371
Other non-equity liabilities	271 682
TOTAL LIABILITIES	5 051 660
<i>Shares and Other Contributed Capital</i>	
NET WORTH	1 937 219
NET FINANCIAL WORTH (a)	-3 435 752
NET DEBT (b)	1 265 740

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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 9.15

**TOTAL PUBLIC SECTOR
CASH FLOW STATEMENT**

	2003-04 Estimate
	\$000
Cash receipts from operating activities	
Taxes received	258 401
Receipts from sales of goods and services	580 333
Grants/subsidies received	2 066 659
Other receipts	152 149
Total operating receipts	3 057 542
Cash payments for operating activities	
Payment for goods and services	-2 183 175
Grants and subsidies paid	- 423 052
Interest paid	- 164 372
Other payments	
Total operating payments	-2 770 599
NET CASH FLOWS FROM OPERATING ACTIVITIES	286 943
Net cash flows from investments in non financial assets	
Sales of non financial assets	45 113
Purchases of non financial assets	- 300 943
Net cash flows from investments in non financial assets	- 255 830
Net cash flows from investments in financial assets for policy purposes (a)	18 758
Net cash flows from investments in financial assets for liquidity purposes	34 703
NET CASH FLOWS FROM INVESTING ACTIVITIES	- 202 369
Net cash flows from financing activities	
Advances received (net)	- 5 233
Borrowing (net)	- 57 998
Deposits received (net)	- 20 145
Distributions paid	
Other financing (net)	
NET CASH FLOW FROM FINANCING ACTIVITIES	- 83 376
NET INCREASE/ DECREASE IN CASH HELD	1 198
Net cash from operating activities and investments in non financial assets	31 113
Distributions paid	
Finance leases and similar arrangements	- 523
SURPLUS (+) / DEFICIT (-)	30 590

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

Table 9.16

GENERAL GOVERNMENT SECTOR TAXES

	2003-04 Estimate	2004-05 Budget
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE	91 705	96 666
Payroll Taxes	91 705	96 666
TAXES ON PROPERTY	75 780	70 768
Stamp Duties on Financial and Capital Transactions	67 274	62 061
Financial Institutions Transaction Taxes	8 506	8 707
TAXES ON THE PROVISION OF GOODS AND SERVICES	60 727	62 711
Taxes on Gambling	40 230	41 394
Taxes on Insurance	20 497	21 317
Other		
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES	33 763	33 944
Motor Vehicle Registration Fees	33 763	33 944
Other		
TOTAL TAXES	261 975	264 089

Table 9.17

**GENERAL GOVERNMENT SECTOR
OPERATING EXPENSES BY FUNCTION**

	2003-04 Estimate	2004-05 Budget
	\$000	\$000
General Public Services	155 950	150 498
Public Order and Safety	250 947	263 437
Education	518 292	528 069
Health	502 706	522 490
Social Security and Welfare	91 631	95 319
Housing and Community Amenities	41 359	40 007
Recreation and Culture	218 608	211 838
Fuel and Energy	46 444	44 783
Agriculture, Forestry, Fishing and Hunting	48 711	45 364
Mining, Manufacturing and Construction	103 647	99 637
Transport and Communications	82 770	78 225
Other Economic Affairs	82 851	80 943
Other Purposes	365 456	408 742
TOTAL OPERATING EXPENSES	2 509 371	2 569 351

Table 9.18

2004-05 LOAN COUNCIL ALLOCATION

	Loan Council Allocation	Budget-time Estimate
	\$M	\$M
2004-05 LOAN COUNCIL NOMINATION		
General Government Sector Cash Deficit		
Public Non Financial Corporations Sector Cash Deficit	9	45
Non Financial Public Sector Cash Deficit	9	45
<i>Less</i>		
Net Cash Flows from Investments in Financial Assets for Policy Purposes	7	1
<i>plus</i>		
Memorandum Items	-	-
2004-05 LOAN COUNCIL NOMINATION	2	44
Tolerance Limit (2% of Non Financial Public Sector cash receipts from operating activities)	57	59
<hr/>		
LATEST ESTIMATE OF 2003-04 LCA OUTCOME		
General Government Sector Cash Deficit	1	- 34
Public Non Financial Corporations Sector Cash Deficit	11	3
Non Financial Public Sector Cash Deficit	12	- 31
<i>Less</i>		
Net Cash Flows from Investments in Financial Assets for Policy Purposes	22	34
<i>plus</i>		
Memorandum Items	-	-
2003-04 LOAN COUNCIL ALLOCATION ESTIMATE	- 10	- 65

Note: The tolerance limit in relation to 2003-04 is \$55 million. The latest estimate for 2003-04 is -\$65 million, an improvement of \$55 million from the 2003-04 Budget time estimate. This is consistent with the tolerance limit.

Appendix: Classification of Entities in the Northern Territory Public Sector

General Government

Aboriginal Areas Protection Authority
Auditor-General's Office
AustralAsia Railway Corporation
Batchelor Institute of Indigenous Tertiary Education
Central Holding Authority
Construction Division*
Department of Business, Industry and Resource Development
Department of Community Development, Sport and Cultural Affairs
Department of Corporate and Information Services
Department of Employment, Education and Training
Department of Health and Community Services
Department of Infrastructure, Planning and Environment
Department of Justice
Department of the Chief Minister
Department of the Legislative Assembly
Government Printing Office*
Data Centre Services*
Land Development Corporation
Nominal Insurer
Northern Territory Electoral Commission
Northern Territory Legal Aid Commission
Northern Territory Major Events Company
Northern Territory Police, Fire and Emergency Services
Northern Territory Tourist Commission
Northern Territory Treasury
NT Fleet*
Office of the Commissioner for Public Employment
Ombudsman's Office
Territory Discoveries*
Territory Wildlife Parks*

Public Non Financial Corporations

Darnor Pty Ltd
Darwin Bus Service*
Darwin Port Corporation*
Gasgo Pty Ltd
Housing Business Services*
Power and Water Corporation**

Public Financial Corporations

Northern Territory Treasury Corporation*
Territory Insurance Office

*Government Business Divisions

** Government Owned Corporation