

# 4 Key fiscal and economic challenges facing the Northern Territory

- The Territory delivers the same scope of services as those provided by other states but faces higher demand and service delivery costs.
- Demand for these services is expected to outpace Commonwealth funding growth over the medium to long term.
- The Territory continues to need to invest in closing the gap in outcomes between Aboriginal and non-Aboriginal Territorians.
- The Territory has a small, open economy that is significantly influenced by major projects and cyclical sectors such as mining and construction. This results in greater revenue volatility than other states.
- Low population growth may negatively affect the Territory's share of GST.

## 4.1 Key fiscal pressures

Health, education, public order and safety, and housing and community amenities comprise two thirds of the Territory Budget and are subject to the greatest fiscal pressures arising from growth in both demand and the cost of providing those services.

The Territory has a small population dispersed over a large landmass that is isolated from Australia's main population centres. Aboriginal people, who comprise around 30 per cent of the Territory's population, tend to live in more remote areas and use mainstream services more intensively compared to the non-Aboriginal population.

These factors affect both the demand for and cost of government services and result in the Territory needing to spend more than double per capita on government services than the average of the other jurisdictions. This is demonstrated in Table 4.1

Table 4.1: General government operating expenses per capita, 2015-16 (\$)

NT	ACT	TAS	WA	SA	QLD	VIC	NSW
24 009	12 536	10 448	11 140	9 976	10 251	8 725	9 328

Source: ABS, Government Finance Statistics, Australia 2015-16, April 2017. ABS, Australian Demographic Statistics, December 2016

Changes to the level of tied Commonwealth payments and the declining growth in GST collections are both contributing to the fiscal pressures experienced by states. As a result, Commonwealth funding is not expected to grow in line with demand for services, particularly health care and education, over the medium to long term.

Since the 2014-15 Commonwealth Budget there has been significant uncertainty around the Commonwealth's future funding for health and education, with a proposal to move away from activity or needs-based funding to a flat indexation arrangement. Indexation is likely to result in a shortfall for jurisdictions with higher demand growth, including the Territory. Accordingly, the Territory is faced with significant funding uncertainty in the long term.

In addition, in its 2017-18 Budget, the Commonwealth announced the Quality Schools funding and reform package 2018-2027. Under this package, the level of funding for Territory government schools will be less than under the existing arrangements.

These fiscal pressures are expected to be further compounded by:

- challenging economic conditions
- the Territory's possible expenditure commitments under the National Disability Insurance Scheme
- costs of any reforms undertaken in response to findings of the Royal Commission into the Protection and Detention of Children in the Northern Territory.

## 4.2 Population and demographic change

Fiscal pressures will be influenced by demographic change in the Territory, with the main factors being:

- the continued high proportion of the population that is Aboriginal or who live in remote areas
- slow overall population growth in the short to medium term
- an ageing population.

As at June 2016 there were approximately 10.4 people of working age (15 to 64) for every one person aged 65 and over in the Territory, compared to a ratio of 4.3 nationally. However, the Territory population is projected to age in the future. An older population base can impact on the Territory budget through increased demand for services, especially health care, and a reduction in the size of the potential tax base.

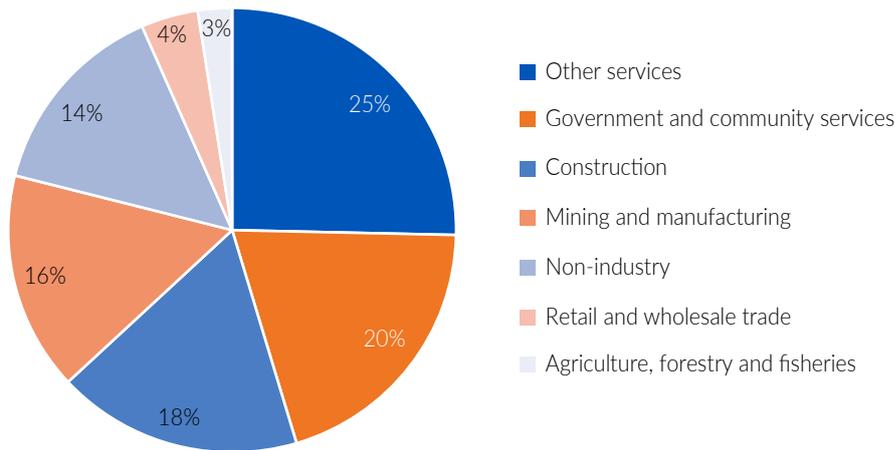
It is expected that the Territory's population growth will continue to be slow in the short term. This includes the effect of a proportion of resident construction workers departing the Territory when the INPEX project transitions from the construction to operational phase.

## 4.3 Economy

The mining and construction sectors are two of the largest contributors to Territory gross state product (GSP). Both are cyclical industries, which leads to variations in their level of contribution to the economy, which can exacerbate fiscal pressures.

The mining and construction industries were key contributors of economic growth in the Territory during the mining boom. Future growth prospects for these industries is reliant on overseas demand and investment, and subject to movement in global commodity prices and the exchange rate.

Chart 4.1: Territory industry proportion of gross state product



Source: ABS Cat No. 5220.0

The outlook for the structure of the Territory economy will be heavily influenced by the transition of the INPEX project from the construction to production and export phase.

As exports are not subject to GST, the growth in the Territory economy driven by exports from the INPEX project may not correspond to an increase in the Territory's contribution to the total revenue collected through GST. Also, offshore gas is not subject to royalties in the Territory.

In recent years, there has been a clear shift in the Territory and nationally towards part-time employment as a stronger contributor to employment growth than previous years (Chart 4.2). This may indicate payroll tax and conveyance duty revenue may grow at a slower rate than previously as more people are employed on a part-time basis rather than a full-time basis.

Chart 4.2: Territory full-time and part-time employment (year-on-year change)



Source: ABS Cat. No. 6202.0