

## LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

### WRITTEN QUESTION

Mrs Finocchiaro to the Treasurer:

#### Debt Ceiling

- 1. What provision is there in the Financial Integrity and Revenue Legislation Amendment Bill 2021 to prevent a Government from changing the ceiling anytime they see fit?**

The Northern Territory Government does not have the power to enact legislation that prevents a future CLP Northern Territory Government from amending or repealing a law of a Labor Northern Territory Government.<sup>1</sup>

- 2. What is the definitional difference between total borrowings and net debt?**

Borrowings comprise the receiving of money, property or other value with an obligation to repay, regardless of whether or not the repayment is of equal value.

Net debt measures the net stock of selected gross financial liabilities less financial assets.

- 3. As of today, what is our current net debt and what are our current total borrowings?**

Refer Table 8.8, pg 105 and Table 4.8, pg 43 of Budget Paper No. 2.

- 4. How is the line item total assessable debt calculated?**

Total assessable debt is defined as total borrowings less leases (refer Table 4.8, pg 43 of Budget Paper No. 2).

- 5. What exemptions are there from total borrowings when calculating total assessable debt?**

Only leases are excluded from total borrowings in the calculation of assessable debt.

- 6. Are there three exemptions and what are they?**

Refer to answer to question 5.

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<sup>1</sup> The Northern Territory Legislative Assembly has the power, with the assent of the Administrator, to pass new laws, amend existing laws and repeal old laws subject to the *Northern Territory (Self-Government) Act 1978*. As an Act of the Commonwealth Parliament, it is subject to amendment or repeal by the Commonwealth.

**7. What are 'finance leases'?**

Leases are rights conveyed in a contract, or part of a contract, to use an asset for a period of time in exchange for consideration.

Prior to 1 July 2019, the Territory Government accounted for operating leases and finance leases differently in accordance with the relevant Australian Accounting Standard (AASB 117 leases).

The introduction of AASB 16 Leases, which superseded AASB 117 Leases and relevant interpretations, removed the distinction between operating and finance leases. In accordance with AASB transition provisions for leases, the Territory Government adopted AASB 16 Leases from 1 July 2019.

Lease liabilities have been explicitly excluded from the debt ceiling calculation as their valuation is subject to changes in discount rates and does not correlate with actual cash proceeds sought from financial markets to fund operating and capital activities of government.

**8. How much net debt is attributed to by financial leases?**

All borrowings are included in the calculation of net debt.

**9. What other type of leases are included in our Budget and are they exempt?**

Refer to answer to question 7.

**10. What will net debt be when total borrowings reach \$15 billion?**

Refer Table 8.8, pg 105 of Budget Paper No. 2.

**11. How much debt is attributed to financial leases?**

Refer Table 4.8, pg 43 of Budget Paper No. 2.

**12. How much debt is attributed to normal leases?**

Refer to answers to questions 7 and 11.

**13. Where will I find a reference to 'total borrowings' in this year's budget papers? (BP 2, page 43)**

Table 4.8 on page 43 of Budget Paper No. 2 and Chapter 8 of the Uniform Presentation Framework financial statements, pg 105, Budget Paper No. 2.

**14. Where will I find a reference to total borrowings in previous budget papers?**

Total borrowings in previous budgets are reported as part of the Uniform Presentation Framework financial statements in Budget Paper No. 2.

**15. Can total borrowings and total assessable debt be calculated using data contained in previous budgets?**

Total borrowing figures are available as per the answer to question 14.

Lease costs are classified as borrowings in accordance with accounting standards. The Uniform Presentation Framework, under which Commonwealth, state and territory governments have agreed to publish information in a standard format in budget papers based on AASB 1049, does not disaggregate lease costs from total borrowings.

The Treasurer's Annual Financial Reports does disaggregate lease costs from total borrowings (on an actuals basis) as part of the borrowing note to the financial statements. Lease information prior to 1 July 2019 will not be comparable with current figures (refer to answer to question 7).

**16. Will 'Total borrowings', 'Less finance leases' and 'Total Assessable debt' be included as line items in budgets going forward?**

Yes.

**17. Why are 'Total borrowings', 'Less finance leases' and 'Total Assessable debt' now significant when they don't appear to have been included as line items in previous budgets?**

To determine a total assessable debt figure for the purposes of a debt ceiling. Total borrowings continue to be reported as part of the Uniform Presentation Framework financial statements in Budget Paper No. 2.

**18. Why not use net debt as the benchmark for a debt ceiling? What was wrong with using figures that are broadly understood and accepted as a measure of debt as a benchmark for a ceiling?**

The potential impact of variables beyond the control of the Territory Government on net debt outcomes.

**19. What is the Territory's current Moody's credit rating? What does the Moody's credit rating measure and how is it assessed?**

Long term ratings assigned by Moody's are forward-looking opinions of the relative credit risks of financial obligations issued. Moody's uses a standardised regional and local government rating methodology, including quantitative and qualitative assessments. The Territory Government's credit rating is currently Aa3 stable.

**20. Historically, what has been the Territory's highest and lowest credit ratings either from Moody's or other ratings agencies?**

Moody's ratings have been publicly reported in the media. The rating has ranged from Aa1 to Aa3.

- 21. On pages 30 and 31 of the Langoulant report it says the ‘Territory’s finances are now in the unsustainable position of needing borrowings to pay for recurrent activities, including interest expenses’. Can we please be provided with daily, weekly, monthly and annual figures on how much we’re borrowing to pay for recurrent activities?**

The net operating balance represents total revenue less total operating expenses, with capital spending only recognised in the fiscal balance. Refer pg 104, 2021 Budget Paper No. 2.

- 22. When is it anticipated the Territory will be out of that vicious borrowing cycle?**

The latest fiscal projections are in the 2021 Budget papers.

- 23. From who are we borrowing? What is our credit source? How many different lenders? Where are they based?**

NTTC’s funding sources are as follows:

- Wholesale market
  - fixed interest securities
  - floating rate notes
  - promissory notes
- Retail market
  - Territory Bonds
  - Migration Linked Bonds

- 24. What are our interest payments to each of those lenders?**

NTTC wholesale institutional bonds are typically held in the name of a nominee/custodial account that represent the investments of multiple institutional investors.

- 25. At current interest rates, what is the difference between interest payments with say an Aaa credit rating and an Aa3 credit rating?**

This answer can vary.

- 26. What is the next rating down from Aa3? What happens if the Northern Territory reaches that next rating down?**

This would be determined by Moody’s.

- 27. What are the Territory’s daily, weekly, monthly and annual total borrowings?**

Refer Table 8.8, page 105, 2021 Budget Paper No. 2.

- 28. How much have we borrowed over the past 5 years and past 10 years and how much interest have we paid on those borrowings?**

Budgeted and actual borrowings data is published in Budget Paper No. 2 financial statements and Treasurer's Annual Financial Reports.

- 29. What are the Territory's total daily, weekly, monthly and annual interest repayments?**

Refer Table 8.7, page 104, 2021 Budget Paper No. 2.

- 30. How much have we repaid on our borrowings?**

Budgeted and actual borrowings data is published in Budget Paper No. 2 financial statements and Treasurer's Annual Financial Reports.

- 31. In the Treasurer's budget speech it was announced Government wanted 'structural reforms now so that budget discipline is maintained and cannot be easily dismantled by a future government' unquote. What in the draft legislation stops the Government from altering or scrapping the ceiling?**

Refer to answer to question 1.

- 32. Where is the provision in the legislation that would prevent the ceiling being amended or scrapped?**

Refer to answer to question 1.

- 33. Can the Government make a 100% cast iron guarantee that it will not raise the debt ceiling when/if it is reached?**

The Government has set its debt ceiling.

- 34. Under the exemptions in the draft legislation, could the legislation be suspended for a year because we are in a pandemic which would qualify as a medical emergency?**

The Treasurer may, by Gazette notice, while an emergency declaration is in force suspend the operation of the debt ceiling for a specified period of up to 12 months. An emergency declaration is defined as:

- a) an emergency situation under section 18 of the *Emergency Management Act 2013*
- b) a state of emergency under section 19 of the *Emergency Management Act 2013*
- c) a state of disaster under section 21 of the *Emergency Management Act 2013*
- d) a public health emergency under section 48 of the *Public and Environmental Health Act 2011*

**35. Government put out a media release in April 2019 which said it will implement ‘tough new accountability measures for senior staff and consequences for poor performance.’ In the draft legislation, where are those consequences?**

Government is implementing a suite of measures to strengthen budget accountability, effective from 1 July 2021, as part of *A plan to fix the budget* including:

- amendments to the *Financial Management Act 1995* requiring accountable officers to contain their agency’s annual expenditure within approved budget
- a Chief Executive Code of Conduct including explicit requirements to operate within approved budget and employee expense and staffing Executive contract officer caps
- clearly specified repercussions for non-compliance with the Chief Executive Code of Conduct
- revisions to the end of financial year budget management process.