



Fiscal Strategy

Overview

This chapter outlines the Territory Government's fiscal strategy, including medium-term fiscal objectives and financial targets. The fiscal strategy provides a sound fiscal management framework to ensure sustainable service provision, continued investment in infrastructure and a competitive tax environment that supports economic growth. The 2006-07 Fiscal Strategy remains unchanged from that set in 2004-05.

In 2005-06, revised cash targets were set for 2005-06 through to 2007-08 reflecting the target established in the 2004-05 Budget of a balanced position by 2008-09, varied only by the Territory's contribution to the Darwin Waterfront Development. At the time of the 2005-06 Budget it was expected that the community infrastructure at the Darwin Waterfront Development would be completed more than 12 months before the Darwin Convention and Exhibition Centre (the Convention Centre). However, the timing has been revised to align the completion of the community infrastructure with the Convention Centre. The cash targets have been updated to take into account this revised timing and results in an improvement of \$21 million in 2005-06 and a corresponding increase in the deficit in 2006-07 and 2007-08.

Other fiscal targets remain unchanged and are expected to be achieved.

Fiscal Principles

The *Fiscal Integrity and Transparency Act* (FITA) 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 FITA, the fiscal strategy statement must be based on principles of sound fiscal management to:

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

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

2006-07 Fiscal Strategy

The 2006-07 Fiscal Strategy aims to ensure that the Territory continues to improve service provision to all Territorians, particularly in the areas of health, education and community safety, and invests in infrastructure to stimulate economic growth while maintaining a sound financial position.

Information on specific service provision initiatives approved since the 2005-06 Budget and in the development of the 2006-07 Budget is provided in Chapter 4 of this Budget Paper.

The Government's medium-term fiscal objectives and targets are:

- **Sustainable Service Provision:** general government net operating balance by 2012-13;
- **Infrastructure for Economic and Community Development:** maintain total public sector infrastructure investment at appropriate levels and achieve a general government net lending balance by 2012-13;
- **Competitive Tax Environment:** ensure Territory taxes and charges are competitive with the average of the states; and
- **Prudent Management of Liabilities:** net debt plus employee liabilities as a proportion of total revenue to fall.

Sustainable Service Provision

As mentioned in the overview to this chapter, the cash targets for 2005-06 to 2007-08 have been further amended to reflect a change in timing of payments for the Darwin Waterfront Development, resulting in an improvement of \$21 million in 2005-06 and a corresponding worsening in 2006-07 and 2007-08. A return to a balanced budget is still expected in 2008-09, with a small surplus projected for 2009-10.

Table 3.1 compares the cash targets set in the 2005-06 Budget, with the revised 2006-07 Budget targets.

Table 3.1: General Government Cash Outcome

	2005-06	2006-07	2007-08	2008-09	2009-10
	Estimate	Budget	Forward Estimate		
2005 Cash Targets (\$M)	- 68	- 53	- 21	0	na
2006 Cash Targets (\$M)	- 47	- 56	- 40	0	17

Source: Northern Territory Treasury.

The Darwin Waterfront Development is a significant public private partnership. The realignment of the timing of payments for the community infrastructure at the Darwin Waterfront Development largely involves capital payments and therefore has had minimal effect on the operating balance.

By comparison with the states, Table 3.2 shows that the ratio of the Territory's net operating balance to revenue is projected to be marginally above that of the states by 2006-07.

Table 3.2: State and Territory Net Operating Balance as a Proportion of Revenue – General Government

	2004-05	2005-06	2006-07
	Actual	Estimate	Budget
	%	%	%
New South Wales	1.7	0.0	- 1.2
Victoria	2.7	1.1	1.0
Queensland	2.7	1.1	1.0
South Australia	2.1	0.2	0.1
Western Australia	8.4	8.5	4.8
Tasmania	7.1	0.7	- 0.3
Australian Capital Territory	- 12.3	- 16.0	- 14.9
State Average	2.8	1.2	0.3
Northern Territory	- 0.9	- 0.6	0.6

Source: Northern Territory Treasury and state budget, mid-year and outcome reports.



The net operating balance for 2005-06 and forward years, as shown in Table 3.3, represents a decrease in all years on the estimates in the 2005-06 Budget. This is largely due to the increase in unfunded superannuation expenses following an actuarial reassessment in 2005, as outlined in the 2004-05 Treasurer’s Annual Financial Statement and the 2005-06 Mid-Year Report. Since the Mid-Year Report, the operating results from 2006-07 onwards have improved. This represents increased estimates of goods and services tax (GST) revenue, together with an upward revision to own-source revenues due to increased economic activity. These increases have been partially offset by the initiatives introduced as part of the 2006-07 Budget.

This positive trend and the projected surplus of \$4 million in 2009-10 would indicate that the target of a balance by 2012-13 will be achieved.

As a proportion of total revenue, Table 3.3 shows that the net operating balance is estimated to be - 0.7 per cent in 2005-06 increasing to 0.6 per cent in 2006-07, negative in 2007-08 and 2008-09 associated with lower revenue estimates in those years, before returning to a positive position of 0.1 per cent in 2009-10. The positive position in 2006-07 reflects the greater requirement for capital spending on the Darwin Waterfront Development in that year.

Table 3.3: General Government Net Operating Balance

	2005-06	2006-07	2007-08	2008-09	2009-10
	Estimate	Budget	Forward Estimate		
2005 Net Operating Balance (\$M)	34	51	11	6	na
2006 Net Operating Balance (\$M)	- 19	17	- 18	- 15	4
2006 Net Operating Balance as a Proportion of Total Revenue (%)	- 0.65	0.57	- 0.57	- 0.47	0.11

Source: Northern Territory Treasury.

Infrastructure for Economic and Community Development

The provision of adequate levels of infrastructure is an ongoing challenge for the Territory largely due to both its remoteness and its stage of development, relative to the other states.

Government investment in infrastructure aims to meet both the Territory’s social and economic requirements.

Net lending (fiscal balance) 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.

Consistent with the net operating balance revised estimates, the fiscal balance has decreased since the 2005-06 Budget in all years, predominantly as a result of the increase in superannuation expense affecting the operating result. Realigning of the timing of payments for the Darwin Waterfront Development between 2005-06 and 2007-08 has also affected the fiscal balance estimates.

When comparing against other jurisdictions, Table 3.4 shows the Territory’s net lending to revenue is projected to be slightly above that of the states in 2006-07.

Table 3.4: State and Territory Net Lending (+)/Borrowing (-) as a Proportion of Total Revenue – General Government

	2004-05 Actual	2005-06 Estimate	2006-07 Budget
	%	%	%
New South Wales	-0.5	-3.1	-4.7
Victoria	1.1	-4.9	-2.7
Queensland	10.4	-4.5	-5.7
South Australia	1.1	-0.3	-1.8
Western Australia	6.3	4.1	0.6
Tasmania	6.2	-0.6	1.1
Australian Capital Territory	-7.1	-13.2	-17.5
State Average	3.1	-2.8	-3.7
Northern Territory	-0.9	-4.3	-3.5

Source: Northern Territory Treasury and state budget, mid-year and outcome reports.

The fiscal balance deficits indicate that capital spending in all years is greater than the depreciation expense, which is consistent with a developing economy such as the Territory. The effect of the Territory's substantial capital investment associated with the Darwin Waterfront Development in 2005-06 through 2007-08 remains evident in Table 3.5. As a proportion of total revenue, net lending is estimated to be -4.3 per cent in 2005-06 improving to -1.1 per cent by 2009-10. This improving trend would indicate that the target of balance by 2012-13 will be achieved.

Table 3.5: General Government Net Lending (+)/Borrowing (-)

	2005-06 Estimate	2006-07 Budget	2007-08 Forward Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate
Net Lending (+)/Borrowing (-) (\$M)	-129	-105	-98	-56	-35
As a Proportion of Total Revenue (%)	-4.3	-3.5	-3.1	-1.8	-1.1

Source: Northern Territory Treasury.

When considering capital investment in the Territory, it is more appropriate to look at the non financial public sector as this better reflects the complete picture of Government spending on significant infrastructure projects.

Table 3.6 presents the estimates for infrastructure investment for 2005-06 to 2009-10. The Government's infrastructure investment, including the Darwin Waterfront Development, comprises purchases of non financial assets (including construction and capital items), assets acquired under finance lease (to include the Convention Centre) and capital grants to non-government organisations.

Table 3.6: Capital Investment – Non Financial Public Sector

	2005-06 Estimate	2006-07 Budget	2007-08 Forward Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate
	\$M	\$M	\$M	\$M	\$M
Purchases of Non Financial Assets	404	382	350	325	327
Assets Acquired Under Finance Lease	23	63	15	1	1
Capital Grants	90	74	68	65	59
Total	517	519	433	391	387

Source: Northern Territory Treasury.



The peak in investment levels in 2005-06 through 2007-08 remains attributable to the Darwin Waterfront Development, with capital expenditure forecast to return to more historic levels from 2008-09.

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

Competitive Tax Environment

The Government is committed to maintaining a competitive tax environment to encourage increased levels of business activity in the Northern Territory.

Since the 2005-06 Budget, the Government has announced further revenue measures to build on economic and employment growth and has confirmed taxes to be removed under the national tax reform agreement. A more detailed analysis of these revenue initiatives is provided in Chapter 4 of this Budget Paper.

In order to assess the competitiveness of the Territory's tax system, the following measures are utilised:

- taxation revenue per capita; and
- taxation effort as assessed by the Commonwealth Grants Commission (the Commission).

Taxation revenue per capita is a simple summary measure that affords comparability with other jurisdictions.

Table 3.7 shows that the Territory's tax collections per capita for 2006-07 are estimated at \$1602, compared with \$2191 for the average of the other states. This also highlights that the Territory in 2006-07 is expected to collect the second lowest per capita tax revenues after Tasmania.

The Territory's 2005-06 estimate of \$1857 is higher than would normally be expected and is mostly attributable to large one-off stamp duty transactions.

Table 3.7: Taxation Revenue Per Capita – General Government

	2004-05 \$ per capita	2005-06 \$ per capita	2006-07 \$ per capita
New South Wales	2 258	2 328	2 479
Victoria	2 067	2 075	2 160
Queensland	1 746	1 743	1 862
Western Australia	2 137	2 313	2 254
South Australia	1 904	1 899	1 966
Tasmania	1 412	1 412	1 494
Australian Capital Territory	2 185	2 357	2 413
State Average	2 049	2 094	2 191
Northern Territory	1 479	1 857	1 602

Source: State and territory outcome reports, state and territory budget papers, ABS Cat. No. 3101.0.

Although 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 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 3.8 details the Territory's revenue-raising capacity and effort expressed as a percentage of the Australian average in 2004-05, the latest year assessed by the Commission.

Table 3.8: Northern Territory Revenue-Raising Capacity and Effort 2004-05
Australian Average = 100 per cent

	Capacity ¹	Effort ²
	%	%
Total Taxation	76	102
Total Own-Source Revenue	88	103
Total Taxation plus royalties and public safety user charges	85	96

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.

Source: Commonwealth Grants Commission 2006 Update.

The Commission's assessment shows that the Territory's total tax effort is slightly above the Australian average. The difference compared with the previous year is due to changed data sources used by the Commission.

Although being above the national average, arguably a better comparative measure is taxation combined with mining royalties and public safety user charges. On this basis, the Territory's tax effort (96 per cent) remains slightly below the Australian average and the second lowest after Queensland. This, together with the per capita measure, demonstrates that the Territory continues to provide a competitive tax environment for all Territorians.

Further interjurisdictional comparisons of individual tax revenue measures and a more detailed synopsis of the methodology used by the Commission are provided in Chapter 6 of this Budget Paper.

Prudent Management of Liabilities

This element of the fiscal strategy aims to ensure that debt is prudently managed, taking into consideration service delivery needs and investment in infrastructure required to promote social wellbeing and economic growth. The measure of net debt and net debt plus employee liabilities provides a means of assessing the Territory's performance against this element.

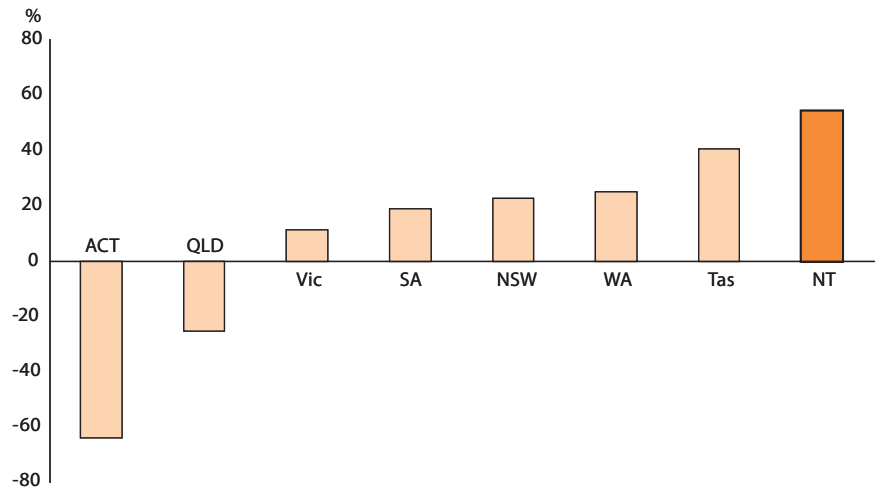
The Territory adopts the broader non financial public sector scope when measuring net debt, rather than the general government sector. This broader focus is appropriate as it better reflects the full allocation of assets and liabilities across government and assists when benchmarking the Territory against other jurisdictions.

Net debt is projected to increase until 2007-08, in line with the contributions to the Darwin Waterfront Development, before declining to \$1770 million in 2009-10. Even after this substantial investment, the net debt level by 2009-10 will be only slightly higher than the \$1753 million recorded in 2001-02. This is further reinforced when the Territory's debt ratio is measured as a percentage to revenue. On this basis it is forecast to drop to 48 per cent by 2009-10 which represents a significant improvement on the 67 per cent recorded in 2001-02.

When compared to the states, the Territory's net debt remains higher due to the greater requirement for infrastructure investment. This is highlighted by Chart 3.1 that shows the Territory's net debt as a proportion of revenue against the states for the 2004-05 outcomes.



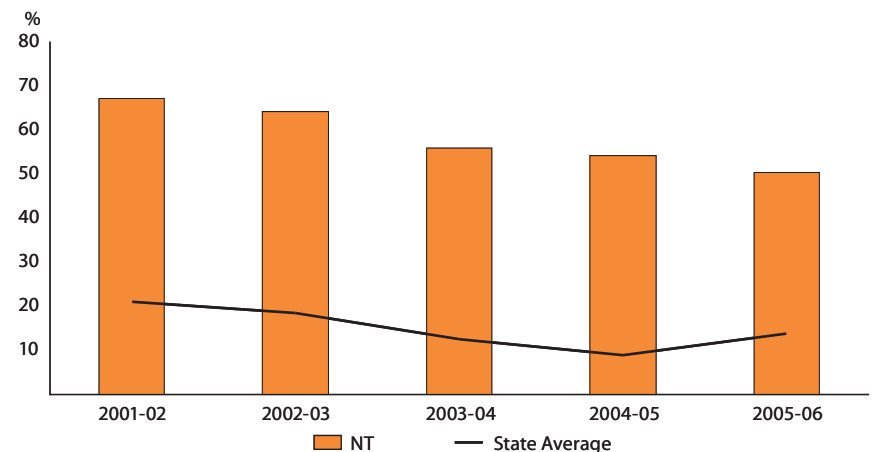
Chart 3.1: State and Territory Net Debt to Revenue – Non Financial Public Sector 2004-05 Outcomes



Source: State and territory outcome reports.

Chart 3.2 also compares the level of Territory debt with that of the states for 2001-02 through 2005-06 and shows the Territory is on a declining trend relative to the states.

Chart 3.2: Historical State and Territory Net Debt to Revenue – Non Financial Public Sector



Source: State and territory outcome reports, state and territory budget papers.

Net debt plus employee liabilities is a broader measure than net debt in that it encompasses unfunded employee liabilities, consisting largely of unfunded superannuation, which is a major liability for the Territory and most states.

Since 2001-02, the level of net debt plus employee liabilities as a percentage of revenue has dropped from 134 per cent at 30 June 2002 to 119 per cent at 30 June 2005. This is as a direct result of the deficit reduction strategy and the cash surpluses achieved in 2002-03 through the 2004-05.

Table 3.9 shows the effect of the Government’s continuing commitment to prudently manage debt and employee liabilities while maintaining service provision. This highlights that the level of net debt plus employee liabilities as a percentage of revenue will continue to drop from the 2004-05 outcome of 119 per cent to 111 per cent by 2009-10.

Table 3.9: Northern Territory Net Debt Plus Employee Liabilities – Non Financial Public Sector

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimate	Budget	Forward Estimate		
Net Debt (\$M)	1 656	1 708	1 776	1 804	1 794	1 770
Net Debt to Revenue (%)	54	50	52	51	50	48
Net Debt plus Employee Liabilities (\$M)	3 634	3 814	3 943	4 028	4 069	4 091
Net Debt plus Employee Liabilities to Revenue (%)	119	113	115	113	113	111

Source: Northern Territory Treasury.

The improving trend is despite the updated superannuation actuarial assessments and scheme revaluations in 2005, which resulted in significant increases in the Territory's superannuation liabilities.

Further information on budget aggregates and financial projections that underpin the Territory's fiscal strategy are included in Chapter 2 of this Budget Paper.