

Chapter 3 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 financial management framework to ensure sustainable service provision, continued capital investment, reducing debt levels and a competitive tax environment that supports economic growth.

The 2008-09 Fiscal Strategy and targets are consistent with those set out in the 2007-08 Budget, however the updated estimates for 2008-09 and the forward years reflect improvements when compared with the 2007-08 estimates. A limited revenue base and high expenditure requirements make the Northern Territory markedly different to other Australian jurisdictions and therefore a strong financial position and fiscal discipline are paramount for the Territory.

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

- **Sustainable Service Provision**

Target: General government net operating balance by 2012-13.

Assessment: Operating surplus estimated for all years from 2007-08 to 2011-12.

- **Infrastructure for Economic and Community Development**

Target: Maintain infrastructure investment at appropriate levels and achieve a general government fiscal balance by 2012-13.

Assessment: Record infrastructure spending in 2008-09 and continuing high levels over all forward years to 2011-12.

Assessment: Fiscal balance continues on a trend of improvement with a net surplus of \$6 million estimated for 2011-12, a year prior to the target year.

- **Competitive Tax Environment**

Target: Ensure Territory taxes and charges are competitive with the average of the jurisdictions.

Assessment: Taxation revenue per capita is \$1848 in 2008-09. The second lowest, after Tasmania, and significantly lower than the average of the states at \$2624.

- **Prudent Management of Liabilities**

Target: Net debt plus employee liabilities as a proportion of total revenue to fall.

Assessment: Net debt plus employee liabilities to revenue ratio continues to fall over the forward estimates and is projected to be 101 per cent by 2011-12.

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 financial targets. Under the FITA, the fiscal strategy statement must be based on principles of sound fiscal management to:

- formulate and apply spending and taxation policies having regard to the effect of these policies on employment, economic prosperity and the development of the Territory economy;

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

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

Sustainable Service Provision – Target: General Government Net Operating Balance by 2012-13

The net operating balance for 2007-08 and all forward years has significantly improved since the 2007-08 Budget with surpluses being estimated for all years. Increases are estimated for most revenue categories and additional expenditure has been allocated for both operating and capital purposes. The improvement in the net operating balance is due to the increasing allocation of additional revenue for capital rather than operating purposes.

The continuing strength of the Territory and the national economy during 2007-08 has led to an upward revision to own-source revenue, particularly for mining royalties and stamp duty on conveyancing as well as higher goods and services tax (GST) revenue. There has also been an increase in Specific Purpose Payments (SPP) revenue due to finalisation of agreements with the Commonwealth in respect of strategic Indigenous housing initiatives as well as specific programs in health, community safety and education.

These revenue increases have been partially offset by new initiatives introduced since the 2007-08 Budget, including the Territory's Closing the Gap commitments, as summarised in Chapter 4 of this Budget Paper.

A strong operating result is essential to achieve Government's objective for a positive fiscal balance as it provides capacity to invest in infrastructure without the need for additional borrowing.

Table 3.1 highlights the improved net operating balance for 2007-08 and forward years since the original 2007-08 Budget. The net operating balance as a proportion of revenue for 2007-08 and forward years likewise displays an upward trend, peaking in 2009-10 at 4.42 per cent, before declining slightly in later years.

Table 3.1: Net Operating Balance – General Government

	2007-08	2008-09	2009-10	2010-11	2011-12
	Estimate	Budget	Forward Estimates		
2007-08 Budget (\$M)	29	8	15	38	na
2008-09 Budget (\$M)	81	111	174	170	163
2008-09 Budget as a Proportion of Total Revenue (%)	2.21	2.93	4.42	4.18	3.88

Source: Northern Territory Treasury

Consistent with the improvement in the estimated operating balance, the expected cash outcome for 2007-08 and future years has also significantly improved from the 2007-08 Budget. The 2007-08 outcome is now estimated to be a small surplus due to similar factors contributing to the improved operating result. However, over the forward estimates period, the improvement in the cash outcome is not as marked

because the effect of the additional capital spending is taken into account in the cash outcome. The cash outcome is estimated to be a small surplus in 2007-08 with continued improvement estimated in all forward years rising to a projected surplus of \$50 million by 2011-12. The improved financial position in 2007-08 has enabled a contribution of \$20 million to be put aside towards future infrastructure and superannuation requirements, resulting in an underlying surplus of \$5 million.

Table 3.2 compares the cash targets set in the 2007-08 Budget with the revised 2008-09 Budget targets.

Table 3.2: Cash Outcome –
General Government

	2007-08	2008-09	2009-10	2010-11	2011-12
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2007-08 Budget	- 40	0	17	34	na
2008-09 Budget	5	9	21	37	50

Source: Northern Territory Treasury

The improved cash position and operating surplus indicates that the accrual target of an operating balance by 2012-13 will be met.

Infrastructure for Economic and Community Development – Target: Maintain Capital Investment at Appropriate Levels and Achieve Fiscal Balance by 2012-13

Capital investment plays a central role in the Government's budget strategy and is essential for the delivery of the Territory's social and economic requirements.

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

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

In all years the additional funds arising from the improved operating result have been applied to increased capital spending rather than a reduction in net debt. Table 3.3 below shows the fiscal balance deficit trending downwards towards a balanced position, with a projected fiscal balance surplus of \$6 million in 2011-12.

Table 3.3: Fiscal Balance –
General Government

	2007-08	2008-09	2009-10	2010-11	2011-12
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2007-08 Budget	- 96	- 41	- 32	- 10	na
2008-09 Budget	- 67	- 81	- 47	- 31	6

Source: Northern Territory Treasury

When compared with other jurisdictions, Table 3.4 shows the Territory's fiscal balance to revenue ratio is projected to be marginally better than the average of the other jurisdictions in all years.

Table 3.4: State and Territory Fiscal Balance as a Proportion of Revenue – General Government

	2006-07 Actual	2007-08 Estimate	2008-09 Budget
	%	%	%
New South Wales	- 2.2	- 2.9	- 2.9
Victoria	- 0.7	- 1.4	- 2.3
Queensland	- 0.7	- 9.9	- 9.4
South Australia	- 0.2	- 3.2	- 2.8
Western Australia	8.8	2.6	2.2
Tasmania	1.3	3.2	3.6
Australian Capital Territory	0.3	- 3.4	1.6
State Average	0.0	- 3.3	- 3.3
Northern Territory	1.9	- 1.8	- 2.1

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

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

Table 3.5 below presents the estimates for capital investment for 2007-08 to 2011-12. The Government's capital investment comprises purchases of non financial assets (including construction and capital items), assets acquired under finance leases (including the Darwin Convention Centre) and capital grants to non-government organisations. It excludes repairs and maintenance.

Projected strong operating surpluses have been utilised to support record capital investment in all forward years. The increase in levels of capital investment since May 2007 is mainly a result of additional infrastructure requirements for remote areas of the Territory. This includes the increased commitment to remote Indigenous housing and continued additions to core service infrastructure, including by the Power and Water Corporation, which will be investing about \$1 billion between 2008-09 and 2011-12 in infrastructure for the essential services of electricity, sewerage and water.

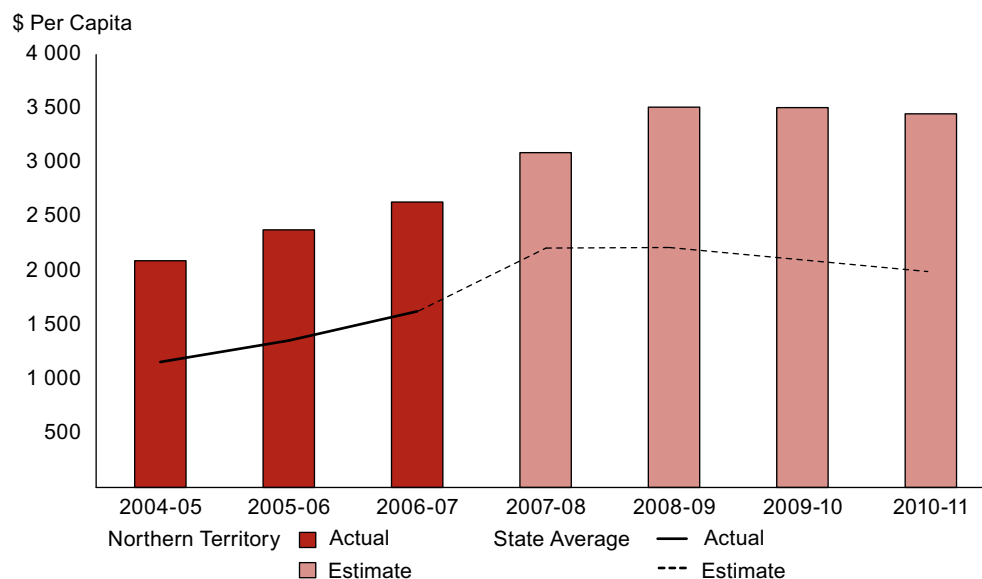
Table 3.5: Capital Investment – Non Financial Public Sector

	2007-08 Estimate	2008-09 Budget	2009-10	2010-11	2011-12
	\$M	\$M	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Purchases of non financial assets	533	662	637	631	570
Assets acquired under finance lease	33				
Capital grants	104	99	123	117	120
Total	670	761	760	748	690

Source: Northern Territory Treasury

Chart 3.1 illustrates the Northern Territory's capital investment per capita relative to the average of other jurisdictions in the non financial public sector, and shows that Territory capital spending is expected to remain at levels above the states' average.

Chart 3.1: State and Territory Capital Investment per Capita – Non Financial Public Sector



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

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

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 jurisdictions and to encouraging increased levels of business activity in the Northern Territory.

The 2008-09 Budget introduces three key measures to build on economic and employment growth. The first of these measures involves a reduction in stamp duty on property conveyance rates that will assist all Territory property buyers.

The second measure delivers a reduction to payroll tax rates, and the third measure is the harmonisation of payroll tax laws with the other jurisdictions.

A more detailed analysis of these revenue initiatives is provided in Chapter 4 and 6 of this Budget Paper.

Comparisons of relative tax competitiveness are complex due to inherent differences in respective economies and in taxation regimes. However, 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 3.6 shows that the Territory's tax collections per capita for 2008-09 are estimated at \$1848, compared with \$2624 for the average of the other jurisdictions. The 2007-08 and 2008-09 estimates continue to increase reflecting high levels of economic activity, however the Territory remains the second lowest jurisdiction for taxation revenue per capita, after Tasmania.

Table 3.6: Taxation Revenue per Capita – General Government

	2006-07 Actual	2007-08 Estimate	2008-09 Budget
	\$ per capita	\$ per capita	\$ per capita
New South Wales	2 564	2 686	2 785
Victoria	2 240	2 405	2 512
Queensland	2 019	2 324	2 520
Western Australia	2 699	3 006	3 049
South Australia	1 894	2 150	2 186
Tasmania	1 513	1 757	1 725
Australian Capital Territory	2 732	2 942	3 034
State Average	2 314	2 517	2 624
Northern Territory	1 700	1 835	1 848

Source: State and territory outcome reports, state and territory mid-year reports; ABS Cat. No.3101.0. Population figures are based on latest ABS data as at September 2007

Although taxation per capita is a useful comparative measure, it is limited in that it does not make allowances for differences in jurisdictional capacity 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 jurisdiction's capacity to raise revenue is above or below average. Table 3.7 details the Territory's revenue raising capacity and effort expressed as a percentage of the Australian average in 2006-07, the latest year assessed by the Commission.

Table 3.7: Northern Territory Revenue Raising Capacity and Effort (2006-07 Australian average = 100 per cent)

	Capacity ¹	Effort ²
	%	%
Total Taxation	77	102
Total Own-Source Revenue	90	96

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

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

Source: Commonwealth Grants Commission 2008 Update

The table shows that the Territory's capacity and effort are below the national average and in terms of effort is assessed as the second lowest of all jurisdictions, behind Queensland.

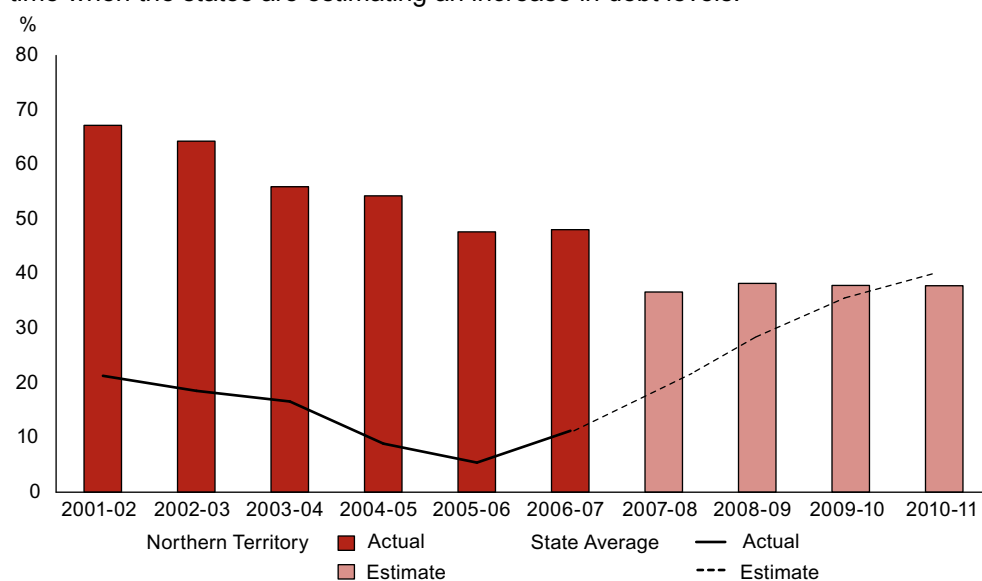
This, together with the per capita measure, demonstrates that the Territory continues to provide a competitive tax environment for Territorians.

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

This element of the fiscal strategy aims to ensure that debt is prudently managed, taking into consideration service delivery needs and capital investment to promote social wellbeing and economic growth. This is particularly important for the Territory given its greater infrastructure requirements relative to other jurisdictions, due to its remoteness and stage of development, which result in higher levels of debt than other jurisdictions.

Chart 3.2 compares the ratio of Territory debt to revenue with the average of the other jurisdictions for 2001-02 to 2010-11. The chart illustrates the Territory's significant improvement since 2001-02 and the maintenance of this position at a time when the states are estimating an increase in debt levels.

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



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

The measures of net debt and net debt plus employee liabilities provide the means of assessing the Territory's performance against this target.

Table 3.8 shows that net debt for the non financial public sector is projected to increase in absolute terms until 2010-11, in line with Power and Water Corporation's capital investment and Closing the Gap initiatives, before declining to \$1676 million in 2011-12. All forward estimates are nevertheless below the 2001-02 level of \$1753 million as well as the 2007-08 Budget estimates. When measured as a percentage of revenue, it is anticipated that the ratio will remain largely constant between 36 to 38 per cent, significantly below the 67 per cent recorded in 2001-02.

Table 3.8: Net Debt and
Employee Liabilities –
Non Financial Public Sector

	2007-08 Estimate	2008-09 Budget	2009-10	2010-11	2011-12
			Forward Estimates		
Net Debt (\$M)					
2007-08 Budget	1 693	1 748	1 749	1 742	na
2008-09 Budget	1 477	1 578	1 637	1 687	1 676
Variation	- 216	- 170	- 112	- 55	na
Net Debt to Revenue (%)					
2007-08 Budget	45	45	44	42	na
2008-09 Budget	37	38	38	38	36
Variation	- 8	- 7	- 6	- 4	na
Net Debt + Employee Liabilities (\$M)					
2007-08 Budget	4 382	4 481	4 537	4 578	na
2008-09 Budget	4 203	4 382	4 510	4 623	4 663
Variation	- 179	- 99	- 27	45	na
Net Debt + Employee Liabilities to Revenue (%)					
2007-08 Budget	116	115	114	110	na
2008-09 Budget	104	106	104	104	101
Variation	- 12	- 9	- 10	- 6	na

Source: Northern Territory Treasury

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

The level of net debt plus employee liabilities as a percentage of revenue has dropped from 134 per cent in June 2002 and continues on a downward trend in forward years to 101 per cent projected in 2011-12. This relationship has been maintained despite rising superannuation liabilities and record investment in infrastructure.

Conclusion

Overall, the Territory continues to maintain its trend towards the medium-term fiscal objectives and targets as set out in the Fiscal Strategy.

The significant improvements to the net operating balance and cash targets, projected to be in surplus in all forward years, together with the improving fiscal balance, suggest that the target of a balance on an accrual basis by 2012-13 remains achievable.

The Territory Government is also continuing its commitment to maintain taxation at competitive levels to encourage increased levels of business activity. This has been reinforced by three key measures introduced as part of the 2008-09 Budget that build on economic and employment growth.

Net debt has improved since the 2007-08 Budget and is projected to remain constant as a ratio to revenue over the forward years. This is despite record levels of investment in the Territory's infrastructure base. Net debt plus employee liabilities as a proportion of revenue continues to fall and, at 101 per cent in 2011-12, is significantly below the 2001-02 level of 134 per cent.