No. 90

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION

Mr Higgins to the Treasurer:

Appropriation Bill – Treasury and Finance

ALL OUTPUTS

Please provide copies of:

- all questions, which you have received from the public in relation to the Estimates process and consideration of the Appropriation Bill for the 2017/18 financial year; and
- your answers to those questions that were presented to the Estimates Committee.

Answer – These questions have been referred to the Chief Minister to coordinate a response. A whole of government response will be provided by the Chief Minister.

Please provide the information requested below for Agencies and Government authorities for which you have responsibility, as at 31 March 2017.

TREASURY AND FINANCE

Please accept apologies if questions are not under the correct Output. Where this is the case, it would be appreciated if you could indicate the appropriate Output in your response. Thank You.

OUTPUT GROUP: FINANCIAL MANAGEMENT

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Budget Improvement and Other Measures

1. Budget Paper 2 identifies Budget Improvement Measures and Other Measures totalling $64.496 million, an additional $9.496 million in identified savings over that advised in a letter from the Chief Minister to public servants.
2. Subsequent to his letter, was the savings target revised and if so when?
3. How will the reduction in funding impact on operational outcomes?

Corporate and Governance Services – Savings

1. Please explain how there is a saving to the budget of $40.936 million across agencies in the 2016-17 and 2017-18 Budget Papers.

2. How many Corporate and Governance Services positions will no longer be required as a result of the decision to reduce the number of agencies and where will these staff go?

3. Does the government acknowledge that :

    a. PEFO 2012 showed a Net Debt of $2.17 billion;

    b. PEFO 2016 showed a Net Debt of $2.66 billion;

    c. TAFR 2016 showed the updated Net Debt position is $1.85 billion;

    d. Net Debt to revenue PEFO 2012 was 47%;

    e. Net Debt to Revenue TAFR 2016 was 27%;

    f. This is a 20% reduction in Net Debt to Revenue percentage.

4. Please advise the justification to place an additional $3 billion of debt on Territorians.

5. Please advise the justification to increase interest payments on that debt of $1.1 million a day.

6. What actions has the Government taken to review the appropriateness of the fiscal strategy?

Onshore Gas

1. Will the Government expedite the Inquiry into Hydraulic Fracturing in light of the reduction in own source revenue?

2. Does the Government accept the findings of the 2015 Deloittes Access Economic Report into the benefits of Hydraulic Fracturing of Gas for the Northern Territory including that a minimum 6500 jobs could be created by development of onshore gas reserves at the Beetaloo Basin?

3. Please advise why there are no additional resources in Budget 17/18 to complete this inquiry as quickly as possible.

Financial Management

1. What is the Government's debt reduction strategy?

2. Is it correct the net debt to revenue ratio is the highest in the country?

3. In relation to the debt what is the contribution for each of capital and recurrent expenditure? How does this compare to the last four years?

4. The Budget papers show the budget measures and other savings measures are in the order of $65 million. Can you please provide the details of the categories of cost savings?

5. Please advise how much has been set aside for Treasurer's Advance in 2017/18 and how does this compare to the last four years.

6. Please explain the reduction in this facility.

7. What assumptions have been made over the forward estimates in relation to the cost of borrowings?

8. What is the predicted rate of interest over the next five years?

9. What modelling has been done?

10. Please provide a copy of this.

Population

1. Please provide an explanation of the approach and methodology used in Budget 17/18 for population estimates and forecasts into the forward years.

2. How often is the methodological framework for estimating and forecasting population numbers reviewed?

3. What advice has been provided on the reliability of the forward estimates contained in the Budget for the resident population and population growth figures?

4. Please provide a copy of this advice.

5. Is there a different approach for population growth forecasts between the Budget publications i.e. the annual Budget, the mid-year economic fiscal outlook and quadrennial publications such as the Pre-Election Fiscal Outlook?

Current Grants

1. Page 77 of Budget Paper 3 indicates that current grants funding falls from $32.2 million in Budget 16/17 to $2.6 million in Budget 17/18. Please explain the reduction and what organisations no longer receive grants funding.

Return to Surplus

1. The deficit figure included in the budget papers for Budget 17/18 is $1.3 billion; when will the Government bring the Budget back into balance? When will the Government return to fiscal surplus?

2. What is the effect of running continued fiscal deficits on the net debt position, and the credit worthiness of the Northern Territory?

3. Does the Government concede that running a $1.3 billion fiscal deficit in its maiden budget is inconsistent with the first principle of FITA?

4. Based on the current and trend trajectories for net debt to revenue ratios is the Government in breach of FITA requirements? Will the forward estimates, if realised, be in breach of FITA requirements?

Contingency Reserve

1. In the 2016 MYEFO, it is stated that one of the policy changes occurring since the election is the decision to spend down the contingency reserve. Please provide the rationale and evidence for the departure from international accounting best practice?

2. What is the current value of the contingency reserve i.e. allocation for Budget 17/18? How does this compare with the amount ring fenced under the previous Government?

3. On reading Budget Paper 2 page 21, it would appear that the Government is spending down all of the contingency reserve. Is this correct?

Fuelwatch

1. Why is the Government trying to do what private enterprise already does through four price comparison sites – comparethemarket.com.au, Motormouth, Petrol spy, fillmytank.com.au as well as the service price watch in the NT News, the daily price watch on commercial radio, Facebook and Apps on phones?

2. How did the Government come up with the $250,000 per year ongoing costs figure?

3. Why is the Government not taking action to achieve lower prices by supporting greater competition in the market as the ACCC report recommended?

Indigenous Carbon Unit

1. Budget Paper 2 page 50 sees an allocation of $500,000 being ring fenced for an Indigenous Carbon Unit. Please outline how this scheme will operate? What modelling is there to underpin this spend?

2. What consultation has the Government engaged in with Aboriginal people prior to the announcement of funding in Budget 17/18?

Modelling to support jobs claim

1. The statement that the Government is sustaining 14 000 jobs by spending $1.75 billion in infrastructure works in 2017-18 is included in the budget papers. Will the Government please provide a copy of the economic modelling to show how this number is calculated?

Stimulating the Whole Economy

1. What plan has the Government to diversify the economy and reduce the likelihood of a prolonged downturn?

Reducing CPI Indexation to 0%

1. Budget Paper No.2 page 43 shows that the Government is reducing CPI indexation in Budget 17/18. Please provide the detail on which frontline services or areas of the Public Service will be impacted by these cuts?

Consultation

1. How much has been spent in FY 16/17 on the new Government community consultation website www.haveyoursay.nt.gov.au?

2. What is the ongoing cost of www.haveyoursay.nt.gov.au ?

OUTPUT GROUP: ECONOMIC

OUTPUT: ECONOMIC SERVICES

Red Tape Abolition Squad

1. Please confirm the Red Tape Abolition function is now in this Output.

2. How many people staff the Red Tape Abolition function?

3. What is the cost? Funding in the 16-17 Budget Paper was $862 000.

4. What outcomes have been produced by this function to date?

5. If the function is not resourced, why not?

6. There are specific Federal Government programs available from which to obtain funding to abolish red tape, have these been sourced and if so please provide a copy of the submission.

Independent Research and Economic Data Unit

1. The Labor Party before the election committed to establish an Independent Research and Economic Data Unit. When will this Unit be set up, and how much will it cost?

OUTPUT: PAYMENTS ON BEHALF OF GOVERNMENT

1. Please advise what measures and/or additional resources are being appropriated in this Budget to increase tax compliance. What are the current estimates for taxation compliance in the Northern Territory?

2. Net Cash Flows from Operating Activities in FY 20/21 is negative $31,459,000. Please explain what expenditures are occurring on behalf of Government to achieve this result.

OUTPUT GROUP: TERRITORY REVENUE

OUTPUT: TERRITORY REVENUE

Collapsing own source revenue

1. On page 80 of Budget Paper 2 there is a decrease in revenue from the wagering tax. Revenue falls from the PEFO estimate of $2.241 million to the Budget 17/18 figure of $763 million. Why has revenue attributable to the wagering tax decreased to this extent?

2. Why was the PEFO estimate of the revenue from wagering tax wrong? What actions have been taken to ensure that such disparities do not occur again?

3. Page 89 of Budget Paper 2 shows a reduction in Stamp Duty revenue from $61.5 million in 2016/17, to $28.8 million in 2017/18. Given revenues are forecast to remain subdued over the forward estimates period, please advise what is the cause of this.

4. Please advise what impact the policy of exempting first home buyers purchasing properties below $500,000 has had on stamp duty revenues?

5. What actions will the Government take to restore some stability to Stamp Duty revenue and when will this occur?

OUTPUT: TAX-RELATED SUBSIDIES

Senior Concessions

1. The Government promised to reinstate the senior concession and carer concession scheme from 1 July 2017, not January 1 2018, as the Minister for Territory Families has indicated. Please clarify when the scheme will commence?

2. How much will it cost to bring back senior cost of living concessions?

3. What impact will this measure have on the budget over the forward estimates?

4. Please detail the effects on the budget in the short and long run of a pensioner and carer concession scheme.

OUTPUT GROUP: SUPERANNUATION

OUTPUT: SUPERANNUATION

1. How does the Government's policy of spending down the Contingency Reserve impact on the superannuation liability owing to the Northern Territory Government?

OUTPUT GROUP: ECONOMIC REGULATION

OUTPUT: UTILITIES COMMISSION

Power and Water Corporation (PWC)

1. In the latest compliance report issued by the Utilities Commissioner, April 2017, it was noted that PWC reported breaches of the Electricity Retail Supply Code involving customer notification timeframes. Please advise what resources are being provided to PWC to rectify this breach.

2. In the latest Compliance Report issued by the Utilities Commissioner, the Government has stated that PWC power and sewerage price increases will be capped at CPI. Please advise when Territorians will start to see reductions in their electricity tariffs?

3. Will the Government rule out power and sewerage price increases beyond CPI?

4. Please provide the Weighted Average Cost of Capital (WACC) for PWC. In addition, please detail if the WACC has increased or decreased in the period since September 2016 and/or PEFO? Please advise on the long run average WACC for PWC. Please provide a copy of the advice.

OUTPUT GROUP: CORPORATE AND GOVERNANCE

OUTPUT: CORPORATE AND GOVERNANCE

Staffing

1. How many Full Time Equivalents are currently employed within the Department of Treasury and Finance, broken down by Output and Business Unit?

2. How many Full Time Equivalents have resigned, retired, taken a redundancy package or have been made redundant, or terminated? Please break down these numbers by Output and Business Unit?

3. What has happened to these positions? Has the work been reallocated to existing staff?

4. Are there any plans to fill these positions in the near future?

Procurement

1. Why is it that all of the reviews undertaken by the Department of Treasury and Finance since 1 September 2016, six (6) in number, have gone Interstate?

2. What does the Government intend to do about this situation given its Buy Local policy?

CENTRAL HOLDING AUTHORITY

Pre-Election Fiscal Outlook (PEFO) 2016

1. Please explain why Budget 2016/17 in its forecasts for GST revenue receivable in 2017/18 estimated a decrease in GST revenues to the Northern Territory, but the PEFO issued three months later estimates a significant increase in GST revenue for financial year 17/18. Why is there such a major difference between these two important publications?

2. The Government's media release of 10 May 2017, states that the reduction in GST payments for 17/18 is "unprecedented" however in financial year 16/17 there had been reductions of a similar magnitude. Please confirm that this is correct.

3. The 2017/18 budget includes a $1.3 billion dollar deficit. The difference between GST revenue forecast in Budget 16/17 (a decline of $237 million in GST revenue) and the actual for 17/18 (a decline of $269 million) was $32 million. Please confirm that this is correct.

4. The PEFO forward estimate for GST revenue in 17/18 at $3.306 million is $43 million more than GST received in 16/17. Please provide evidence to support this position.

5. PEFO 2016 states on page 30 that the cumulative impact of a plus/minus 1 percentage point variation in the estimate of the Territory's population growth rate over the Budget and forward estimates period is about plus/minus $332 million. Please advise why there was not a more conservative assumption in PEFO regarding population figures and GST revenue.

$2 billion GST cut

1. Please advise if the Government agrees that a valid approach is to subtract the actual GST allocation from the CGC Update Report 16/17 of $3.190 million with the CGC figure for 17/18 of $2.921 million producing a reduction of $269 million.

2. Please advise why the Mid-Year Economic and Fiscal Outlook (MYEFO) was not the basis for the GST calculations.

3. Please advise what advice was given by the Department of Treasury and Finance about the accuracy and reliability of the 'meat cleaver graph' used to illustrate the forecast reductions in GST revenue?

4. Please provide a copy of this advice.

5. Please advise when this advice was provided by the Department of Treasury and Finance.

6. Please advise why the Government waited two weeks to make the advice detailing a reduction in GST revenue public.

7. Is the Government committed to the principles and methodological framework around Horizontal Fiscal Equalisation or does the Government align more with a position of alternative models including per capita funding?

8. Please advise what actions the Government has taken and will take to ensure that Budget 18/19 benefits from increased GST revenue streams.

Northern Territory Credit Rating

1. Does the Government review credit ratings from international ratings agencies, such as Moody's?

2. Please advise what action the Government is taking or committed to take to guarantee that the Northern Territory maintains its current credit rating?

3. Given the Government borrowing requirement evidenced in Budget 17/18 please advise what is the expected financial cost of a ratings downgrade of one place, two places, three places.

4. With respect to the Northern Territory Budget please advise what modelling has been done around:

    a. Ratings downgrades, and the impact of increased borrowing costs;

    b. Changes/tightening of international monetary policy and credit conditions;

    c. Stress testing- what assessment has been done of the Government's ability to service all loans in light of one or more credit event(s);

    d. Solvency - based on current spending and revenue trajectories - the ability of the Government to maintain all current programs and services and remain solvent;

    e. Red lines- percentages for key metrics such as net debt to revenue which would/could trigger a ratings downgrade and/or significant concern for investors/partners;

Savings and Contingency Measures

1. Please explain the savings and contingency measures in Budget 17/18 of $217 million in Budget Paper 2 page 12, described as more efficient use of program resources.

2. Please advise how many positions will not be filled in financial year 17/18 that would ordinarily be filled and how many over the forward estimates period?

3. Please advise how many frontline service jobs will be lost to cuts to the frontline efficiency dividend discount from 75% to 67% as stated on page15 of Budget Paper 2.

Debt

1. On page 110 of Budget Paper 2, the interest bill is stated as $393.2 million. Please advise how the Government intends to repay this.

2. Please advise what is the Government's plan to get the Territory back into surplus and how long this will take?

NORTHERN TERRITORY TREASURY CORPORATION

The Northern Territory Infrastructure Development Fund (NTIDF)

1. Please provide an update on the amount of additional capital that has been added to the Northern Territory Infrastructure Development Fund (NTIDF).

2. Please advise the source of that additional capital.

3. Please explain this addition.

4. Please advise what factors have inhibited or supported the objective of attracting additional capital for the NTIDF.

5. Please advise what policy changes the Government has to attract further investment.

6. Please advise if the NTIDF has an appropriate risk/return asset allocation mix at this present time.

7. From the Annual Report 2016, it would appear that the NTIDF has quite a defensive position, with over 90% in case. Does the Government propose to change this allocation mix to better align with the investment and return on investment objectives of the fund?

8. Please advise how much was paid to fund managers to manage the NTIDF in financial year 2016/17.

Long run assumptions

1. Please advise what evidence there is to support the assumption that revenue and economic activity will return to 'historical levels of growth' as stated on page 25 of Budget Paper 2.

2. Please provide a copy of this evidence.

3. Please identify any specific economic forward indicators that could support the above.

Additional Borrowing

1. Please explain the additional (net) borrowing requirement of approximately $1 billion on page 112 of Budget Paper 2.

2. Please advise how does Budget 17/18 impact or contribute to this requirement.

3. Please advise what actions the Government is taking to reduce the external borrowing requirement.

Performance

1. Please advise if the Government will be reviewing the investment criteria with respect to risk/return ratios or portfolio allocation percentages in light of the

outcomes as reported in the Northern Territory Treasury Corporation (NTTC) latest annual report.

2. Please advise what factors are behind the fall in the Weighted Average Cost of Borrowing for the NTTC from 4.86% in Fiscal 11 to 2.22% in Fiscal 15.

3. Please advise the reasons for this.

4. Please advise if the current asset allocations across all funds held by the Government are appropriate, optimal or desirable.

5. Please advise how the Government will make up the gap between the market value of the Condition of Service Reserve fund of $653.7 million as at 30 June 2016 and the 2017/18 superannuation liability of the NT Government.

6. Please advise what actions the Government will take to fund and/or make provision for currently unfunded superannuation liabilities.

7. The Annual Report of the NTTC indicates that the CSOR had a return of 1.11% over the financial year to June 30, 2016. Please advise if the Government is satisfied with this return and if not what action will be taken to better support the fund and/or target higher rates of return.

8. Please advise how much was paid to managers for the administration of the CSOR fund.

9. Please advise if there are any performance bonuses or incentives attached to the CSOR fund's management and what these are.

10. Please advise how the Government's policy to use the contingency reserve to finance general government operations impact the value of the CSOR.

11. Please advise whether spending down the contingency reserve has depleted the CSOR fund in any way.

ANSWERS

FINANCIAL MANAGEMENT – BUDGET IMPROVEMENT AND OTHER MEASURES

1. Refer to Budget Paper No. 2, chapter 5, page 43. The letter from the Chief Minister to public servants detailed the expenditure-related budget improvement measures developed in response to the significant reduction in the Territory's share of GST revenue. These measures totalled $54.948 million in 2017-18.

   Other measures, which included election commitment savings initiatives (e.g. a reduction in whole-of-government communications and market expenditure) that were unrelated to the GST reduction and revenue initiatives, were not in scope for the letter.

2. Refer to Q1 answer.

3. The budget improvement measures are expected to deliver a more efficient public service and do not involve forced redundancies or cuts to front-line services.

FINANCIAL MANAGEMENT – CORPORATE AND GOVERNANCE SERVICES – SAVINGS

1. Changes to agencies' budget allocations by output occur for a range of reasons. Explanations of material variations at the output level for each agency are provided in Budget Paper No. 3.

2. While the machinery of government changes undertaken in 2016-17 are expected to deliver efficiencies across government, including through reduced duplication in corporate and governance services, Chief Executives are responsible for determining the most appropriate staffing structures within their allocated budgets. Staff can be redeployed or reassigned, in accordance with the *Public Sector Employment and Management Act* and the relevant enterprise agreement.

3.

   a. 2012 Pre-Election Fiscal Outlook (PEFO) projected <u>general government</u> net debt of $2.17 billion in 2012-13.

   b. 2016 PEFO projected <u>non financial public sector</u> net debt of $2.66 billion in 2016-17.

   c. 2015-16 Treasurer's Annual Financial Report (TAFR) recorded <u>non financial public sector</u> net debt of $1.85 billion in 2015-16.

d. 2012 PEFO projected a general government net debt to revenue ratio of 47 per cent in 2012-13.

e. 2015-16 TAFR recorded a non-financial public sector net debt to revenue ratio of 27 per cent in 2015-16.

f. No, this is incorrect as it is comparing net debt to revenue for the general government sector with the non-financial public sector (which is the combination of the general government sector and government owned corporations). This statement is also comparing different reporting periods (2012-13 with 2015-16).

4. The increase in debt is largely as a result of falling GST revenue combined with Government's commitment to increase investment spending to support jobs and stimulate the Territory economy.

5. Interest expense is projected to grow over the forward estimates as a direct result of the increased levels of Government borrowings for the reasons outline above.

6. The government has substantially revised the Territory's fiscal strategy in the 2017-18 budget. The new strategy takes into account current subdued national and Territory economic conditions, falling GST revenue and the Government's commitment to increase investment spending to support jobs and stimulate the Territory economy.

ONSHORE GAS

1. No. The Independent Scientific Inquiry into Hydraulic Fracturing in the Northern Territory is currently underway with the final report due to Government for consideration by the end of 2017.

2. Government, through the Independent Scientific Inquiry into Hydraulic Fracturing in the Northern Territory, is seeking further independent economic modelling.

3. The Inquiry's final report is due to Government for consideration by the end of 2017. Sufficient resources have been provided to meet Government's timeline.

FINANCIAL MANAGEMENT

1. To minimise the increase in net debt the Territory Government aims to ensure growth in general government operating expenses is declining in real terms. This is to be achieved through the following measures:

- introduction of a wages policy that limits wage growth to 2.5 per cent per annum across the forward estimates;

- budget improvement measures including operational reforms, program rationalisation and productivity improvements; and

- reduction in discretionary spending such as advertising, communications, marketing and travel costs.

The Territory Government also aims to achieve an improving fiscal balance over the budget cycle to minimise the increase to debt.

Over the longer term these strategies, combined with improved economic conditions, will see net debt return to more sustainable levels.

2. The Territory's estimated net debt to revenue ratio for 2017-18 is 58 per cent, below that of Western Australia, Queensland, Victoria and South Australia.

3. For 2017-18 recurrent commitments which include election commitments made up to the 2016 Election and additional policy decisions since the 2016-17 Mid-Year Report total $219 million. These decisions were offset by savings, revenue and contingency measures of $218 million.

   Consistent with Governments strategy to stimulate the economy through investing in infrastructure, capital commitments contributed $311 million to net debt, $250 million of which is dedicated to stimulus projects.

   In total, the effect of policy changes contributed $312 million to net debt in 2017-18.

   The table below provides a comparison for the four previous years.

	2013-14 Budget	2014-15 Budget	2015-16 Budget	2016-17 Budget	2017-18 Budget
	$M	$M	$M	$M	$M
Recurrent commitments	- 235	- 57	- 184	- 114	- 219
Capital commitments	- 49	- 64	- 125	- 110	- 60
Infrastructure stimulus					- 250
Savings and contingency measures	254	56	34	28	217
Revenue measures	139	10	13	- 17	1
Total	**109**	**- 56**	**- 262**	**- 213**	**- 311**

4. Budget Paper No. 2, Page 43 provides explanatory detail on the budget improvement categories and other measures. The table below summarises the impact of these measures at the whole of government level.

Budget Improvement and Other Measures

	2017-18 $000
Operational Reforms	17 580
Program Rationalisation	5 535
Wages Policy	12 082
Natural Attrition	4 402
Productivity Improvements - CPI	11 696
Productivity Improvements - Efficiency Adjustments	3 649
Revenue Measures	5 275
Communications and Marketing	5 610
Travel	2 000
Total	**67 829**

5. Treasurer's Advance (TA) provides a pool of funds set aside in each Budget to meet one-off extraordinary items that cannot be met from within an agency's existing resources. The use of the TA does not result in a worsening of the fiscal deficit, as it is a means of distributing unallocated capacity already incorporated in the budget.

   The 2017-18 Budget projected a TA of $30 million in 2017-18 and the forward estimates, which is consistent with estimates of the prior four years.

6. The level of TA provided in 2017-18 remains unchanged from previous years.

7. The Northern Territory Treasury Corporation's (NTTC) Weighted Average Cost of Borrowing (WACoB) assumption for 2016-17 is 3 per cent. This assumption is based on actual borrowings undertaken throughout the 2016-17 financial year. However, in determining the WACoB assumption for 2017-18 Budget, NTTC considered the growing consensus of market economists that interest rates are likely to rise over the forward estimates. Accordingly, NTTCs raised the WACoB assumption from 3 per cent in 2016-17 to 4 per cent in 2017-18. Refer to Budget Paper No. 3, page 82. The WACoB assumption for the forward estimates period 2018-19, 2019-20 and 2020-21 was increased by a further 100 basis points to 5 per cent.

8. NTTCs currently has the WACoB set at 5 per cent over the next five years. This assumes interest rates will rise by 200 basis points or 2 per cent over current cost of borrowing funds.

9. NTTC's budget model estimates a 100-200 basis point or 1-2 per cent increase over current cost of funds which ensures NTTC maintains a conservative borrowing assumption in formulating the Territory's budget over the forward estimates. A review of these budget assumptions will be considered when the Mid-Year Report is prepared later in 2017.

10. As above.

POPULATION

1. The Department of Treasury and Finance (DTF) uses the Australian Bureau of Statistics Estimated Resident Population as a basis for forecasts. The population estimates and forecasts developed in Budget 2017-18 are based on long-term annual averages of the components of population change (natural increase [births less deaths], net interstate migration and net overseas migration).

   DTF's approach also makes adjustments for the impact of major projects which are currently underway in the Territory (or expected to commence, provided they have received final investment commitment). The current population estimates and forecasts factor in projected labour force movements from the Ichthys LNG project, being a major investment project that has significant population and employment implications for the Territory.

   DTF takes a conservative approach to forecasting, with this methodology used on a consistent basis for many years.

2. DTF has an ongoing assessment approach to ensure its model and approaches to population estimates and forecasts continue to be fit for purpose.

3-4. The Under Treasurer provides a written certification, confirming the reliability of all projections included in the 2017-18 Budget documentation.

5. DTF uses a consistent approach to population estimates and forecasts across all publications.

CURRENT GRANTS

The reduction in estimated current grants received from the Commonwealth from $32.2 million in 2016-17 to $2.6 million in 2017-18 predominantly relates to one-off Commonwealth revenue for the Natural Disaster Relief and Recovery Arrangements relating to Cyclones Lam and Nathan. Natural Disaster Relief and Recovery Arrangements grants are provided by the Commonwealth on claim from the Territory, depending on Territory expenditure to assist natural disaster-affected communities and to repair government assets to restore service delivery. As such, funding varies from year to year.

RETURN TO SURPLUS

1. The non financial public sector fiscal balance deficit is projected to be $1.3 billion in 2017-18; however, trending to an improvement in the forward estimates. Without significant rebound in revenues and ongoing expenditure containment measures, a return to a surplus position is unlikely over the forward estimates. However, the commitment of government to restrain recurrent expenditure, thereby avoiding structural deficits, should allow a pathway over the longer term for the budget to return to surplus as soon as it is economically prudent to do so.

2. The fiscal balance deficit projections as per the 2017-18 Budget have resulted in an increase to net debt. Net debt for the non financial public sector is projected to be $2.36 billion in 2016-17 increasing to $5.48 billion by 2020-21, as a result of the significant reductions in GST revenue and additional interest payments associated with additional borrowings required as a result of the reductions in revenues. Further deficits and increases to debt could place downward pressure on the Territory's credit rating. Broader economic conditions are also factors which influence the Territory's credit rating.

3. The 2017-18 Budget was developed in accordance with the *Fiscal Integrity and Transparency Act* (FITA).

4. The financial management principles of the FITA underpin the Territory's fiscal strategy and include the prudent management of debt and liabilities. The short-term strategy is to achieve an improving fiscal balance over the budget cycle to minimise the increase in net debt. However, the reductions in GST revenue and Government's counter cyclical approach to infrastructure investment to support Territory jobs and stimulate the economy will result in increases to net debt over the short-term. This is consistent with

the FITA principle 1(d) to manage financial risks having regard to economic circumstances.

CONTINGENCY RESERVE

1. The Territory Government has maintained a contingency reserve of around 1 per cent of expenditure in the forward estimates. This is consistent with the approach applied by other jurisdictions in budgetary forecasting.

   The Territory Government has utilised a proportion of the contingency reserve to fund new spending initiatives and minimise the effect on projected outcomes. This has limited the capacity for additional new initiatives to be implemented across the forward years without additional savings measures or higher revenues.

2. The 2016 Pre-Election Fiscal Outlook budgeted a contingency reserve of $133 million in 2017-18. The contingency reserve for 2017-18 has been fully utilised.

3. Full contingency has been drawn down in 2017-18. The contingency reserve has been provided from 2018-19 on the normal basis.

FUELWATCH

1. There are a range of fuel price services and smart phone applications available in the Territory; however, these services only cover segments of the fuel market. This is because some retailers opt out of voluntary reporting and there is a reliance on crowd-sourced data, which may result in inconsistent prices and infrequent reporting, particularly in remote areas.

   MyFuel NT differs because it provides Territory-wide comprehensive and accurate data in real time, underpinned by legislation. This will help to alleviate gaps, inconsistencies and the timeliness of fuel price information right across the Territory. The Territory Government is not looking to compete with or undermine current data services. In fact, data will be shared free of charge so that current providers can update their services to align with MyFuel NT.

   The Territory Government’s MyFuel NT approach is supported by recent analysis published by the Australian Competition and Consumer Commission (ACCC) in its Report on the Cairns petrol market, released in May 2017. The ACCC notes the limitations relating to the current fuel price service providers and states that a mandatory price reporting scheme, such as FuelCheck in New South Wales and the proposed

MyFuel NT, provides consumers with the most comprehensive fuel price information, providing complete and up-to-date prices.

2. Department of Treasury and Finance (DTF) anticipates minimal costs to Government to administer the proposed legislation and the MyFuel NT scheme. Budget 2017 includes $250 000 per year to the Department of the Attorney-General and Justice (for Northern Territory Consumer Affairs) for administration, compliance and enforcement of the scheme.

   This cost estimate was developed by Northern Territory Consumer Affairs (in consultation with the Department of Corporate and Information Services and DTF) based on staffing of one AO5 FTE as well as operational costs for advertising and educational materials, travel to remote areas and increased compliance monitoring activities. This amount also includes additional resourcing to manage and maintain MyFuel NT information technology systems.

   Although Northern Territory Consumer Affairs has received funding for one additional FTE, all its 16 staff will be undertaking administration, compliance and enforcement of the scheme across the Territory (in line with the current practice of Northern Territory Consumer Affairs employees to perform multiple duties).

3. The ACCC Report on the Darwin Petrol Market recommended providing increased transparency of site-specific fuel prices in the Territory to help consumers shop around for the cheapest price of fuel and improve competition.

   DTF observed current limitations in the availability of fuel price information for consumers in the Territory, such as gaps and inconsistency of information across sources. In response, the Territory Government is implementing MyFuel NT mandatory fuel price reporting scheme and new minimum standards for price boards, which will be underpinned by legislation, to ensure consumers have access to the up-to-date price information and improved transparency when making fuel purchase decisions.

   Government has limited power in regards to regulating the level of retail fuel prices in the Territory. Further, it is undesirable for Government to interfere with market forces and mandate certain types of pricing behaviour by retailers. MyFuel NT provides the final step to implement fuel price transparency initiatives that focus on encouraging increased competition through demand side market pressure, as recommended by the ACCC in its Report.

INDIGENOUS CARBON UNIT

The following response has been provided by the Department of Environment and Natural Resources:

1. $500 000 per annum has been allocated for three years from 2017-18, to support and drive the delivery of carbon abatement and economic opportunities on Aboriginal land. The budget combines a portion of in-kind support from expertise across agencies such as Bushfires NT, and the Departments of the Chief Minister, and Trade, Business and Innovation and funding.

   The Aboriginal Carbon Unit will provide advice and support to ranger groups, land owners and support the promotion of the emerging industry to new potential partners and project regions.

   The Aboriginal Carbon Unit has been chartered to develop, based upon consultation with industry participants, an Aboriginal Carbon Strategy for the NTG.

   $300 000 of this allocation will be targeted towards implementing the strategy to ensure both Aboriginal and commercial partners are well placed to take advantage of carbon market opportunities and create sustainable, long term commercial enterprises.

2. Consultation with Aboriginal stakeholders includes Northern and Central Australian Land Councils, Indigenous Land Corporation, North Australian Indigenous Land and Sea Management Alliance. Consultation has also been undertaken with existing Indigenous Territory carbon abatement enterprises such as Arnhem Land Fire Abatement (ALFA) and with representatives from the following Aboriginal Ranger groups, such as: Warddeken, Yugul Mangi, Tiwi Land Rangers and Djelk Rangers.

MODELLING TO SUPPORT JOBS CLAIM

1. In addition to the direct contribution of construction activity to the economy, the construction industry has flow-on impacts on other industries, which multiplies the impact of the construction investment.

   The total multiplier for the construction industry is estimated by the Australian Bureau of Statistics (ABS) to be 2.866. Additionally, the ABS estimates that for every $1 million spent on construction output (houses, non-residential buildings, etc.) the resulting economic output increase of around $2.9 million gives rise to around nine jobs in the construction industry (the initial employment effect), and 37 jobs in the economy as a whole from all effects (including seven production induced jobs and 21 consumption induced jobs).

The ABS estimates are based on an input-output model applied to 1996-97 Australian national accounts data. Adjusting for the significant effects of wage inflation over the proceeding 20 years and taking a relatively conservative approach by focusing only on the direct (nine jobs per $1 million in 1996-97) and production induced impacts (seven jobs per $1 million in 1996-97), the 2017-18 infrastructure program of $1.75 billion is expected to support around 14 000 jobs across the Territory.

However, it should be noted that the ABS advises caution when interpreting multiplier effects as their theoretical basis may overstate the actual impacts in terms of output and employment. Nevertheless, the estimates illustrate the high flow-on effects of construction activity to the rest of the economy.

STIMULATING THE WHOLE ECONOMY

1. Throughout late 2016 and the first quarter of 2017 the Territory Government conducted a range of consultations through the Economic Summits process, culminating in the development of a co-authored Economic Development Framework, Infrastructure Strategy and 10-Year Infrastructure Plan, which were published on 27 June 2017. The Economic Development Framework and supporting documents inform the Territory Government's long-term decision making and will deliver regulatory and policy certainty for both the public and private sectors to invest in and diversify the Territory economy.

REDUCING CPI INDEXATION TO 0%

1. The reduction in Consumer Price Index indexation for all agencies in 2017-18 is consistent with updated economic forecasts and is not expected to materially impact service provision.
   The forward estimates include Consumer Price Index indexation of 1.5 per cent in 2018-19 and 2.5 per cent from 2019-20, consistent with the updated forecasts, and will be reviewed annually through the Budget development process consistent with usual practice.

CONSULTATION
The following response has been provided by the Department of the Chief Minister:

1. Licensing expenditure in 2016-17 for www.haveyoursay.nt.gov.au was $40 000.

2. Ongoing licensing expenditure for www.haveyoursay.nt.gov.au is $40 000 per annum.

RED TAPE ABOLITION SQUAD

1. The red tape reduction function is incorporated in the Economic Group in the Department of Treasury and Finance.

2. The function is now incorporated in the Commercial and Economic Policy team within the Economic Group, which has a staffing of 12 FTE.

3. The 2016-17 Budget allocated temporary funding (to June 2017) to the Red Tape Abolition Squad within the former Department of Business. The red tape function was transferred to the Department of Treasury and Finance from 31 October 2016, and is now incorporated in the Commercial and Economic Policy team within the Economic Group.

4. Outcomes in the 2016-17 year include: finalisation of a review into red tape in the non-government organisation sector; commencement of the *Red Tape Reduction Act* reforms from 1 July 2016 (including extension of licence terms to reduce compliance time); work to progress the reforms recommended in the Construction and Advisory Council report into red tape in the sector; review, under the Regulation Making Framework, of proposed regulations to ensure efficient regulation; review of the Regulation Making Framework; collaboration with the Australian Government to develop initiatives under the National Business Simplification Initiative; collaboration with the Australian Government to develop the Regulatory Reform National Partnership Agreement; collaboration with the Australian Government to establish the Competition and Productivity Enhancing Intergovernmental Agreement (signed by the Territory Government in December 2016).

5. The function is resourced.

6. The only program the Department of Treasury and Finance is aware of is the Competition and Productivity Enhancing Intergovernmental Agreement, and the yet to be finalised National Partnership Agreement on Regulatory Reform that will form part of the Intergovernmental Agreement. The National Partnership will initially provide incentive payments pf $3 million (in the first two years) to the Territory, subject to successful reform implementation.

INDEPENDENT RESEARCH AND ECONOMIC DATA UNIT

The following response has been provided by the Department of the Chief Minister:

1. The Department of the Chief Minister is currently undertaking a scoping project to establish a Data Analytics Unit and an Independent Research and Economic Unit. The scoping project is in the early stage with a proposal for Government's consideration once this has been completed.

PAYMENTS ON BEHALF OF GOVERNMENT

1. The output appropriation for the Territory Revenue Office (TRO) in 2017-18 is $6.365 million.

   TRO is responsible for own-source revenue management services and managing tax-related subsidies. TRO undertakes a range of functions to ensure compliance with taxation laws, including education programs, data matching, audits, electronic reconciliations, recovery actions, and administration of instalment arrangements.

   TRO is subject to annual audit by the Auditor-General to provide assurance that all revenue due to the Territory is received into the Public Account or appropriate recovery action is pursued.

2. The net cash flows from operating activities in 2020-21 is negative $31.459 million largely as a result of increased interest payments associated with additional borrowings required as a result of the reduction in GST revenue, combined with lower interest revenue as a result of lower cash balances.

COLLAPSING OWN SOURCE REVENUE

1. The decline in revenue from $2.241 million to $0.763 million reflects the market impact of consumers continuing to switch from betting with totalisators to utilising fixed-odds betting services provided by UBET and corporate bookmakers.

2. The decline in wagering revenue resulting from changing market demographics has been occurring for a number of years. It is difficult to predict the magnitude of the impact or when the decline will plateau. At the time of publishing PEFO, insufficient information was available to indicate that the Budget 2016 forecast of $2.241 million should be altered. The forecast was reduced to $1.247 million in the Mid-Year Report, reflecting receipts to date at that time.

3. Table 7.10 on page 89 of Budget Paper 2 sets out the estimated tax expenditures (i.e. revenue forgone) for stamp duty on conveyance revenue, not the estimated revenue from this source. Tax expenditures are a measure of tax concessions provided to benefit a specified activity or class of taxpayer.

   The estimated tax expenditure for 2016-17 of $61.5 million predominantly reflects a larger than usual number of high value corporate reconstruction exemptions. The forecast expenditure of $28.8 million in 2017-18 reflects a return to historical levels of corporate reconstruction exemptions.

4. The increase in the stamp duty First Home Owner Discount is estimated to reduce stamp duty revenue by $4.3 million in 2016-17 and $13.2 million per annum in 2017-18 onwards.

5. Conveyance stamp duty revenue is volatile as it is linked to the residential and commercial property market and reflects changes in housing and business property prices and the volumes of sales. Both these factors can vary significantly from year to year and are affected by housing and commercial property demand.

   As the Territory is a comparatively small market, conveyance duty receipts suffer additional volatility as a result of receipts from large commercial transactions, such as the sale of mines or pastoral properties.

TAX-RELATED SUBSIDIES

SENIOR CONCESSIONS

The following response has been provided by Territory Families:

There has been no decision or changes made to the scheme. Government will consider feedback from the current community consultation in determining how concessions will be reformed in the future.

SUPERANNUATION

1. The Northern Territory Government superannuation liabilities are unfunded and costs are met on an emerging basis by the Central Holding Authority. Superannuation liabilities are not affected by the Contingency Reserve.

UTILITIES COMMISSION – POWER AND WATER CORPORATION

1. The allocation of resources to meet its obligations in accordance with the terms and conditions of its licences, which are issued by the Utilities Commission, is determined by Power and Water Corporation as a government owned corporation.

2. Government is committed to the provision of safe, reliable and least-cost electricity, water and sewerage services for all Territorians, wherever they live, and is undertaking a significant reform program to, among other things, put downward pressure on the costs to deliver utilities services. Although Government cannot guarantee that there will be reductions in utilities tariffs in the future, it has committed that power price rises are capped at CPI for its first term.

   On 1 July 2017, regulated power, water and sewerage tariffs increased by 0.5 per cent.

3. Government has committed that power price rises are capped at CPI for its first term.

4. PWC's Weighted Average Cost of Capital (WACC) for its electricity networks business is set by an independent regulator. The allowed rate set by the Utilities Commission for the 2014-2019 Network Price Determination was a pre-tax nominal WACC of 7.86 per cent. PWC's WACC for the 2019-2024 period will be determined by the Australian Energy Regulator. This information is published in the Utilities Commission's 2014 Network Price Determination.
   (http://www.utilicom.nt.gov.au/AboutTheCommission/consultations/2014/Pages/default.aspx).

STAFFING

Output and Business Unit	Question 1[1]	Question 2[2]	
Financial Management			
FMG Services	1.5	1.0	Contract cessation
Budget Development	8.9	1.0	Resigned
Financial Analysis and Reporting	14.9		
Financial Systems	2.8		
Economic			
Economic Services	0.8	1.6	Resigned
Commercial and Economic Policy	10.9	1.8	1 Retire, 0.8 Resign
Economic Analysis	8.2	1.0	Resigned
Intergovernmental Relations	3.8	1.8	Resigned
Utilities Reform	7.9	1.0	Resigned
Territory Revenue			
TRO Services	1.0	1.0	Resigned
Legislative Advisory and Review	8.5		
Revenue Collections	11.3		
Revenue Information Systems	6.4		
Royalty and Assurance	7.7		
Superannuation	11.8	1.0	Resigned
Treasury Services Group			
Corporate Support Unit	22.7	4.0	3 Resigned, 1 Contract cessation
Executive	5.0		
Utilities Commission	3.1		
Graduates/Trainees	10.0	4.0	Resigned
Total	147.3	19.2	

[1] FTE as at Pay 19, 22 March 2017
[2] For the period 01 July 2016 to 31 March 2017

Output and Business Unit	FTE	Classification	Question 3 and 4
Corporate Support Unit	1.0	AO7	Work reallocated to existing staff
	1.0	AO5	Filled temporarily
	1.0	AO3	Has been filled
	1.0	AO2	Has been filled
FMG Services	1.0	AO3	Has been filled
Budget Development	1.0	AO4	Has been filled
Economic Services	1.0	EO3C	Has been filled
	0.6	AO6	Has been filled
Intergovernmental Relations	0.8	AO7	Re-advertising - no suitable applicants in previous selection process
	1.0	AO6	Re-advertising - no suitable applicants in previous selection process
Commercial and Economic Policy	0.8	SAO2	Has been filled
	1.0	EO1C	Has been filled
Utilities Reform	1.0	AO7	Has been filled
TRO Services	1.0	EO3C	Has been filled
Graduates / Trainees	1.0	GRADT	Vacant until next intake (selection process for 2018 Graduate intake currently underway)
	1.0	GRADT	Vacant until next intake (selection process for 2018 Graduate intake currently underway)
	1.0	GRADT	Vacant until next intake (selection process for 2018 Graduate intake currently underway)
	1.0	ICS	Recruiting via DCIS ICS Applicant Pool
	1.0	ICS	Recruiting via DCIS ICS Applicant Pool
Super-Finance	1.0	SAO1	Has been filled
Total	19.2		

PROCUREMENT

1.

Review of Northern Territory Government Superannuation Schemes $67 000 PriceWaterhouse Coopers Victoria	Throughout Australia there are relatively few external consultancy firms with the composite expertise to conduct a review of the existing governance and administration framework for the Northern Territory's public sector superannuation schemes and make recommendations on a future framework. There are none in the Territory. Although this was a select tender, offers were invited from three entities, all of which were located interstate. The selected firms were recommended by the specialist superannuation legal advisors for the Northern Territory Superannuation Office on the basis of demonstrated experience.
Territory Revenue Office Benchmarking $1388 Deloitte Touche Tohmatsu Queensland	This relates to the national benchmarking analysis conducted of seven areas of commonality across all jurisdictions, for the revenue offices across Australia. The Queensland Government panel contract was utilised by all jurisdictions and the costs divided on a per capita basis. This procurement was not initiated by the Department of Treasury and Finance, or the Northern Territory Government.
Actuarial services for Northern Territory Government Superannuation Schemes $45 448 Cumpston Sarjeant Pty Ltd Pricewaterhouse Coopers Securities New South Wales/Queensland	This review was undertaken through an existing panel contract released on 18 March 2013 for a period of 72 months, which expires on 30 June 2018. Actuarial services are highly specialised and technical, with no local providers when the panel was established.

Northern Territory Utilities Commission 2015-16 Power System Review $30 000 Hydro-Electric Corp T/A Hydro Tasmania Tasmania	These three procurements have used an existing, specialist panel contract for the provision of economic, financial and technical advice. The panel is in place for 36 months with the option to extend for two x 12 months. This is a highly specialised area, with no local providers with the requisite skills and knowledge.
Implementation of the Northern Territory Electricity Market $474 692 Oakley Greenwood Pty Ltd Queensland	
Assist the Northern Territory to adopt the National Electricity Rules $101 697 Jodi Smith Australia Capital Territory	

2. The Department of Treasury and Finance (DTF) adheres to requirements of the *Procurement Act* and Procurement Directions for all its procurement.

   As a key central agency, DTF may be required to engage specialist consultants to conduct reviews on fiscal, economic and commercial issues affecting the Northern Territory Government. Due to the size of the Northern Territory jurisdiction, the requisite skills and knowledge are rarely available within the Territory, or there may be conflict of interest reasons, and so an interstate consultant may be required.

   DTF engages local consultants and firms wherever possible and is regularly audited as part of the Territory Government audit program.

PRE-ELECTION FISCAL OUTLOOK 2016

1. In Budget 2016-17, the Northern Territory estimated an increase in GST revenue from $3.263 billion in 2016-17 to $3.306 billion in 2017-18. The 2016 PEFO estimated the Territory would receive $3.306 billion in GST revenues in 2017-18.

2. The media statement referred to is titled ‘$2 billion GST cut and the CLP don’t care’. In this statement the Northern Territory Treasurer says ‘…last night’s Federal Budget confirms the unprecedented cuts to the Territory’s GST revenue over the forward estimates, which will see $2 billion cut from the Territory’.

Page 19 of Budget Paper No. 2, Northern Territory Budget 2017-18, provides further details around the $2 billion decrease in estimated GST revenue to the Northern Territory. A comparison between the Commonwealth 2017-18 Budget and Commonwealth 2016-17 Mid-Year Economic and Fiscal Outlook also show a similar decrease in the Commonwealth's estimates of GST revenue to the Territory.

3. The question is not clear. The table below details GST revenue estimates between 2015-16 to 2017-18 in the Northern Territory's 2016-17 Budget and 2017-18 Budget.

Table: GST revenue estimates

	2015-16 $M	**2016-17 $M**	**2017-18 $M**
2016-17 Budget	3274	3263	3306
2017-18 Budget	3266	3183	2909
Difference	*-8*	*-80*	*-397*

4. The estimated GST revenues for 2016-17 and 2017-18 in the 2016 PEFO were based on the Territory's estimates of the following parameters at the time of PEFO: size of the GST pool, Territory's share of the national population and the Territory's GST relativities. The increase of $43 million reflected a reduction in the Territory's GST relativity and share of the national population, which were more than off-set by an increase in the GST pool – refer table below.

2016 PEFO GST Revenue estimates	
2016-17	3 263
2017-18	3 306
Difference	43
variance due to:	
Population share	*-17*
GST Relativity	*-105*
GST pool	*173*
interactions	*-8*

5. The sensitivity analysis provided on page 30 of the 2016 PEFO provides a rule of thumb guide to the change in GST revenue estimates that would result from a ±1 percentage point variation in the estimate of the Territory's population growth rate. This sensitivity range is well within historical annual growth movements and is therefore considered a conservative range.

$2 BILLION GST CUT

1. In its 2017 Update Report, the Commonwealth Grants Commission (CGC) provides estimates of the GST revenue in 2016-17 and 2017-18 for each state by applying the GST relativities for these years to the Commonwealth's Mid-Year Economic and Fiscal Outlook estimates of the GST pool and national population shares. This approach is intended to be illustrative only, recognising that each state will have developed their own assumptions around the GST pool and estimates of their states' population growth. As such, there will be differences between the GST revenue impact detailed in the CGC update report and states budget estimates.

2. The Territory's 2017-18 Budget estimates of GST revenue over the budget and forward estimates period are based on the Territory's estimates of the GST Pool, Territory's share of the national population and GST relativities. As noted on page 59 of the 2017-18 Budget Paper No.2, the Territory aligned its forecasts of the GST pool growth with those of the Commonwealth in the 2016-17 Mid-Year Economic and Fiscal Outlook. As noted on page 61, the Territory has held its relativity estimates constant at 2017-18 levels over the forward estimates period. This approach is consistent with the approach the Commonwealth applies. The Territory uses its own estimates of changes in the Territory's population growth, on the basis that it is reflective of the Department of Treasury and Finance's latest and most up to date analysis of the Territory's population and growth forecasts; however, does apply the Commonwealth's most recent budget estimates of population growth for all other states in its calculations of GST.

3. The 'meat cleaver' graph was based on the Department of Treasury and Finance's estimates of the Territory's GST revenues.

4. Refer to Budget Paper No. 2, page 59.

5. The Territory's Budget Papers were released on 2 May 2017.

6. There was no delay in advising the public of the estimated reduction in GST revenues. Media release: Territory hit with $2 Billion GST cut was published on 24 March 2017, the day the Commonwealth Grants Commission 2017 Update on GST Revenue Sharing Relativities was also publicly released.

7. The Territory strongly supports continuation of the current horizontal fiscal equalisation system in Australia.

8. The Territory will continue to participate in all discussions regarding the GST revenue, including through Treasurers' and First Ministers' forums, submissions to the Commonwealth Grants Commission 2020 Review and annual update processes, and submissions to the Productivity Commission Inquiry into Horizontal Fiscal Equalisation.

NORTHERN TERRITORY CREDIT RATING

1. Yes, the Northern Territory Treasury Corporation (NTTC) constantly reviews credit ratings issued by credit ratings agencies such as Moody's and Standard and Poor's.

2. The Northern Territory Government is subject to a formal review on an annual basis. Moody's officers were in Darwin in June 2017 where they examined the Budget for evidence of continued commitment to Government's stated fiscal policy. As in previous years, Moody's focus was on the outlook of the Territory economy and the ability of the Territory Government to execute its plan to lower recurrent expenditure, and ongoing efforts to improve the performance of the Power and Water Corporation, Territory Generation and Jacana Energy.

3. A change in credit rating could be the result of a number of different factors, for example, a change in the outlook for the national or territory economy. The financial impact of a downgrade would ultimately be dependent on the factors which lead to a change in credit rating. Based on previous history, it is estimated that a downgrade in the Territory's credit rating could increase the cost of borrowing by 0.20 per cent. However, in attributing changes in credit rating to policy decisions, it is also important to consider how alternative decisions may have affected the credit rating and borrowing rates.

4.

    a. The Territory currently has an "Aa2" ("Stable) outlook from Moody's. A "Negative" outlook would need to be placed on the Territory's credit rating for this to be considered in Territory Government budget assumptions.

    b. NTTC considers current market conditions which take into account changes/tightening of international monetary policy and credit conditions when determining the borrowing assumptions that go into budget formulation.

c. NTTC's objectives in managing financial risks, such as market risk (interest rate risk and foreign exchange risk), credit risk, liquidity risk and funding risk, are to:

   - safeguard financial resources by establishing and regularly reviewing counterparty credit limits, maintaining adequate internal controls and staffing;
   - minimise borrowing costs via effective control and management of interest rate risk and maintain interest rate risk at an acceptable level; and
   - ensure there is sufficient short and long-term liquidity to meet debts as and when they fall due.

   NTTC's ongoing assessment of its liquidity and funding risk ensures these objectives are and will continue to be met and therefore the Government's ability to service all loan obligations as they fall due.

d. The Budget and forward estimates published in Budget paper No. 2 demonstrates the Territory's financial position in accordance with the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*. Chapter 3 of Budget Paper No. 2 details Government's Fiscal Strategy which has been developed on the fiscal management principles defined by the *Fiscal Integrity and Transparency Act*.

e. Moody's is a credit ratings agency that publishes an independent assessment of the Territory's financial position. Moody's takes into account various factors in addition to the Territories net debt to revenue ratio when making its assessments. These factors include:

   - Prevailing economic conditions at the local, national and international levels;
   - The sustainability of the Territory's government owned corporations; and
   - The Territory's Budget, forward estimates and underpinning fiscal strategy.

SAVINGS AND CONTINGENCY MEASURES

1. The line item in Budget Paper No. 2, table 2.5, page 12 for "Savings and contingency measures" reflects the following:

   - Budget Improvement Measures announced as part of the 2017-18 Budget, achieved through Operational reforms; Program rationalisation; Natural attrition;

Wages policy to 2.5 per cent from 3 per cent per annum; Productivity improvements – Consumer Price Index; and Productivity improvements – efficiency adjustments;

- Whole-of-Government savings measures as part of the Government's election commitments, achieved through reducing travel expenditure; rationalisation of the former Central Communications and Marketing Bureau; reduction in marketing, advertising placement and production costs across government, and an increase in fees and charges to offset the cost of regulation or providing services to the community.
- The use of central budget contingency reserve. This approach is consistent with the practices in other jurisdictions where a contingency reserve is included in the forward estimates to provide capacity to meet one-off unforeseen expenditure requirements, minor revenue variations and provide some capacity for new and expanded initiatives.

2. Government has not implemented a staffing cap or hiring freeze. Agency chief executives are responsible for delivering appropriate staffing structures within their relevant budget allocations.
3. The reduction in the efficiency dividend discount for frontline agencies reflects productivity improvements in back-office functions. Additionally, Government has expanded the application of the discount to Territory Families in recognition of the fact that the majority of its costs relate to front-line services which are fixed in nature.

DEBT

1. Page 110 of Budget Paper No. 2 shows non financial public sector interest expenses of $393.206 million in 2020-21. Interest expenses are funded through Territory own-source and untied revenues, and are incorporated into the fiscal balance projections.
2. Without significant rebound in revenues and ongoing expenditure containment measures, a return to a surplus position is unlikely over the forward estimates. However, the commitment of government to restrain recurrent expenditure, thereby avoiding structural deficits, should allow a pathway over the longer term for the budget to return to surplus, as soon as it is economically prudent to do so.

THE NORTHERN TERRITORY INFRASTRUCTURE DEVELOPMENT FUND

1. In addition to the original $200 million investment in the Northern Territory Infrastructure Development Fund (NTIDF), approved by the former Northern Territory Government with bipartisan support, and confirmed by the current Northern Territory Government, an additional $2.5 million has been added. This amount represents expenditure by the Territory on initial establishment costs, bringing the Territory's total investment to $202.5 million.

2. The Northern Territory Government's investment in the NTIDF has been committed from funds set aside from the sale of the Territory Insurance Office.

3. Refer to explanation of the Northern Territory Government's investment at questions 1 and 2.

4. The NTIDF operates as a fully independent infrastructure investment fund. The independent Board of the NTIDF Ltd, in conjunction with Infrastructure Capital Group as the Investment Manager, is currently seeking to attract additional external capital to invest in the NTIDF.

   As an investor in the NTIDF, the Northern Territory Government would welcome additional investment from external investors.

   Although the Northern Territory Government has no ability to directly influence the operation of the NTIDF, it is encouraging the Board to seek every opportunity to pursue projects and additional investment.

   The Board of the NTIDF would be best placed to provide commentary around any factors that are inhibiting or supporting this objective.

5. The Northern Territory Government is encouraging the NTIDF to engage with the Commonwealth Government's Northern Australia Infrastructure Facility (NAIF), which is a facility aimed at providing concessional debt finance to projects. As a potential provider of debt funding, the NAIF has the potential to be complementary to the NTIDF which seeks to make equity investments. In December 2016, the Northern Territory Government signed the Master Facility Agreement to permit the NAIF to operate in the Territory.

More broadly, recent Northern Territory Government initiatives and policies aimed at attracting further investment in the Northern Territory include:

- Increased levels of direct government expenditure through a $1.75 billion infrastructure investment program as part of Budget 2017.
- A $1.1 billion remote housing plan.
- Development and release of the Northern Territory Economic Development Framework, Infrastructure Strategy and 10 Year Infrastructure Plan.
- Development of a revised Major Projects framework to encourage and support investment in Northern Territory major projects.
- Appointment of a Defence advocate based in Canberra to advocate for Defence work on behalf of Northern Territory companies.

6. As at 30 June 2017, the NTIDF had not made any acquisitions or investments in infrastructure or other projects, and therefore does not have any asset allocation.

7. It is important to note that until the NTIDF draws down funds to invest in projects or for operational expenses, the Territory's $200 million is held in a separate investment account, administered by the Northern Territory Treasury Corporation on behalf of the Central Holding Authority. It is a transitional, segregated pool of investment quite separate from the NTIDF itself.

   The asset allocation of this fund, while held in the Central Holding Authority, is relatively conservative, as the objective of the fund is to ensure that the value of funds that the Northern Territory Government has committed to invest in the NTIDF are preserved, and that sufficient liquidity is available to meet any draw down requests by NTIDF.

8. An Investment Management Agreement with Infrastructure Capital Group was signed in December 2016. The amount paid by the NTIDF to Infrastructure Capital Group, as the investment manager, for the period 1 December 2016 to 31 May 2017 was $479 452.06. The role of the investment manager is to seek new investors and to identify and assess potential investments.

   The base fee that the investment manager is entitled to is 0.5 per cent per annum of committed funds. Based on the Northern Territory Government's committed investment of $202.5 million, the Investment Manager's annual base fee is $1 012 500.

The Investment Manager is entitled to 0.8 per cent of assets under management. As the NTIDF invests in projects, the Investment Manager's fee will increase proportionally from 0.5 per cent to 0.8 per cent, based on the amount that has actually been invested in assets.

LONG RUN ASSUMPTIONS

1. The Department of Treasury and Finance’s (DTF) forecasts are underpinned by an assessment of underlying economic activity and trends using a range of available data, including the use of Australian Bureau of Statistic’s national accounts data that provides a evidence base for economic activity.

   The Territory is a small open economy that is exposed to external shocks and major projects – history indicates that once the effects of these shocks pass the Territory economy returns to underlying levels of output. This is illustrated with the recent/current elevated levels of economic activity being experienced from the Ichthys liquefied natural gas project, highlighting the volatile nature of the Territory economy historically.

   In addition to historical trends, DTF’s forecasting assumptions are supplemented with qualitative information, including major projects where final investment decisions have been made, along with advice from a range of industries. DTF excludes projects from its forecasts which have not yet reached final investment commitment, providing upside impacts on forecasts if additional projects are to commence.

   DTF takes a conservative approach to forecasting, with this methodology used on a consistent basis for many years. Territory forecasts are also benchmarked against key national macroeconomic indicators from a range of sources.

   Assumptions regarding own-source revenue forecasts are closely aligned with economic forecasts, particularly for collections such as payroll tax, royalties and stamp duty.

2. Recent data along with key modelling assumptions are detailed throughout the *Northern Territory Economy* publication, released as part of the 2017-18 Budget.

3. Table 1 below contains the key economic indicator forecasts used to support the 2017-18 Budget assumptions. These are reproduced from page 6 of Budget Paper No. 2.

Table 1: Territory Key Economic Indicators (%)

	2015-16	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Gross state product[1]	2.7	1.0	1.0	5.0	2.0	2.1
State final demand[1]	-12.5	0.2	-2.8	-5.0	0.1	1.5
Population[2]	0.5	0.3	-0.3	0.3	0.8	1.2
Employment[3]	1.4	2.9	0.5	0.6	0.8	1.2
Unemployment rate[4]	4.2	3.6	4.0	4.2	4.3	4.3
Consumer price index[3]	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index[3]	2.2	2.1	1.9	2.0	2.3	2.6

e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance, Australian Bureau of Statistics

ADDITIONAL BORROWING

1. The $1 billion net borrowing balance reflects the projected total borrowing requirement for 2017-18 for the non financial public sector. The 2017-18 Budget resulted in an increase to net borrowings of $771 million from that projected at time of the 2016 Pre-Election Fiscal Outlook.

Non Financial Public Sector – Net Borrowings

	2016-17	2017-18	2018-19	2019-20	2020-21
	Estimate	Budget	Forward Estimates		
	$M	$M	$M	$M	$M
2016 PEFO	87	222	179	30	n.a
2017-18 Budget	- 35	993	783	592	635
Variance	-122	771	604	562	n.a

2. The increase in projected non financial public sector net borrowings as per the 2017-18 Budget is mainly attributed to the Government’s infrastructure stimulus package and reductions to GST revenue.

3. To minimise the increase in net debt the Territory Government aims to ensure growth in general government operating expenses is declining in real terms. This is to be achieved through the following measures:

   - introduction of a wages policy that limits wage growth to 2.5 per cent per annum across the forward estimates;
   - budget improvement measures including operational reforms, program rationalisation and productivity improvements; and
   - reduction in discretionary spending such as advertising, communications, marketing and travel costs.

   The Territory Government aims to achieve an improving fiscal balance over the budget cycle to minimise the increase to debt.

PERFORMANCE

1. As the Northern Territory Government's central financing authority, the Northern Territory Treasury Corporation (NTTC) manages the Territory's investments on behalf of the Central Holding Authority (CHA). As such, NTTC is constantly engaged in reviewing and reporting CHA's investment performance returns to ensure the risk/return objectives of the funds under management are appropriately defined and are being satisfied. Investment performance returns show CHA's pool of investment funds have met their stated short, medium and long-term return objectives.

2. The fall in the NTTC's Weighted Average Cost of Borrowing from 4.86 per cent in 2011-12 to 2.22 per cent in 2015-16 is largely attributed to market interest rates falling to historically low levels and remaining low. In addition, NTTC's reduced borrowing requirement in recent years has resulted in no issuance into the wholesale financial markets since 2013-14, limiting its borrowings to its retail funding activities (Territory Bonds).

3. Since the global financial crisis in 2008-09, global and domestic interest rates have fallen significantly as central banks around the world have made a coordinated effort to aggressively cut monetary policy settings in attempt to stimulate global economic activity. The decline in market interest rates has enabled NTTC to repay debt and refinance previously issued higher cost debt at lower interest rates.

4. The Territory currently holds a number of separate investment portfolios, which are held under the CHA. NTTC is responsible for the management of each portfolio, with the NTTC separating the management of these portfolios from its own treasury activities.

   The existing investment portfolios include the following:

   - Northern Territory Government Medium Term Investment Fund;
   - Conditions of Service Reserve (COSR);
   - Northern Territory Infrastructure Development Fund;
   - CHA Investment Portfolio, invested directly by NTTC in a variety of secure short, medium and long-term debt securities issued in Australian financial markets.

5. The Territory's superannuation liability is being funded on an emerging cost basis. Funds are allocated in the budget as the liability is claimed by outgoing members of the Territory Government superannuation schemes.

   The funds held in COSR continue to be invested using a relatively high growth strategy such that the investment returns generated by the COSR fund can keep pace with or reduce the gap over time.

6. The Territory Government defined benefit superannuation schemes were closed in 1999-2000, effectively capping the superannuation liability to existing members of the Territory Government schemes. Since then superannuation for new public servants is paid out through choice of fund arrangements. The Territory will continue to meet its superannuation liability on an emerging cost basis thereby extinguishing the liability as it is claimed by outgoing members of the schemes. Membership of closed funds has reduced to approximately 3000 active contributing members and the majority of public sector employees are now fully funded through choice of fund arrangements.

7. The COSR pool of funds generated poor investment performance returns for the December 2015 and March 2016 quarters which resulted in an overall disappointing result for the 2015-16 financial year. The fund managers appointed to manage these funds take the view that it is important to maintain a long-term perspective. The consensus view is that, over time, a diversified portfolio focused on the long-term should see investors achieve their investment goals. This requires a disciplined approach to investing with an emphasis on diversification and re-balancing to help the portfolio

capture investment returns while managing risk in line with long-term mandates set for the fund.

Accordingly, rolling returns for three, five and 10 years show that COSR has been performing well relative to the benchmark.

8. NTTC administers the COSR funds on behalf of CHA. The three investment fund managers' (AMP Capital, Colonial First State and JANA) charge an investment management fee for investing/managing the funds.

   The COSR funds are invested in pooled unit trust arrangements with each of the fund managers. The investment management fee levied by each fund manager is determined or calculated on a sliding scale (ranging from 0.1 per cent for cash to 0.8 per cent for shares) dependent on the asset allocation of the funds and total amount of funds under management. The asset allocation decision is made by CHA with recommendation from NTTC. It should also be recognised that the Territory receives a fee rebate from its managers to offset these standard fees. The fee rebate paid by each fund manager to offset/reduce the standard fee recognises their relationships with the Territory Government. This is consistent with industry practice.

9. There are no additional performance bonuses or incentives attached to the management of the COSR funds.

10. There is no relationship between the COSR and contingency reserve.

11. Spending down the contingency reserve has not depleted the COSR.