

Chapter 1 Overview

Fiscal Position and Outlook

This Budget Paper presents whole of government financial information and related issues and consolidates information from other budget papers. It also meets the requirements of the *Fiscal Integrity and Transparency Act (FITA)* and complies with the Uniform Presentation Framework, as agreed by all Australian jurisdictions.

The deepening global financial crisis has had a dramatic effect on the international and Australian economies and as a consequence the fiscal outlook for the Territory has been substantially revised from that outlined in the 2008-09 Mid-Year Report.

In this, the most challenging period for global economies in decades, the Territory's budget has been formulated in an environment of falling revenues and the Government's commitment to support Territory jobs and the local economy through substantial infrastructure investment. Accordingly, a new fiscal strategy has been developed within this context and is outlined in Chapter 2 of this budget paper. The objective in the short term, while current economic conditions prevail, is to invest significantly in infrastructure in order to stimulate the Territory economy while capping the growth in operational spending. This will mean that, although the Territory will have operating surpluses over the budget and forward estimates period, it will incur cash deficits as a result of the higher infrastructure investment. Once revenue streams and economic growth return to more normal levels, a medium-term strategy of returning the budget to both cash and operating surpluses, by limiting the growth in operational spending, will be put in place so that excess revenues can be used to retire debt accumulated during the economic downturn.

Against this backdrop, the fiscal outlook in the 2009-10 Budget includes:

- operating surpluses maintained for all forward years, providing some level of capacity to invest in infrastructure;
- substantial infrastructure investment in 2009-10 of \$1299 million and remaining high in all years;
- cash outcome and the accrual fiscal balance to be in deficit over the economic cycle but trending to improvement by 2012-13;
- net debt in the general government sector to increase as a result of significant infrastructure spending and prevailing economic conditions but, as a ratio to revenue, remaining below 2001-02 levels; and
- an increase in general government sector net financial liabilities as a result of the rise in net debt, together with atypical, low long-term bond rates increasing the Territory's superannuation liability; when the bond rate effect is removed the superannuation liability is virtually unchanged.

Tables 1.1 and 1.2 present the Territory's key aggregates at the time of the 2008-09 Budget, the 2008-09 Mid-Year Report and the 2009-10 Budget. For consistency, all 2008-09 original budget data presented in this budget paper has been restated to reflect treatment changes for investment returns automatically reinvested due to the introduction of AASB 1049 – Whole of Government and General Government Financial Reporting.

Table 1.1: Estimated Outcomes
– General Government

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
Operating Balance					
2008-09 Budget	141	201	198	193	na
2008-09 Mid-Year Report	75	173	182	157	na
2009-10 Budget	100	215	116	122	79
Variation from 2008-09 Budget	- 41	14	- 82	- 71	na
Fiscal Balance					
2008-09 Budget	- 51	- 20	- 3	36	na
2008-09 Mid-Year Report	- 137	- 48	- 21	2	na
2009-10 Budget	- 116	- 253	- 224	- 125	- 50
Variation from 2008-09 Budget	- 65	- 233	- 221	- 161	na
Cash Outcome					
2008-09 Budget	9	21	37	50	na
2008-09 Mid-Year Report	- 47	0	17	30	na
2009-10 Budget	- 17	- 201	- 180	- 98	- 30
Variation from 2008-09 Budget	- 26	- 222	- 217	- 148	na

Source: Northern Territory Treasury

The projected general government outcomes have declined since the 2008-09 Budget, with cash and fiscal balance deficits estimated over the economic cycle. This results from declines in revenue, most notably GST revenue due to the global financial crisis and the associated decline of the national economy, while the increasing demand for government services and the commitment to protecting Territory jobs has led to additional expenditure being allocated for capital purposes.

Despite significant falls in revenue, the operating result remains in surplus due to increases in Commonwealth revenue, some of which is for capital rather than operational purposes.

Under usual circumstances, significant operating surpluses provide the capacity required to invest in infrastructure spending without the need to incur a cash deficit. However the decline in global economic conditions has resulted in most jurisdictions' own-source revenues going into considerable decline over the past few months. This, combined with a significant drop in the national GST pool available for distribution to the states, has meant that severe downward pressure has been applied to the Territory achieving an objective for operating and cash surpluses.

The result is that while the operating balance remains in surplus, lower GST revenue and reduced growth in own-source revenues mean that the operating surplus is not at sufficient levels needed to sustain increased investments in infrastructure without incurring a cash deficit. Accordingly, both the cash outcome and fiscal balance are worse than estimated at the time of the 2008-09 Budget, with deficits now expected over the budget and forward estimates period. This is particularly evident in 2009-10 and 2010-11 where there is a significant increase in Territory and Commonwealth funded infrastructure spending. For 2008-09, the decline in both the cash and fiscal balance outcomes is not as pronounced, reflecting that own-source revenues, particularly mining royalties, are not expected to be affected until 2009-10.

Table 1.2: Balance Sheet –
General Government

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
Net Debt (\$M)					
2008-09 Budget	1 045	996	929	848	na
2008-09 Mid-Year Report	979	955	913	855	na
2009-10 Budget	969	1 174	1 336	1 415	1 425
Variation from 2008-09 Budget	- 76	178	407	567	na
Net Debt to Revenue (%)					
2008-09 Budget	28	25	23	20	na
2008-09 Mid-Year Report	25	24	22	20	na
2009-10 Budget	24	28	31	32	33
Variation from 2008-09 Budget	- 4	3	8	12	na
Net Financial Liabilities (\$M)					
2008-09 Budget	3 832	3 851	3 852	3 815	na
2008-09 Mid-Year Report	3 947	3 902	3 830	3 831	na
2009-10 Budget	4 364	4 645	4 875	5 006	5 062
Variation from 2008-09 Budget	532	794	1 023	1 191	na
Net Financial Liabilities to Revenue (%)					
2008-09 Budget	101	98	95	91	na
2008-09 Mid-Year Report	101	98	93	90	na
2009-10 Budget	108	110	115	115	116
Variation from 2008-09 Budget	7	12	20	24	na

Source: Northern Territory Treasury

As shown in Table 1.2, net debt for 2008-09 for the general government sector has improved since the May 2008 Budget due to the significant general government cash surplus achieved in 2007-08. Although this flows through to forward years, net debt is expected to increase in 2009-10 and all forward years as a consequence of the slowing national economy affecting both investment returns and revenue levels, with cash deficits predicted over the budget cycle. However, even with this increase, when measured as a ratio to revenue, it is estimated to be lower than 2001-02 levels.

Net financial liabilities are also expected to rise over the budget cycle for the general government sector due to the flow-on effect of the increase in net debt combined with an increase in the valuation of the Territory's superannuation liability. The most significant influence on the superannuation liability is the valuation method used. Accounting standards require the use of the 10-year bond rate to calculate the present value of the liability. The atypical conditions in capital markets mean that the 10-year bond rate is markedly different to the long-term average rate. When the effect of the bond rate is removed, the superannuation liability is virtually unchanged.

Economic Outlook

The Territory economy is forecast to increase by 2 per cent in 2009-10 with the downturn in the Australian and world economy constraining expenditure on goods and services by households, businesses and the public sector, and limiting demand for, and the value of, the Territory's mineral and energy exports.

Resident employment is estimated to increase by 1.5 per cent in 2009-10, with fewer employment opportunities expected in the retail sector and the mining industry but this should be offset by residential construction, particularly that associated with the Strategic Indigenous Housing Infrastructure Program (SIHIP) and the Nation Building and Jobs Plan package.

Population growth is estimated to be 1.8 per cent in 2009, with net interstate migration returning towards longer run averages due to the completion of major projects including high-rise residential complexes around the Darwin central business district.

Inflation in the Territory is estimated to be 2.6 per cent in 2009, down from 4.0 per cent in 2008. Deteriorating economic conditions in Australia and the world into 2009-10, and lower crude oil prices are expected to reduce consumption, and keep inflation within the Reserve Bank of Australia target range of 2 to 3 per cent.

Wages are estimated to increase by 3.8 per cent in 2009, marginally lower than in recent years.

Household, business and public sector consumption is estimated to increase by 2.4 per cent in 2009-10, with a lower rate of private sector consumption expected due to deteriorating economic conditions, and increased household saving. Low interest rates, higher household incomes and confidence about the prospects for the Territory economy are expected to underpin private consumption growth in the short term. Increased demand for government services, and spending through the Territory Government's \$1.3 billion infrastructure investment and increasing numbers of Defence personnel, are expected to increase public sector consumption and investment.

Table 1.3: Key Growth Forecasts

	2005-06	2006-07	2007-08	2008-09e	2009-10f	2010-11f
	%	%	%	%	%	%
Real GSP	6.5	5.2	3.9	4.1	2.0	3¼
Resident Employment	3.2	5.1	5.9	2.5	1.5	2
Population ¹	2.3	1.9	2.4	2.0	1.8	1½
Darwin CPI ²	2.6	4.4	3.4	4.0	2.5	2½

e: estimate; f: forecast

¹ As at December, annual percentage change.

² As at December, year on year percentage change.

Chapter 2 Fiscal Strategy

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

The fiscal strategy outlined in the 2009-10 Budget Papers has been developed during the most challenging period for the international and national economies in many decades. After a long period of sustained economic growth, Australia has entered a period of recession as a result of the global financial crisis (GFC) associated with turmoil in financial markets and a very substantial reduction in global demand. The consequences for all governments in Australia are significant reductions in revenues, increased demand for government services and commitments to maintain and where possible increase investment in infrastructure so as to protect existing jobs, as well as building the basis for recovery when growth returns.

Against this backdrop, the Northern Territory's fiscal strategy has been substantially revised from the one that has been in place for the past several years, to take into account both national and Territory economic conditions, falling revenues and the Government's stated commitment to increase investment spending to support jobs and maintain growth in the Territory.

The revised strategy has been developed with both a short-term and a medium-term focus. The objective of the fiscal strategy is the development of a robust and thriving Northern Territory that is capable of achieving ongoing significant operating surpluses irrespective of economic conditions. This will be achieved by maintaining the fiscal discipline that has been evident in the Territory Budget in recent years that has resulted in six consecutive cash surpluses. In more usual times of economic growth, this operating surplus will provide the capacity to invest in infrastructure without the requirement for additional borrowings. In the short term, however, the economic downturn will result in falling revenues and this, combined with increased infrastructure spending to support Territory jobs, will result in the budget incurring cash deficits. Over the medium term, once revenues return to more usual levels, the overarching objective of returning the budget to a cash surplus as well as an operating surplus will prevail and provide the capacity to reduce Territory debt to pre-GFC levels.

In the revised strategy, the Territory's focus for the balance sheet measure of prudent management of debt and liabilities will be on the general government sector. This is consistent with the approach taken by other jurisdictions and recognises that general government debt is related to those services supported by tax revenues. The additional debt that may accrue in the non financial public sector as a result of borrowings by government trading enterprises is for business purposes and any new debt is supported by revenue streams of the business. The measure of net financial liabilities has been adopted in this strategy. It is a more comprehensive aggregate than employee liabilities in that it encompasses all liabilities and is the key measure used by ratings agencies in the credit rating

assessment of jurisdictions. The use of this measure will enable enhanced comparability with other jurisdictions.

The Government's fiscal strategy objectives and targets are:

Sustainable Service Provision

- Growth in general government operating expenses to be less than the growth in revenue, excluding tied Commonwealth revenue, over the economic cycle thereby achieving a sufficient operating balance to fund general government capital spending. This overarching objective will ensure:
 - during the current economic downturn of falling revenues and increased infrastructure spending, that cash deficits are kept to a minimum; and
 - once the economy returns to more usual growth trends, the achievement of sufficient cash surpluses to fund capital spending and provide capacity to retire debt to pre-GFC levels.

Infrastructure for Economic and Community Development

- During the period of economic downturn, provide short-term, counter-cyclical increases in infrastructure spending to support economic recovery and sustain jobs in the Territory. During this period, infrastructure spending in the general government sector to be at least twice depreciation expenses; and
- When the economy and government revenue returns to more normal levels, maintain infrastructure at appropriate levels to support medium-term economic growth, while trending towards a general government fiscal balance. During this period, infrastructure spending in the general government sector to be at least equal to depreciation expenses.

Competitive Tax Environment

- Ensure that Territory taxes and charges are competitive with the average of the jurisdictions in order to promote increased levels of business activity in the Territory.

Prudent Management of Debt and Liabilities

- During the period of economic downturn, short-term increases in general government debt levels as a result of increased investment in infrastructure to support the Territory economy;
- When the economy and government revenue returns to more normal levels, net debt in the general government sector to reduce on average by 5 per cent per annum of additional debt incurred since 2007-08; and
- Net financial liabilities will be maintained within current policy settings such that the net financial liabilities to revenue reduces over time.

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. As outlined earlier, Australia has now entered into a period of recession after a number of years of sustained growth, driven by the unprecedented fall in economic growth as part of the global financial crisis. Given the volatility in economic conditions, the updated fiscal strategy includes short-term as well and medium-term objectives.

As a small, resource-based economy that is reliant on Commonwealth funding, the Territory is susceptible to changes in the global and national economies. Throughout 2008-09 international, national and Territory economic growth rate forecasts have been reduced. GSP growth in the Territory is now estimated at 4.1 per cent in 2008-09 and 2009-10 is forecast to be 2.0 per cent. Although official forecasts are yet to be updated, the expectation is for lower negative economic growth at the national level than recently predicted.

As Commonwealth grants comprise around 80 per cent of the Territory's revenue, the slowing of the national economy has a profound effect on the Territory's Budget aggregates.

GST revenue accounts for around 70 per cent of these Commonwealth funds. The Commonwealth provided revised GST estimates in its Updated Economic and Fiscal Outlook (UEFO) in February. These estimates were based on collections for less than half of the 2008-09 financial year. Since that time, the economy has continued to slow and, importantly, consumption patterns appear to have changed to incorporate more GST free products. The Commonwealth will not provide updated GST estimates until the Commonwealth Budget. Although the Territory would ordinarily use the Commonwealth estimates for GST, having regard to the size of the reductions that have been made so far and the importance of this revenue source to the Territory, it was considered necessary to prepare our own updated estimates. The estimates for the GST pool and Territory GST as presented in May 2008 and the revenue estimates included in the 2009-10 Budget are set out in Table 2.1. The table shows the estimated substantial reduction in GST revenues over the last 12 months and the effect on all years between 2008-09 to 2012-13.

Table 2.1: Changes in GST Forecast

	2008-09	2009-10	2010-11	2011-12	2012-13
	\$M	\$M	\$M	\$M	\$M
National GST Pool					
2008-09 Budget	45 270	47 670	50 130	52 637	55 268
2009-10 Budget	41 330	41 330	43 810	46 438	49 225
Total change %	- 8.7%	- 13.3%	- 12.6%	- 11.8%	- 10.9%
NT GST Revenue					
2008-09 Budget	2 405.9	2 530.0	2 657.9	2 788.7	2 926.1
2009-10 Budget	2 244.1	2 319.4	2 417.1	2 617.9	2 794.2
Total change \$M	- 161.8	- 210.6	- 240.8	- 170.8	- 131.9

Note: 2009-10 Budget includes estimated budget balancing assistance in respect of 2008-09.

Sustainable Service Provision

Accordingly the Territory's revised fiscal strategy has been developed with a focus on limiting growth in Territory funded recurrent spending while working in partnership with the Commonwealth to increase investment in infrastructure to help stimulate the economy. This strategy will necessitate a short-term cash deficit position over the economic cycle with a medium-term strategy of returning to a surplus position once revenue streams return to normal and infrastructure spending is able to reduce, consistent with the prevailing macroeconomic conditions.

The Government's overarching target in sustainable service delivery is to limit growth in operating expenses to less than operating revenue to achieve operating surpluses that can be used to fund general government capital investment. However, the decline in global economic conditions has meant that all jurisdictions' revenue bases have seen considerable declines over the past few months. The most significant fall for the Territory has been in GST revenue and has meant severe downward pressure has been applied to the achievement of projected fiscal aggregates. All jurisdictions are in similar positions and have predicted worsening general government outcomes than forecast only a few months ago.

The Territory Government is committed to maintaining services and also to increase investment in infrastructure to maintain jobs and economic growth. However in order to deliver on these policy objectives, while an operating surplus will be maintained, the budget will record cash deficits over the economic cycle while the Australian economy remains in downturn. The ongoing fiscal prudence through limiting general government operating expenses growth to below revenue growth, excluding Commonwealth tied funding, will ensure that the deficit and debt levels are kept to a minimum until the economy recovers. This will require new policy proposals to be largely met through a re-prioritisation of existing expenditure.

When the economy and revenue levels return to more normal conditions, maintenance of this fiscal prudence will enable a return to a strong operating result and a cash surplus, as evidenced by six consecutive cash surpluses up to 2007-08. This will enable both capital spending and the retirement of additional debt accumulated during the economic downturn.

Tables 2.2 and 2.3 below compares the net operating balance and cash position for general government since the 2008-09 Budget and the 2008-09 Mid-Year Report.

Table 2.2: Net Operating
Balance – General
Government

	2008-09 Estimate	2009-10 Budget	2010-11 Forward Estimates	2011-12 Forward Estimates	2012-13 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget	141	201	198	193	na
2008-09 Mid-Year Report	75	173	182	157	na
2009-10 Budget	100	215	116	122	79
Variation from 2008-09 Budget	- 41	14	- 82	- 71	na

Source: Northern Territory Treasury

Table 2.3: Cash Outcome –
General Government

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget	9	21	37	50	na
2008-09 Mid-Year Report	- 47	0	17	30	na
2009-10 Budget	- 17	- 201	- 180	- 98	- 30
Variation from 2008-09 Budget	- 26	- 222	- 217	- 148	na

Source: Northern Territory Treasury

In all years the effects of the downturn in the national economy have reduced the Territory's revenue and resulted in the projected temporary cash budget deficit position. The most significant revenue reduction has been in GST growth rates, to the lowest levels since its introduction, and resulted in the Territory's GST revenue dropping by, on average, just under \$190 million per annum over the period 2009-10 through to 2012-13.

Although the cash outcome has declined in all years, the net operating balance remains in a surplus position. This has been achieved in part through the increase in tied capital funding from the Commonwealth, mainly for remote Indigenous housing and the Nation Building and Jobs Plan stimulus package. For 2008-09 the impact on the cash outcome of the economic downturn is not as profound as in the budget or forward years. This is because the decline in GST revenue has been partly offset by increased mining royalties as a result of contracted commodity prices in place prior to the global downturn.

Once the economy returns to usual growth, a strong operating result will remain essential to achieve Government's fiscal strategy objectives as it provides capacity to invest in infrastructure without the need for additional borrowings. This combined with cash surpluses will enable government to embark on the strategy of retiring debt incurred during the economic downturn.

Infrastructure for Economic and Community Development

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 swiftness in recent months of the decline in economies has required governments across the world to act in concert with a series of large stimulus packages, with Australia being no exception. In Australia this has taken the form of payments to individuals, significant investment in infrastructure to assist in stimulating the economy and protecting jobs and providing confidence and certainty to financial markets throughout temporary guarantee arrangements.

The Territory Government is committed to working with the Commonwealth to maintain jobs and provide stimulus to the Territory economy by way of increasing and fast tracking investment in infrastructure. It is important that in times of sustained economic hardship, governments support the economy by increasing spending to deliver targeted infrastructure. Accordingly, the Territory Government has committed to spending at least twice its level of depreciation expenses on capital infrastructure on average over the current economic cycle to provide stimulus to the Territory economy as well as improving facilities that support service delivery and business growth. Once the economy returns to more normal levels the countercyclical need for increased government investment in infrastructure will no longer be required and will be replaced by private sector investment.

In more usual times most jurisdictions strive to maintain their capital investment levels around the equivalent of their depreciation expenses in order to maintain the stock of public sector assets at appropriate levels. In the case of the Territory, capital needs are greater and the provision of adequate levels of infrastructure is an ongoing challenge, due both to the Territory's remoteness and its stage of development relative to other jurisdictions. Accordingly once the economy reverts to more normal conditions, the Territory's strategy in relation to infrastructure spending will be general government spending at least equivalent to depreciation charges, over the budget cycle. This will ensure that the Territory's infrastructure is being maintained at appropriate levels to support medium term economic growth while trending towards the objective of a general government fiscal balance.

Table 2.4 below presents the estimates for capital investment for 2008-09 to 2012-13 compared with the 2008-09 Budget. The Government's capital investment comprises purchases of non financial assets (including construction and capital items) and capital grants to non government organisations. It excludes repairs and maintenance.

Table 2.4: Capital Investment –
General Government Sector

	2008-09 Estimate	2009-10 Budget	2010-11 Forward Estimates	2011-12 Forward Estimates	2012-13 Forward Estimates
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget					
Purchases of Non Financial Assets	447	470	453	418	na
Capital Grants	163	138	132	136	na
Total	610	608	585	554	na
2009-10 Budget					
Purchases of Non Financial Assets	459	729	594	503	388
Capital Grants	178	157	157	117	54
Total	637	886	751	620	442
Variation to 2008-09 Budget					
Purchases of Non Financial Assets	12	259	141	85	na
Capital Grants	15	19	25	- 19	na
Total	27	278	166	66	na

Source: Northern Territory Treasury

As shown in Table 2.5, in all years there will be a significant increase in investment in infrastructure that meets the revised fiscal strategy target of spending twice depreciation levels over the current economic cycle.

Table 2.5: Capital Investment
to Depreciation Ratio

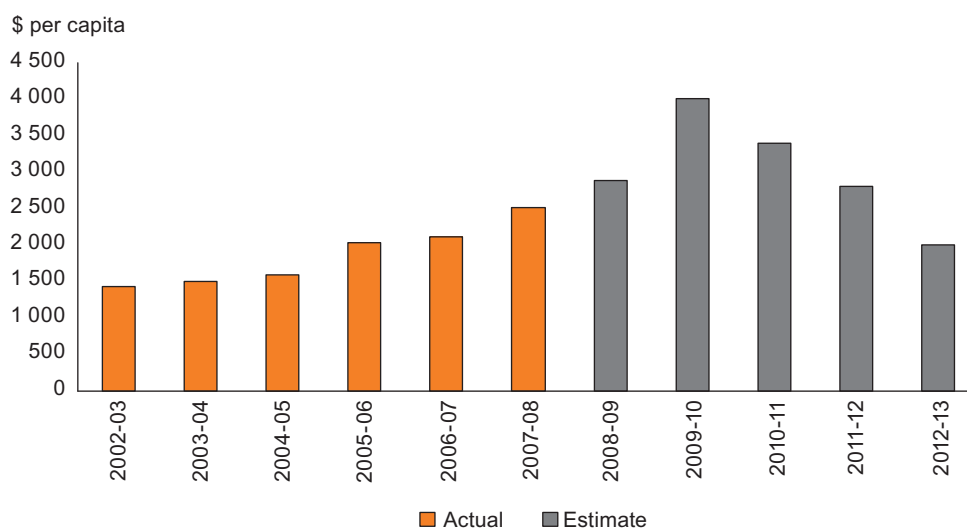
	2008-09 Estimate	2009-10 Budget	2010-11 Forward Estimates	2011-12 Forward Estimates	2012-13 Forward Estimates
2009-10 Budget					
Total Capital Investment (\$M)	637	886	751	620	442
Depreciation (\$M)	193	196	199	202	204
Capital Investment to Depreciation Ratio	3.3	4.5	3.8	3.1	2.2

Source: Northern Territory Treasury

The increase in levels of capital investment since May 2008 is mainly a result of increased infrastructure investment in remote areas, schools and roads and the Territory's share of the Nation Building and Jobs Plan stimulus package.

Chart 2.1 illustrates the Northern Territory's capital investment per capita since 2002-03 and highlights the increasing levels of investment. The peak in 2009-10 and high levels through to 2011-12 demonstrate the Territory Government's commitment, assisted by the Commonwealth's stimulus package, to increase infrastructure spending to maintain jobs and growth in the Territory.

Chart 2.1: Territory Capital Investment Per Capita – General Government Sector



Source: Territory budget and outcome reports

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

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

In all years the fiscal balance is affected in the same way as other budget aggregates and remains in deficit over the budget cycle but improves to a projected fiscal balance deficit of \$50 million in 2012-13, as shown in Table 2.6.

Table 2.6: Fiscal Balance – General Government

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M
2008-09 Budget	- 51	- 20	- 3	36	na
2008-09 Mid-Year Report	- 137	- 48	- 21	2	na
2009-10 Budget	- 116	- 253	- 224	- 125	- 50
Variation from 2008-09 Budget	- 65	- 233	- 221	- 161	na

Source: Northern Territory Treasury

Competitive Tax Environment

The Government is committed to maintaining taxation at levels that are competitive with other jurisdictions and to encourage increased levels of business activity in the Northern Territory. This element of the strategy is consistent irrespective of the prevailing economic conditions.

From 1 July 2009, the Territory will adopt payroll tax legislation that is identical, as far as possible, with New South Wales, Victoria and Tasmania. The harmonisation of payroll tax laws with other jurisdictions will simplify the payroll tax rules and

reduce red tape for businesses that have employees in more than one jurisdiction. It will also provide significant compliance cost savings to businesses.

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, taxation effort as assessed by the Commonwealth Grants Commission is utilised.

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 2.7 details the Territory's revenue raising capacity and effort expressed as a percentage of the Australian average in 2007-08, the latest year assessed by the Commission.

Table 2.7: Northern Territory Revenue – Raising Capacity and Effort 2007-08

	Capacity ¹	Effort ²
	%	%
Total Taxation	77	102
Total Own-Source Revenue	89	99

Note: Australian average = 100 per cent.

Source: Commonwealth Grants Commission 2009 Update

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

The table shows that the Territory's capacity to raise revenue is below the Australian average. That is, if the Territory adopted the average rates of tax to its tax base the revenue the Territory could raise would be less than the national average on a per capita basis. In terms of effort, the Territory is assessed at about the Australian average.

Ordinarily taxation per capita is also compared with other jurisdictions. However, as stated elsewhere, the current economic conditions are atypical and own-source revenues are changing rapidly. Changes in taxation per capita are more likely to reflect changes in economic circumstances than tax policies of governments. The comparison will be re-introduced when the economic situation returns to normal and meaningful information can be sourced.

Prudent Management of Debt and Liabilities

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 which has greater infrastructure requirements relative to other jurisdictions, due to its remoteness and stage of development, and which result in higher levels of debt than other jurisdictions.

Over the current economic cycle, the Territory's debt position is projected to increase as a natural consequence associated with slower economic growth in Australia. This coupled with increased investment in infrastructure to support Territory jobs and the economy will see the level of debt in excess of that previously predicted, even at the time of the 2008-09 Mid-Year Report, such has been the deterioration in the national economy over recent months.

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

The sustainable service provision target of limiting expenditure growth will provide the capacity once the economy rebounds and revenue increases to produce a significant operating surplus to retire debt accumulated over this period. The target once the economy recovers, will be to reduce net debt on average by 5 per cent per annum to return to 2007-08 levels.

Table 2.8: Net Debt – General Government Sector

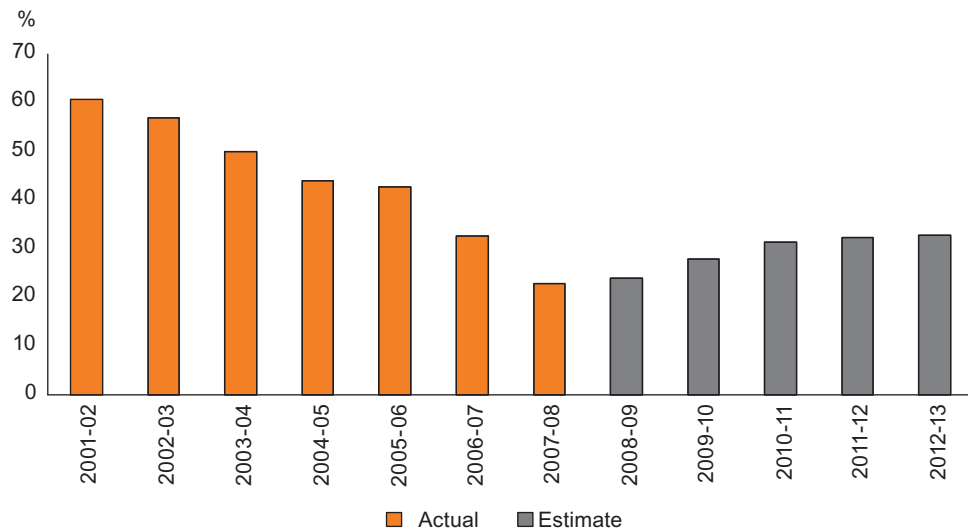
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2009-10 Budget	24	28	31	32	33
Variation from 2008-09 Budget	- 4	3	8	12	na

Source: Northern Territory Treasury

Net debt for the general government sector is expected to rise over the budget and forward estimates period as a result of the slowing national economy, affecting both investment returns and revenue levels, coupled with the significant investment in infrastructure and cash deficits predicted in all years. Table 2.8 shows that in absolute terms net debt is estimated to rise from almost \$1 billion in 2008-09 to just over \$1.4 billion in 2012-13. When measured as a ratio to revenue, it is expected to rise from 24 per cent in 2008-09 to 33 per cent by 2012-13. This however is still below the 61 per cent recorded in 2001-02, a result of the six consecutive cash surpluses delivered up to 2007-08. The improvement in 2008-09 represents the significant cash surplus achieved in 2007-08.

Chart 2.2 shows that the Territory's net debt as a proportion of revenue in 2012-13 is still predicted to be significantly below 2001-02 levels.

Chart 2.2: Territory Net Debt to Revenue - General Government Sector



Source: Territory budget and outcome reports

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

Table 2.9: Net Financial Liabilities – General Government Sector

	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Budget	Forward Estimates		
Net Financial Liabilities (\$M)					
2008-09 Budget	3 832	3 851	3 852	3 815	na
2008-09 Mid-Year Report	3 947	3 902	3 830	3 831	na
2009-10 Budget	4 364	4 645	4 875	5 006	5 062
Variation from 2008-09 Budget	532	794	1 023	1 191	na
Net Financial Liabilities to Revenue (%)					
2008-09 Budget	101	98	95	91	na
2008-09 Mid-Year Report	101	98	93	90	na
2009-10 Budget	108	110	115	115	116
Variation from 2008-09 Budget	7	12	20	24	na

Source: Northern Territory Treasury

Table 2.9 also shows that the level of net financial liabilities both in absolute terms and as a percentage of revenue is set to rise over the budget cycle for the general government sector. This is a direct result of projected cash deficits, largely attributable to declining revenues and unrealised investment losses together with increased capital investment in infrastructure affecting net debt.

In addition, as foreshadowed in the Mid-Year Report, the current downturn in financial markets and associated cash rate cuts by the Reserve Bank of Australia have reduced the Commonwealth 10-year bond rate to between 4 and 4.5 per cent

at the time of publication, with a further tightening of fiscal policy likely by year end. Accordingly 4 per cent has been used in valuing the Territory's superannuation liability over the budget cycle and has the effect of significantly increasing the reported liability. However, changes in the bond rate are for estimation purposes and do not affect the funding of future benefit payments. Rather it is a requirement of current accounting standards to value long-term employee benefits in this manner and has been a matter of disagreement between treasuries and standard setters for some time. The volatility has been exacerbated by the unprecedented fall in the bond rate over the 2008-09 financial year and is an issue faced by all jurisdictions.

Once the economy rebounds and bond rates increase, the valuation of the Territory's and all jurisdictions' superannuation liabilities will rebound accordingly.

Conclusion

The Territory's amended fiscal strategy as outlined in the 2009-10 Budget has been developed with both a short-term and medium-term focus based on supporting the economy during the economic downturn and then restoring the budget to surplus and reducing debt once revenue streams and the economy recover.

Although the operating balance remains in surplus over the budget cycle, largely as a greater proportion of revenue is applied to capital investment, the cash and fiscal balances will be in deficit in all years.

This reflects decreases in revenue, largely the GST, and the Territory Government's increased commitment to stimulating the economy including complementing the Commonwealth's Nation Building fiscal stimulus package. This increased infrastructure investment is consistent with the target of spending at least twice depreciation expense over the economic cycle.

In addition the Territory Government is committed to maintaining taxation at competitive levels to encourage increased levels of business activity. This has been reinforced by a number of key measures introduced as part of the 2009-10 Budget that will assist in building economic and employment growth.

As a consequence of the economic downturn, the measures of net debt and net financial liabilities will increase over the budget cycle until economic conditions normalise. Although budget deficits and increased debt are inevitable over the current economic cycle, the Government's target remains to return the budget to surplus as soon as is economically prudent to do so, and this is reflected in the objectives of the new fiscal strategy.