THE FISCAL SUSTAINABILITY OF THE ACT

Final Report to the ACT Legislative Assembly Select Committee on the Fiscal Sustainability of the ACT

for

Office of the Legislative Assembly

by

Saul Eslake
Independent Economist

4th May 2026

Acknowledgement of Country

The author of this Report acknowledges the Ngunnawal people as the traditional custodians of the ACT and pays respect to their Elders past, present and emerging, and to their cultural, educational and spiritual customs and practices.

He also recognises any other people or families with connection to the lands of the ACT and surrounding region. He acknowledges and respects their continuing culture and the contribution they make to the life of Canberra, the Australian Capital Territory, and the surrounding lands.

Letter of Transmission

Ms Jo Clay MLA, Chair
Mr Ed Cocks MLA, Deputy Chair
Ms Fiona Carrick MLA
Ms Caitlin Tough MLA,
ACT Legislative Assembly
196 London Circuit
Canberra, ACT. 2600.

Dear Members of the Select Committee on the Fiscal Sustainability of the ACT

I hereby present to you, and through you to the Members of the ACT Legislative Assembly, my Final Report on the Fiscal Sustainability of the Australian Capital Territory.

I would like to thank you for commissioning me to undertake this Assessment.

I would also like to acknowledge the assistance of officers of the ACT Treasury, the Chief Minister the Hon. Andrew Barr MLA, the Australian Parliamentary Budget Office, the Commonwealth Grants Commission, the Secretary of the Select Committee Dr David Monk and his staff, and a number of private citizens of the ACT in preparing this report.

I affirm that this Report has been prepared completely independently, and that there has been no attempt by anyone to influence its contents. The responsibility for all of the findings, conclusions and recommendations of this Report rests solely with the undersigned.

Yours sincerely

Saul Eslake

(Saul Eslake)
4th May 2026.

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Executive Summary

The Australian Capital Territory occupies a unique position within the Australian nation, its political system and its economy. It is our nation's capital city. By comparison with the rest of Australia its residents are relatively well-educated, well-housed, well-paid and well-off, financially and in other ways. Inevitably, its economy is dominated by public sector activities, particularly those of the national government – which in turn have unique implications for the finances of the ACT Government, as does the fact that the ACT Government is also, in effect, the Canberra City Council.

The ACT economy has perfomed strongly relative to those of other states and territories, over the past decade and over the past three years – which in some ways makes the deterioration in the ACT's financial position over those intervals more surprising than it would have been had the ACT's economy been growing less robustly.

There has been a significant deterioration in the financial position of the ACT public sector over the past decade, and in particular during the past five years, as a result both of the Covid-19 pandemic in the early years of the current decade, and of decisions taken during the years immediately after the end of the pandemic.

And this deterioration has been entirely due to conscious policy decisions taken by the ACT Government – to spend more on both delivering services and providing new infrastructure, without raising sufficient additional revenue from its own sources, or obtaining them from the Federal Government, to cover that additional spending. Some of those additional spending decisions, particularly during the Covid-19 pandemic, were unavoidable: but many others, especially during the past three years, were not.

The ACT's financial position is far from being the worst of any Australian state or territory – the contest for that dubious distinction is between the Northern Territory, Tasmania and Victoria. But that is hardly something from which the ACT can draw any satisfaction. In many respects the ACT's financial position is now similar to that of South Australia, which has never been regarded as one of the financially stronger states or territories: and it is clearly inferior in most respects to those of New South Wales, Queensland and (especially) Western Australia.

Financial or fiscal 'sustainability' is an elusive concept, one for which there is no universally accepted definition, and one for which there is no single number, or set of numbers, enabling a line to be drawn between 'sustainable' and 'unsustainable'. Typically, one can only be absolutely sure that a government's financial position is 'unsustainable' when it is faced with a crisis that it cannot deal with in the absence of external financial assistance. The ACT does not appear to be in such a position at this time: but it could become increasingly vulnerable to finding itself in such a position if the trends in 'operating' and capital spending, revenues and deficits of the past few years were to continue.

As the economist Rudi Dornbusch often observed, in what later became known as "Dornbusch's Law", "a crisis takes a much longer time coming than you think, and then happens much faster than you would have thought" (Dornbusch and Fischer 2003: 13).

The ACT Government's 2025-26 Budget sought to address these concerns by foreshadowing unprecedently tight control over 'operating' expenses over the four years to 2028-29, a significant decline in infrastructure investment spending in 2027-28 and 2028-29, and faster growth in revenues (including as a result of a range of increases in taxes), with the 'headline' net operating balance forecast to return to surplus by 2027-28, and the cash deficit to decline significantly (though still remaining in deficit) in 2027-28 and 2028-29.

While these measures could, under favourable but not implausible assumptions, result in the ACT's finances returning to an unambiguously 'sustainable' position by the first half of the 2030s, less favourable but no less plausible scenarios could readily see the ACT's financial position continue to deteriorate – especially if the outcomes for the next four years foreshadowed in the most recent set of Forward Estimates failed to be realized, as has been the fate of successive sets of Forward Estimates in recent years.

That risk is all the more concerning given the vagueness of the fiscal strategy set out in last year's Budget and the ensuing mid-year Budget Review.

The ACT Government should articulate and adopt a more disciplined fiscal strategy, aimed at delivering not just 'operating' surpluses but also cash surpluses – that is, after accounting for infrastructure investment outlays – before the end of the present decade, and maintaining cash surpluses into the 2030s until such time as outstanding net debt has been reduced to less than the all-states-and-territories average as percentages of total revenues and of the ACT's gross product.

It should set numerical targets for interest expense as a percentage of revenues, and for net debt as percentages of revenues and gross product, for both the general government sector and for the public sector as a whole.

And it should establish mechanisms for regular reporting on progress (or lack thereof) towards meeting those targets.

Comparisons between various dimensions of the ACT's finances with those of other Australian sub-national jurisdictions – including in particular, but not exclusively, the assessments made by the Commonwealth Grants Commission as part of the process by which it arrives at its annual recommendations as to the distribution of revenue from the Federal Government's GST among the states and territories – suggests that there is *prima facie* greater scope to return the ACT's finances to a more sustainable position through expenditure measures than through revenue measures.

However, the balance between expenditure and revenue measures to be instituted in order to achieve fiscal strategy objectives consistent with a return to, and subsequently the maintenance of, a sustainable fiscal position is an inherently political calculation.

As such, it should be decided by democratic political processes, rather than being prescribed by unelected officials or analysts – which is why this Assessment has offered suggestions as to where expenditure savings might be sought, or additional revenues raised, without seeking to make definitive or unambiguous recommendations.

That said, those democratic political processes should be informed by an understanding that tolerating continued deficits, and ever-increasing levels of public debt, will ultimately prove unsustainable: and that if Canberrans, through their elected representatives, wish to maintain relatively high levels of public spending in order to provide a wide range of high-quality public services, they will also have to be asked to pay higher taxes and charges. It is incumbent on all participants in political processes to understand this truism, and to do their best to ensure that their constituents also understand it.

Chapter 1: Introduction

The ACT is in several respects unique among Australia's eight sub-national (state and territory) jurisdictions, in ways that have important implications for its finances.

In particular, Canberra is Australia's capital city. As such it is the home and workplace of over 68,000 Commonwealth Government employees, who constitute almost one-quarter of total employment in the ACT (a much larger share than of total employment in any other state or territory). It also means that the Commonwealth is a large landowner within the ACT. And Section 114 of the Australian Constitution precludes the ACT Government from collecting payroll tax on salaries paid to Commonwealth public servants, or land tax on land owned by the Commonwealth. The Commonwealth also imposes restrictions on how land which it owns – for example, height restrictions on buildings inside the 'National Triangle' – which in turn reduce the amount of revenue the ACT Government can collect from private sector users of that land.

Canberra's status as the national capital also means that the public sector as a whole – and hence so-called 'non-market' activities – represent a much larger share of the ACT's economy than of that of any other state or territory. And given the inherent difficulties in measuring some aspects of the economic activities of 'non-market' sectors – in particular, labour productivity – means that some comparisons of aspects of economic performance between the ACT and other states and territories may be misleading.

Secondly, the ACT Government is also, in effect, the Canberra City Council – which means that it has both revenue-raising powers (in particular, to levy municipal rates) and expenditure responsibilities (for example, for town planning, building approvals, local roads, and rubbish collection and waste disposal) which other state and territory governments do not have. Among other things this means that care needs to be taken when comparing levels of ACT Government revenue and expenditure with those of other state and territory governments.

Third, given its hinterland, services provided by the ACT Government – in particular, hospitals, but to a lesser extent also schools and vocational education – are accessed by a relatively large number of non-ACT residents, that is, residents of nearby districts in New South Wales. While similar accessing of services across state borders also occurs between Victoria and New South Wales, and between Queensland and New South Wales, both are on a much smaller scale (relative to the populations of those three states) than between NSW and the ACT.

The ACT also differs, albeit not uniquely, from other states and territories in some other important respects which influence its financial position.

First, the ACT is relatively small, in both area (the smallest of any state or territory) and population (the second smallest after the Northern Territory). Among other things this means it is less able to benefit – in terms of the cost of providing services – from 'economies of scale' (the capacity to spread fixed costs over a large population) than the states (and in particular the more populous states).

Conversely, the ACT does not have to provide services to small and relatively remote communities, as the states and the Northern Territory do.

Second, the ACT has the most socially and economically advantaged population of any Australian state or territory. As shown in Charts 1a and b below, less than 8% of the ACT's population are in the two lowest socio-economic status (SES) quintiles (fifths) of the national population; while almost 77% of the ACT's population are in the two highest SES quintiles of the national population (including almost 51% who are in the highest quintile)[1].

Chart 1a: Proportion of state and territory populations in the two lowest national socio-economic status (SES) quintiles, December 2024

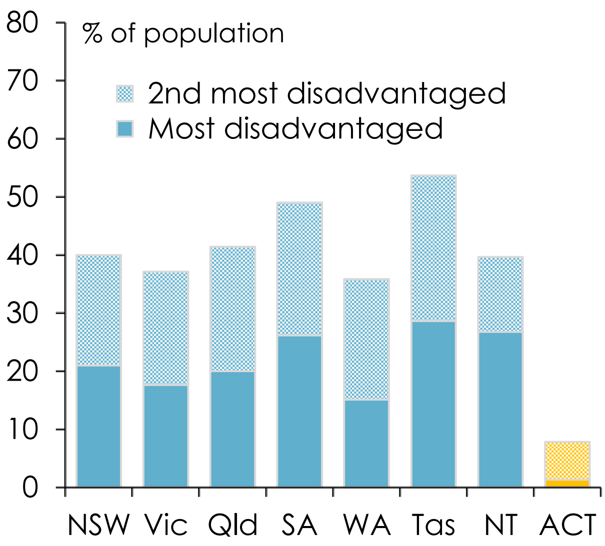
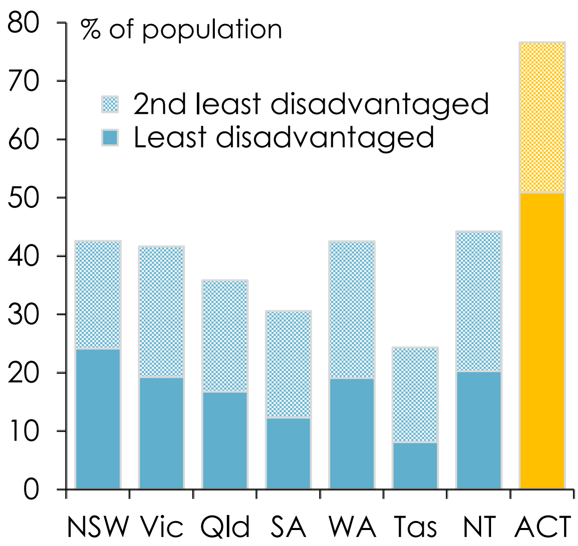


Chart 1b: Proportion of state and territory populations in the two highest national socio-economic status (SES) quintiles, December 2024



Source: Commonwealth Grants Commission, [2026 Update - Tables, charts and supporting data](), U2026 – Population data, Table S1-3, 13th March 2026.

To the extent that this means that ACT residents can more readily choose to obtain services such as education and health from private providers, or that there is less need for services such as social housing, this may imply that the ACT needs to spend relatively less (per head of population) than other jurisdiction on the public provision of such services.

Against that, it may also mean that ACT residents choose (through the political process) to have a higher level of spending (per head of population) on public services, and have the capacity to pay for it through relatively higher levels of taxation.

[1] Other indicators showing that the ACT's population is younger, better-educated, enjoys better health, have higher incomes and greater wealth, than of any other state or territory, were presented in my Interim Report to the Legislative Assembly Select Committee – see Eslake (2026b: 12-13).

And it may also mean that at least some public services are relatively more expensive to provide (because wages of public sector employees, as well as of private sector employees) may be higher for comparable occupations than in other jurisdictions.

In principle, all of these factors are taken into consideration by the Commonwealth Grants Commission in its annual assessments of each state and territory's ability to provide the average level of public services to its population at the average level of efficiency, whilst levying on them a similar burden of taxes and charges, which the Commission makes in order to arrive at its recommendations as to how the revenue from the Federal Government's goods and services tax (GST) should be distributed among the states and territories in accordance with the principle of 'horizontal fiscal equalization'[2].

That is why the ACT receives a larger share of the revenue from the GST than it would if the revenue from the GST were distributed on an equal-per-capita basis (that is, in proportion to each state and territory's share of the total Australian population).

In practice, the ACT – like every other state and territory – disputes the extent to which the Grants Commission's assessments fully recognize its distinctive needs and circumstances. The ACT has also for some time argued that the population estimates produced by the Australian Bureau of Statistics and used by the Grants Commission in its assessments have under-counted the Territory's population, resulting in it receiving a smaller share of revenue from the GST than it 'should' have (Steel 2026).

This Report will consider these issues along with others pertaining to the fiscal sustainability of the ACT Government.

Before doing so, however, it is important to look at the economic context in which the fiscal sustainability of the ACT Government is to be assessed.

[2] That principle – that the revenue from the GST should be distributed among the states and territories in such a way as to enable each of them to provide their populations with a similar standard of public services at the average level of efficiency whilst levying on them a similar level of taxes and charges – has since 2021-22 been partially negated by the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act* 2018, introduced by the Morrison Government with the support of the then Labor Opposition, and maintained and extended by the Albanese Government, which in effect gives Western Australia a larger share of the revenue from the GST than it needs to be able to provide its population with a similar standard of public services whilst levying on them a similar level of taxes and charges as the average of all states and territories (see Eslake 2026a).

Chapter 2: Recent trends in the ACT economy

Economic conditions in the ACT inevitably exert some influence on the ACT Government's financial position. The buoyancy or otherwise of economic activity, and in particular employment, land values and the volume of property transactions, are key determinants of revenue from payroll tax, stamp duty on land transfers, land tax and municipal rates; while economic conditions also have some influence on the demand for public services and on the cost of providing them.

These influences – along with other factors (apart from conscious Government policy decisions) which affect revenues and expenses – are captured in the 'technical adjustments'[3] to forward estimates of revenues and expenses which are presented in the *Budget Outlook* and *Budget Review* papers each year (see, eg, ACT Government 2025: 42-43 and 2026: 31-33).

The ACT's economy has performed strongly over the past decade, and over the past three years (since the end of the Covid-19 pandemic). Over the ten years to 2024-25, the ACT's real gross product grew at an average annual rate of 4.1%, well above the average for the rest of Australia of 2.3% (Chart 2a) and faster than that of any other state or territory (Chart 2b).

Chart 2a: Growth in real gross state product, 2014-15 to 2024-25, ACT and rest of Australia compared

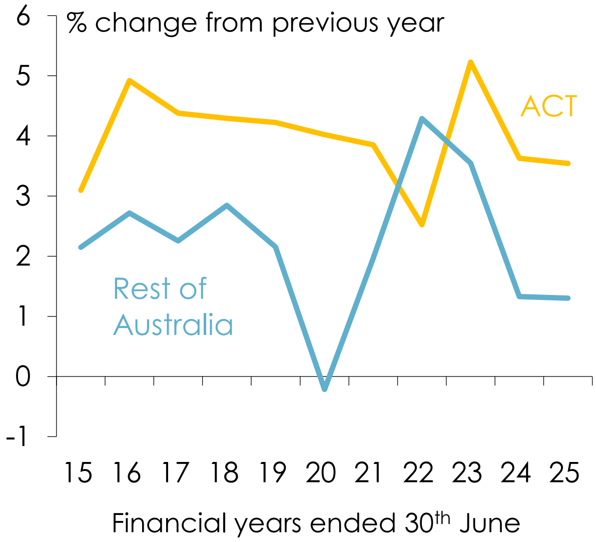
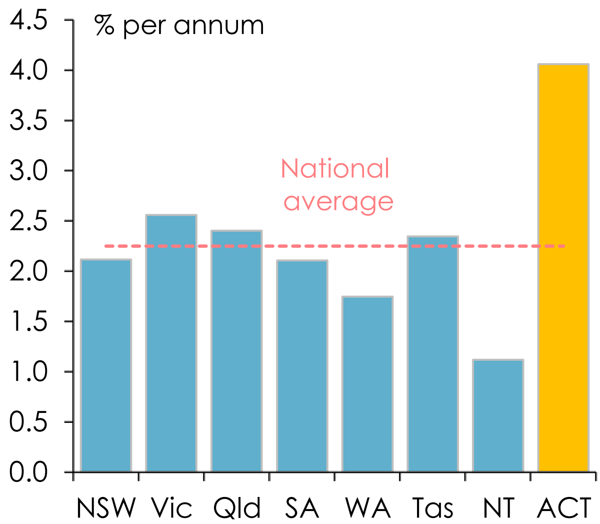


Chart 2b: Average growth rate of real gross state product, 2014-15 to 2024-25, states and territories



Source: ABS, *Australian National Accounts: State Accounts*, 2024-25 financial year.

The ACT's faster economic growth rate over the past decade, compared with the rest of Australia, was partly driven by a faster rate of population growth, of 2.1 % per annum compared with 1.5% for the rest of Australia (Chart 3a).

But even allowing for that, the ACT's *per capita* growth rate was also the fastest of any state or territory (Chart 3b).

[3] In the Federal Government's Budget Papers these are referred to as 'parameter variations'.

Chart 3a: Population growth, 2014-15 to 2024-25, ACT and rest of Australia compared

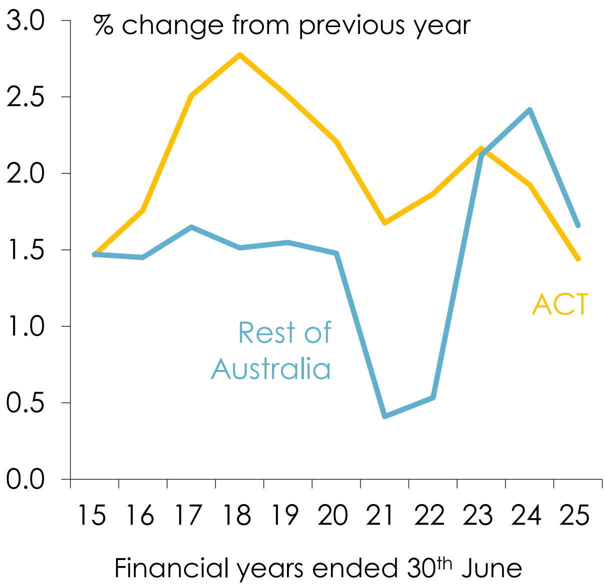
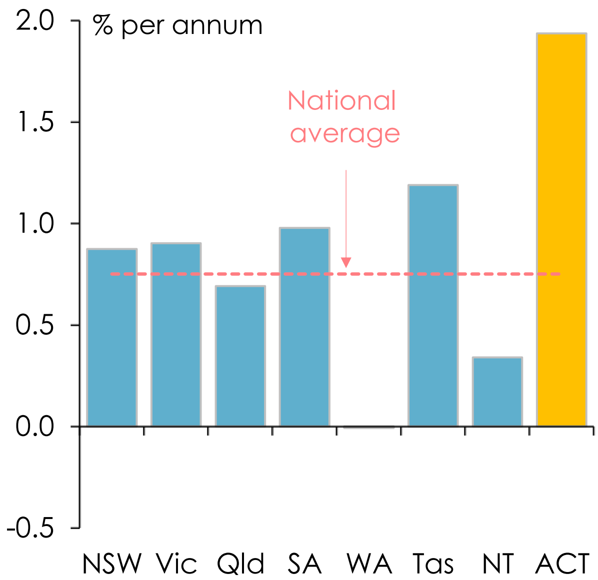


Chart 2b: Average growth rate of real *per capita* gross state product, 2014-15 to 2024-25, states and territories



Source: ABS, *Australian National Accounts: State Accounts*, 2024-25 financial year.

The main driver of the ACT's above-average economic growth over the past decade has been *public spending*. Public sector spending on goods and services, as measured in the ABS' *State Accounts*[4], in the ACT grew at an average annual rate of 4.8% in real terms over the ten years to 2024-25, accounting for 4.0 percentage points (or 98%) of the 4.1% average annual growth rate in the ACT's real gross product over that period. Although the growth rate of public sector spending in the rest of Australia over the ten years to 2024-25 was, at 5.1% per annum on average, slightly higher than in the ACT, it accounted for only 1.2 percentage points (or 53%) of the growth in the rest of Australia's economy over that period[5].

Most of the growth in public sector spending in the ACT over the past decade has been attributable to the *Federal Government*. Federal Government spending on goods and services in the ACT grew at a real average annual rate of 4.9% over the ten years to 2024-25, accounting for 3.5 percentage points per annum (85%) of the overall growth in the ACT's economy during this period, whereas *ACT Government* spending grew at a real average annual rate of 3.9% over the past decade, accounting for 0.7 percentage points (14%) of the overall growth in the ACT's economy.

[4] Note that public spending as measured in the ABS national and state accounts includes spending on goods and services by both 'general government' and publicly-owned corporations, but does not include cash transfers (to individuals, businesses, community organizations and other governments), interest, or depreciation.

[5] The reason that slightly faster growth in public sector spending on goods and services in the rest of Australia accounted for a smaller share of overall economic growth than in the ACT is that public sector spending accounts for 83% of the ACT's gross product, compared with 24% in the rest of Australia.

That 3.9% average annual growth rate in ACT Government spending over the ten years to 2024-25 was actually slightly lower than the 4.1% per annum average growth rate of state and local government spending on goods and services in the rest of Australia over the same period.

Private sector spending in the ACT grew at an average annual rate of 2.5% in real terms over the ten years to 2024-25, compared with an average of 1.7% in the rest of Australia. That is largely attributable to the ACT's faster rate of population growth, but also reflects the fact that business investment grew at a faster rate (4.1% per annum, on average, in real terms) in the ACT than in the rest of Australia (0.8% per annum) over the past decade.

Reflecting the faster growth in the ACT's economy than in the rest of Australia over the past decade, employment in the ACT has also grown at a faster pace than in any other state or territory during this period (Chart 4a), while the Territory's unemployment rate has been consistently below the national average (Chart 4b).

Chart 4a: Employment growth, ten years to February 2026, states and territories

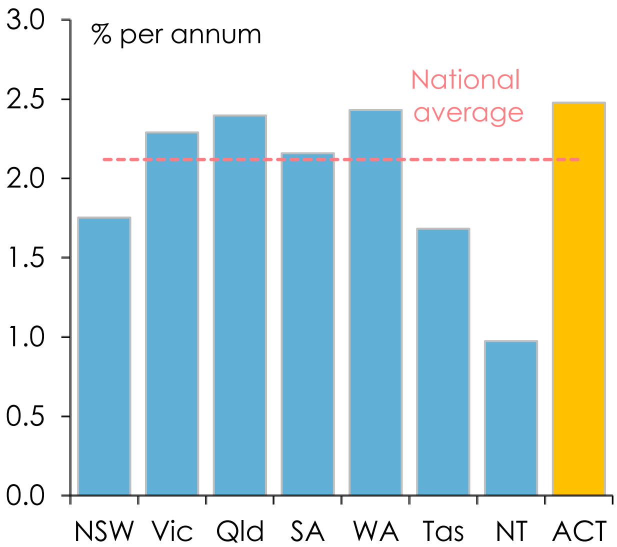
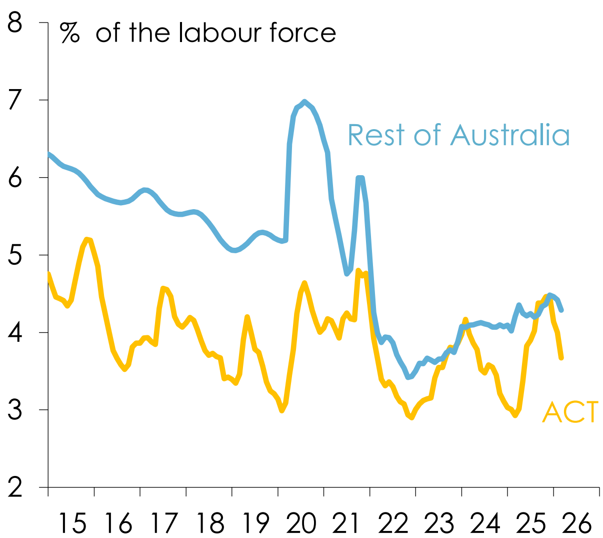


Chart 4b: Unemployment rates, ACT and rest of Australia



Note: Employment and unemployment data are based on ABS trend estimates.
Source: ABS, *Labour Force, Australia*, February 2026.

The trends described above over the past decade haven't greatly changed in the past three years. The ACT's economy has grown at a faster rate (4.1% per annum) than the rest of Australia (2.1% per annum), over the three years to 2024-25, even though the growth rate of the ACT's population has actually been lower (1.8% per annum) than in the rest of Australia (2.1%) during this period. In per capita terms, the ACT's real gross product grew at a 2.2% annual rate over the three years to 2024-25, compared with barely above zero for the rest of Australia[6].

[6] Among the drags on economic growth in the rest of Australia over the three years to 2024-25 were *contractions* in real per capita gross state product averaging 0.7% per annum in Western Australia (Australia's self-proclaimed 'power-house'), 0.2% per annum in Victoria and 2.4% per annum in the Northern Territory.

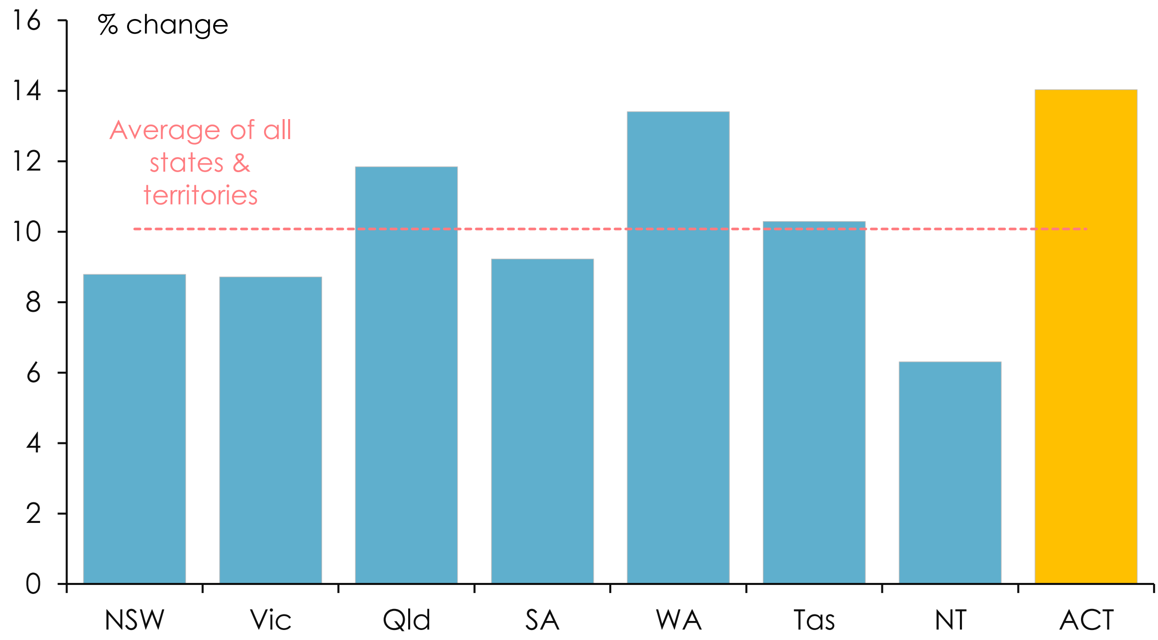
And public sector spending has continued to be the principal driver of economic growth in the ACT during the past three years. Over the three years to 2024-25, public sector spending has grown at an average annual rate of 4.0% in real terms, accounting for 3.5 percentage points (84%) of the growth in total Territory gross product over this period (compared with 3.7% per annum in the rest of Australia, accounting for 64% of the growth in the rest of Australia's gross product over the past years).

What *has* changed in the past three years is that the growth rate of Federal Government spending in the ACT has slowed – to an average annual rate of 3.6% per annum, from an average of 5.5% per annum over the preceding seven years – growth in ACT Government spending (on goods and services, as measured in the ABS *State Accounts*) has *accelerated* to an average of 6.3% per annum (in real terms) over the three years to 2024-25, from 3.0% per annum over the preceding seven years.

By contrast, in the rest of Australia, the growth rate of state and local government spending on goods and services has *slowed* from an average of 4.5% per annum, in real terms, over the seven years to 2022-23, to an average of 3.4% per annum over the past three years.

This distinction is also apparent from data on public sector employment. As illustrated in Chart 5, ACT government employment increased by 14.0% between June 2022 and June 2025, a larger increase than for combined state and local government employment in any other state or territory, and almost 4 percentage points more than the average for all states and territories.

Chart 5: Increase in state and local government public sector employment, states and territories, June 2022 through June 2025



Source: ABS, Public sector employment and earnings, 2024-25 financial year.

From the standpoint of the fiscal position of the ACT Government, there are two important take-aways from the discussion in this chapter:

- first, the deterioration in the ACT Government's financial position over the past decade, and in particular since the end of the Covid-19 pandemic in mid-2022, is *not* the result of a downturn in the ACT's economic fortunes – in contrast to, by way of example, the (rather more serious) deterioration in the financial position of the Northern Territory Government (which can be attributed in part to an outright contraction in the NT economy between 2021-22 and 2024-25); and
- at least some of the deterioration on the ACT Government's financial position since 2021-22, if not beforehand, can be put down to more rapid growth in government spending than in other jurisdictions – unaccompanied, as will be shown in the next chapter, by similarly more rapid growth in revenues.

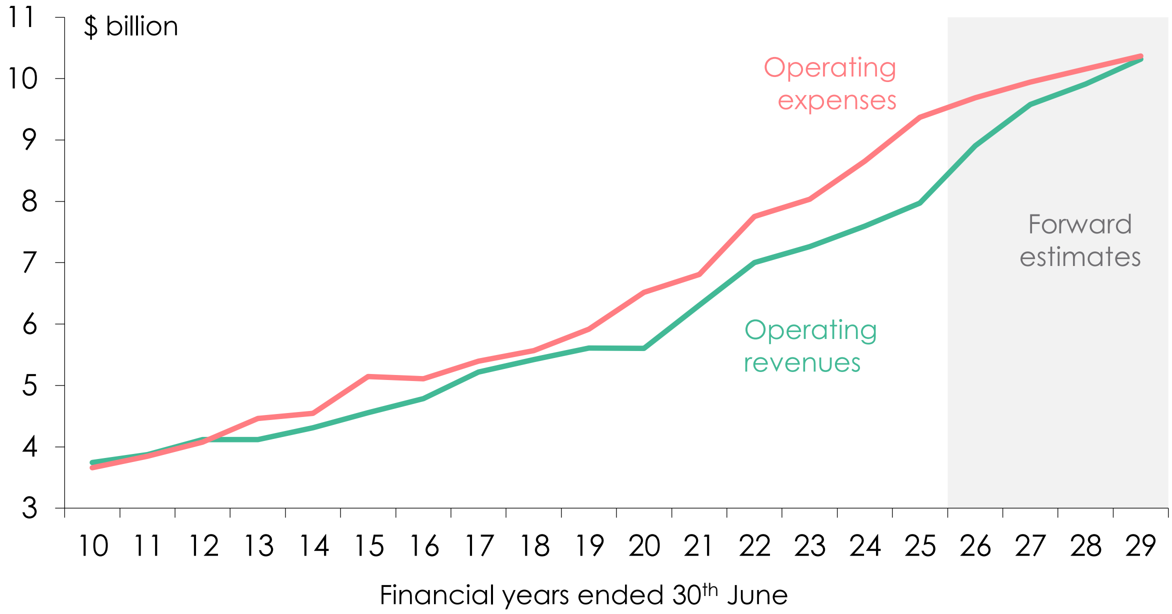
These two points are an important part of the context in which an assessment of the fiscal sustainability of the ACT Government can be made.

Chapter 3: Recent trends in the financial position of the ACT Government

The ACT Government's finances have deteriorated in multiple respects, in many cases significantly, over the past decade, and especially since 2022-23 – after the end of the Covid-19 pandemic, which has a significant adverse impact on the finances of every government in Australia, and around the world.

The ACT's 'general government operating expenses – the accrual accounting measure of all spending other than 'net acquisition of non-financial assets' (ie, roughly speaking, 'capital expenditures') – have consistently exceeded its revenues since 2012-13, and by an increasing margin over the past five years, and according to the most recent forward estimates (ACT Government 2026a: 10) are expected to continue to do so at least through 2028-29 (Chart 6).

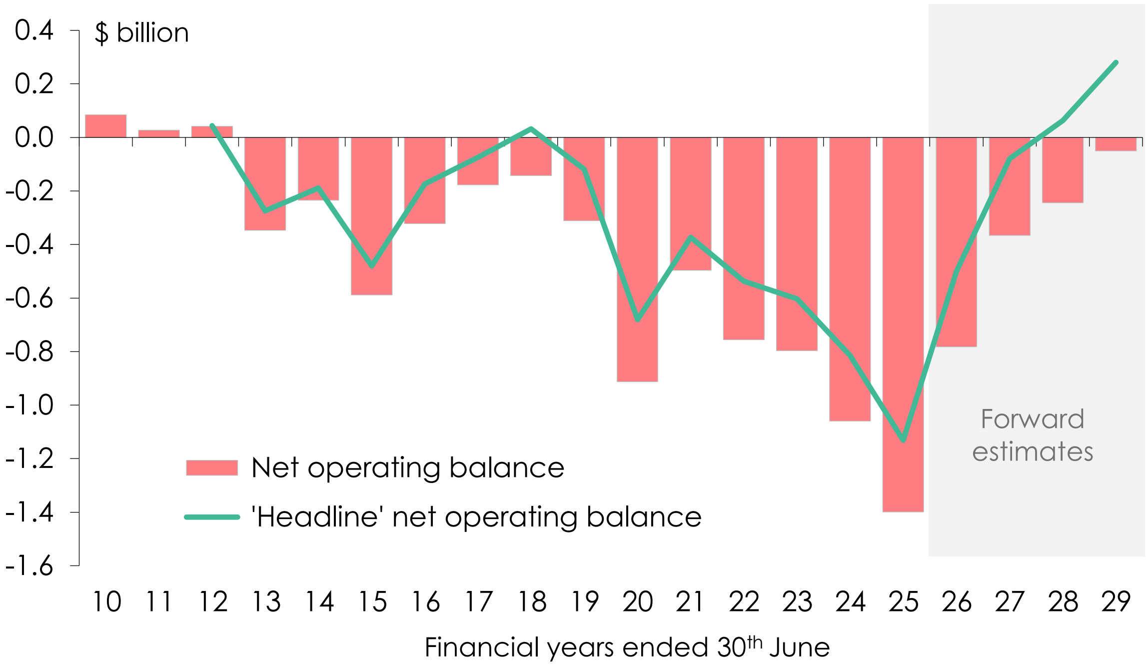
Chart 6: ACT 'general government' operating expenses and revenues, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29



Note: For a list of entities comprising the general government sector see ACT Government 2025b: 18). *Sources:* ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues; *2025-26 Budget Review*.

As a result, the ACT Government has incurred 'net operating deficits' totalling $6.4 billion over the past ten years (to 2024-25), of which more than half ($3.3 billion) have been incurred in the past three years; and expects to incur operating deficits totalling $1.4 billion over the four years to 2028-29 (Chart 7). The ACT Government's preferred 'bottom line' measure – the 'headline' operating balance, which includes the net gain on financial assets held by the Territory's Superannuation Provision Account (the 'superannuation return adjustment') is projected to return to surplus in 2027-28 (for more on this adjustment see ACT Government 2025a: 40 and Steel 2026a).

Chart 7: ACT 'general government' net operating balance, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29.



Note: The 'headline' net operating balance includes the superannuation return adjustment.
Sources: as for Chart 6.

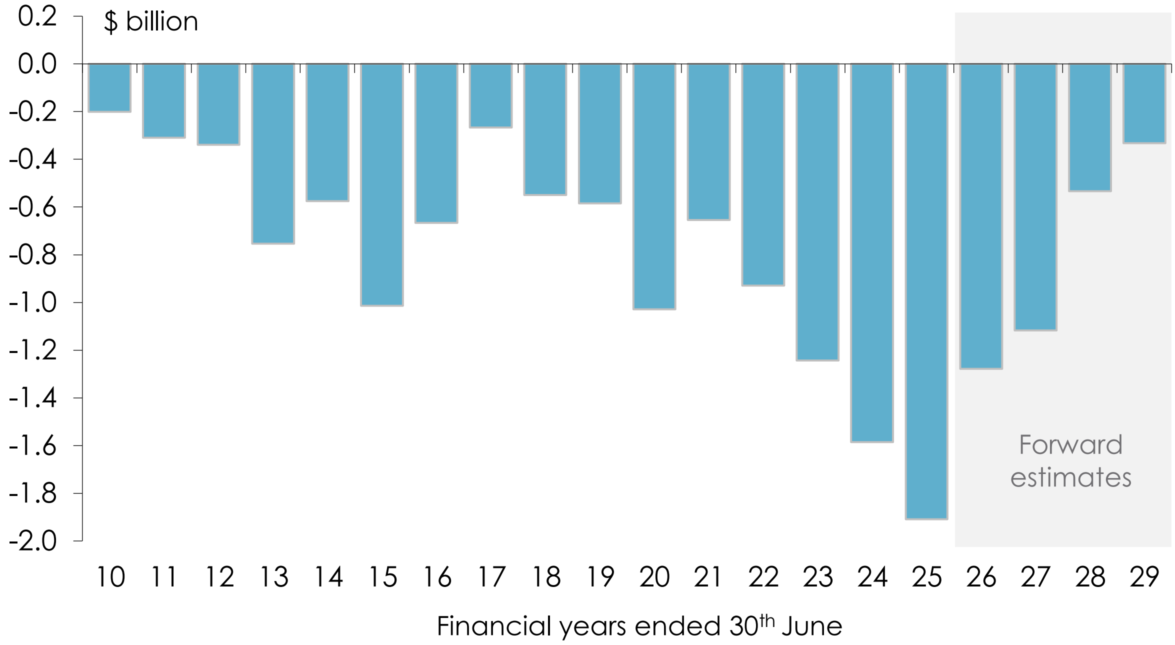
Although universally preferred by State and Territory Treasurers since the adoption of accrual accounting frameworks for the presentation of budget papers and financial reports beginning (in most jurisdictions) in the 1990s, the net operating balance presents an incomplete picture of the net result of a government's transactions. As noted above, it excludes 'net acquisition of non-financial assets', which, broadly speaking, refers to capital or infrastructure spending – even though it *includes*, on the revenue side, grants from the Federal Government towards those capital expenditures (such as for roads, and for the ACT Government's Light Rail Stages 2A and 2B)[7].

A more complete picture of the Government's bottom line is provided, within the accrual accounting framework by the '*fiscal balance*' (referred to in ABS publications as 'net lending'), or by its cash accounting equivalent, the *cash surplus or deficit*. In that context it is worth noting that almost all reporting, discussion and analysis of the Federal Budget focuses on the ('underlying') cash balance (see, eg, Chalmers and Gallagher 2025: 6-7 and 62-75).

Thus the ACT Government recorded fiscal deficits totalling $9.4 billion over the ten years to 2024-25, of which more than half ($4.7 billion) have been incurred over the past three years, and on the most recent forward estimates is expected to incur fiscal deficits totalling another $3.3 billion over the four years to 2028-29 (Chart 8).

[7] Tasmania is the only state or territory which identifies these grants for capital purposes separately, and derives an 'underlying' net operating balance excluding them: see Tasmanian Government 2025: 12-13. The ACT Government could, and should, do likewise.

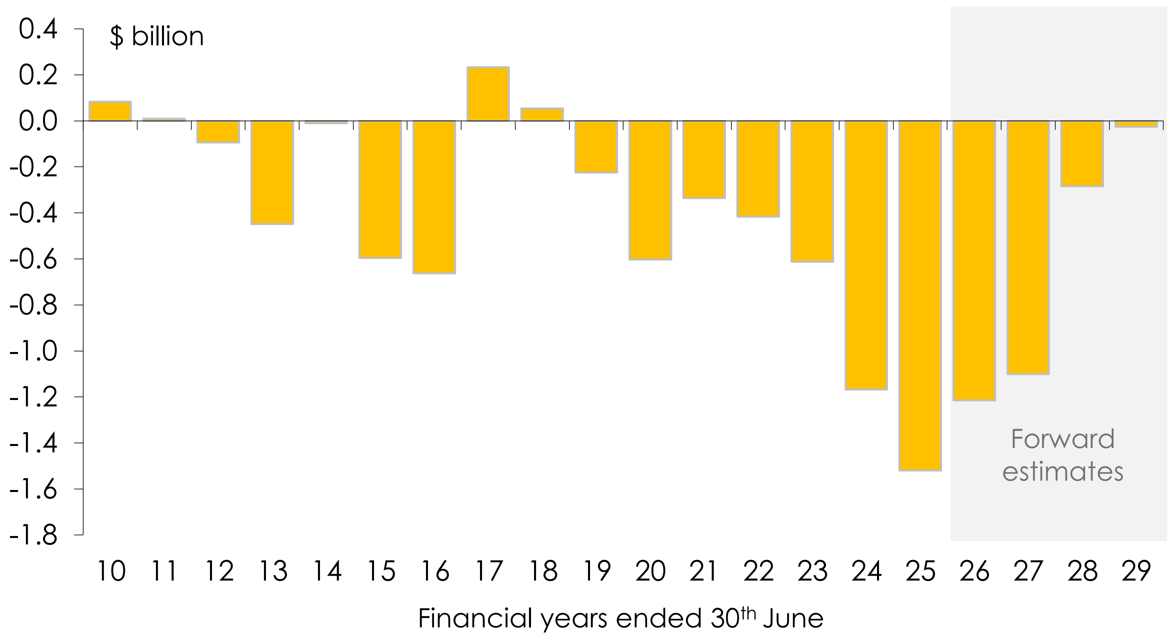
Chart 8: ACT 'general government' fiscal balance, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29



Sources: as for Chart 6.

Similarly, the ACT Government has incurred 'general government' cash deficits totalling $5.3 billion over the ten years to 2024-25 (inclusive of two cash surpluses in 2016-17 and 2017-18), of which $3.3 billion have been incurred in the past three years, and on the most recent forward estimates is expected to record cash deficits totalling $2.6 billion over the four years to 2028-29 (Chart 9).

Chart 9: ACT 'general government' cash balance, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29



Sources: as for Chart 6.

The significant increase in 'net purchases of non-financial assets' beginning in the 2022-23 financial year – as shown in Chart 10 – was, together with the deterioration in the operating balance shown in Chart 7 above – the major driver of the deterioration in these more comprehensive measures of the ACT Government's 'bottom line over the past three years.

Chart 10: ACT 'general government' purchases of non-financial assets, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29

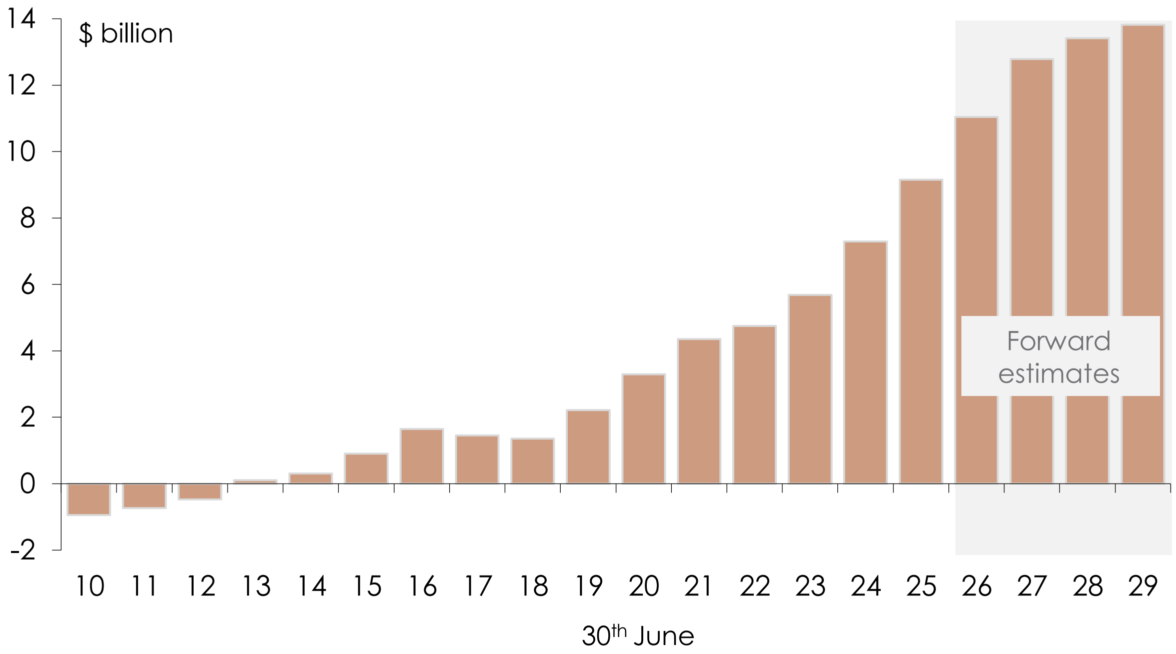
Sources: as for Chart 6.

It is the cash balance which largely drives changes in *net debt*. The ACT's general government net debt increased from $910 million at the end of the 2014-15 financial year to $9.15 billion at the end of the 2024-25 financial year – an increase of $8.2 billion, of which more than half ($4.4 billion) occurred over the past three years. The most recent forward estimates indicate that net debt is projected to increase by a further $4.7 billion, to $13.8 billion, by the end of the 2028-29 financial year (Chart 11 on the following page).

A direct result of the increase in net debt over the past decade, and prospectively over at least the next four years, is that the Territory is spending, and will continue to spend, increasing amounts on *interest payments*. The ACT Government's gross interest payments have more than trebled over the past ten years, from $159 million in 2014-15 to $494 million in 2024-25, with $243 million (more than three-quarters) of this increase having occurred over the past three years. And the interest bill is projected to more than double over the next four years, to over $1 billion by 2028-29.

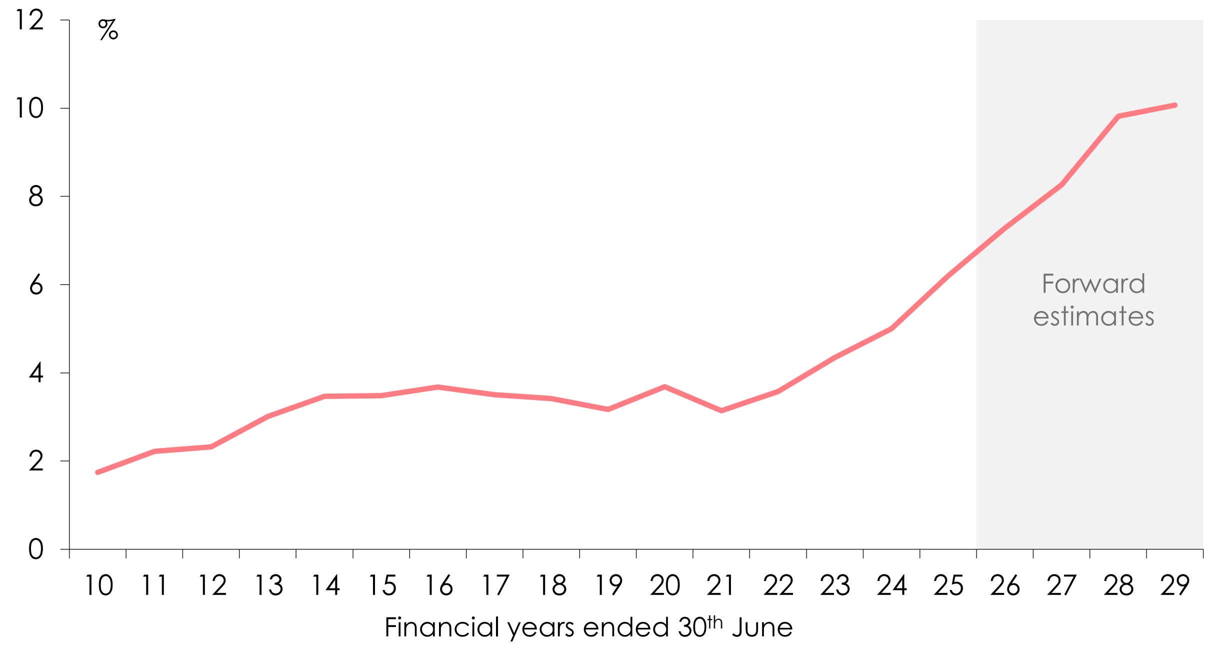
As a percentage of revenue, interest payments have risen from 3.5% in 2014-15 to 6.2% in 2024-25, with all but 0.1 percentage point of that increase occurring between 2021-22 and 2024-25, and according to the most recent forward estimates is projected to increase further to 10.1% of revenues by 2028-29 (Chart 12).

Chart 11: ACT 'general government' net debt, 2010-11 through 2024-25 and forward estimates for 2025-26 through 2028-29



Sources: as for Chart 6.

Chart 12: ACT 'general government' interest expense as a percentage of revenue, 2014-15 through 2024-25 and forward estimates for 2025-26 through 2028-29



Sources: as for Chart 6.

These forward estimates almost certainly under-estimate the extent to which interest payments will rise, given that both short- and longer-term interest rates have risen since those forward estimates were prepared.

The finances of the ACT's public non-financial corporations sector

The ACT's public non-financial corporations sector comprises Icon Water, Transport Canberra Operations, the Suburban Land Agency, the City Renewal Agency, Housing ACT and CIT Solutions Pty Ltd. Although smaller in number than other states and territories, in terms of the value of its assets and its commercial activities relative to the size of its economy, the ACT's public non-financial corporations sector is of similar size to that of most other states and territories (other than Tasmania and, by some measures, Western Australia). Unlike the other states and territories, the ACT does not have any public financial corporations.

The ACT's public non-financial corporations sector has consistently recorded 'operating surpluses' (broadly speaking, 'profits'), except in 2022-23 and 2023-24 (Chart 13a). But, like the 'general government' sector, the non-financial public sector's 'purchases of non-financial assets' have increased significantly since 2022-23, and according to the most recent forward estimates will rise substantially further in the current financial year and remain at an elevated level in 2026-27.

Chart 13a: ACT public non-financial corporations sector net operating balance

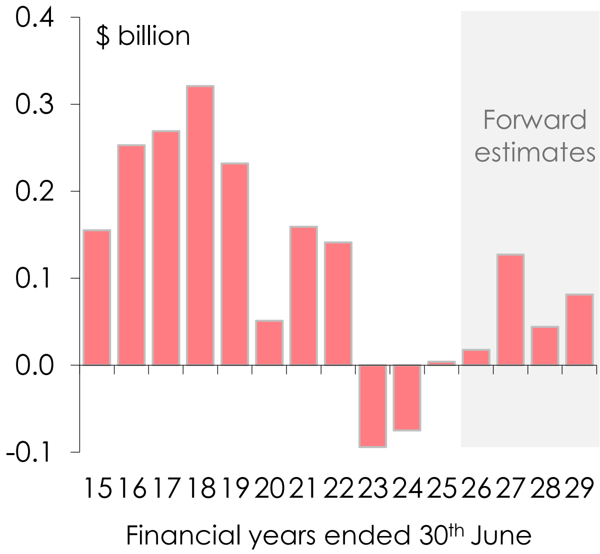
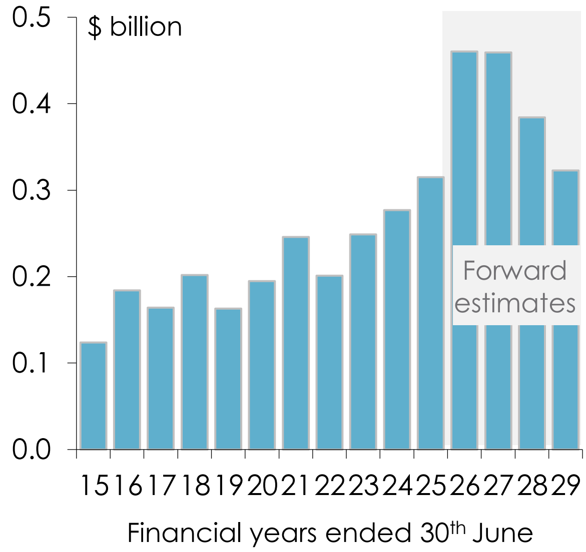


Chart 13b: ACT public non-financial corporations sector purchases of non-financial assets



Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues; *2025-26 Budget Review*.

The combination of operating deficits or smaller-than-usual operating surpluses and elevated levels of capital expenditure have resulted in the ACT's non-financial corporations sector running unprecedented cash deficits (Chart 14a), which have in turn driven an increase in the sector's net debt from just under $1.5 billion, as it had been between 2017-18 and 2021-22 (apart from a temporary increase in 2019-20) to over $2 billion at the end of 2024-25, and prospectively to $3 billion by the end of the 2028-29 financial year (Chart 14b).

Chart 14a: ACT public non-financial corporations sector cash balance

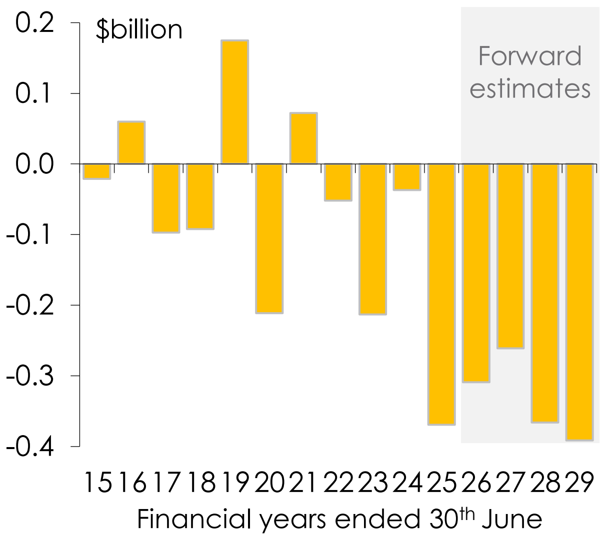
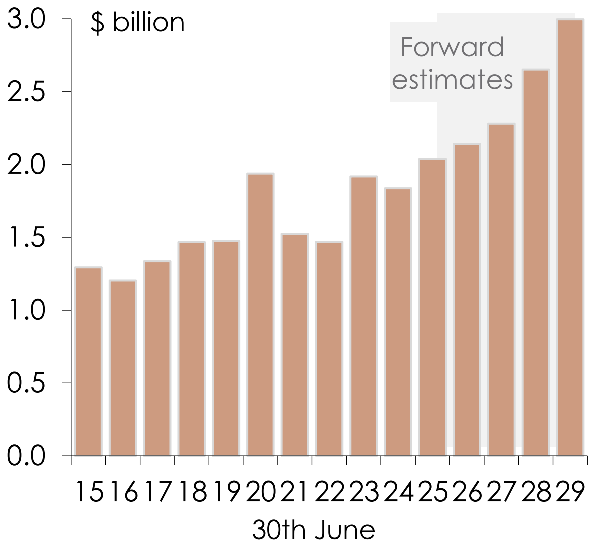


Chart 14b: ACT public non-financial corporations sector net debt



Sources: As for Charts 13a and b.

As a result of the increase in net debt, interest payable by the ACT's public non-financial corporations is projected to increase from $105 million in 2024-25 to $150 million by 2028-29, an increase of 43%; however because revenues of public non-financial corporations are also forecast to rise by more than 30% over this interval, the projected increase in the ratio of interest expense to revenues, from 8.3% to 8.7%, is much smaller than for the general government sector (as shown in Chart 12).

The finances of the ACT's total territory public sector

Inclusion of the public non-financial corporations sector does not substantially alter the general picture of the financial condition of the ACT's public sector as a whole – in contrast to, in particular, Tasmania, and to a lesser extent, Queensland.

Nonetheless, for completeness, this section summarizes recent trends in the financial position of the ACT public sector as a whole, which in turn provides a more appropriate picture for comparisons with other jurisdictions.

The ACT's total territory operating expenses have consistently exceeded its operating revenues since 2011-12, and particularly since 2019-20, resulting in persistent net operating deficits, peaking at $1.2 billion and $1.5 billion in 2023-24 and 2024-25 respectively – although these deficits are forecast to decline over the four years to 2028-29 (Charts 15a and 15b).

In addition, there has been a significant increase in total territory capital expenditures since 2022-23. These are forecast to continue to increase until 2026-27, after which they are currently projected to decline, albeit still remaining over $1 billion by 2028-29 (Chart 16a).

Chart 15a: ACT total territory operating revenue and expenses

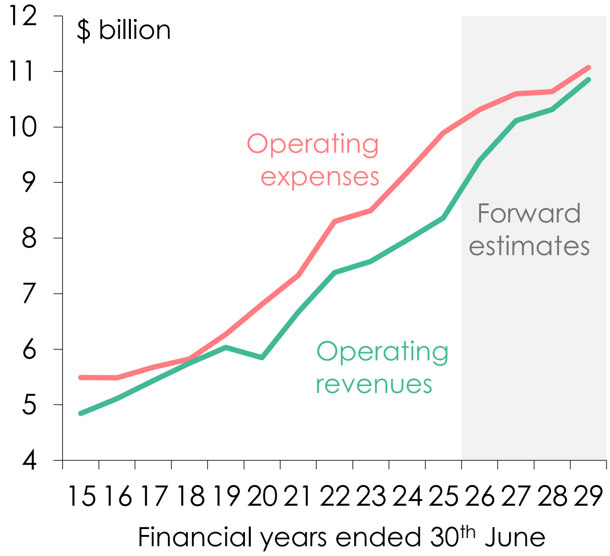
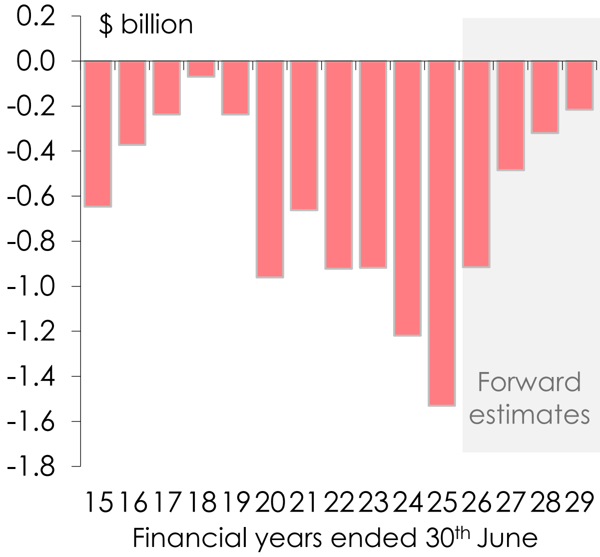


Chart 15b: ACT total territory net operating balance



Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues; *2025-26 Budget Review*.

Chart 16a: ACT total territory operating purchases of non-financial assets

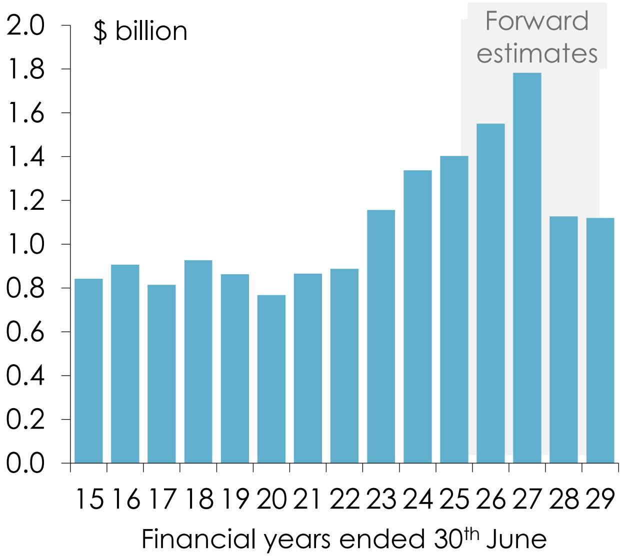
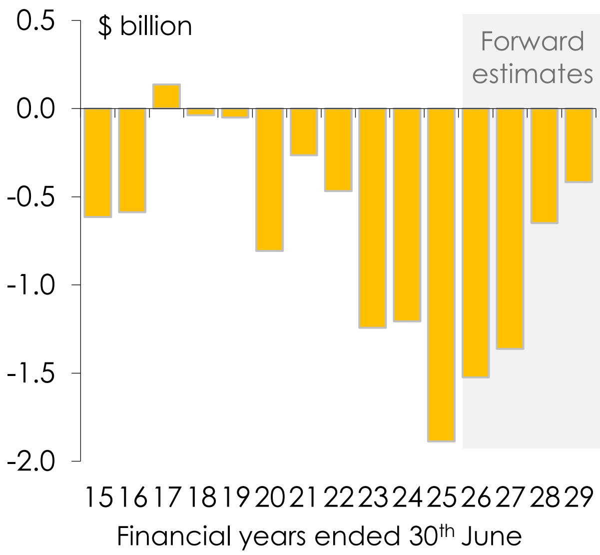


Chart 16b: ACT total territory cash balance



Sources: as for Charts 15a and b.

As a result of running these deficits, the ACT's total territory net debt – which had been steady at around $2.8 billion between 30th June 2016 and 30th June 2019 – rose to $6.5 billion by 30th June 2022 (after the Covid-19 pandemic) and then by a further 71%, to $11.2 billion, by 30th June 2025 (Chart 17a). The most recent forward estimates project that total Territory net debt will rise by a further 50%, to $16.8 billion, by 30th June 2029. Cumulatively that represents an increase of almost 500% over the eleven years to 2029.

Chart 17a: ACT total territory net debt

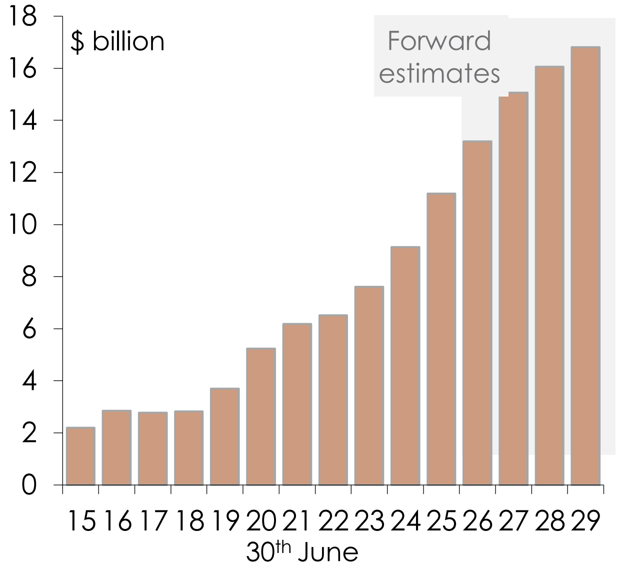
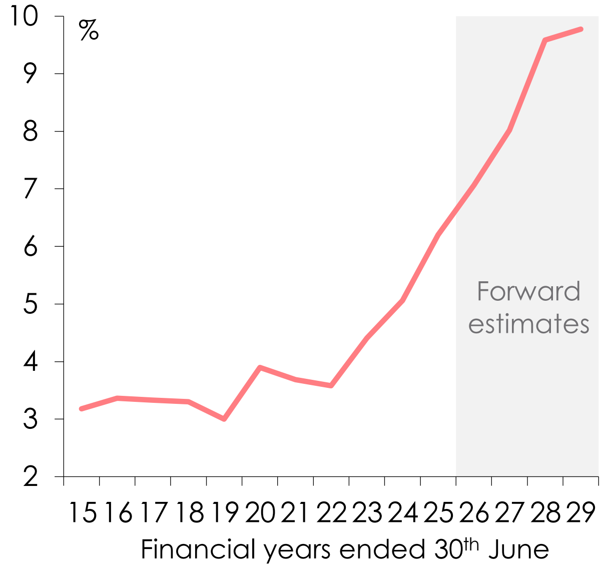


Chart 17b: ACT total territory net interest expense as a percentage of revenue



Sources: as for Charts 15a and b.

And the result of this increase in debt is that the ACT's (gross) interest expense has risen from less than $200 million per annum (3-3¼% of total territory revenue) in the latter years of the 2010s, to $519 million (6.2% of total revenues) in 2024-25, and is projected to increase to over $1 billion (9.8% of total revenues) by 2028-29 (Chart 17b).

Chapter 4: How and why the deterioration in the ACT's financial position happened

Chapter 3 outlined the major trends in the key indicators of the ACT Government's financial position, for both the 'general government' sector and the Territory's public non-financial corporations sector – in effect, describing "what happened". This Chapter seeks to explain "why it happened" – what were the major reasons for the trends described in Chapter 3.

Government budgets, at both the federal and state and territory levels, are routinely analysed and discussed in terms of the impact which they have on their respective economies; on households and businesses; and (in the case of federal budgets) on financial markets. In particular, there is usually a focus on the impact of '*policy decisions*' made by the government in question on the economy, on households and businesses (and particular groups within them) and on financial markets.

But there are also influences running in the opposite direction – from the economy, from the actions of households and businesses, and from the financial markets – to the shape of government budgets.

For a state or territory government, strong (or weak) growth in employment will have an impact on payroll tax revenues; the volume and value of property transactions will affect revenue from stamp duties on property transfers; changes in interest rates will (together with changes in the amount of public debt outstanding) drive changes in the government's interest payments. For governments of jurisdictions with significant mineral resources – such as Queensland and Western Australia – fluctuations in commodity prices will have a significant impact on the revenues which they collect from mineral royalties.

Non-economic events can also have a significant impact on state and territory budgets – the Covid-19 pandemic being the most recent, and substantial, example. States and territories bore the brunt of the increased demand for hospital and medical services resulting from the pandemic, and together with the Federal Government incurred significant expenses in shielding households and businesses from the costs of the protracted lockdowns which they imposed in attempts to restrict the spread of the pandemic. State and territory governments also typically incur substantial costs as a result of natural disasters, such as bushfires, floods and storms.

Finally, the finances of all state and territory governments are influenced, both positively and negatively, by decisions made by the Federal Government and its agencies. In particular, the annual recommendations made by the Commonwealth Grants Commission as to how the revenue from the GST should be distributed among the states and territories – along with changes in the size of the GST 'pool' (which depend for the most part on trends in Australia-wide spending on goods and services subject to GST) – are a major influence on the revenues available to state and territory governments.

That's especially so for the smaller states and territories, for whom their shares of revenue from the GST account for a much larger share of their total revenue – in the ACT's case, almost one quarter – than for the larger states.

State and territory government finances are also impacted by Federal Government decisions regarding payments for specific purposes (nowadays referred to as 'National Partnership Payments') such as hospitals, schools, roads, and social housing, and in the ACT's case, payments for national capital functions and for municipal services.

Federal Government decisions with regard to Australian Public Service staffing can also have a significant impact on the ACT's population and economy, with consequential effects on both sides of the ACT Government's budget.

All of these other influences (that is, of factors other than the direct impact of ACT Government 'policy decisions') on revenues and expenses (including capital expenditures) are referred to in the Territory's Budget Papers and other financial reports as *'technical adjustments'*[8].

Each year, the annual *Budget Outlook* and *Budget Review* papers provide a breakdown of movements in the forward estimates of revenues and expenses resulting from 'policy decisions' and from 'technical adjustments' (see, for example, ACT Government 2025a: 41-43 and 2026: 31-33).

Chart 18 shows the impact of 'policy decisions' and 'technical adjustments' on the forward estimates of the net operating balance of the ACT General Government sector in each budget since 2014-15. (The forward estimates in each Budget refer to the financial year to which the Budget specifically relates, and the three following financial years).

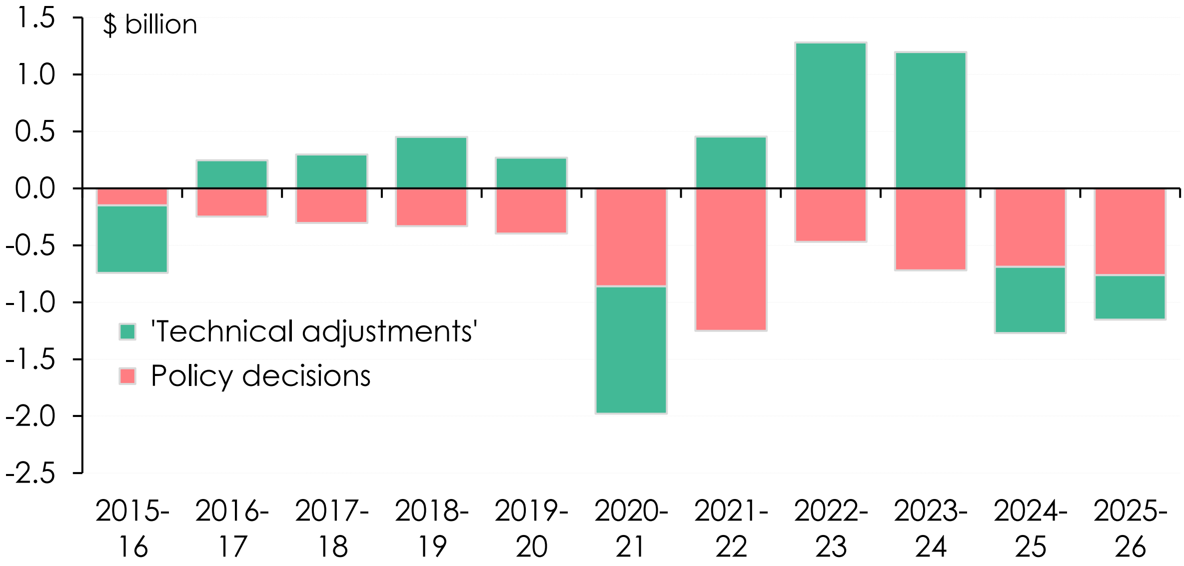
There are two clear messages from the data presented in Chart 18:

- 'policy decisions' have *worsened* the net operating balance (that is, reduced prospective surpluses or increased prospective deficits) by a cumulative $6.2 billion over the past 10 annual budget cycles, of which $2.1 billion were made during the two budgets most severely impacted by the Covid-19 pandemic (those of 2020-21 and 2021-22), and $2.6 billion were made in the four budgets since then (ie, those of 2022-23 through 2025-26);
- 'technical adjustments' *improved* the net operating balance by a cumulative $1.5 billion over the past 10 budget cycles, with a $1.1 billion 'hit' in 2020-21 (the worst year of the Covid pandemic) and negative 'adjustments' totalling just under $1 billion in the past two years being more than offset by positive 'adjustments' totalling $2.9 billion between 2021-22 and 2023-24.

Note that, almost certainly, the $6.2 billion figure for the cumulative net impact of 'policy decisions' on forward estimates of the net operating balance is an *under-statement* of the actual impact, because the forward estimates are for four-year periods, whereas the actual impact of 'policy decisions' will typically be longer than that.

[8] In the Federal Budget Papers, and in the budget papers of most other state governments, these are referred to as 'parameter variations'.

Chart 18: Impact of 'policy decisions' and 'technical adjustments' on four-year forward estimates of the ACT general government sector net operating balance, 2015-16 through 2025-26



Note: The figures presented above under-state the total impact of policy decisions and 'technical adjustments' over the period shown since they only cover the four years of the forward estimates period for each successive Budget. *Sources:* ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues; *2025-26 Budget Review*.

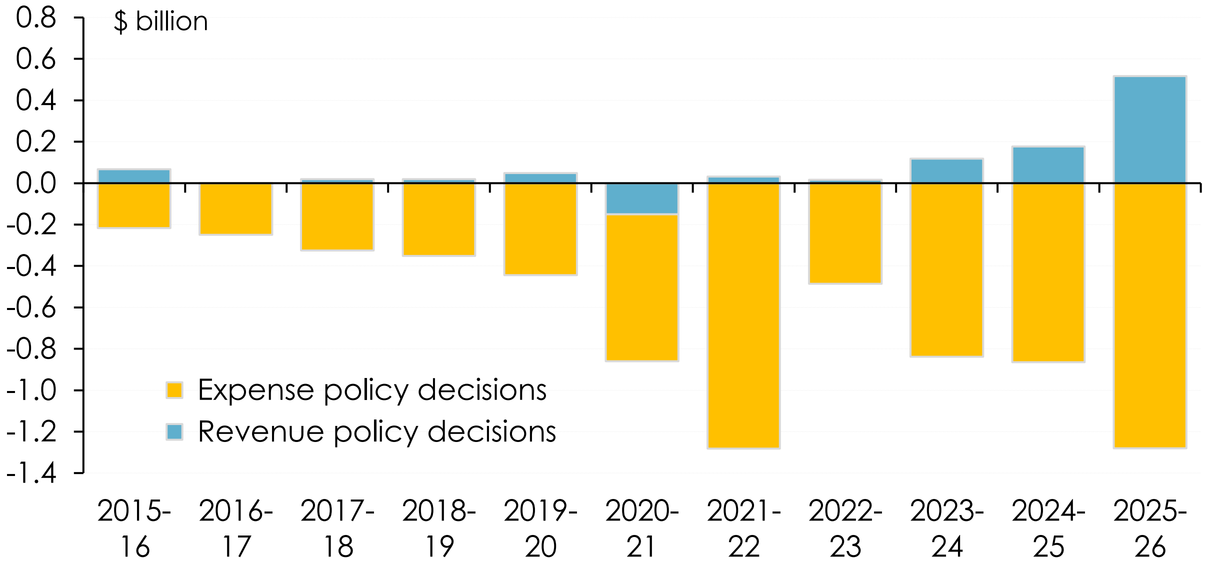
The impact of the 'policy decisions' taken in each annual Budget cycle on the net operating balance, as shown in Chart 18, can be further disaggregated into the impact of revenue and expense policy decisions – that is, decisions to raise or lower taxes and charges, and decisions to increase or reduce spending – on the forward estimates of the net operating balance over the four years following each annual Budget. This is shown in Chart 19. The key messages from the data presented in Chart 19 are:

- expense policy decisions have worsened the net operating balance by at least $7 billion over the past decade – of which $2 billion is attributable to decisions made in the 2020-21 and 2021-22 Budget cycles (when the Covid-19 pandemic was at its worst), and $3.5 billion is attributable to decisions made since the end of the pandemic; and

- by contrast, revenue policy decisions have improved the net operating balance (that is, offset the impact of expense policy decisions) by less than $0.9 billion over the past decade – that is, by only about 12% of the impact of expense policy decisions – nearly all of which have been made in the past three annual Budget cycles (that is, between the 2023-24 and 2025-26 Budgets).

As with the data presented in Chart 18, these estimates of the impact of expense and revenue policy decisions are almost certainly under-estimates, because they only cover the four years following the Budget to which these estimates relate, even though their impact is likely to continue beyond that four-year period.

Chart 19: Impact of revenue and expense policy decisions on four-year forward estimates of the ACT general government sector net operating balance, 2015-16 through 2025-26



Notes and sources: as for Chart 18.

The period covered by this Assessment can be usefully divided into four distinct sub-periods in order to shed more light on the reasons for the deterioration in the ACT's general government operating balance:

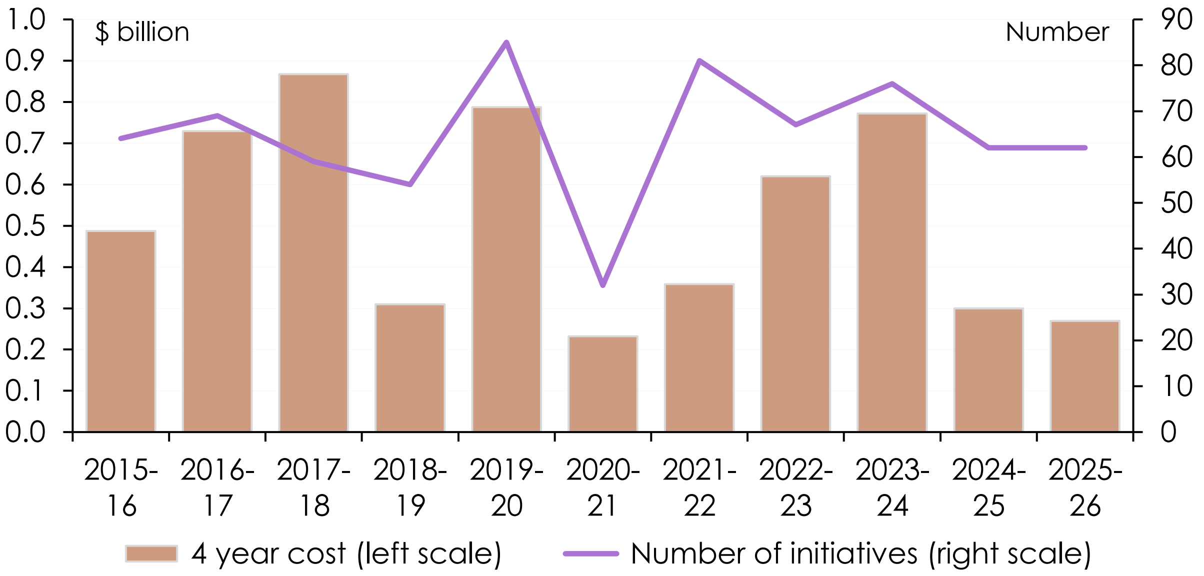
- between 2015-16 and 2018-19 (inclusive), operating expenses rose at an average annual rate of 3.6%, less than the growth rate of revenues, which averaged 5.3% per annum, so that (as shown in Chart 7 in Chapter 3), the net operating balance narrowed;
- between 2019-20 and 2021-22, with the onset of the Covid-19 pandemic, operating expenses grew at an average annual rate of 9.4% - of which over half was due to increased spending on health and on 'economic affairs' (largely reflecting payments to businesses affected by lockdowns) – whereas revenues rose at an average annual rate of 7.7%, resulting in a widening in the net operating deficit;
- between 2022-23 and 2024-25 – ie, after the end of the pandemic - operating expenses grew at an average annual rate of 6.5% while growth in revenues slowed to an average of only 4.4% per annum, resulting in a significant further widening in the net operating deficit. Employee expenses, which rose at an average annual rate of 10.0% over this period, accounted for 55% of the increase in total operating expenses between 2022-23 and 2024-25, while interest expense accounted for a further 15% of the total, increasing at an average annual rate of 25% over this period;
- the most recent forward estimates indicate that growth in operating expenses is expected to slow to an average of 2.6% per annum over the four years to 2028-29, with interest accounting for 55% of the increase in total operating expenses, whilst revenue is expected to grow at an average annual rate of 7.9%.

The reliability of the forward estimates presented in successive Budget Outlook and Budget Review documents is considered separately in Chapter 7.

As emphasized in Chapter 3, the net operating balance, though favoured by almost all state and territory Treasurers as 'the' measure of their budgets' 'bottom line', in fact presents an incomplete picture of their financial position because it excludes capital expenditures.

The impact of 'capital initiatives', as they are referred to in ACT Budget Papers and financial reports, taken in annual Budget cycles over the past decade on forward estimates of the general government fiscal balance is summarized in Chart 20.

Chart 20: Impact of 'capital initiatives' on four-year forward estimates of the ACT general government sector fiscal balance, 2015-16 through 2025-26



Notes and sources: as for Chart 18.

Chart 20 indicates that 'capital initiatives' have added some $5.7 billion to forward estimates of 'net purchases of non-financial assets' over the past ten annual Budget cycles, or just under half of total 'purchases of non-financial assets' over the period covered by these Budgets (the balance reflects continuing expenditure on initiatives taken in Budgets prior to 2015-16, and cost over-runs on initiatives contained in subsequent Budgets). Since the net operating balance has been in continuous deficit over the past decade, and prospectively over the four years to 2028-29, these 'capital initiatives', along with unforeseen cost over-runs on them, have been entirely financed by debt.

This assessment is not here making any assertions as to the merits of the operating expense or capital policy decisions which have been made over the past decade. Nor is it suggesting that governments should never incur budget deficits, or that all spending should be fully funded by taxation or other sources of revenue.

However it does make the following observations which are relevant to any assessment of the sustainability of the ACT Government's fiscal position:

- first, it is not ordinarily the function of sub-national (ie, state and territory) governments to run counter-cyclical fiscal policies – that is, consciously to incur budget deficits during economic downturns and (ideally) run budget surpluses during periods of strong economic growth, with a view either to preventing large fluctuations in economic activity or to ameliorate their impact on households and businesses – in Australia, as in most other 'advanced' economies, that is the responsibility of the national government;
- second, as a general principle, 'operating expenses' which are undertaken entirely in order to provide services to current generations of residents and taxpayers should ordinarily be paid for by those current generations (out of current revenues), rather than passing on some of the cost of those services to future generations who (for the most part) will not benefit from them; and
- third, while it is, in general, appropriate for at least some of the cost of providing infrastructure and other long-lived public assets from which future generations of residents and taxpayers will derive benefits to be paid for by those future generations – which can be achieved by funding part of that cost by borrowings which will be serviced and ultimately repaid by those future generations – there is no compelling reason why *all* of the costs of providing long-lived public assets should be devolved to future generations of residents and taxpayers (ie, why infrastructure and other capital spending should be *wholly* debt-funded).

These principles are not wholly or entirely immutable: for example, it could legitimately be argued that at least some of the expenses which the ACT Government, along with other state and territory governments, incurred during the Covid-19 pandemic were 'investments' in the very survival of individuals and businesses which, had they not been made, would have imposed losses on future generations as well as current ones. But such situations should be seen as the exception, rather than the rule.

The message of this Chapter, therefore, is that the ACT Government has, over the past decade, departed, in some cases materially, from these general principles of 'sound public finance'. In particular:

- it has not asked current ACT residents to pay for more than a small proportion of the additional spending which it has judged to have been appropriate (judgements which appears to have been endorsed through democratic processes); and
- it has passed the responsibility to pay for long-lived public assets from which current as well as future generations of ACT residents will benefit entirely to future generations.

The fact that most other state and territory governments have also departed, to a greater or lesser extent, from these general principles over the past decade should not be used as an 'excuse' for the ACT having done so.

Chapter 5: Trends in the ACT's financial position compared with those in other jurisdictions

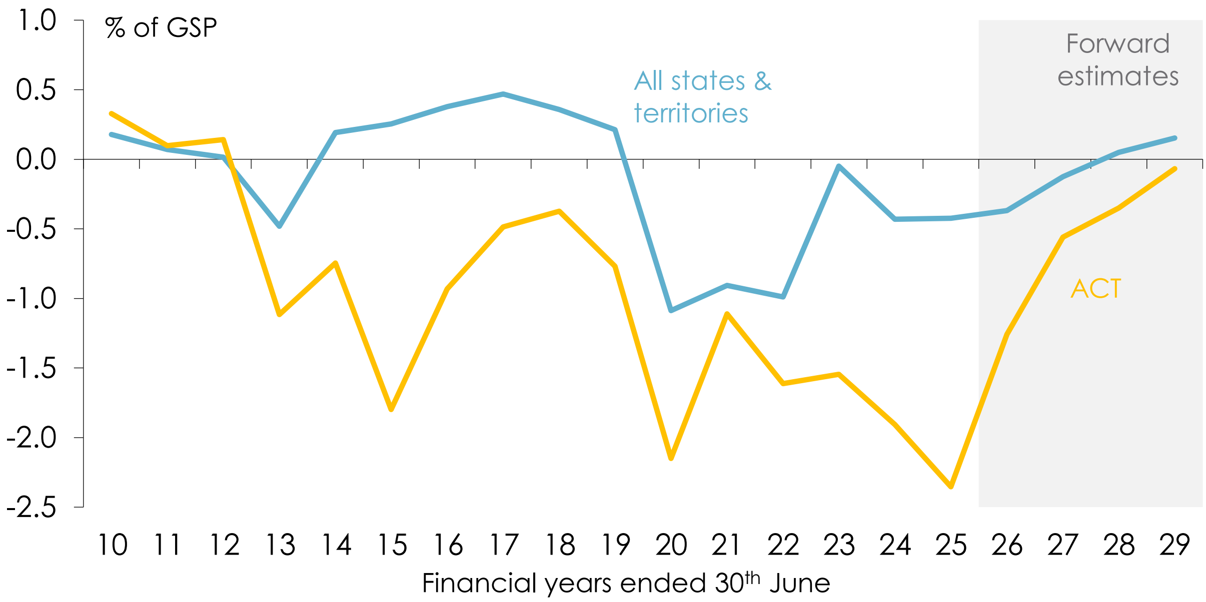
As mentioned at the end of Chapter 4, the ACT has not been alone in experiencing a significant deterioration in its fiscal position over the past decade, or over the past three or four years. With the conspicuous exception of Western Australia – which has benefited from unprecedently buoyant mineral royalty revenues and its ability to use political 'muscle' (resulting from, in effect, holding the 'balance of power' in the national House of Representatives between the 2016 and 2025 Federal elections) to extract highly favourable (to it) changes in the distribution of GST revenues – all the other states and the Northern Territory are in a considerably worse financial position than they were a decade ago, or immediately before the onset of the Covid-19 pandemic.

This Chapter sets out where the ACT 'fits in' to this general picture. In doing so, it is conscious of the need, spelled out in Chapter 1, for some caution in making comparisons between the ACT and other jurisdictions resulting from the ACT's unique circumstances. Most comparisons are made using data expressed as percentages of gross state product, in order to account for differences in the size of the economies in which each state and territory government operates.

The general government sector

The ACT has run consistently larger general government operating deficits than the all-states-and-territories average since the early 2010s, as shown in Chart 21. The gap between the ACT and the all-states-and-territories average has widened significantly since 2022-23 – although it is forecast to narrow over the four years to 2028-29.

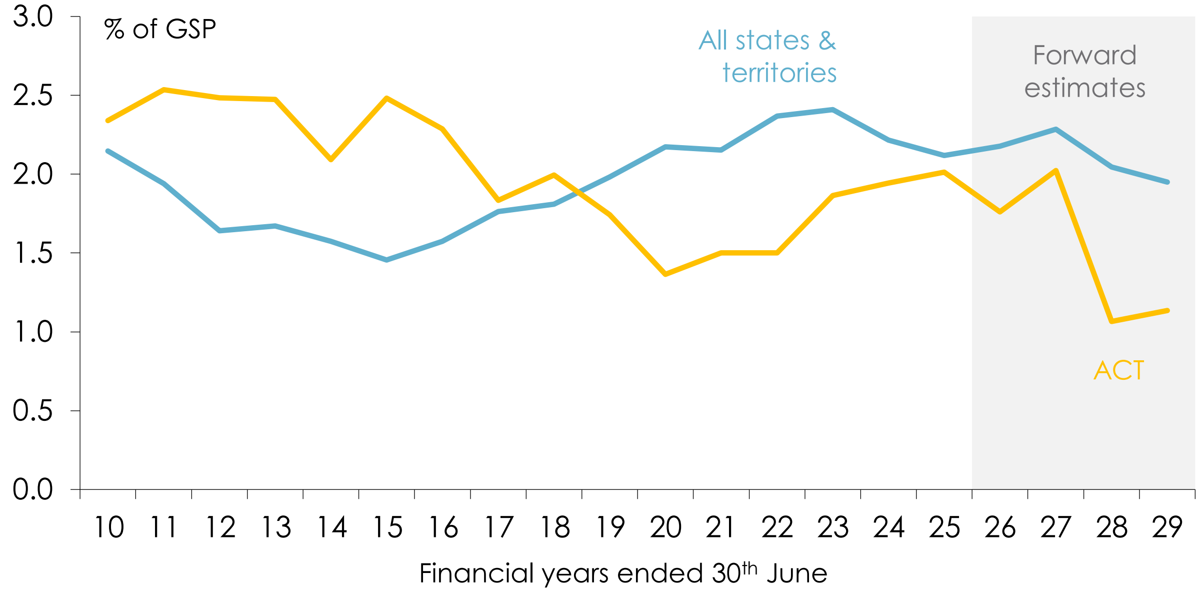
Chart 21: General government net operating deficits, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: Consolidated financial reports for 2024-25 and previous years, and 2025-26 mid-year budget reviews for the ACT and other states and the Northern Territory.

Partly offsetting this, the ACT's purchases of non-financial assets ('capital expenditures') have been smaller, as a percentage of gross state product, than the average for all states and territories since 2018-19, as shown in Chart 22.

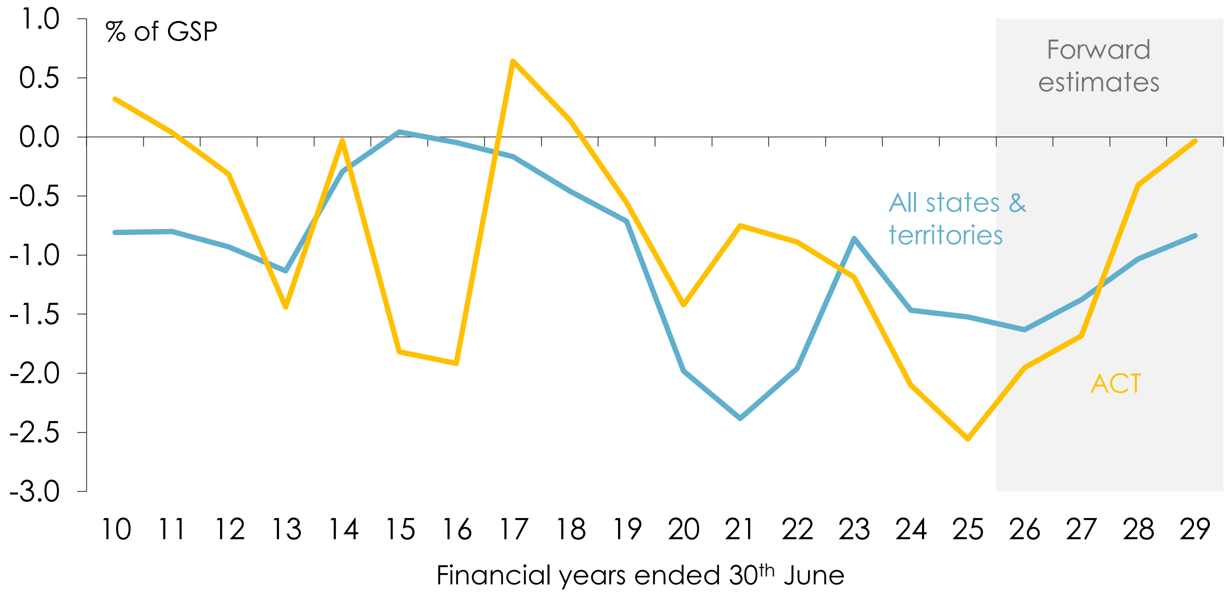
Chart 22: General government purchases of non-financial assets, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: As for Chart 21.

The net effect of the ACT's relatively larger net operating deficits but smaller capital expenditure programs than the corresponding averages for all jurisdictions is that the ACT has incurred larger-than-average cash deficits since 2022-23, and is forecast to continue doing so through 2026-27, after which the ACT's cash deficits are expected to become smaller than the all-states-and-territories average (Chart 23).

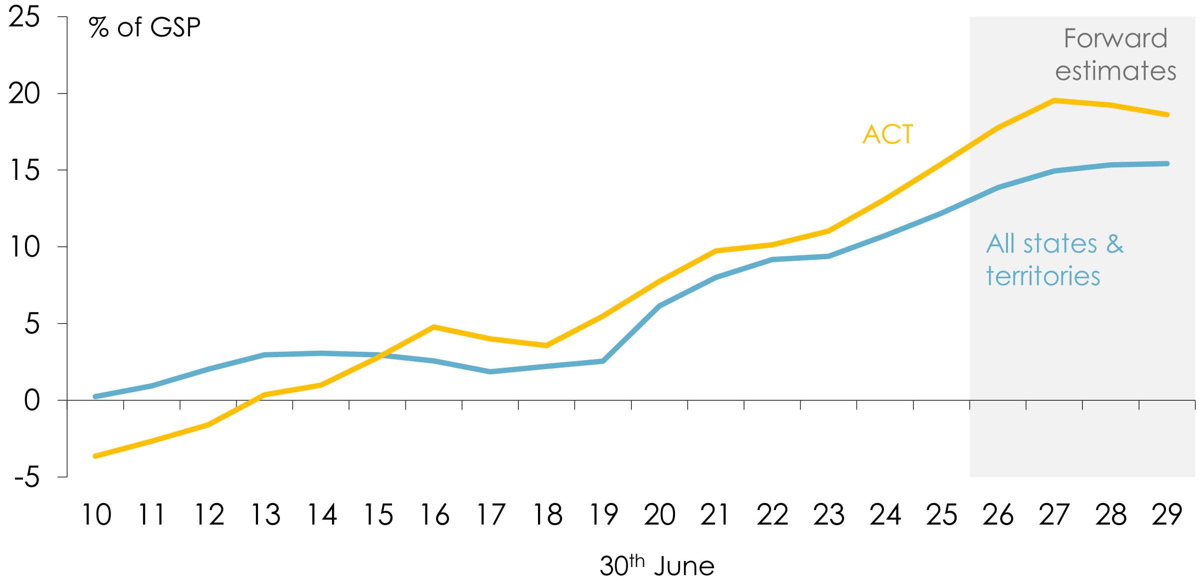
Chart 23: General government cash balances, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: As for Chart 21.

The ACT's general government net debt has been larger, as a percentage of gross state product, than all-states-and-territories average, since the 2015-16 financial year. The 'gap' between the ACT and the all-states-and-territories average net-debt-to-GSP ratios began widening in 2023-24, and will continue widening through to 2026-27, after which it is forecast to narrow somewhat, as shown in Chart 24.

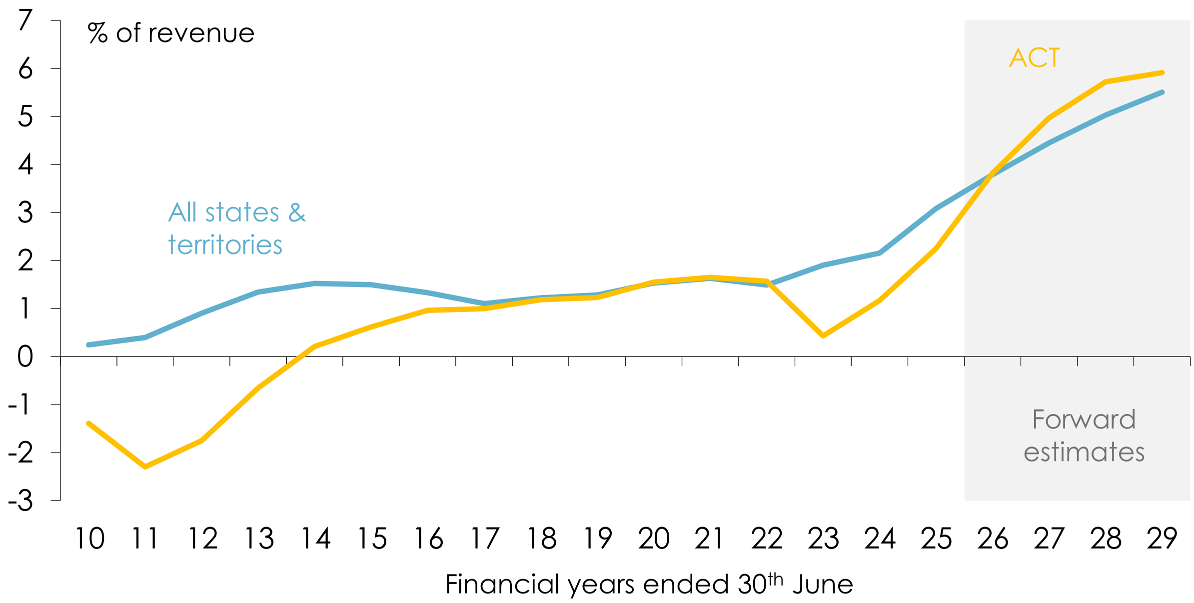
Chart 24: General government net debt, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: As for Chart 21.

And as a result of this increase in net debt, an above-average percentage of the ACT's revenue is projected to be diverted to net interest payments over the next four years (Chart 25).

Chart 25: General government net interest expense as a percentage of revenue, ACT and average of all states and territories, 2010-11 to 2028-29



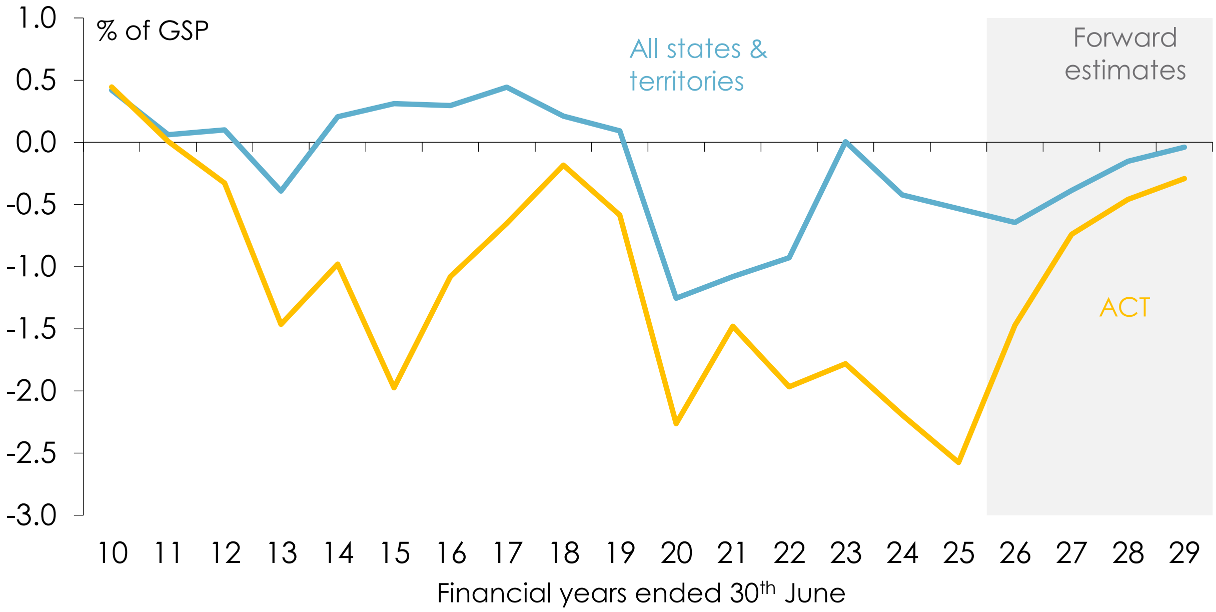
Sources: As for Chart 21.

The public sector as a whole

As noted in Chapter 3, including public non-financial corporations does not make as large a difference to the overall picture of the financial position of the ACT's public sector as a whole as it does for some of the states.

The net operating balance of the total ACT public sector has widened considerably more than the average for all states and territories since the end of the Covid-19 pandemic, but is expected to narrow towards the all-states-and-territories average over the next four years, as shown in Chart 26 below.

Chart 26: Total non-financial public sector net operating balances, ACT and average of all states and territories, 2010-11 to 2028-29

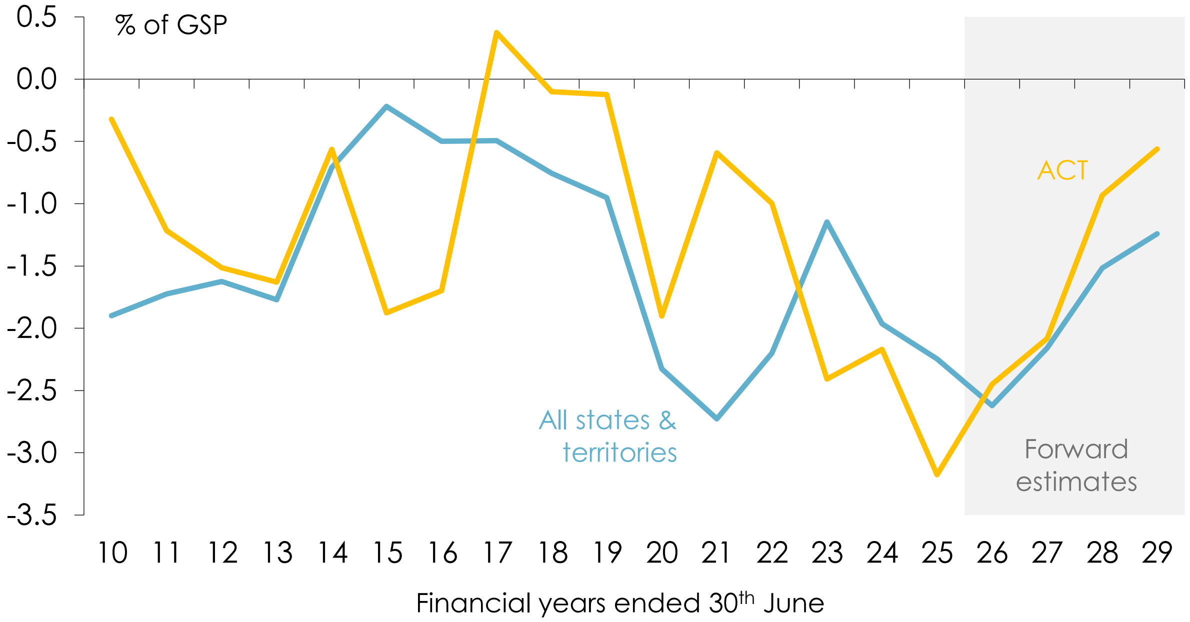


Sources: Consolidated financial reports for 2024-25 and previous years, and 2025-26 mid-year budget reviews for the ACT and other states and the Northern Territory.

However, because the ACT's total capital expenditure program (including that of the ACT's public enterprises) is smaller, relative to the ACT's economy, than that of most of the states, the ACT's total public sector cash deficits have been closer to, albeit still larger than, the all-states-and-territories average since the end of the Covid-pandemic than the net operating balances have been. On current forward estimates, the ACT's cash deficits are projected to smaller, as a percentage of gross product, than the all-states-and-territories average over the next four years (Chart 27).

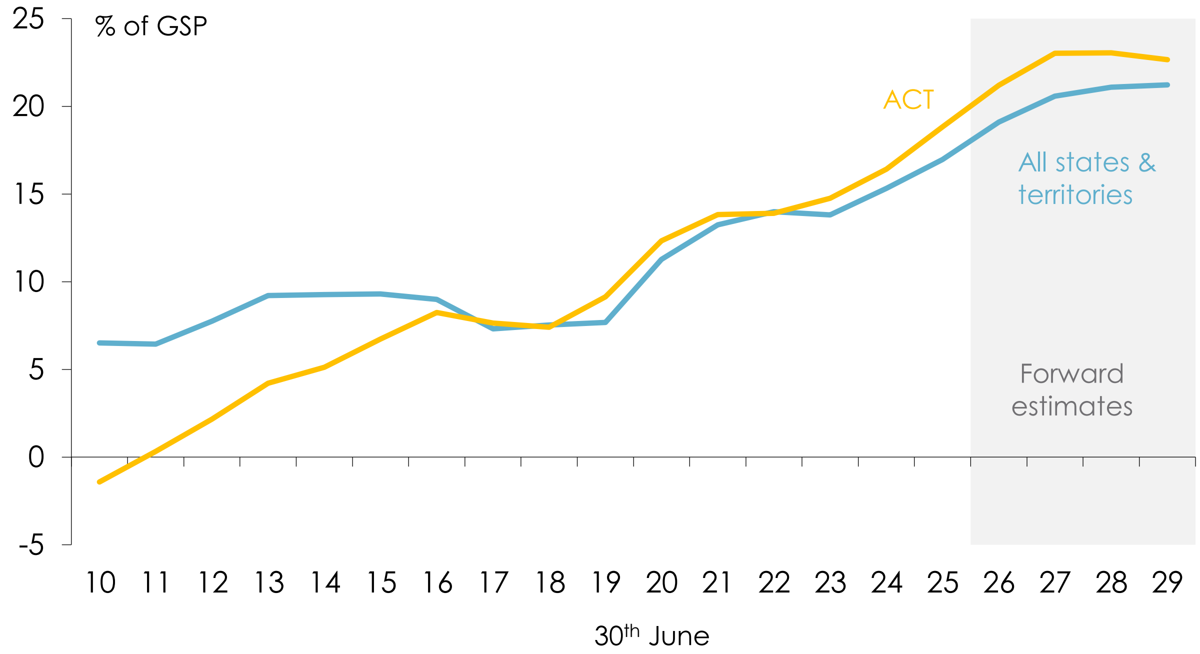
The ACT's total public sector net debt has been slightly larger as a proportion of gross product than the all-states-and-territories average since 2018-19, with the margin widening somewhat over the past three years, and projected to widen a little further up to 2026-27, before narrowing slightly over the two years to 2028-29 (Chart 28),

Chart 27: Total non-financial public sector cash balances, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: As for Chart 26.

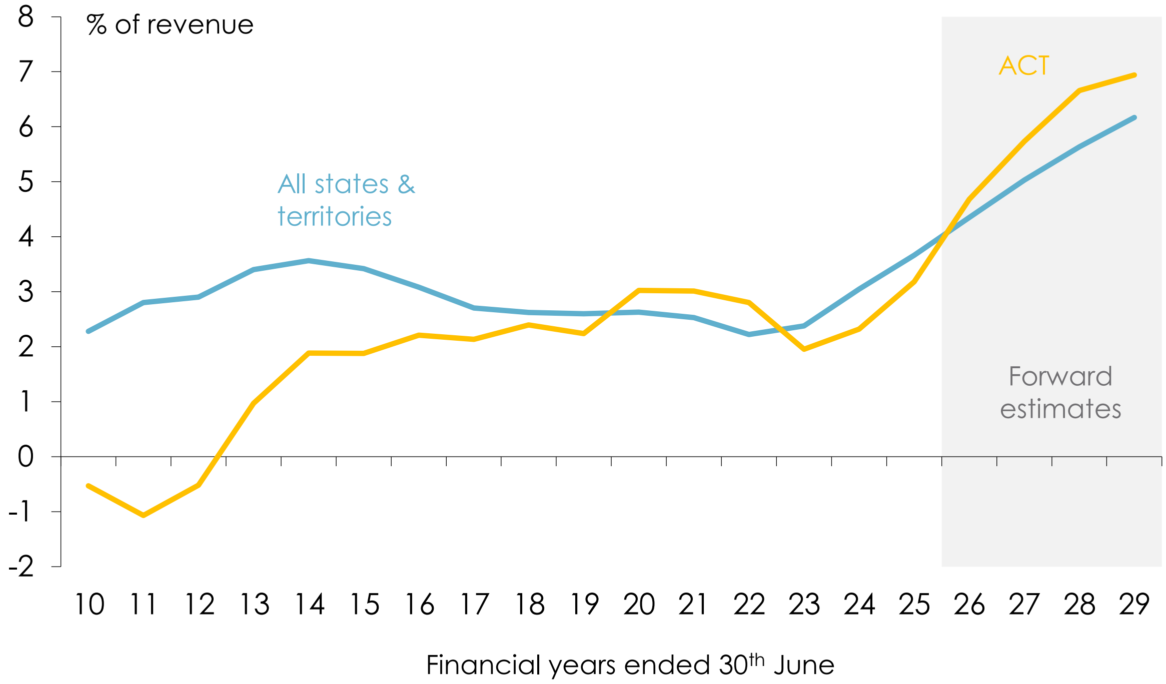
Chart 28: Total non-financial public sector net debt, ACT and average of all states and territories, 2010-11 to 2028-29



Sources: As for Chart 26.

Reflecting the faster increase in the ACT's total public sector net debt, relative to the all-states-and-territories average since the end of the Covid pandemic, the Territory's total net interest expense, as a percentage of total revenues, is projected to be higher than the all-states-and-territories average over the next four years (Chart 29).

Chart 29: Total non-financial public sector net interest expense as a percentage of revenue, ACT and average of all states and territories, 2010-11 to 2028-29

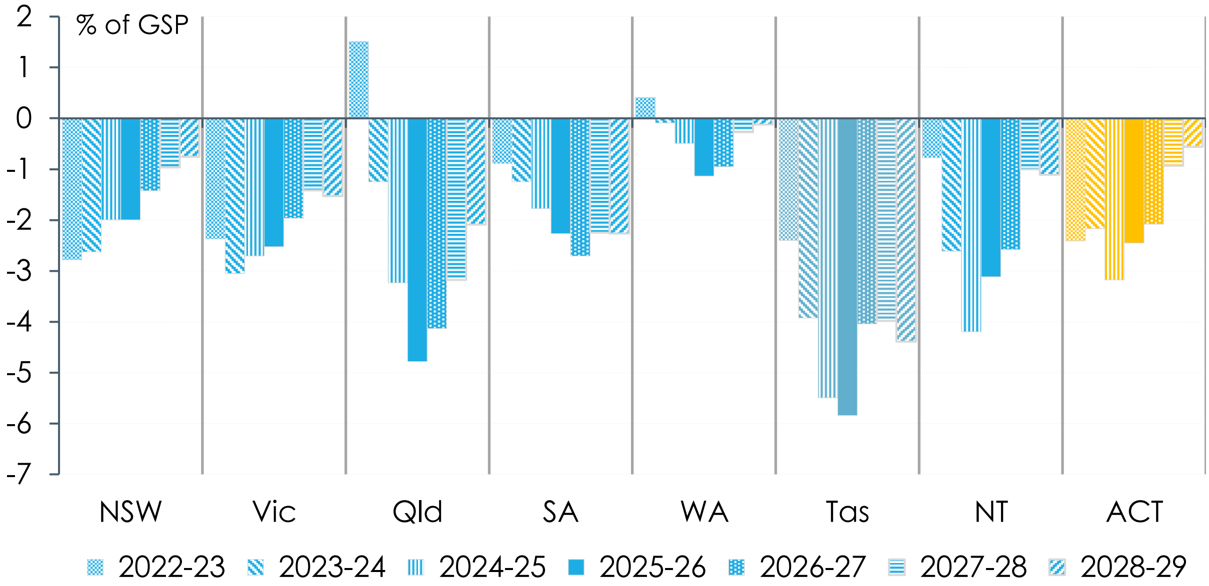


Sources: As for Chart 26.

As a further illustration of the ACT's overall financial position relative to that of other jurisdictions, Chart 30 shows the cash balance outcomes for the ACT and each of the other jurisdictions for the years 2022-23 through 2024-25, together with the most recent forward estimates for the years 2025-26 through 2028-29, expressed as percentages of gross state product, while Chart 31 shows total non-financial sector net debt for the ACT and each of the other jurisdictions as percentages of gross state product over the same intervals:

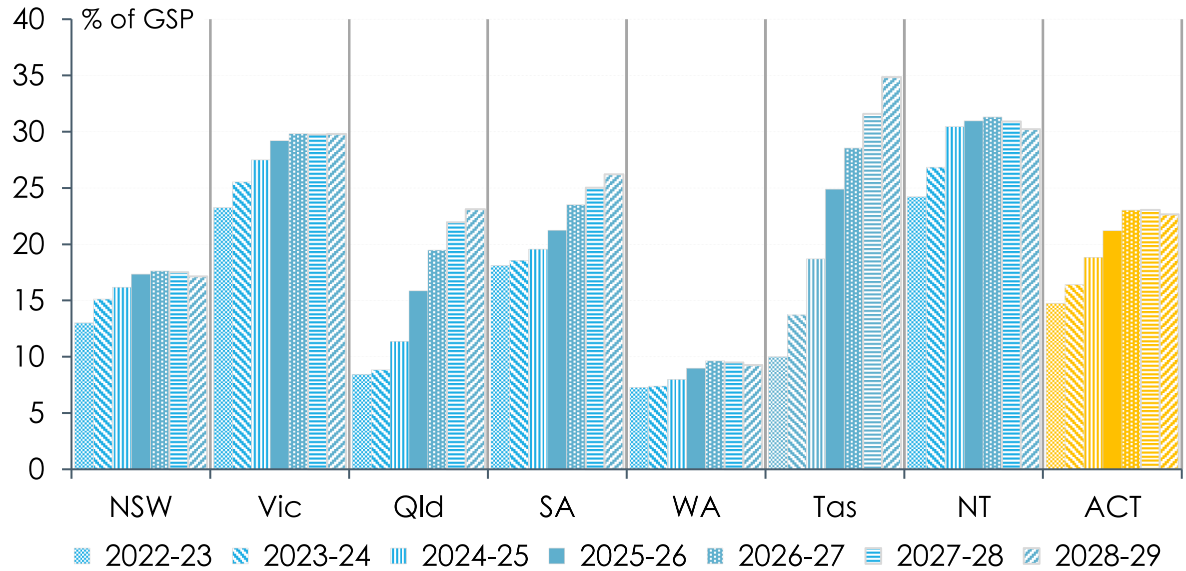
- the ACT's total public sector cash deficits averaged 2.6% of GSP over the three years to 2024-25, larger than those of Western Australia, Queensland, South Australia, New South Wales and the Northern Territory, but smaller than those of Victoria and Tasmania;
- the most recent forward estimates project that the ACT public sector will incur cash deficits averaging 1.5% of GSP over the four years to 2028-29, larger than those of Western Australia and New South Wales, but smaller than those of Victoria, the Northern Territory, South Australia, Queensland and Tasmania;
- the ACT's total public sector net debt as at 30th June 2025 was equivalent to 18.8% of GSP, a higher figure than those for Western Australia, Queensland, New South Wales, and (by 0.1 pc point) Tasmania, but lower than those for Victoria and the Northern Territory; and
- the ACT's total public sector debt is most recently projected to peak at 23.1% of GDP as at June 2028, and then decline to 22.7% of GSP by June 2029, which would be higher than for Western Australia and New South Wales, but lower than for the other states and the Northern Territory.

Chart 30: Total non-financial public sector cash balances as percentages of gross state product, individual states and territories, 2022-23 through 2028-29



Sources: Consolidated financial reports for 2024-25 and previous years, and 2025-26 mid-year budget reviews for the ACT and other states and the Northern Territory.

Chart 31: Total non-financial public sector net debt as percentages of gross state product, individual states and territories, 2022-23 through 2028-29



Sources: As for Chart 30.

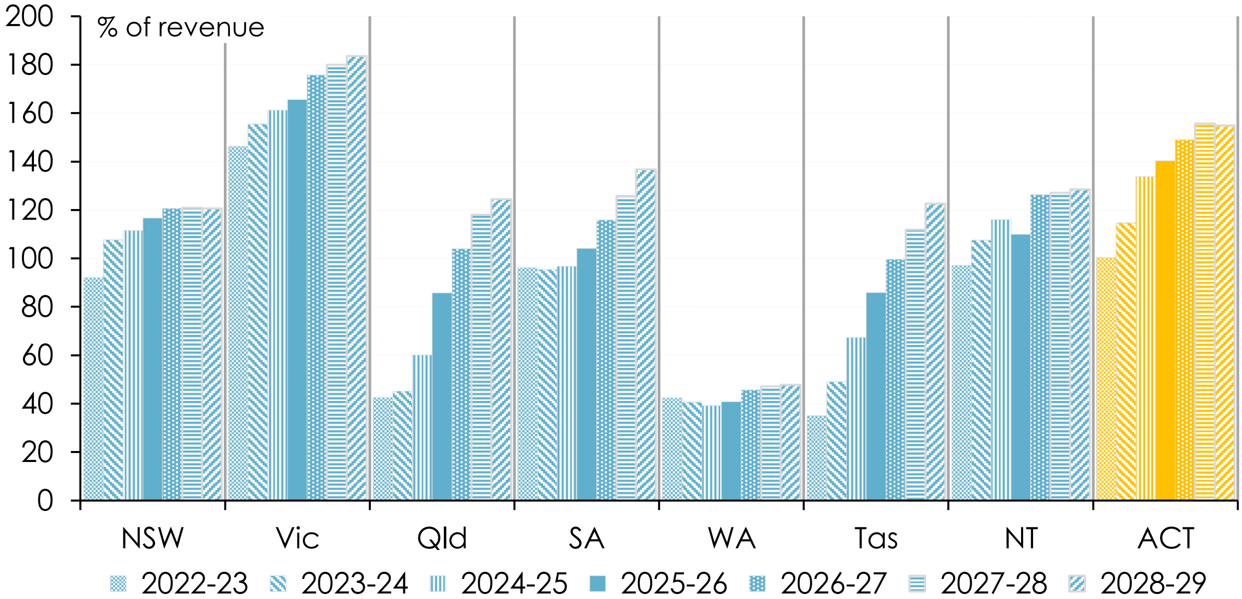
Overall, therefore, the ACT's financial position can reasonably be described as more serious than Western Australia's (in particular) and New South Wales, similar in most respects to Queensland's and South Australia's, and not as bad as Victoria's, the Northern Territory's or Tasmania's. However none of the states' or territories' financial position – other than Western Australia's – could be objectively characterized as 'good' or 'sound'.

Credit rating agency S&P Global lowered the ACT's credit rating from AA+ to AA in September last year, citing the Territory's "significant budget deficits and large capital expenditure pipeline" (S&P Global 2025), and putting the ACT on the same 'rung' as Victoria and Tasmania[9]. New South Wales and Queensland are still rated AA+, but are listed as being on 'negative watch', implying that a downgrade of their credit rating is a possibility; while South Australia is also rated AA+ but 'stable'. Western Australia is the only state with a AAA rating from S&P.

S&P Global's decision to put the ACT on the same 'rung' as Victoria and Tasmania stems in large part from the fact that credit rating agencies typically assess net debt by comparing it to government revenue (from which debt is serviced) rather than to gross state product as economists (including this assessment) more commonly do. And because the ACT's ratio of revenue to GSP is the lowest of any state or territory – at 14.1% of GSP in 2024-25, compared with the all-states-and-territories average of 17.6%), the ACT's net debt to revenue ratio is actually the second highest among the states and territories, exceeded only by Victoria, as shown in Chart 32.

Credit rating agencies also typically have more demanding thresholds for smaller jurisdictions such as the ACT, the Northern Territory and Tasmania, than for states with larger and more diversified economies, because they regard smaller economies – and hence the finances of their governments – as more vulnerable to abrupt changes in economic activity, and to factors beyond the control of their governments (including changes in Federal Government grants). That in turn means that smaller jurisdictions typically need to have lower interest- or debt-to-revenue ratios than larger jurisdictions in order to have a similar credit rating.

Chart 32: Total non-financial public sector net debt as percentages of operating revenue, individual states and territories, 2022-23 through 2028-29



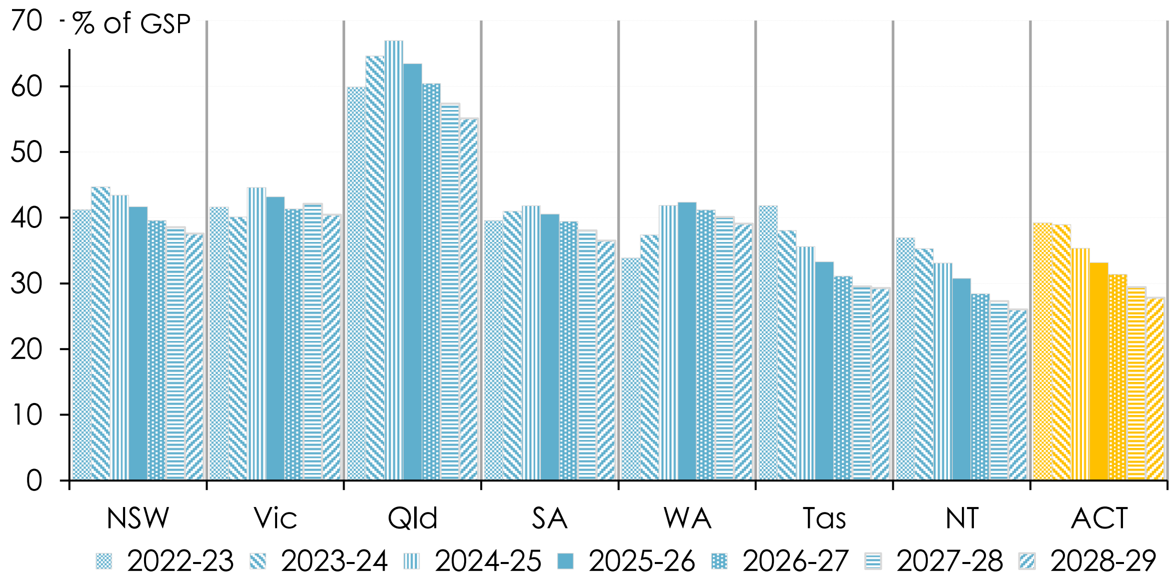
Sources: As for Chart 30.

[9] S&P Global does not rate the Northern Territory, while the other major global credit rating agency, Moody's, does not rate the ACT.

One other criterion which ACT Budget Papers routinely point to is the purported 'strength' of the ACT's balance sheet as indicated by its 'net worth' – that is, the excess of assets over liabilities (which includes liabilities such as unfunded superannuation as well as conventional debt) (see for example ACT Government 2025a: 46 and 222, and 2026: 35 and 69).

In fact, as shown in Chart 33, the ACT's total public sector net worth is lower, relative to the size of the ACT's economy, than that of any other jurisdiction except the Northern Territory, and as a percentage of GSP has declined by 9.5 percentage points over the past decade, one of only three jurisdictions where the net-worth-to-GSP ratio has fallen during this period. Moreover, the most recent forward estimates indicate that this ratio for the ACT is expected to decline by a further 7.5 percentage points over the four years to June 2029.

Chart 33: Total non-financial public sector net worth as percentages of gross state product, individual states and territories, 2022-23 through 2028-29



Note: Queensland's net-worth-to-GSP ratio is significantly higher than that of other states and territories because it has traditionally funded its public sector superannuation liabilities, and because it has a relatively large government business enterprises sector. *Sources:* As for Chart 30.

Credit rating agencies typically do not pay much attention to measures of public sector net worth because many public sector assets are not readily saleable and/or because there is little political appetite to sell those assets which conceivably could be sold to private sector purchasers – and hence are not readily available to repay debt in the way that assets owned by corporations and households are regarded (by lenders) as 'security' for debt.

Chapter 6: Medium-term prospects for the ACT's finances

This Chapter sets out prospective trends in broad indicators of the ACT's general government sector finances over the decade to 2035-36.

The Australian Parliamentary Budget Office (APBO) provided technical assistance with the budget accounting frameworks underpinning the modelling presented in this Chapter. Projections for Australian aggregate GST revenues and other Commonwealth grant funding have been prepared with the assistance of the APBO's Build Your Own Budget tool. The assumptions made in constructing projections for the ACT are entirely the responsibility of this Assessment and do not reflect the opinions of the APBO.

It is important to note that the projections in this Chapter have been prepared on a strict 'no policy change' basis – that is, on the assumption that the ACT Government does not make any 'policy decisions' with regard to revenues, expenses or net purchases of non-financial assets which would alter the trajectories laid out here, beyond those taken in the lead-up to the publication of the 2025-26 Budget Review.

That's obviously an unrealistic assumption: but the point of making it (apart from the fact that this Assessment has been undertaken without any knowledge of what the Government may be contemplating as it prepares its 2026-27 Budget) is to illustrate what the ACT's finances would look like in the absence of any 'policy decisions' – in the hope that the Government (and/or future governments) will in fact make 'policy decisions' intended to produce more sustainable outcomes than those which would likely be obtained otherwise – some suggestions for which are presented in Chapter 8.

It should also be noted that the medium-term projections presented in this Chapter are for the 'general government' sector only. It would not be sensible, or indeed possible, for this Assessment to make assumptions or judgements about the commercial plans of the ACT's public corporations.

The medium-term projections presented in this Chapter take the most recent Forward Estimates (for the years 2025-26 through 2028-29) as given. Whether that is a realistic assumption is discussed further in Chapter 7.

This Chapter presents two scenarios for the ACT's general government sector finances. This Assessment does not make any judgement as to the probabilities attaching to either of these scenarios – or indeed to any alternative scenarios. Rather, the intention is to highlight how sensitive the ACT's financial position is to even relatively small changes in the economic environment, decisions by the Federal Government and, in a couple of cases, decisions by the ACT Government.

These sensitivities in turn underscore the importance of the decisions which the ACT Government makes, both in the near term and over the medium term, if it wishes to return the ACT's finances to, and keep them on, a sustainable trajectory.

A (relatively) optimistic scenario

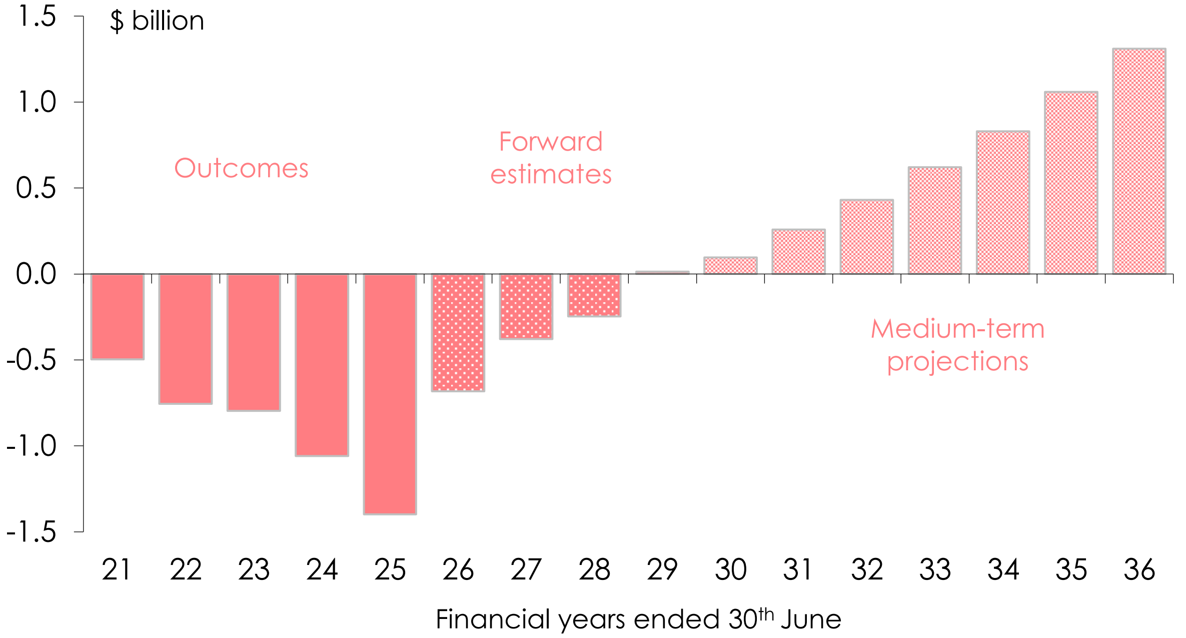
The relatively optimistic scenario presented in this section incorporates the following key assumptions for the years 2029-30 through 2035-36 (ie, beyond the four year forward estimates period in the most recent Budget Review):

- the ACT's nominal gross product grows at an average annual rate of 6%, the same rate as projected in the most recent Forward Estimates for 2028-29;
- Federal Government grants to the ACT remain unchanged at 5½% of the ACT's gross product, as projected for the 2028-29 financial year;
- similarly, the ACT's taxation revenues remain unchanged at 5% of gross product, as projected for the 2028-29 financial year;
- revenues from the sale of goods and services decline, as a percentage of gross product, by 0.04 percentage points per annum, as they are assumed to do over the four years to 2028-29;
- interest rates remain unchanged at the levels forecast for 2028-29;
- employee expenses continue to grow, in 2029-30 and beyond, at the 3.2% per annum rate projected in the most recent Forward Estimates for 2028-29 (noting that this is substantially below the average annual growth rate of 10% per annum over the three years to 2024-25);
- expenditures on 'grants and purchases services', 'supplies and services' and 'other operating expenses' remain unchanged as percentages of the ACT's gross product at the same levels as projected for 2028-29 in the most recent Forward Estimates;
- 'purchases of non-financial assets' (broadly speaking, capital expenditures) remain unchanged at 1¼% of the ACT's gross product, the same proportion as projected in the most recent Forward Estimates for 2028-29 (which is significantly below the average of just under 2% of gross product for the past three financial years).

Under these assumptions – and, importantly, as noted above, assuming that the projections for the years 2025-26 through 2028-29 presented in the most recent Forward Estimates are realized –

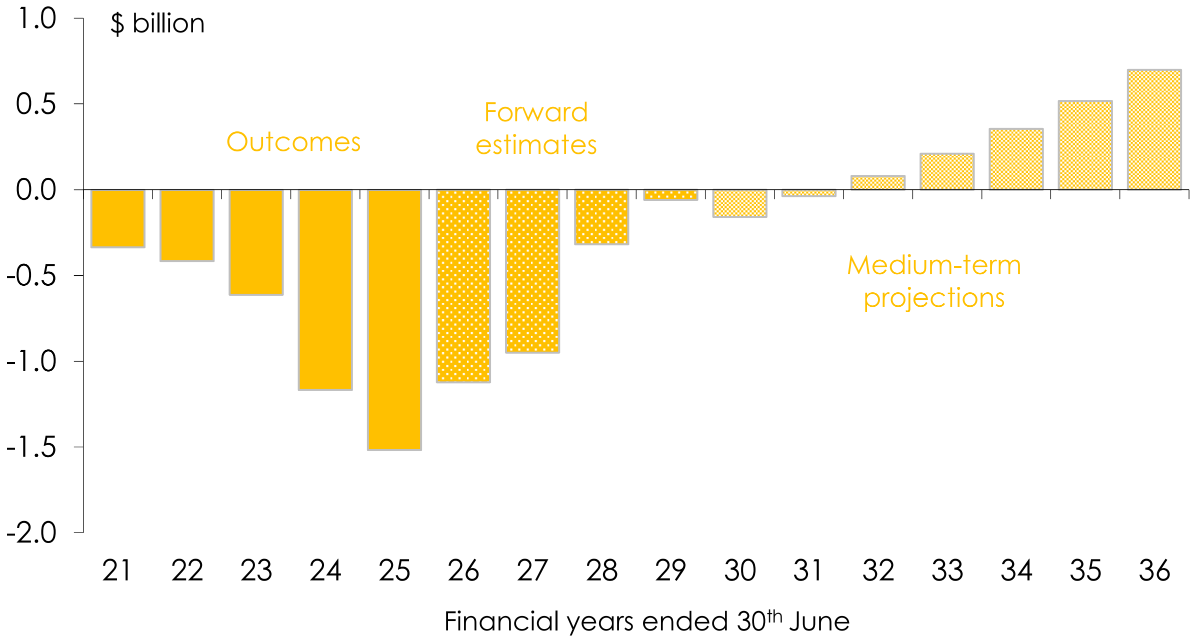
- the ACT's general government *net operating balance*, which the most recent Forward Estimates project returning to a small surplus of $14 million in 2028-29, will steadily improve over the following seven years, reaching a surplus of $1.3 billion by 2035-36 (Chart 34);
- the ACT's *cash balance* would return to surplus in the 2031-32 financial year, and the surplus would reach almost $700 million by 2035-36 (Chart 35);
- the return to cash surpluses would in turn see *net debt* stabilizing at just under $17 billion in the years 2032-33 through 2035-36. As a percentage of the ACT's gross product, that would represent a decline from the peak of 19.1% in 2026-27, forecast in the most recent Forward Estimates, to about 15¼% by 2035-36 (Chart 36).

Chart 35: Medium-term outlook for the ACT general government net operating balance under relatively optimistic assumptions



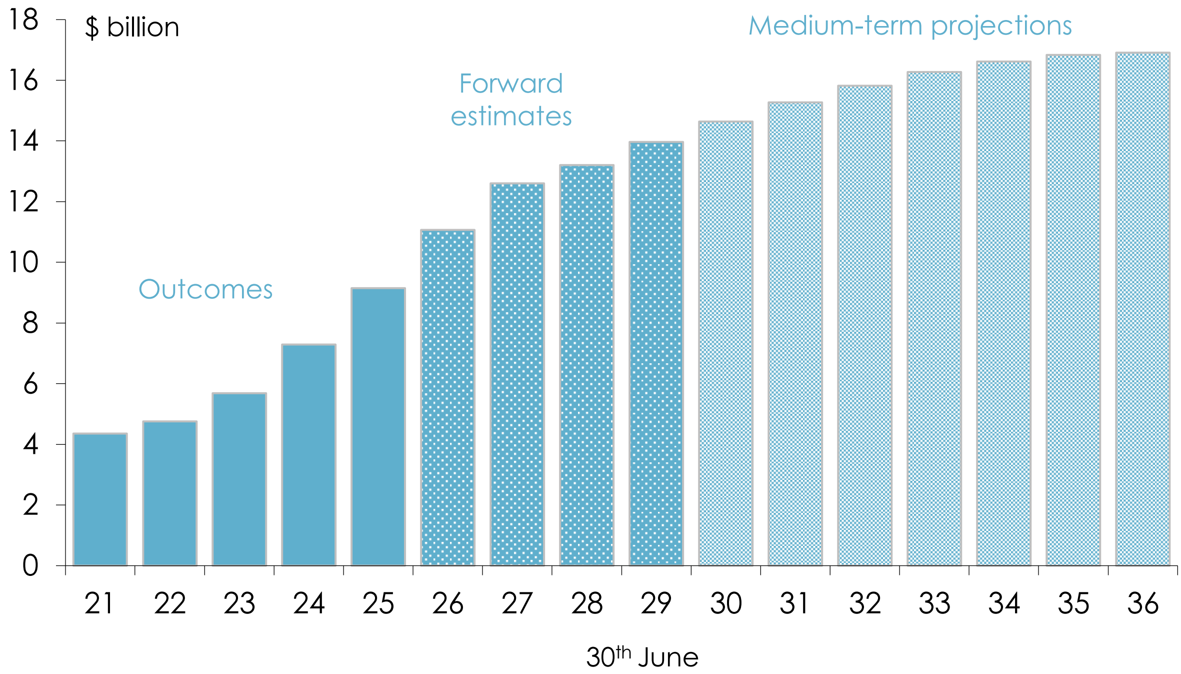
Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues, and *2025-26 Budget Review*; Australian Parliamentary Budget Office and author's assumptions and calculations.

Chart 36: Medium-term outlook for the ACT general government cash balance under relatively optimistic assumptions



Sources: As for Chart 35.

Chart 37: Medium-term outlook for the ACT general government net debt under relatively optimistic assumptions



Sources: As for Chart 35.

It bears repeating that the benign medium-term outcomes outlined above, and depicted in Charts 35-37, are heavily contingent on the projections contained in the most recent Forward Estimates – including, in particular, outright reductions in employee expenses and in 'other operating expenses' in 2025-26 and 2026-27, and a significant winding down in 'purchases of non-financial assets' in 2027-28 and 2028-29 – being realized.

If that were not to be the case – for example, if employee expenses were to continue to grow at about 3½% per annum over the four years to 2028-29, and if spending on 'grants and purchased services' and other operating expenses were to remain at 2024-25 levels, and if 'purchases of non-financial assets' were to decline by only half as much in 2027-28 and 2028-29 as projected in the most recent Forward Estimates – then even with the other assumptions outlined at the beginning of this section remaining intact:

- the net operating balance would not return to surplus until 2033-34;
- the cash balance would remain in deficit at least through 2035-36, exceeding $600 million in that year; and
- net debt would continue to increase, reaching $24 billion (over 21½% of the ACT's gross product, or 160% of total revenues) by the end of the 2035-36 financial year.

This underscores the importance of the 'discipline' over spending implied in the most recent Forward Estimates being achieved and maintained, a theme explored in more depth in Chapter 7.

A more pessimistic (but still plausible) scenario

The foregoing scenario assumes that "everything goes right" for the ACT over the next decade – including the maintenance of greater discipline over both 'operating' and capital expenditures than has been evident in recent years, as well as relatively favourable economic circumstances.

However, it would be unwise to assume that nothing will "go wrong".

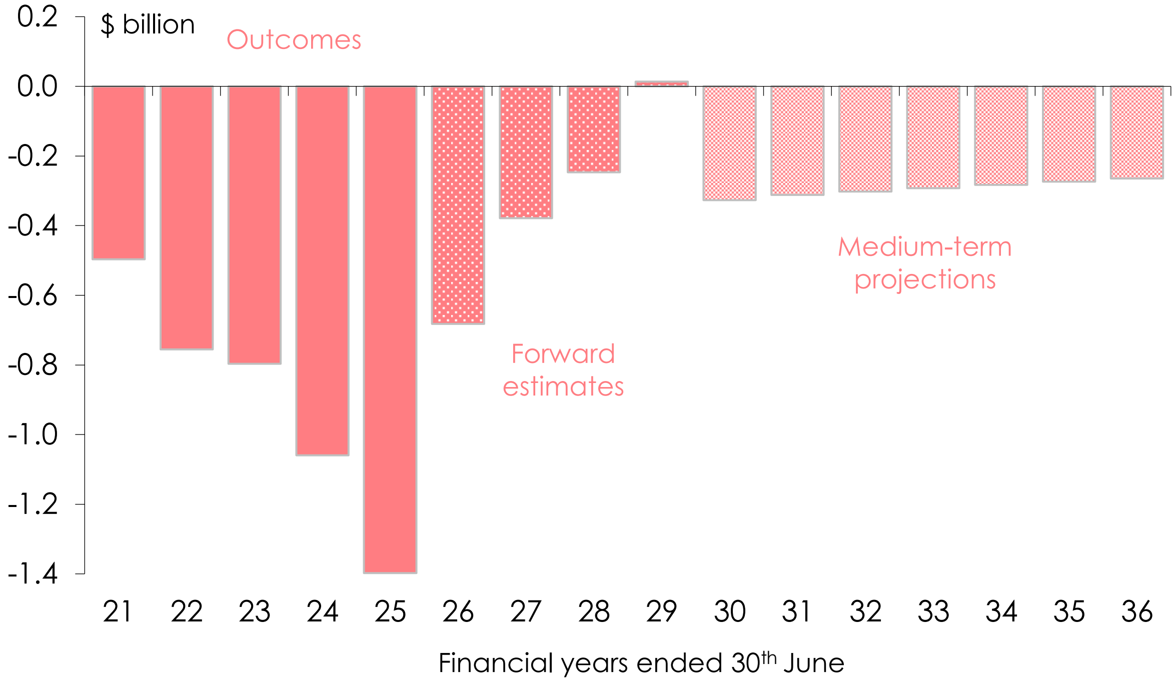
To tease out some of the implications of a less favourable set of circumstances, some of the assumptions set out in describing the previous scenario have been varied as follows:

- the ACT's nominal gross product is assumed to grow by 5% per annum from 2029-30 onwards (compared with 6% previously), as a result (for example) of decisions by the Federal Government to curb the rate of growth in Canberra-based public sector employment;
- employee expenses grow by 4% per annum from 2029-30 onwards, rather than the 3.2% per annum assumed in the previous scenario;
- grants and purchased services expenses average 2½% of ACT gross product from 2029-30 onwards (similar to the 2024-25 level), rather than 2.2% as assumed in the previous scenario;
- interest rates are 50 basis points (half of one percentage point higher) from 2029-30 onwards than assumed in the previous scenario; and
- 'purchases of non-financial assets' (capital expenditures) average 1½% of ACT gross product from 2029-30 through 2035-36, rather than remaining at the 1¼% level projected for 2028-29 in the most recent Forward Estimates, as assumed in the previous scenario (though still below the average of 1.8% of gross product from 2022-23 through 2026-27).

For the purpose of this exercise, all the other assumptions set out on page 37 – including, in particular, that the most recent Forward Estimates for the years 2025-26 through 2028-29 are realized, remain unchanged. Under this scenario -

- the ACT's general government *net operating balance* would after the small surplus forecast in the Forward Estimates in 2028-29, fall back into deficit in 2029-30 and remain in deficit every year through 2035-36 (Chart 38);
- the ACT's *cash balance* would remain in deficit over the next decade, rising from $770 million in 2029-30 to over $1 billion by 2035-36 (Chart 39); and
- as a result of these on-going cash deficits, the ACT's general government *net debt* would continue to increase, from the $14 billion (18.8% of gross product,) forecast for the end of the 2028-29 financial year in the most recent Forward Estimates to almost $25 billion (just under 24% of gross product, or 175% of total revenue) by the end of the 2035-36 financial year (Chart 40).

Chart 38: Medium-term outlook for the ACT general government net operating balance under more pessimistic assumptions

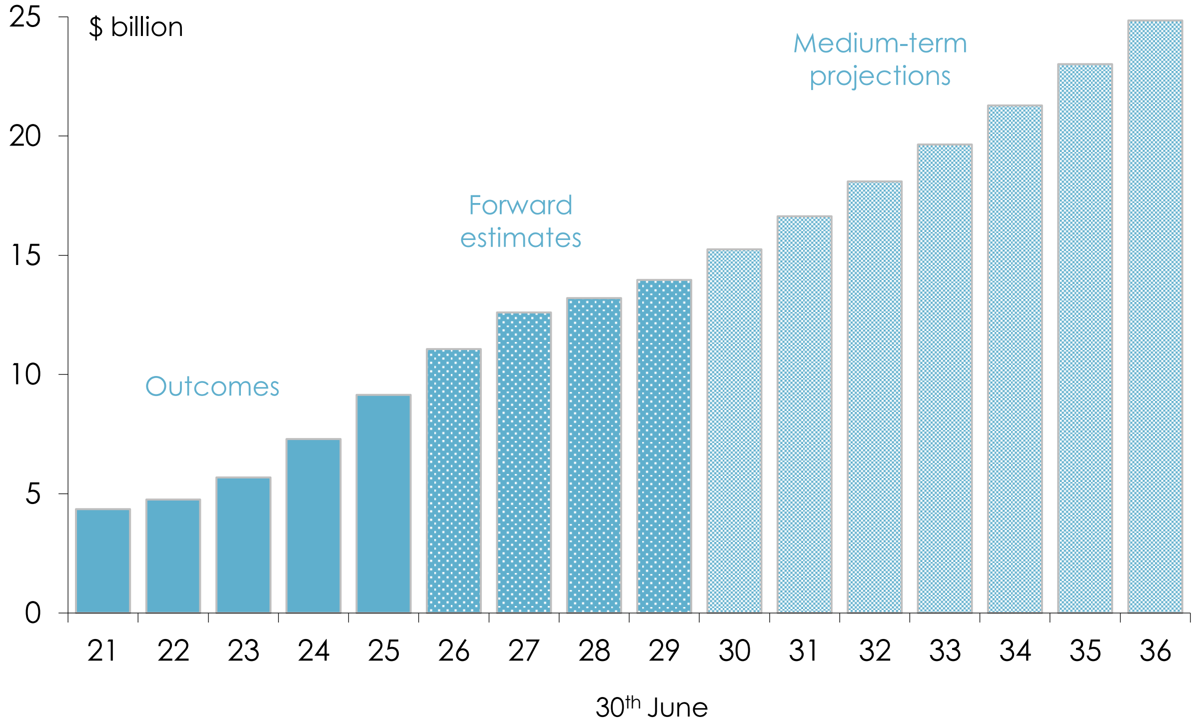


Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues, and *2025-26 Budget Review*; Australian Parliamentary Budget Office and author's assumptions and calculations.

Chart 39: Medium-term outlook for the ACT general government cash balance under more pessimistic assumptions

Sources: As for Chart 38.

Chart 40: Medium-term outlook for the ACT general government net debt under more pessimistic assumptions



Sources: As for Chart 38.

As with the more optimistic scenario presented earlier in this Chapter, the outcomes for the net operating and cash balances and for net debt projected given the assumptions underlying this more pessimistic scenario are contingent on the projections made in the most recent Forward Estimates for the years 2025-26 through 2028-29 being realized.

Were that not to be the case – were, instead, employee expenses were to continue to grow at about 3½% per annum over the four years to 2028-29, and if spending on 'grants and purchased services' and other operating expenses were to remain at 2024-25 levels, and if 'purchases of non-financial assets' were to decline by only half as much in 2027-28 and 2028-29 as projected in the most recent Forward Estimates – then even with the other assumptions outlined at the beginning of this section remaining intact:

- the net operating deficits projected over the next decade would be even larger, approaching $1 billion (instead of remaining below $300 million) by 2035-36;
- the cash deficits projected over the next decade would also be considerably larger, exceeding $1.8 billion by 2035-26
- net debt would rise a good deal further, reaching $29 billion (over 28% of the ACT's gross product, or almost 208% of total revenues) by the end of the 2035-36 financial year.

To re-iterate, the projections outlined in both the 'optimistic' and 'pessimistic' scenarios are *not* forecasts, but are, rather, highly contingent on the assumptions specified as underlying each of them. While both scenarios are plausible, different combinations of each set of assumptions would produce intermediate outcomes.

Other assumptions – including, in particular, about the relationship between revenues (both ACT own-source revenues and Federal Government grants) and growth in the ACT's economy, or different assumptions about economic growth and interest rates – would also produce different outcomes for the ACT's net operating and cash balances, and levels of net debt.

One thing which should be clear from the scenarios discussed in this Chapter, however, is the importance of maintaining control over both 'operating' and capital expenditures for an extended period if the net operating and, ultimately, cash balances are to be returned to surplus, the latter in particular being a pre-requisite for being able to stabilize and subsequently begin paying down debt. If that proves to be impossible, or politically unpalatable, then the ACT Government will inevitably need to look more closely at options for raising additional revenue. These considerations are discussed in more detail in Chapter 9.

An additional significant fiscal risk for the ACT

One very significant fiscal risk for the ACT – and for every other jurisdiction except Western Australia – is the currently scheduled expiry at the end of the 2029-30 financial year of the 'No Worse Off' (or NoWO) guarantee given by the Federal Government that no state or territory would receive less by way of revenue from the GST as a result of the changes to the arrangements for determining the distribution of GST revenues implemented by the Orwellianly-titled *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act*, passed by the Federal Parliament in 2018, than they would have done had those changes not been made

That legislation guaranteed Western Australia a larger share of the revenue from the Federal Government's GST than it would ordinarily receive under the principles which governed the distribution of that revenue since the commencement of the GST in 2000-01 (and of 'general purpose' grants to states and territories between 1980-81 and 1999-2000). Under the 'NoWO' guarantee, the Federal Government has undertaken to 'top up' the GST 'pool' so that none of the other states and territories receive less than they would have done had the basis for the distribution of GST revenues not been altered at the behest of Western Australia.

Those 'NoWO' guarantee payments have been worth $285 million over the four years to 2024-25, an estimated $128 million in 2025-26 and a forecast $120 million in 20267-27 (Commonwealth Grants Commission 2026: 10). The ACT Government has pointed out that these payments have, up to 2025-26, been equivalent to 5.8% of total Federal special purpose grants to the ACT and that, without them, the ACT "would have needed to reduce spending, increase taxes or incur higher debt" (ACT Government 2026b: 4).

The Productivity Commission has been tasked with determining whether the changes legislated in 2018 are working "efficiently, effectively and as intended", and more generally whether "alternative arrangements would better achieve some or all" of the objectives set out by the Federal Treasurer in the Terms of Reference for this inquiry (Productivity Commission 2025).

The Productivity Commission is required to provide an Interim Report by 28th August and a Final Report by no later than 31st December this year; and the Federal Government will need to make decisions as to whether to make any changes to the arrangements for distributing the revenue from the GST, and in particular whether or not further to extend the 'NoWO' guarantee, before the presentation of the 2027-28 Budget in May next year, since that Budget will need to include Forward Estimates (including of payments of GST revenue to states and territories) for 2030-31.

The ACT Government's submission to the PC Inquiry correctly (in this Assessment's view) notes that "the 2018 GST reforms were expensive, complex and continue to undermine the purpose of horizontal fiscal equalization" and points out that, without a permanent extension of the NoWO guarantee, "states [and territories] will bear the cost of subsidizing Western Australia's budget position" (ACT Government 2026b: 3).

The ACT's own experience in phasing out stamp duties on land transfers and abolishing stamp duty on insurance premiums, and replacing the revenue thereby foregone with increased revenue from municipal rates, directly contradicts the assertions made by Western Australia and New South Wales that the pre-2018 system of horizontal fiscal equalization deterred states and territories from pursuing productivity- and growth-enhancing tax reforms – something which the Productivity Commission failed to acknowledge in its 2018 Inquiry into horizontal fiscal equalization, but which it hopefully will recognize in its current Inquiry.

In the meantime the ACT should continue, along with other states and territories, to advocate for a reversal of the 2018 changes to the GST revenue distribution arrangements and, failing that, for a permanent extension to the 'NoWO guarantee'.

Chapter 7: The challenges posed by the Forward Estimates for the four years to 2028-29

The previous Chapter noted that the most recent sets of Forward Estimates – those presented in the 2025-26 Budget (ACT Government 2025a) and updated in the 2025-26 Budget Review published in February (ACT Government 2026a) embody an unprecedented degree of 'fiscal restraint' over the four years to 2028-29.

In particular, the Forward Estimates presented in February imply that growth in total 'operating expenses', excluding interest, will slow to just 1.3% per annum, on average, over the four years to 2028-29, from an average of 8.2% per annum over the three years to 2024-25, or indeed 5.9% per annum over the past ten years (Chart 41a).

Chart 41a: Annual growth in total general government 'operating' expenses excluding interest

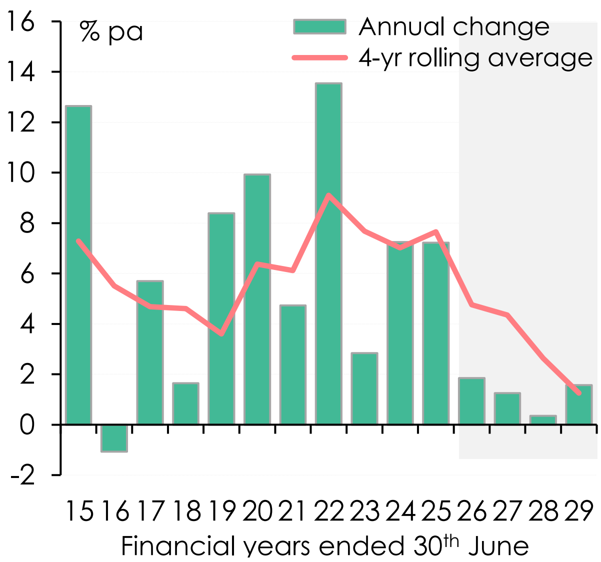
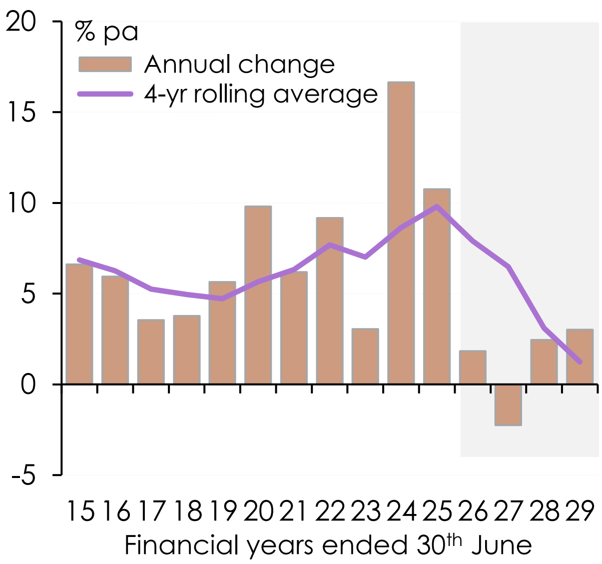


Chart 41b: Annual growth in employee expenses



Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues, and *2025-26 Budget Review*.

1.3% per annum is less than half the increase in Canberra's CPI over the four years to 2028-29 forecast in the 2025-26 *Budget Review* – a forecast which will almost certainly be revised upwards in the forthcoming 2026-27 Budget as a result of the higher prices for fuel and a wide range of other goods and services resulting from the conflict in the Middle East which erupted at the end of February.

Within this total, growth in the largest single component of 'operating' expenses – employee expenses – is projected to slow to just 1.2% per annum over the four years to 2028-29, from an average of 10.0% per annum over the three years to 2024-25. That is considerably below the 2025-26 *Budget Review*'s forecast for growth in the ACT's wage price index of 3¼% per annum over the four years to 2028-29 – which suggests that the projected growth in employee expenses can only be attained with a reduction in employee numbers, as well as tight control over salary increases.

By function, the most recent Forward Estimates suggest that growth in spending on health (the largest single component of 'operating' expenses) will slow from an average of 8.4% per annum over the three years to 2024-25, to an average of just 1.3% per annum over the four years to 2028-29; and that spending on education (the second-largest component of 'operating' expenses) will slow from an average of 4.6% per annum over the past three years to one of 2.7% over the next four years. The Forward Estimates also incorporate outright declines in projected spending in four other areas – public order and safety; transport; economic affairs; and recreation, culture and religion.

The most recent Forward Estimates also assume fairly buoyant growth in revenues. Total revenue is projected to grow at an average annual rate of 6.7% over the four years to 2028-29, up from an average of 4.4% per annum over the three years to 2024-25 (Chart 42a), with a strong pick-up in growth in ACT taxation revenues – to an average of 7.9% per annum over the next four years, from an average of 4.1% over the past three years – more than offsetting a slowdown in growth in revenue from Federal grants (including the ACT's share of GST revenues) to 4.4% per annum over the four years to 2028-29, from 5.7% over the three years to 2028-29. The 2025-26 Budget incorporated a number of revenue increases designed to achieve faster growth in taxation revenue.

Finally, the most recent Forward Estimates assume that 'purchases of non-financial assets' (broadly speaking, capital expenditures) will fall back from an average of nearly $1.2 billion per annum between 2023-24 and 2026-27, to an average of less than $800 million per annum in 2027-28 and 2028-29 (Chart 42b) – in other words, that new projects will not be commenced as work on projects currently under way is completed.

Chart 42a: Annual growth in general government revenue

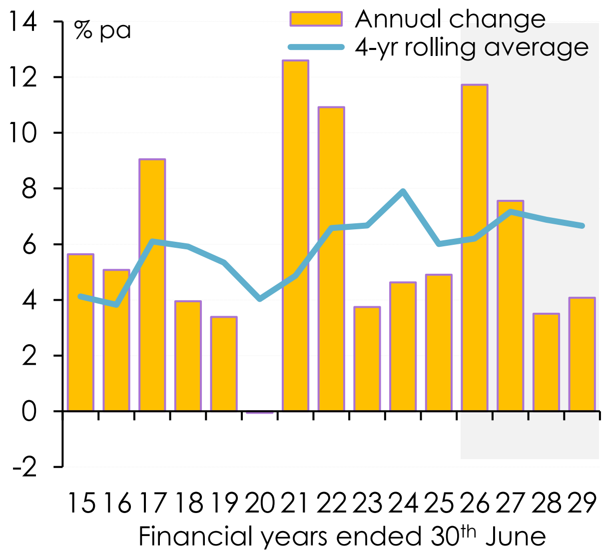
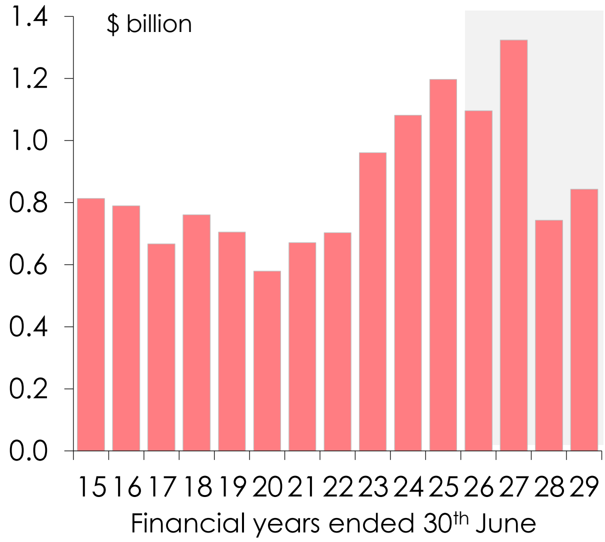


Chart 42b: Level of purchases on non-financial assets (capital expenditure)



Sources: As for Charts 41a and 41b.

Achieving this combination of almost unprecedented spending restraint and buoyant revenue growth will be challenging, especially given the probable deterioration in the outlook for the Australian economy (including that of the ACT) flowing from the effects of the conflict between the US and Israel, and Iran.

But confidence in the ACT's capacity to maintain the degree of fiscal discipline implied by the most recent set of Forward Estimates hasn't been helped by an apparent deterioration in the accuracy of Forward Estimates projections in recent years.

On average over the past three years, actual 'operating' expenses have exceeded the forward estimates included for those years in the Budgets related to those years – that is, actual spending in 2024-25 compared with the forecast contained in the 2024-25 Budget, and so on – by an average of 3.7%, compared with an average 'overshoot' of 1.4% over the preceding eight years (or just 0.8% if the Covid-impacted 2019-20 financial year is excluded) (Chart 43a).

When it comes to revenues, the opposite has been the case. On average over the three years to 2024-25, revenue outcomes have fallen short of the Budget forward estimates for those years by an average of 0.3%, in contrast to the preceding eight years when revenue outcomes exceeded Budget forecasts by an average of 2.2% (or 3.1% excluding 2029-20) (Chart 43b).

By contrast, capital expenditure outcomes have fallen short of Budget forecasts in all but one of the past 10 years, by an average of almost 14% - although in the past three years the shortfall has been only 4.3%, on average.

Chart 43a: 'Operating' expense out-turns compared with year-ahead Budget forecasts

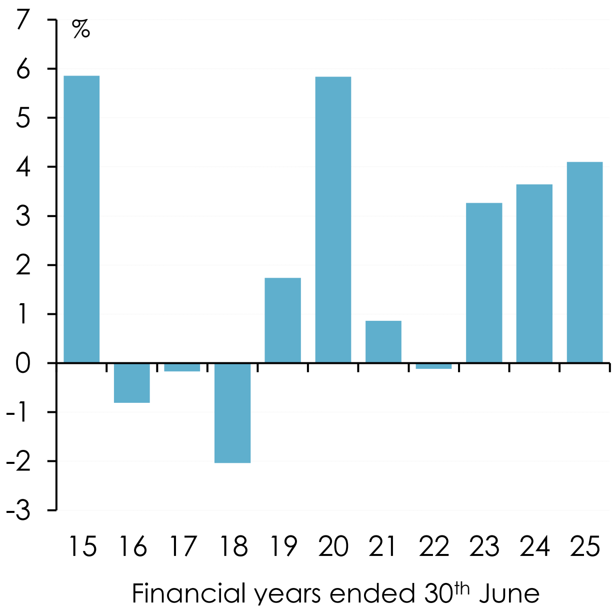
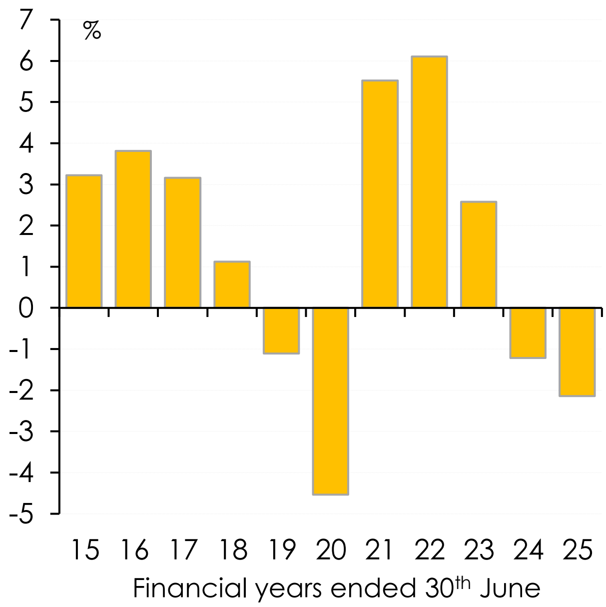


Chart 43b: Revenue out-turns compared with year-ahead Budget forecasts



Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues, and *Budget Outlook*, 2024-25 and previous issues.

The greater difficulty that the ACT Government has had in accurately forecasting expenses and revenues in recent Budgets has resulted in an increase in the size of the 'additional appropriations' which have needed to be approved by the Legislative Assembly each financial year, from an average of $238 million per annum in the five years to 2019-20, to an average of $520 million in the three years to 2024-25.

This has also been noted by the ACT's Auditor-General, whose 2024-25 *Financial Audit Report* observed that "sustained pressure from higher expenses highlights structural pressures and reinforces the need for tighter cost controls and efficiency measures to restore fiscal sustainability over the longer term" (ACT Auditor-General 2025: 3, 13 and 16).

The Auditor-General specifically cast doubt on the 2025-26 Budget's projection that growth in revenues would significantly exceed growth in expenses over the four years to 2028-29, stating that "given operating deficits exceeded budget estimates in most years, this trend does not present a reliable pattern for predicting future outcomes" (ACT Auditor-General 2025: 17).

The accuracy of the longer-term projections contained in each year's Budget Papers has deteriorated more than that of the projections for the year immediately ahead.

Over the past three years, actual 'operating' expenses have exceeded the projections made in Budgets three years earlier by an average of 20%, compared with an average of 11% over the preceding six years (Chart 44a).

Partly offsetting that, actual revenues have exceeded the projections made in Budgets three years earlier by an average of 11.5% over the past three years, compared with an average of 5.3% over the preceding six years (Chart 44b).

Reflecting the inherent 'conservative bias' in longer-range forecasts of capital expenditures, actual 'purchases of non-financial assets' have exceeded the forward estimates made three years previously by an average of 44% over the three years to 2024-25, down from an average of 60% over the preceding six years.

Forecasting is of course inherently difficult, in framing budgets no less than any other type of economic forecasting (or indeed forecasting in other disciplines), given the uncertainties and unknowables surrounding forecasts of spending and revenues, especially over periods longer than one year ahead.

That said, ideally there should not be any systemic bias towards over- or under-forecasting spending and revenues – that is, forecast errors should tend to 'cancel each other out' over time, which has not been the case with forecasts of key components of the ACT's budgets in recent years.

Chart 44a: 'Operating' expense out-turns compared with three-year-ahead Budget forecasts

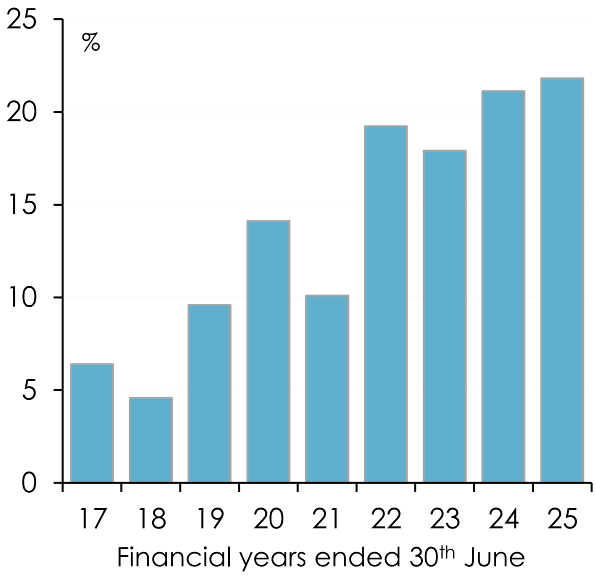
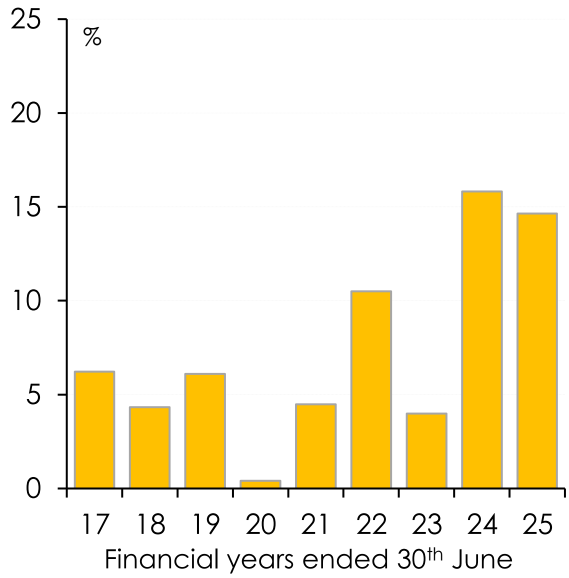


Chart 44b: Revenue out-turns compared with three-year-ahead Budget forecasts



Sources: ACT Government, *Consolidated Annual Financial Statements*, 2024-25 and previous issues, and *Budget Outlook*, 2021-22 and previous issues.

As such, there are reasonable grounds for some skepticism on the part of objective observers as to the likelihood of the projections contained in the most recent Forward Estimates being attained – especially given the heightened political pressures which the ACT Government (like governments across Australia and indeed around the world) are likely to come under to provide 'cost of living relief' to households and businesses adversely affected by the consequences of the current conflict in the Middle East, by higher interest rates, and potentially other factors besides.

However, the fact that political pressures for additional spending inevitably arise from time to time underscores the importance of ensuring that governments, including that of the ACT, maintain a sufficiently robust financial position that they are able to respond to such pressures without risking their fiscal sustainability over the longer term.

Chapter 8: What is 'fiscal sustainability' and how can it be attained and maintained?

There is no universally-accepted definition of what constitutes a 'sustainable' fiscal position for a government.

The Organization for Economic Co-operation and Development (OECD) defines fiscal sustainability as "the ability of a government to maintain public finances at a credible and serviceable position over the long term" (OECD 2013: 50).

The European Commission has defined fiscal sustainability as "the ability of a government to sustain its current spending, tax and other-related policies in the long run without threatening its solvency or defaulting on some of its liabilities or promised expenditures" (European Commission 2017: 1).

Closer to home the Australian Parliamentary Budget Office defines fiscal sustainability as "a government's ability to maintain its long-term fiscal policy settings indefinitely without the need for major remedial policy interventions". The PBO goes on to say that a government's fiscal position is sustainable "if the debt-to-GDP ratio is expected to be stable or trend downwards over the long term", with the proviso that "does not mean that the debt-to-GDP ratio will not increase at times, especially in response to large unforeseen economic shocks" (Australian Parliamentary Budget Office 2024: 10).

This concept of 'sustainability' is likely to entail smaller debt-to-GSP ratios for sub-naitonal (state and territory) governments than would apply to the debt-to-GDP ratio for a national government, especially in the Australian federation where the revenue-raising powers of state and territory governments are much more circumscribed by the national constitution than in other federations such as the US, Canada, Germany or Switzerland. Additionally, sub-national governments are not primarily responsible for responding to "unforeseen economic shocks". And they don't ordinarily have access to central bank financing in extreme circumstances, as national governments (with the exception of members of the euro zone, or countries which use another country's currency as a medium of exchange) in principle do.

In reality, 'fiscal sustainability' has multiple dimensions. That is, it cannot be established by reference to a single indicator.

And 'sustainability' criteria cannot be established independently of the surrounding circumstances. In particular:

- what is 'sustainable' for the government of a state or territory government with limited revenue-raising powers will be different from what is 'sustainable' for a national government with access to much broader sources of revenue; and
- what is 'sustainable' for the government of a state with a large population, or with a large and diversified economy, will be different from what is 'sustainable' for the government of a small state or territory whose economy is more narrowly-based and is more exposed to factors beyond the control of its government (including decisions of the national government).

With regards to levels of debt, in particular

- what is a 'sustainable' level of debt – for any government – will depend importantly on the level of interest rates, with higher levels of debt being more 'sustainable' when interest rates are relatively low, and expected to remain so, than when interest rates are relatively high, and expected to remain so (all else being equal);
- what is a 'sustainable' level of debt will also be influenced by the nature and magnitude of any other obligations which a government may have, which impose legally binding demands on its revenue – such as, in the Australian context, unfunded public sector superannuation liabilities; and
- what is a 'sustainable' level of debt will also depend on the revenue available to a government, from taxation or other sources – all else being equal, the greater the government's revenue (relative to the size of the economy), the greater its capacity to service a given level of debt (that is, to pay interest) without impeding its capacity to meet other obligations.

The Organization for Economic Co-operation and Development (OECD) has argued that sub-national (in the Australian context, state and territory) governments "have incentives to engage in fiscal profligacy that are absent at the central level" because

- "first, the costs of fiscal profligacy at the subnational level are, in some circumstances, shared with adjoining jurisdictions …
- second, when subnational governments expect the central government to bail them out in cases of distress, the costs of irresponsible fiscal policy are transferred to the central government, creating moral hazard issues, [and]
- third, a combination of mandatory expenditures, lack of autonomy to raise revenues and ill-designed intergovernmental frameworks can pressure some jurisdictions to run unsustainable deficits" (de Biase and Dougherty 2022: 6).

The second and third of these observations are clearly applicable in the Australian context. The credit rating agencies explicitly assume that state and territory government debts are under-written by the Federal Government (S&P Global 2026), as do the financial markets (and in particular the banks, who are the largest holders of state and territory government debt) implicitly.

The Federal Government gave up its principal tool for constraining state and territory government borrowing – the Loan Council, originally established in 1927 after a splurge of borrowing by state governments in the decade after the end of World War I – in the early 1990s, believing that rating agencies and financial markets would impose some 'discipline' on the borrowing proclivities of the states and territories. That worked for around two decades – but from the mid-2010s onwards that 'discipline' began to fade, partly as a result of regulatory changes requiring banks to hold specified proportions of their assets in liquid forms (of which state and territory government bonds pay among the highest interest rates), and partly due to explicit encouragement by the Reserve Bank and others to state governments to borrow more in order to fund additional infrastructure spending (eg Lowe 2020).

One common approach to ensuring fiscal sustainability is the adoption of *fiscal rules* – that is, requirements that governments achieve numerical targets for indicators relating to the growth rate of spending, different measures of the 'bottom line', levels of debt relative to revenues or gross product, or interest payments relative to revenues. Perhaps the most widely known example of 'fiscal rules' are the "Maastricht criteria" devised for members of the European single currency area – namely, that governments should keep their budget deficits to less than 3% of GDP and their levels of debt to less than 60% of GDP (European Central Bank 2025: 8).

The OECD advises that "fiscal rules tend to be a popular, if not the most popular, fiscal arrangement … for promoting subnational governments' fiscal sustainability for numerous reasons:

- first, fiscal rules tend to be more palatable to subnational governments than direct administrative controls from the central government as under fiscal rules, [they] often can enjoy a significant degree of autonomy;
- second, fiscal rules also tend to offer more predictability than negotiable fiscal targets set in co-operative arrangements;
- third, market discipline requires a set of preconditions that are absent in some countries: availability of timely and/or reliable fiscal information, rapid responsiveness to market signals, no privileged access to financing, no history or expectation of bailouts by the central government and an adequate level of tax autonomy; and
- lastly, fiscal rules also tend to be transparent and relatively easy (in broad terms) to understand" (de Biase and Dougherty 2022: 6).

Although the third of these observations is not relevant in the Australian context, the other three are.

The OECD cautions that fiscal rules designed to foster fiscal sustainability "might have adverse effects on other government functions, namely stabilization and allocative efficiency", and that it is therefore appropriate to design rules in such a way as to "achieve their main goal of promoting fiscal sustainability while, simultaneously, allowing the implementation of counter-cyclical policies [when necessary] and minimizing allocative distortions … such as … off-budget vehicles and accounting gimmickry" (de Biase and Dougherty 2022: 7).

Table 1 on the following page summarizes the OECD's advice to governments on the applicability of, and trade-offs involved in, different types of fiscal rules at the subnational level.

A key message from this advice is that "there is no single rule … that can achieve all three objectives and there are, necessarily, trade-offs involved in the choice of fiscal rules". Importantly, the OECD also notes that "fiscal rules … are inherently a political matter", that "political will and ownership are important not only for creating but also for enforcing fiscal rules", and that "no matter how good the design of a fiscal rule is, if it is not backed by a proper institutional arrangement of monitoring and enforcement and by political will, it will likely fail to have the desired effect" (de Biase and Dougherty 2022: 9-10).

Table 1: Fiscal rules – definitions and trade-offs

Rule	Definition	Does compliance promote fiscal sustainability?	Does compliance affect macroeconomic stabilisation?	Does compliance affect the budget composition?
Budget balance rules				
Current and capital (budget[5] balance)	Allows new borrowing to finance the deficit up to a target and to rollover debt	Yes, if targets are well-designed	Compliance can lead to pro-cyclical fiscal policy	Neutral
Current surplus[6] (golden)	Allows new borrowing for capital expenditure but prevents new borrowing for current expenditure and debt rollover	Yes, but may still lead to unsustainable debt if investments (plus principal repayment in case of operating budget rule) are higher than revenue growth	Compliance can lead to pro-cyclical fiscal policy but allowing investments minimise this tendency	May favour investment spending
Current balance[7] (operating)	Allows new borrowing for capital expenditure and principal repayment but prevents borrowing for current expenditure			
Cyclically adjusted balance (CAB)	Fiscal deficit is adjusted to consider the position of the economic cycle (output gap)	Yes, but in cases of long-lasting downswings can allow excessive indebtedness	Allow counter-cyclical fiscal policy	Neutral
Debt rules/Borrowing constraints				
Debt level	Numerical limits for public debt, nominal or as a percentage of the revenues	Yes, but when not binding debt rules often are incapable of controlling the trajectory of fiscal balances	Can lead to pro-cyclicality when 1) rules are binding in downswings, limiting the use of loans to stimulate the economy, 2) rules are binding in upswings, allowing expansionary fiscal policy and 3) linked to income, as decreases in revenues may force decreases in expenditure; Debt service rules can lead to pro-cyclicality when interest rates are inversely correlated with cycle	Neutral
Debt service	Numerical limits for debt service, nominal or as a percentage of the revenues	Can promote fiscal sustainability as debt services are directly linked to debt levels		
Expenditure rules				
Overall	Numerical limits for public expenditure, nominal, tied to real growth rates or as a percentage of the revenues	Not in isolation as it does not control revenues	Allow counter-cyclical fiscal policy in upswings and in downswings through revenues; if linked to income, can lead to pro-cyclical fiscal policy	May affect the composition of expenditure, leading to a reduction in investments
Current	Numerical limits for current expenditure, nominal or as a percentage of the revenues	No as it does not control revenues and capital expenditure (investments and principal repayment)	Allow counter-cyclical fiscal on upswings and on downswings through revenues and investments; if linked to income, can lead to pro-cyclical fiscal policy	May favour investment spending
Individual	Numerical limits for certain expenditure items, nominal or as a percentage of the revenues	Not in isolation as it does not control revenues and other expenditures	Unclear (depends on the expenditure items)	Yes, but this often is the objective of the rule

Source: Pietrangelo di Biase and Sean Dougherty, [The past and future of subnational fiscal rules: an analysis of fiscal rules over time](), OECD Working Papers on Fiscal Federalism No. 41, Organization for Economic Co-operation and Development, Paris, October 2022, p. 8.

For its part the International Monetary Fund (IMF) notes that fiscal rules have been adopted in more than 120 economies, but that "compliance with these fiscal rules has been uneven". It advises that "realistic … forecasts, expenditure controls, strong links between fiscal rules and medium-term fiscal frameworks, and independent fiscal oversight play an essential role in improving compliance and accountability" (Acelin, Alonso et at 2025: 4-5). Table 2 below sets out the IMF's assessment of the advantages and disadvantages of different fiscal rules (or 'anchors', as they call them).

Table 2: Advantages and disadvantages of different fiscal rules

Medium-term Fiscal Anchor	Pros	Cons
Debt-to-GDP ratio or net financial assets	· Easy to communicate · Relate directly to debt sustainability risks	· Maximum sustainable debt hard to pin down · Less practical for countries with very high debt
Budget balance	· Easy to communicate and under government direct control · Practical for countries with high debt	· Not directly linked to debt risk unless calibrated with debt sustainability analysis
Sovereign spreads	· Market-based indicators that allow to pin down debt capacity · Reflect expectations of policies and debt risk	· Not all countries have market access and liquid bond markets · Challenges in setting anchor due to large fluctuations
Interest expense	· Simple and reflect the ability to service debt	· Lagging indicator of sovereign risks
Other indicators (fiscal standards)	· Consider long-term sustainability ·Incorporate information on both the past and future debt obligations, GDP, and interest rates	· Complex and difficult to communicate ·Sensitive to macro-fiscal assumptions

Source: Julian Ancelin, Virginia Alonso, Clara Arroyo, Raphael Lam et al, Fiscal Guardrails against High Debt and Looming Spending Pressures, Staff Discussion Note 2025/004, Fiscal Affairs and Research Departments, International Monetary Fund, Washington DC, September 2025, p. 11.

Adequate "monitoring and enforcement" of any fiscal rule is unlikely to be achieved unless the rule is specified in measurable, numerical terms, and unless a specific time frame for achieving it is set out.

This is a particular weakness of the ACT Government's fiscal strategy, the most recent articulation of which is set out in Table 3 on the following page. It contains neither numbers nor dates – and therefore provides no basis for determining whether the strategy is appropriate for the ACT's circumstances, nor whether its objectives have been achieved.

The ACT's fiscal strategy is conspicuously vaguer than those of the other smaller states and territories.

In particular, the fiscal strategy of the South Australian Government – which is of the same political complexion as the ACT Government – sets numerical targets for two of its three fiscal targets, namely, the net operating balance and growth in operating expenses – although its target for net debt ("sustainable over the forward estimates") is as vague as the ACT Government's. The South Australian Government's fiscal strategy is set out in Table 4.

Table 3: The ACT Government's fiscal strategy

Our fiscal strategy outlines the Government's plan to support economic growth and employment as well as:

- return the Budget to operating cash surpluses over the forward estimates period;
- return the Headline Net Operating Balance (HNOB) to surplus over the forward estimates period;
- ensure net debt is at sustainable levels over time, while delivering once in a generation infrastructure projects in health and transport;
- extinguish the Territory's unfunded defined benefit superannuation liability over the next decade; and
- deliver sustainable public finances through efficient expenditure alongside revenue measures supporting critical services and the needs of our community.

This is complemented by the Wellbeing Framework, which measures what matters to Canberrans and our quality of life, so that we can focus on what the community cares about in our decision making.

Source: ACT Government, *Budget 2025-26 - Budget Review*, February 2026, Box 3.1.1, p. 23.

Table 4: The South Australian Government's fiscal strategy

	2025-26 MYBR	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Target 1: net operating balance surplus				
Target	Achieve a net operating surplus every year			
2025-26 MYBR estimate ($m)	**80**	**187**	**394**	**287**
Target 2: operating expense growth				
Target (%)	Average growth limited to trend growth in household income (4% per annum)			
2025-26 MYBR estimate[a]				
Annual (%)	**5.0%**	**2.3%**	**1.3%**	**2.3%**
Average (%)	Average growth 2024-25 to 2028-29 of 2.7% per annum			
Target 3: achieve a level of net debt that is sustainable over the forward estimates	**77.3%**	**88.4%**	**100.8%**	**109.7%**
	(GGS net debt to revenue ratio)			
	104.1%	**115.9%**	**125.8%**	**136.7%**
	(NFPS net debt to revenue ratio)			

Source: Government of South Australia, *Mid-Year Budget Review*, December 2025, Table 1.2, p. 4.

The fiscal strategy of the Northern Territory Government – which is of a different political complexion to the ACT Government – has four targets (down from six under the previous government) which "represent what would need to be achieved to return the [Northern] Territory to a fiscally sustainable position". Those targets are:

- to have a 'taxation effort' ratio (as determined by the Grants Commission) equal or lower than the all-state average;

- to maintain a general government net operating balance surplus (excluding capital revenue) in every year of the budget cycle;
- to have a ratio of interest expense to revenue for the non-financial public sector as a whole lower than the average of the states in each year over the budget cycle; and
- to have a net debt to revenue ratio lower for the non-financial public sector equal to or lower than the average of the states in any year over the budget cycle (Northern Territory Department of Treasury and Finance 2025: 35-39).

The Northern Territory Government's most recent Mid-Year Budget Review explicitly acknowledges than only the first of these targets will be met based on the latest Forward Estimates.

The current fiscal strategy of the Tasmanian Government – which is also of a different political complexion to the ACT Government – has eleven separate 'strategic actions', for seven of which numerical targets have been set, as shown in Table 5.

However, none of those numerical targets will be achieved over the current Forward Estimates period, or by 2032-33, according to the most recent set of forward estimates (Tasmanian Department of Treasury and Finance 2026a: 25-26).

A fiscal strategy for the ACT

While the most recent set of Forward Estimates for the ACT Government indicates that the general government net operating deficit and cash deficit are both projected to decline significantly over the four years to 2028-29, neither are forecast to return to surplus during that period, as a result of which general government net debt is expected to continue to increase, albeit at a slower pace, over that interval.

Moreover, the ACT public corporations sector is projected to incur continued relatively large cash deficits over the four years to 2028-29, resulting in an on-going increase in the net debt of the ACT public sector as a whole (albeit, again, at a slower pace than over the past three years).

However, as discussed in Chapter Seven, there are reasonable grounds for skepticism as to whether these projections for all of the major indicators of the ACT's financial position will be attained; and, as discussed in Chapter Six, even if they were to be attained, the ACT's financial position could deteriorate anew in the years beyond the current Forward Estimates period under a range of plausible assumptions.

As a result, this Assessment considers that the ACT's financial position cannot be characterized as 'sustainable'. It further recommends that the ACT Government should adopt a more ambitious fiscal strategy, with more specific targets for relevant indicators of its financial position, and put in place mechanisms for regular monitoring of progress towards those targets.

Table 5: The Tasmanian Government's fiscal strategy

Strategic Actions	2024-25 Actual	2025-26 Revised Budget	2032-33 Target
1. State's Current Credit Rating			
Moody's	Aa2 (Negative)	Aa3 (Stable)	Aa2 (Stable)
S&P	AA+ (Negative)	AA (Stable)	AA+ (Stable)
2. Gross Debt per capita ($)			
General Government Sector	19 220	23 126	<20 000
3. Net Debt to Gross State Product (%)			
General Government Sector	13.0	16.5	<10
4. Cost of Debt (including defined benefit superannuation) to Cash Receipts (%)			
General Government Sector	6.7	7.6	<7
5. Fiscal Balance ($m, rolling 4-year average)			
General Government Sector	(1 090.2)	(1 269.5)	Balanced fiscal position over a rolling four-year average
Total State Sector	(1 838.9)	(2 399.9)	
6. Total General Government Sector Own-Source Revenue as a percentage of Total Expenditure (%)	30.8	30.4	>37
7. Impact of Government Business Enterprises and State-Owned Companies on the General Government Sector Financial Position ($m)	(128.7)	(400.4)	Positive Impact
8. General Government Sector Infrastructure Investment			
Annual investment in infrastructure no less than depreciation	Yes	Yes	GGS Income Statement infrastructure investment > depreciation
9. Government Business Infrastructure Investment			
The proportion of GBE and SOC infrastructure projects in excess of $50 million, for which Board approval is provided in the Budget year, that have a positive Net Present Value and/or positive Benefit Cost Ratio calculated as part of a Cost Benefit Analysis undertaken in accordance with the Infrastructure Australia Assessment Framework (%)	na	0	100
10. General Government Sector FTEs per capita (including Homes Tasmania) (per 100 000 persons)[6]	5 315	5 814	No increase compared to 30 June 2022
11. Public Sector Efficiency, Productivity and Financial Transparency will be Improved	na	Yes	Review to be undertaken in 2032-33 to assess the impact of action taken

Source: Tasmanian Department of Treasury and Finance, *2025-26 Revised Estimates Report*, February 2026, Table 3.12, pp. 25-26.

Ideally, the fiscal strategy should comprise a relatively small number of readily quantifiable and easily understood targets. In particular:

- the ACT should seek to return the net operating balance – *excluding* grants from the Federal Government for capital purposes – for the *public sector as a whole* to a *surplus* by no later than 2028-29, and commit to maintaining it in surplus except in unusual circumstances (such as a recession, or in the event of a major natural disaster);
- it should seek to return the *cash balance* for the *public sector as a whole* to a surplus by no later than 2029-30, and maintain that balance in surplus at least until net debt (for the public sector as a whole) as a percentage of the ACT's gross product has been reduced to (at least) less than the average for all states and territories (currently projected to be about 21% of gross state product by the end of the 2028-29 financial year);
- it should seek to reduce the ratio of *net interest payments to revenue* for the public sector as a whole to (at least) less than the average for all states and territories (currently forecast to average about 5¼% over the four years to 2028-29); and
- it should seek to reduce the ratio of *net debt to revenue* for the public sector as a whole to (at least) less than the average of all states and territories by the end of 2029-30, and maintain it below the all-states-and-territories average thereafter.

The ACT Government should nominate more precise numerical targets consistent with the above objectives, and provide projections for these four variables for at least the four years of the normal Forward Estimates period, and ideally for the ensuing six years, in each *Budget Outlook* and *Budget Review* publication. It should indicate whether the targets will be met, and if not, why not, and what if any actions will be taken in order to ensure that the targets are met. It could then be open to the Legislative Assembly formally to resolve that the Government should seek to achieve those targets, or alternatively to resolve that it accepts that there are sound reasons as to why the targets cannot or should not be achieved.

Achieving these targets will require some combination of further expenditure reductions and revenue increases – relative to the projections contained in the most recent Forward Estimates - some suggestions for which are set out in the next Chapter.

Chapter 9: Some options for the ACT to attain and maintain fiscal sustainability

As noted in the conclusion to Chapter 8, returning the ACT's finances to a sustainable position, and keeping them there, will inevitably require some combination of further expenditure reductions and revenue increases – over and above those included in the 2025-26 Budget[10].

Precisely what combination of expenditure reductions and revenue increases should be pursued is, ultimately, a *political* decision which should be resolved by democratic political processes, rather than a question to which the discipline of economics can provide unequivocal answers.

However, any such political decision(s) cannot realistically be taken independently of the comparisons which will inevitably be made about levels of spending and taxation in the ACT compared with those in other jurisdictions, in particular New South Wales – given that there is considerably more scope for people living in, and businesses operating on, either side of the border between the ACT and NSW to move from one side of that border to the other, in response to (among other things) their perceptions of the quality of public services and infrastructure provided and the leve of taxes and charges imposed on each side of it, than there is across other state and territory borders[11].

The purpose of this Chapter is therefore *not* to provide unequivocal recommendations as to *how* the ACT Government should seek to achieve the fiscal strategy targets proposed in Chapter 8, but rather to explore options which could potentially be considered by the ACT Government, by other political parties represented in and members of the ACT Legislative Assembly, and more broadly by Canberrans.

A useful starting point for such an exploration is to compare levels of spending and taxation in the ACT with those in other jurisdictions. The simplest comparisons are on a per capita basis, or as percentages of gross product – although in making such comparisons it is important to take into account that (as noted in Chapter 1) the ACT, uniquely amongst state and territory governments, also undertakes local government functions and imposes local government taxes.

Expressed per head of population, ACT taxes (including municipal rates) were 5% below the national average in 2024-25, and lower than in New South Wales or Victoria – though higher than in the other smaller jurisdictions; while 'operating' expenses in the ACT (including those on local government functions) were 13½% above the national average, and indeed higher than in any other jurisdiction except the Northern Territory (Chart 45a and b).

[10] This assessment has assumed that there is no political appetite for asset sales.

[11] To a more limited extent, the same observation applies in the Coolangatta-Tweed Heads region, which straddles the border between New South Wales and Queensland, and the Albury-Wodonga and Echuca-Moama regions, which straddle the border between Victoria and New South Wales.

Chart 45a: State/territory and local government taxation revenue per head of population, 2024-25

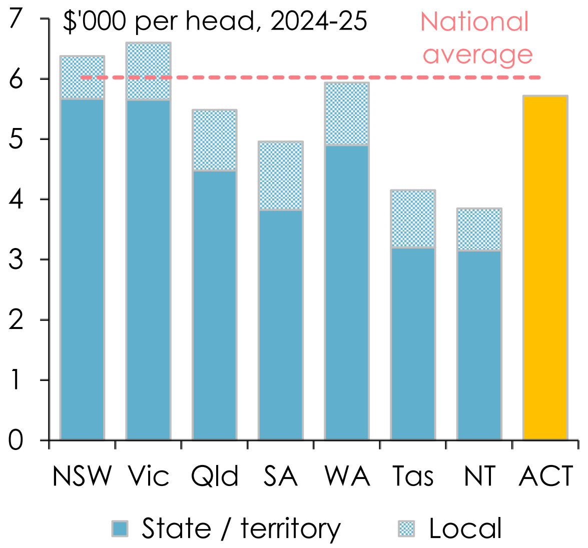
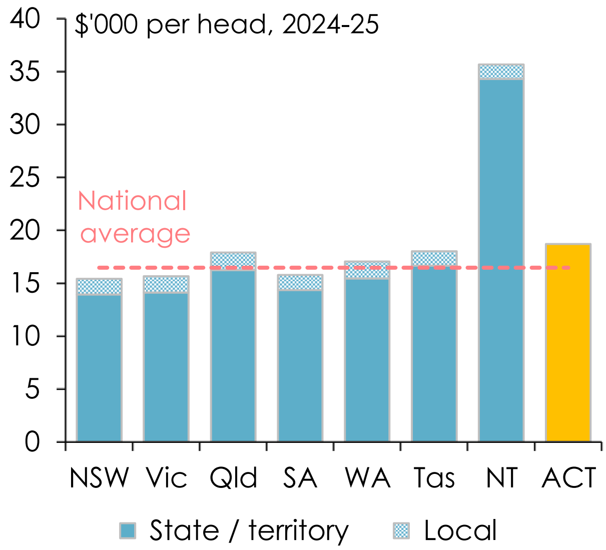


Chart 45b: State/territory and local government 'operating' expenses per head of population, 2024-25



Sources: ABS, [Government Finance Statistics, Annual](), 2024-25 financial year, and [Australian National Accounts: State Accounts](), 2024-25 financial year.

By contrast, when expressed as percentages of gross state product, the ACT's taxation revenue was 1¼ percentage point below the national average, indeed, lower than in any other jurisdiction except Western Australia and the Northern Territory, in 2024-25; while the ACT's operating expenses were 1 percentage point lower than the national average, and lower than in any other jurisdiction except Western Australia (Charts 46a and b).

Chart 46a: State/territory and local government taxation revenue as percentages of GSP, 2024-25

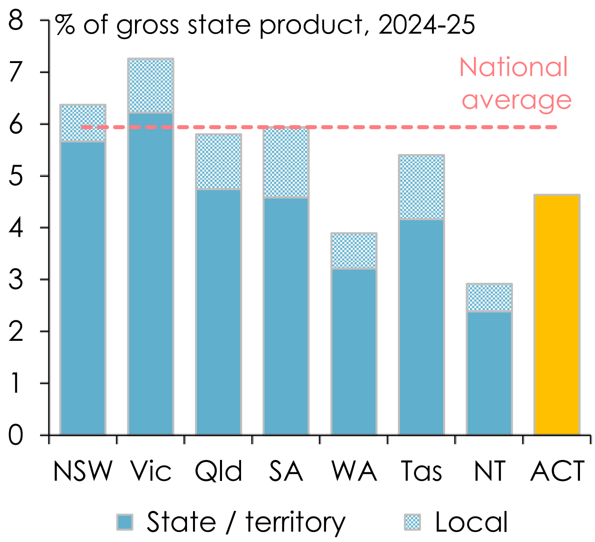
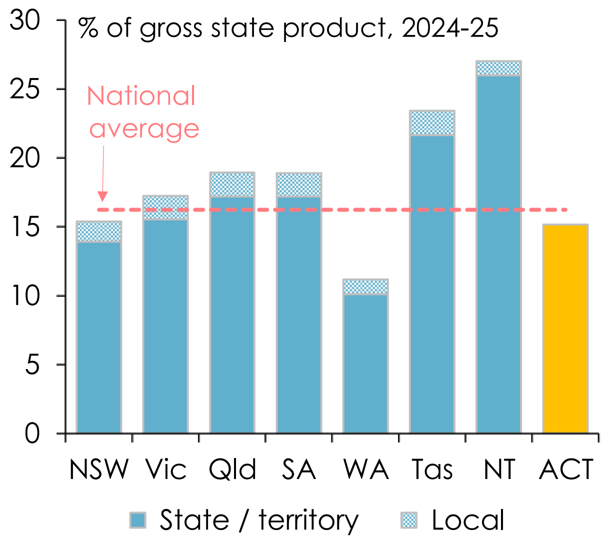


Chart 46b: State/territory and local government 'operating' expenses as percentages pf GSP, 2024-25



Sources: As for Charts 45a and b.

The principal reason for the apparently contrasting impressions conveyed by Charts 45a and b on the one hand, and 46 and b on the other, is that the ACT's per capita gross product is almost 22% above the national average, the second-highest of any state or territory except Western Australia (whose per capita gross product in 2024-25 was more than 50% above the national average). Hence any given level of taxation or spending in the ACT will typically be much closer to, or above, the national average when expressed per head of population than when expressed as a percentage of gross product.

Whether expressed per head of population or as a percentage of gross product, the relative level of taxation and government spending in each state and territory is of course also influenced by factors such as the size and dispersion of its population (which will have a major influence on the scope for 'economies of scale' in delivering services and the relative cost of providing them), its demographic composition and its socio-economic profile (which will influence the 'demand' for various types of public services and the 'capacity to pay' taxes), and the access to alternative sources of revenue (such as mineral royalties).

These and other factors influencing the 'need' for the kind of services and infrastructure typically provided by state and territory governments, the cost of providing them, and the capacity to raise revenue, are explicitly considered by the Commonwealth Grants Commission each year in arriving at its recommendations as to how the revenue from the Federal Government's GST should be distributed among the states and territories.

As part of that process, the Grants Commission assesses

- how much each state and territory 'needs' to spend, per head of population, in order to provide its population with a level of public services and infrastructure equivalent to the average of all states and territories, assuming they are delivered at the average level of efficiency; and
- how much revenue each state and territory can raise, per head of population, from the revenue sources available to it, if it levied those taxes and charges at the same level over the same base as the average of all states and territories[12].

The ratio of a state or territory government's *actual* spending (per head of population) to the level *assessed* by the Grants Commission as being required to provide the average level of services at the average level of efficiency – sometimes called the *level of service provision ratio* – provides an indication as to the extent to which that state or territory government is spending more or less than it 'needs' to in order to provide the average level of services at the average level of efficiency.

A ratio of more (less) than one indicates, at face value, that the state or territory government is providing a higher (or lower) range or quality of services than the average of all states and territories, *or alternatively* that it is providing those services at a lower (higher) level of efficiency than the average of all states and territories, or some combination of both.

[12] For a more detailed explanation of how these assessments are made, see Commonwealth Grants Commission 2026: 52-54.

Similarly, the ratio of a state or territory government's *actual* revenue (per head of population) to the level *assessed* by the Grants Commission as being generated by the all-states-and-territories average rates of taxes, charges or royalties levied over the average revenue base – sometimes referred to as the *revenue-raising effort* ratio – provides an indication as to whether the level of state taxes and other charges is higher or lower than the all-states-and-territories average, having regard to each state and territories' revenue-raising capacities.

Charts 47a and b show the revenue-raising effort and level of service provision ratios for the ACT and the other jurisdictions, as determined by the Commonwealth Grants Commission, for the 2024-25 financial year. Recognizing that the ACT Government, uniquely, raises revenues and provides services which are the prerogative of local governments in other jurisdictions, the ratios shown in Charts 47a and b exclude 'other' revenues and expenses, respectively, categories which (for the ACT) include local government-type revenues and expenses (as well as some other revenues and expenses).

Chart 47a shows that the ACT has the second-highest 'revenue-raising effort ratio' of any state or territory (after Victoria). At face value, that suggests that the scope for raising additional revenue in order to improve the ACT's fiscal position may be somewhat limited – since increasing an already above-average tax burden may (unless very carefully designed) may have an adverse impact on investment and employment in the ACT.

Chart 47b indicates that the ACT's 'level of service provision ratio' is substantially higher than that of any other jurisdiction (even after excluding the category which includes municipal and other services).

Chart 47a: 'Revenue-raising effort' ratios, as assessed by the Commonwealth Grants Commission, 2024-25

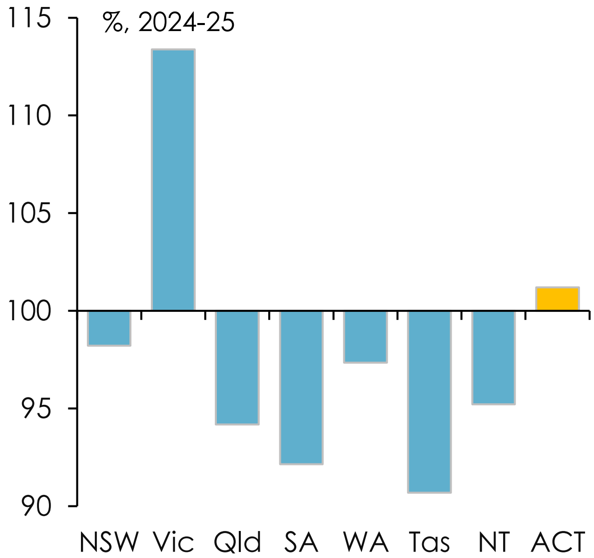
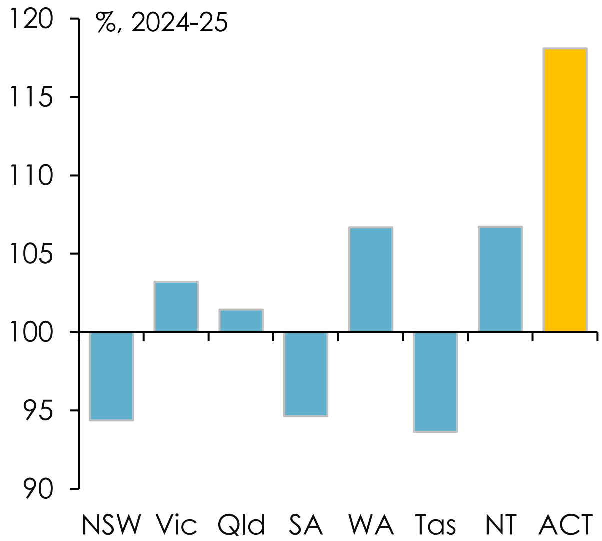


Chart 47b: 'Level of service provision' ratios, as assessed by the Common-wealth Grants Commission, 2024-25



Note: Ratios exclude 'other' revenues and expenses for reasons discussed in the text above.
Source: Commonwealth Grants Commission, *2026 Update – Tables, Charts and Supporting Data*, Revenue and expense ratios, April 2026, and InEconomics calculations.

Put differently, the Commonwealth Grants Commission assessments suggest that, in the 2024-25 financial year, the ACT Government spent $1,617 per capita – or $778 million in total – more than it 'needed' to in order to provide Canberrans with the all-states-and-territories average level of services (excluding municipal services) at the average level of efficiency, and that it raised $40 per capita – or $19.2 million in total – more in revenue (excluding municipal revenues) than it would have done had it levied taxes and charges at the same rate over the same bases as the average of all states and territories[13].

Had the ACT Government's operating expenses and revenues in 2024-25 been in line with the Grants Commission's assessments, the net operating deficit would (all else being equal) have been $640 million – or less than half the $1.4 billion operating deficit actually recorded in 2024-25.

A more detailed examination of 'operating' expenses

At face value, this analysis of the Grants Commission assessments suggests that there *is* scope to improve the ACT's financial position by reducing spending on services, either by scaling back or abolishing some services, or (alternatively and probably preferably) delivering services more efficiently (if more detailed investigations indicate that there is scope for doing so).

This analysis can be taken a step further – albeit not without some important qualifications – by examining the Grants Commission's assessments of the ACT Government's expenses and revenues by function and source, respectively.

Chart 48 shows the ACT's 'level of service provision ratios' for each of the functional categories of operating expenses it considers as part of its assessments of each state and territory's 'expenditure needs' in 2024-25 – other than 'other expenses' which for the ACT includes municipal services. Chart 49 converts these ratios into the difference between the ACT Government's actual spending in 2024-25 on each of these categories and the spending which the Grants Commissions assesses the ACT Government would have 'needed' to spend in order to provide the all-states-and-territories average level of services at the average level of efficiency.

These two charts indicate that the ACT 'over-spends' – relative to the level required, in the Grants Commission's assessments, in order to provide Canberrans with the average level of services at the average level of efficiency – in every functional category except welfare, transport and (by a much larger margin) services to industry.

Chart 49 indicates that health accounts for more than three-quarters of the total amount by which total ACT Government spending exceeded what was (in the Grants Commission's assessment) 'needed' to provide the average level of services at the average level of efficiency.

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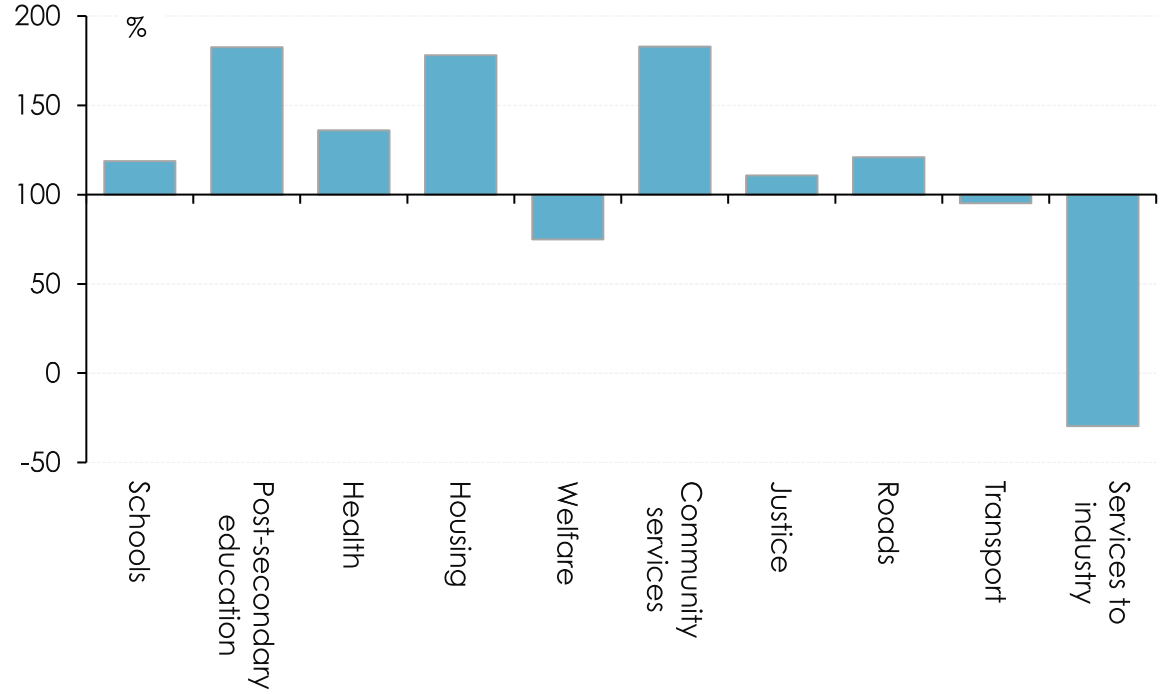
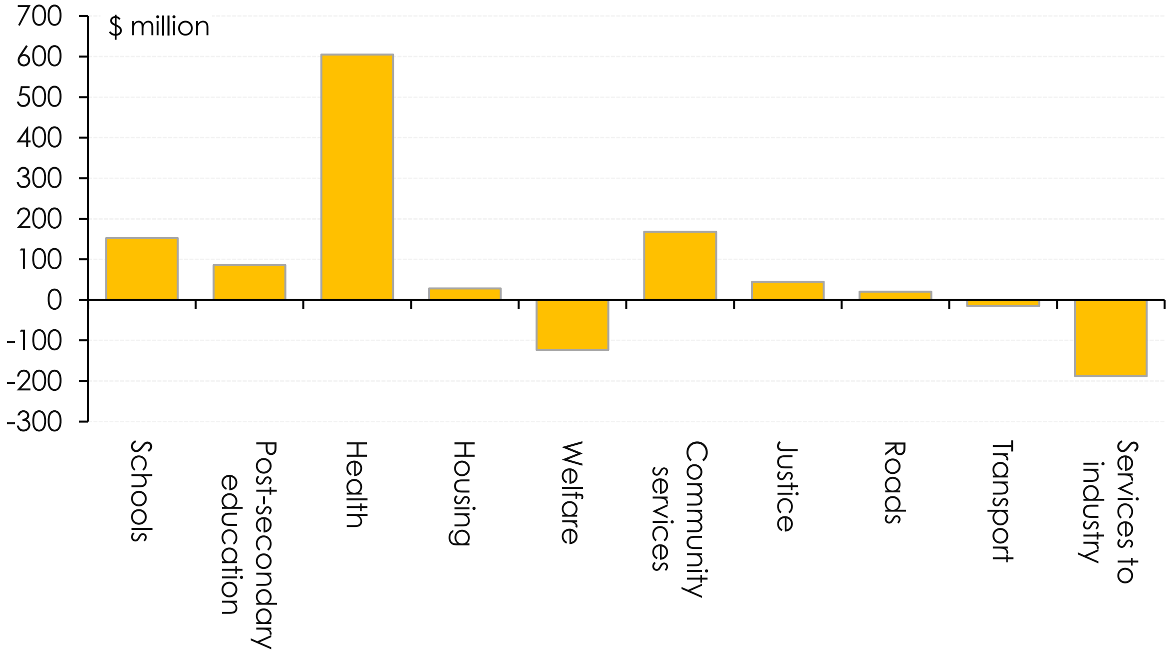
[13] The figures for the differences (in millions of dollars) between the ACT's 'operating' expenses and revenues, and the Grants Commission's assessments of what would have been 'needed' to provide the average level of services at the average level of efficiency, and would have been raised by the average level of taxes and charges over the average tax base, respectively, were derived by multiplying the per capita sums calculated by the Grants Commission by the ACT's estimated resident population in 2024-25.

Chart 48: Grants Commission 'level of service' provision ratios for the ACT by functional category, 2024-25 financial year



Source: Commonwealth Grants Commission, *2026 Update – Tables, Charts and Supporting Data*, [Revenue and expense ratios](), April 2026, and InEconomics calculations.

Chart 49: Difference between actual ACT Government spending and the level assessed by the Grants Commission as being required to provide the 'average' level of services at the average level of efficiency, 2024-25



Source: Commonwealth Grants Commission, *2026 Update – Tables, Charts and Supporting Data*, [Revenue and expense ratios](), April 2026, and InEconomics calculations.

In practice, these calculations should be regarded as informative, but not taken too literally. They should be seen as a *starting point* for consideration as to the scope for expenditure savings, rather than as the conclusion of that process.

While the Grants Commission attempts to take into account most of the factors which might explain why a particular jurisdiction might need to spend more, or be able to spend less, than others in order to provide its population with the average level of services, it cannot (and does not claim to) capture all of them.

One factor which contributes significantly to the ACT's spending on health is the volume of health services the Territory provides to residents of adjacent areas of New South Wales. The ACT Government estimates that over 20% of the services provided by ACT public hospitals are provided to NSW residents. The New South Wales Government pays the 'national efficient price' for these services to the ACT Government, amounting to $386 million in 2024-25.

However, the estimated price of ACT hospital services per 'national weighted activity unit'[14] is almost 30% higher than the 'national efficient price' (in large part because of the much smaller scale of the ACT's hospital system compared with the larger states which account for the bulk of national hospital services). Hence, the ACT calculates that the payment by New South Wales to the ACT for services provided to patients resident in NSW falls short of the cost of those services by almost 23%, or almost $88 million, in 2024-25 (Stephen-Smith 2026).

The ACT Government also notes that New South Wales does not make any financial contribution to the capital cost of providing hospital services, such as the now-completed expansion of the Canberra Hospital, or the new Northside Hospital at Bruce, on which work has recently commenced.

Another factor potentially contributing to above-average spending on health services by the ACT Government is the relatively low-rate of bulk-billing by medical practices in the ACT, which may partially offset the impact that the above-average proportion of ACT households covered by private health insurance, relative to other jurisdictions, might be expected to have in reducing the demand for public hospital services.

The Grants Commission explicitly includes payments from NSW to the ACT for health services provided to NSW residents in its assessments of the ACT's health expenditure 'needs', but does not make any allowance for differences between the price of ACT health services and the 'national efficient price.'

Earlier this year the Federal Government agreed to make additional payments under the National Health Reform Agreement to the ACT, along with Tasmania and the Northern Territory, to take account of the 'diseconomies of scale' encountered by the hospital systems of the smaller jurisdictions.

[14] The 'national weighted activity unit' is a measure of the health service activity expressed as a common unit, against which the 'national efficient price' is paid. It provides a way of comparing and valuing each public hospital service, whether they are emergency department presentations, admissions or outpatient episodes, weighted for clinical complexity. For more detail see National Health Funding Body, *Calculation of National Weighted Activity Unit*.

Another possible reason for above-average spending by the ACT on health services which has been put to the Legislative Assembly Select Committee is under-spending on preventive measures, by comparison with funding for (more expensive) acute care services (ACT Legislative Assembly Select Committee 2026a: 2-3 and 11-13), a suggestion which has been acknowledged by the Minister for Health (ACT Legislative Assembly Select Committee 2026b: 22-23).

This Assessment does not have the capacity to make detailed prescriptions as to where savings in health expenditure may be found. But it seems fairly clear that health is likely to offer the greatest opportunities for making expenditure savings as a contribution to ensuring the fiscal sustainability of the ACT, and the Government should be diligent and transparent in seeking out and pursuing those opportunities. It should of course also continue to seek more appropriate recompense from the NSW Government for services provided to NSW residents.

Chart 49 above suggests that the amount of 'over-spending' by the ACT, relative to the Grants Commission's assessment of what is required to provide the average level of services at the average level of efficiency, in functional areas other than health, is relatively small.

In the areas of school and post-secondary education, the ACT provides services to students resident in adjacent areas of New South Wales – but in contrast to health services, the NSW Government does not contribute to the cost of providing these services. However, the Grants Commission does take these costs into account in assessing the ACT's expenditure 'needs' with regard to school and post-secondary education.

The ACT's long-standing practice of providing senior secondary education through separate colleges almost certainly entails higher unit costs than the comprehensive (ie, from Years 7 or 8 through to Year 12) high school systems operating in other jurisdictions (other than Tasmania) – as it does in Tasmania – although (in contrast to Tasmania) the ACT's college system does not appear to act as a barrier to students completing a full secondary education. On the contrary, the ACT has the highest retention rates of students to Year 12 of any jurisdiction, although the 'success rate' of ACT students, especially those from higher socio-economic status households, has slipped in recent years (Productivity Commission 2026: Tables 4A.55 and 56), both in absolute terms and relative to the averages for all states and territories[15].

The divergences between the ACT's spending on housing, community services and 'welfare' and the Grants Commission's assessments of what it 'needs' to spend in these areas in order to provide the average level of services at the average level of efficiency seem likely to reflect, at least in part, differences in the classification of particular services to these three functional categories, and/or the inclusion for the ACT of some services which are provided by local governments in other jurisdictions.

[15] This Assessment is conscious of differences between individual states and territories as to what constitutes 'successful completion' of the requirements for a Year 12 certificate. However, that does not explain the decline in the certification rate of ACT students between 2015 and 2022, as shown in the *Interim Report* (Eslake 2026: 29).

Moreover, the apparent 'over-spending' on housing and community services is partly offset by apparent 'under-spending' on 'welfare' services, so the scope for significant expenditure savings in these areas is fairly limited.

One component of housing expenditure which does merit specific attention is the debt service payments which the ACT continues to make to the Federal Government in respect of public housing assets transferred to the Territory at the time of self-government in 1989. This debt currently stands at around $83 million, and is due to be fully repaid by 2042. Principal and interest payments in respect of this debt were $8.3 million and $3.3 million, respectively, in 2024-25. ACT Senator David Pocock has asserted that "more than half the funding which the ACT receives from the Federal Government under the National Housing and Homelessness Agreement is returned in interest payments on the historic debt" (Pocock 2022). Previous Federal Governments have waived or forgiven similar debts owed by South Australia and Tasmania, and the ACT would seem to have a strong case for similar debt forgiveness on the part of the current Federal Government.

There are other areas in which the ACT Government could argue for additional payments from the Federal Government for services which the ACT Government provides to it – such as for police services in the 'Parliamentary Triangle', especially during visits by foreign dignitaries. However in doing so, the Government would also need to consider whether any such increased payments might adversely affect the ACT's share of GST revenues.

One area of ACT service provision to the Federal Government which would *not* be subject to any adverse adjustment to the ACT's GST revenue share is municipal services – since these are outside the scope of the Grants Commission's assessment of state and territory expenditure 'needs' and revenue-raising capacities. These payments have increased at an average annual rate of just 1.8% over the past decade (compared with an increase in the CPI averaging 2.8% per annum over the same interval), and were most recently projected to increase at an average annual rate of 2.4% over the four years to 2028-29 (below the contemporaneous Federal Treasury forecast of inflation averaging 2.8% per annum over this period). So this is definitely an avenue which the ACT Government should pursue with the Federal Government.

In relation to *capital expenditures*, this Assessment has not sought to pass judgement on the selection or management of specific infrastructure investment projects funded by the ACT Government, which would be beyond its capacity.

However, it draws attention to the Grants Commission assessment that, on average over the three years to 2024-25, the ACT Government has spent almost 55% more on 'investment' than would have been necessary to provide the same level of infrastructure services as the average of all state and territory governments, having regard to differences in factors affecting the 'need' for such services (in particular, population growth) – see Chart 50. The Commission also cautions that this figure for the ACT needs to be interpreted cautiously given that it includes infrastructure spending that would be undertaken by local governments in other jurisdictions. Nonetheless, it is difficult to believe that municipal-type infrastructure spending fully explains the higher figure for the ACT shown in Chart 50.

Chart 50: Ratio of actual infrastructure investment expenditure to level assessed by the Grants Commission as being required to provide the average level of infrastructure services, states and territories, average 2022-23 to 2024-25

Note: data are averaged over the three years to 2024-25 due to the inherent 'lumpiness' from year to year in infrastructure spending. *Source:* Commonwealth Grants Commission, *2026 Update – Tables, Charts and Supporting Data*, Revenue and expense ratios, April 2026, and InEconomics calculations.

Ideally, the ACT Government should, as part of the annual budgetary process, determine how much it can afford to spend on infrastructure investment over the forward estimates period, having regard to the fiscal strategy targets which it should set as recommended in Chapter 8, and then determine which projects are to be funded by 'ranking' them in descending order of benefit-cost ratios.

As a practical matter, it will not be possible to determine numerical benefit-cost ratios for every project that might be considered, especially for projects which are not intended to generate revenues. More generally, in a democracy there should be some scope for elected governments to make judgements about the funding of projects on other than purely financial or economic criteria: but, equally, in a democracy governments should be transparent about their reasons for doing so, and should not seek to conceal them behind 'commercial-in-confidence', 'security' or other rationales. Where infrastructure projects are undertaken with commercial objectives in mind – as will typically be the case with investments by public corporations – full disclosure of all of the relevant financial criteria should be the norm.

A more detailed examination of revenues

As noted previously in this Chapter, 'top-down' perspectives – in particular those provided by the Grants Commission's assessments undertaken as part of its annual determination of the carve-up of the revenue from the GST among the states and territories – indicates that there is greater scope for measures aimed at restoring and maintaining the fiscal sustainability of the ACT on the expenditure side than on the revenue side of the ACT's budget.

Nonetheless, if through democratic processes, Canberrans decide that they do not wish to pursue fiscal sustainability through expenditure savings measures, and/or are unable to persuade the Federal or New South Wales Governments to make greater financial contributions for the services which the ACT Government provides to them, then inevitably Canberrans will need to consider options for raising additional revenue.

Chart 51a shows the 'revenue-raising effort' ratios for the taxes for which the Grants Commission makes assessments, for the ACT in the 2024-25 financial year (excluding mineral royalties, which the ACT does not collect, and 'other revenues' which includes municipal rates, which other jurisdictions do not collect), while Chart 51b shows the difference in revenues in 2024-25 resulting from the ACT's departures from the 'average tax rates over the average tax base' as assessed by the Grants Commission. The charts show that the ACT raises significantly more by way of land tax and payroll tax, and slightly more by way of motor taxes, but less by way of stamp duties and insurance taxes than if it had the 'average' tax regime.

Chart 51a: Grants Commission assessed 'revenue-raising effort ratios' for specific taxes levied by the ACT, 2024-25

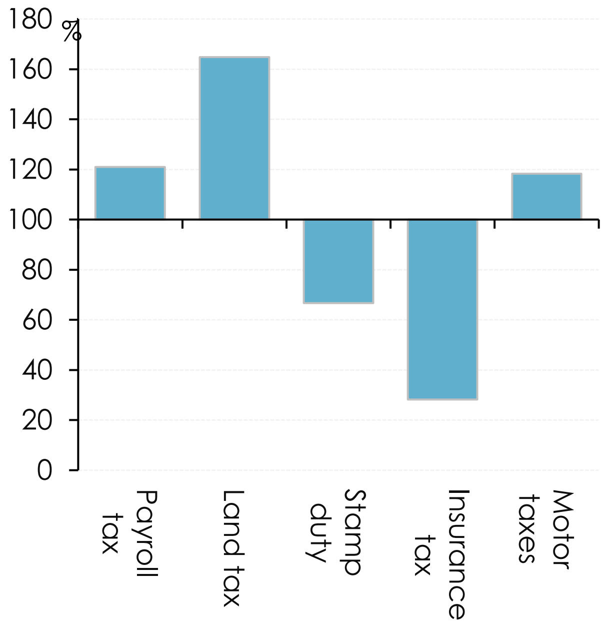
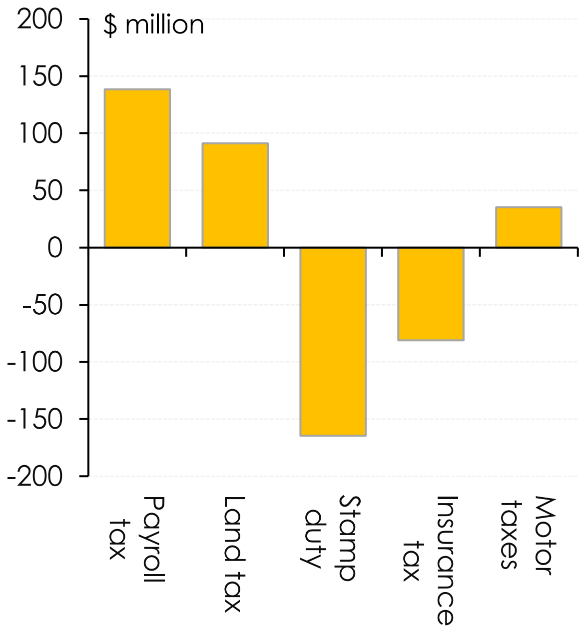


Chart 51b: Difference between actual revenue and assessed revenue from 'average rates over average base'



Source: Commonwealth Grants Commission, *2026 Update – Tables, Charts and Supporting Data*, Revenue and expense ratios, April 2026, and InEconomics calculations.

The differences between the ACT's tax regime and the all-states-and-territories average are of course, for the most part, the result of *conscious choices* by ACT Governments over more than a decade – in particular, to phase out stamp duties on land transfers in favour of higher municipal rates and a more progressive land tax regime, and to abolish stamp duty on insurance premiums (although it does impose an ambulance levy on private health insurance premiums).

These tax reforms are in line with the recommendations of most reviews of the Australian taxation system (eg Henry 2010: 247-269 and 469-474; OECD 2026: 15), and this Assessment is certainly not suggesting that they be modified or reversed. And as noted earlier in this Chapter, in considering any other forms of additional revenue-raising, the ACT Government needs to be conscious of possible adverse effects on investment and employment in the ACT, given the relative ease with which impacted businesses could relocate to New South Wales.

That said, if the ACT Government wished to consider raising additional revenues in order to enhance the fiscal sustainability of the ACT, there are at least two options worthy of contemplation.

The first is that, although the ACT has the highest maximum rate of payroll tax (at 7.85%) of any jurisdiction for payrolls in excess of $50 million, and the second-highest for payrolls of between $5 million and $50 million, it also has the second-highest payroll tax free threshold (currently $2 million, reducing to $1.75mn on 1st July this year) of any jurisdiction, behind only the Northern Territory (Western Australian Department of Treasury and Finance 2025: 6-7). In other words, the ACT's payroll tax regime imposes a high rate of tax over a narrow base: the opposite of good tax design (OECD 2010: 9).

The ACT's high tax-free threshold is expensive in terms of revenue foregone, amounting to $178 million in 2023-24 (ACT Government 2025: 10), equivalent to almost one-quarter of the revenue actually collected from payroll tax in that year.

Contrary to the assertions often made by employer and small business organizations, generous payroll tax-free thresholds do very little to promote employment growth at small businesses. Although small businesses (defined as those with fewer than 20 employees) accounted for more than 41% of private sector employment in the ACT over the decade ended 2023-24, they have accounted for only 31% of the *increase* in private sector employment in the ACT over that period – whereas medium-sized (those with 20-199 employees) and large (those with 200 or more employees) businesses have accounted for 69% of the increase in total private sector employment in the ACT over the same period, despite having to pay payroll tax (ABS 2025a and previous issues).

Over time, a sensible reform – consistent with the approach that the ACT has taken to property taxation – would be to lower both the maximum rate of payroll tax and the payroll tax-free threshold, either in such a way as to raise additional revenue if that were to be desired, or alternatively in a revenue-neutral way in order to procure a more efficient tax system and, potentially, to generate increased employment.

A second revenue-raising option which the ACT could consider is to increase the revenue it collects from gambling taxes. ABS data indicate that the ACT collects less revenue per head of population from gambling taxes than any other jurisdiction except Western Australia (Chart 52a), largely because Canberrans spend less on gambling than any other Australians except Western Australians and Tasmanians. But combining that with data compiled by the Queensland Treasury suggests that the ACT collects a smaller percentage of what is spent on gambling by way of taxation revenue than any other jurisdiction except Western Australia (Chart 52b).

Chart 52a: Revenue from taxes on gambling, per head of population, 2024-25

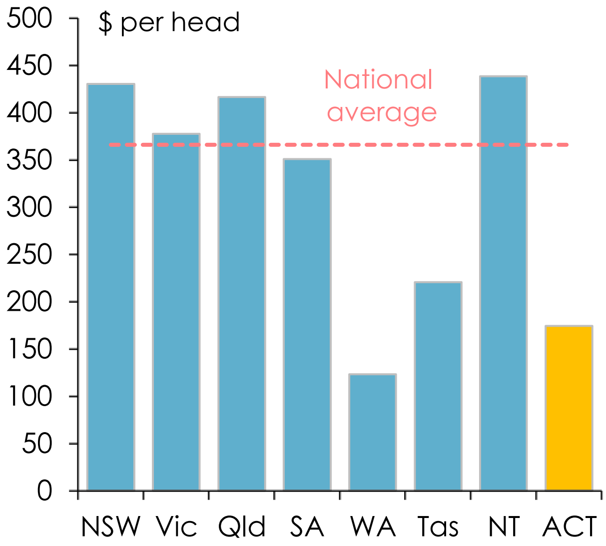
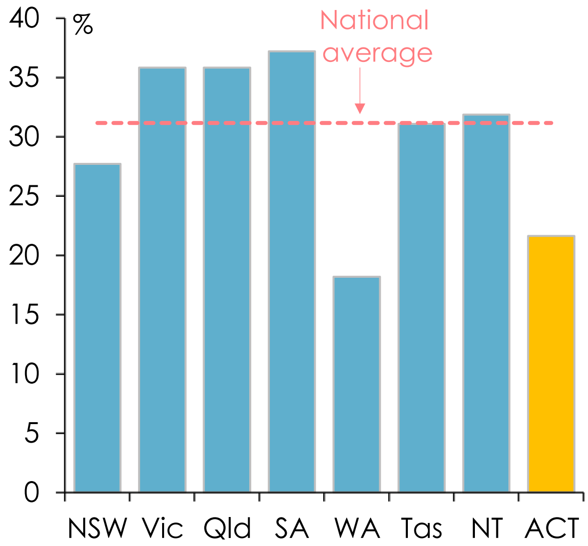


Chart 52b: Revenue from taxes on gambling as a percentage of gambling spending, 2023-24



Sources: ABS, [Taxation Revenue, Australia](), 2024-25 financial year; Queensland Government Statistician's Office, [Australian Gambling Statistics](), 40th edition 1998-99 to 2023-24; and InEconomics calculations.

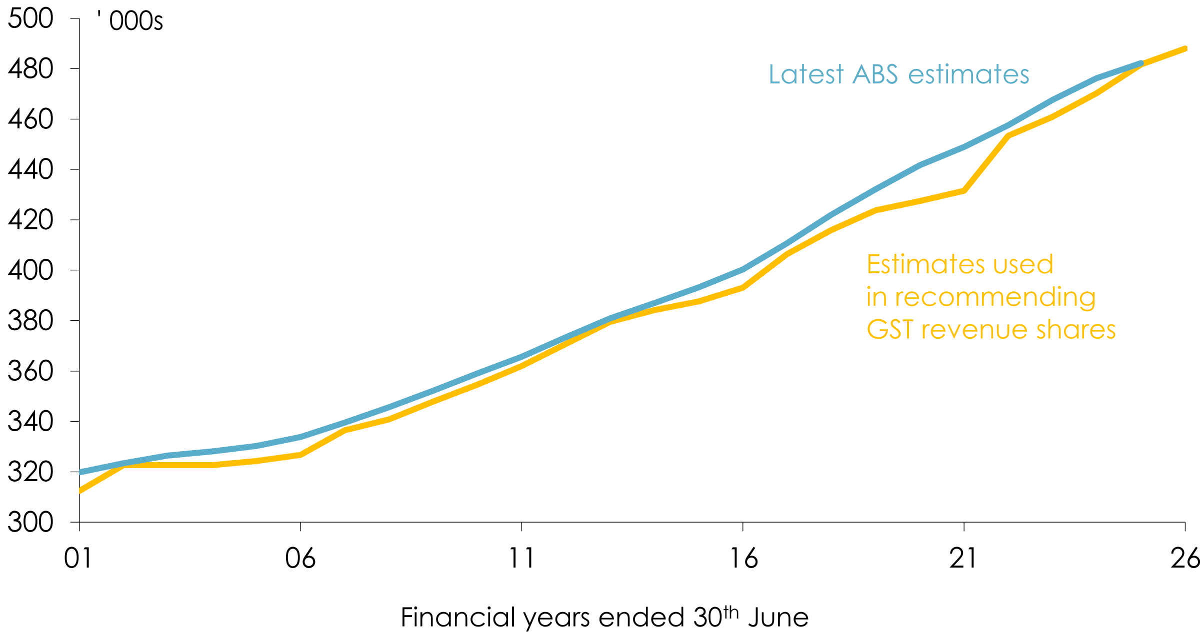
The Grants Commission does not assess differences in each jurisdiction's capacity to raise revenue from gambling taxes: in effect, it assumes that each state and territory has an equal capacity to raise revenue (per head of population) from gambling taxes. One consequence of this is that if the ACT were to seek to raise more revenue from gambling taxes, there would be no adverse impact on its share of revenues from the GST.

One final issue on the revenue side of the ACT's budget is the consistent under-estimation of the ACT's population by the Australian Bureau of Statistics, which in turn adversely affects the ACT's share of revenue from the GST since this is determined by multiplying the ACT's GST 'relativity' (as recommended by the Grants Commission each year) by the Federal Treasury's forecast of the ACT's population for that year.

As shown in Chart 53, the estimates of the ACT's population used to determine the ACT's share of revenue from the GST have under-estimated the ACT's actual population (according to the latest available ABS estimates) by an average of 1.4%

since the GST was introduced in 2000, including by 3.2% in 2019-20 and 3.9% in 2020-21.

Chart 53: Population estimates used to determine the ACT's share of revenue from the GST compared with latest ACT population estimates



Sources: Commonwealth Grants Commission, [2026 Update - Tables, charts and supporting data](), U2026 – Population data; and ABS, [National, state and territory population](), September 2025.

The problem arises largely from the ABS' use of Medicare change of address data to estimate net interstate migration in between the five-yearly Censuses – even though there is no requirement for individuals to update Medicare address details and there is usually no need for individuals to do so unless they visit a GP or a pharmacist. The ACT is more affected by this than other jurisdictions because it has higher interstate migration flows than the other states and the Northern Territory.

The ACT Treasury estimates that under-counting of the ACT's population resulted in a loss of around $550 million in GST revenue between 2016-17 and 2022-23 (Steel 2026c).

In June last year the ABS published a review of its methodology for estimating net interstate migration between Censuses, including by making greater use of new sources of administrative data, which has been applied to quarterly population estimates since the December quarter of 2024. Nonetheless, based on its own administrative data the ACT Treasury contends that the ABS is continuing to undercount the ACT's population. The results from the forthcoming 2026 Census, to be conducted in August this year, will (when released in mid-2027) present another opportunity to pursue this case.

Chapter 10: Conclusion

This Assessment has shown that there has been a significant deterioration in the financial position of the ACT public sector over the past decade, and in particular during the past five years, as a result both of the Covid-19 pandemic in the early years of the current decade, and of decisions taken during the years immediately after the end of the pandemic.

The ACT's financial position is far from being the worst of any Australian state or territory – the contest for that dubious distinction is between the Northern Territory, Tasmania and Victoria. But that is hardly something from which the ACT can draw any satisfaction. In many respects the ACT's financial position is now similar to that of South Australia, which has never been regarded as one of the financially stronger states or territories: and it is clearly inferior in most respects to those of New South Wales, Queensland and (especially) Western Australia.

Financial or fiscal 'sustainability' is an elusive concept, one for which there is no universally accepted definition, and one for which there is no single number, or set of numbers, enabling a line to be drawn between 'sustainable' and 'unsustainable'. Typically, one can only be absolutely sure that a government's financial position is 'unsustainable' when it is faced with a crisis that it cannot deal with in the absence of external financial assistance. The ACT does not appear to be in such a position at this time: but it could become increasingly vulnerable to finding itself in such a position if the trends in 'operating' and capital spending, revenues and deficits of the past few years were to continue.

As the economist Rudi Dornbusch often observed, in what later became known as "Dornbusch's Law", "a crisis takes a much longer time coming than you think, and then happens much faster than you would have thought" (Dornbusch and Fischer 2003: 13).

The ACT Government's 2025-26 Budget sought to address these concerns by foreshadowing unprecedently tight control over 'operating' expenses over the four years to 2028-29, a significant decline in infrastructure investment spending in 2027-28 and 2028-29, and faster growth in revenues (including as a result of a range of increases in taxes), with the 'headline' net operating balance forecast to return to surplus by 2027-28, and the cash deficit to decline significantly (though still remaining in deficit) in 2027-28 and 2028-29.

While these measures could, under favourable but not implausible assumptions, result in the ACT's finances returning to an unambiguously 'sustainable' position by the first half of the 2030s, less favourable but no less plausible scenarios could readily see the ACT's financial position continue to deteriorate – especially if the outcomes for the next four years foreshadowed in the most recent set of Forward Estimates failed to be realized, as has been the fate of successive sets of Forward Estimates in recent years. That risk is all the more concerning given the vagueness of the fiscal strategy set out in last year's Budget and the ensuing mid-year Budget Review.

The ACT Government should articulate and adopt a more disciplined fiscal strategy, aimed at delivering not just 'operating' surpluses but also cash surpluses – that is, after accounting for infrastructure investment outlays – before the end of the present decade, and maintaining cash surpluses into the 1930s until such time as outstanding net debt has been reduced to less than the all-states-and-territories average as percentages of total revenues and of the ACT's gross product. It should set numerical targets for interest expense as a percentage of revenues, and for net debt as percentages of revenues and gross product, for both the general government sector and for the public sector as a whole. And it should establish mechanisms for regular reporting on progress (or lack thereof) towards meeting those targets.

Comparisons between various dimensions of the ACT's finances with those of other Australian sub-national jurisdictions – including in particular, but not exclusively, the assessments made by the Commonwealth Grants Commission as part of the process by which it arrives at its annual recommendations as to the distribution of revenue from the Federal Government's GST among the states and territories – suggests that there is *prima facie* greater scope to return the ACT's finances to a more sustainable position through expenditure measures than through revenue measures.

However, the balance between expenditure and revenue measures to be instituted in order to achieve fiscal strategy objectives consistent with a return to, and subsequently the maintenance of, a sustainable fiscal position is an inherently political calculation. As such, it should be decided by democratic political processes, rather than being prescribed by unelected officials or analysts – which is why this Assessment has offered suggestions as to where expenditure savings might be sought, or additional revenues raised, without seeking to make definitive or unambiguous recommendations.

That said, those democratic political processes should be informed by an understanding that tolerating continued deficits, and ever-increasing levels of public debt, will ultimately prove unsustainable: and that if Canberrans, through their elected representatives, wish to maintain relatively high levels of public spending in order to provide a wide range of high-quality public services, they will also have to be asked to pay higher taxes and charges. It is incumbent on all participants in political processes to understand this truism, and to do their best to ensure that their constituents also understand it.

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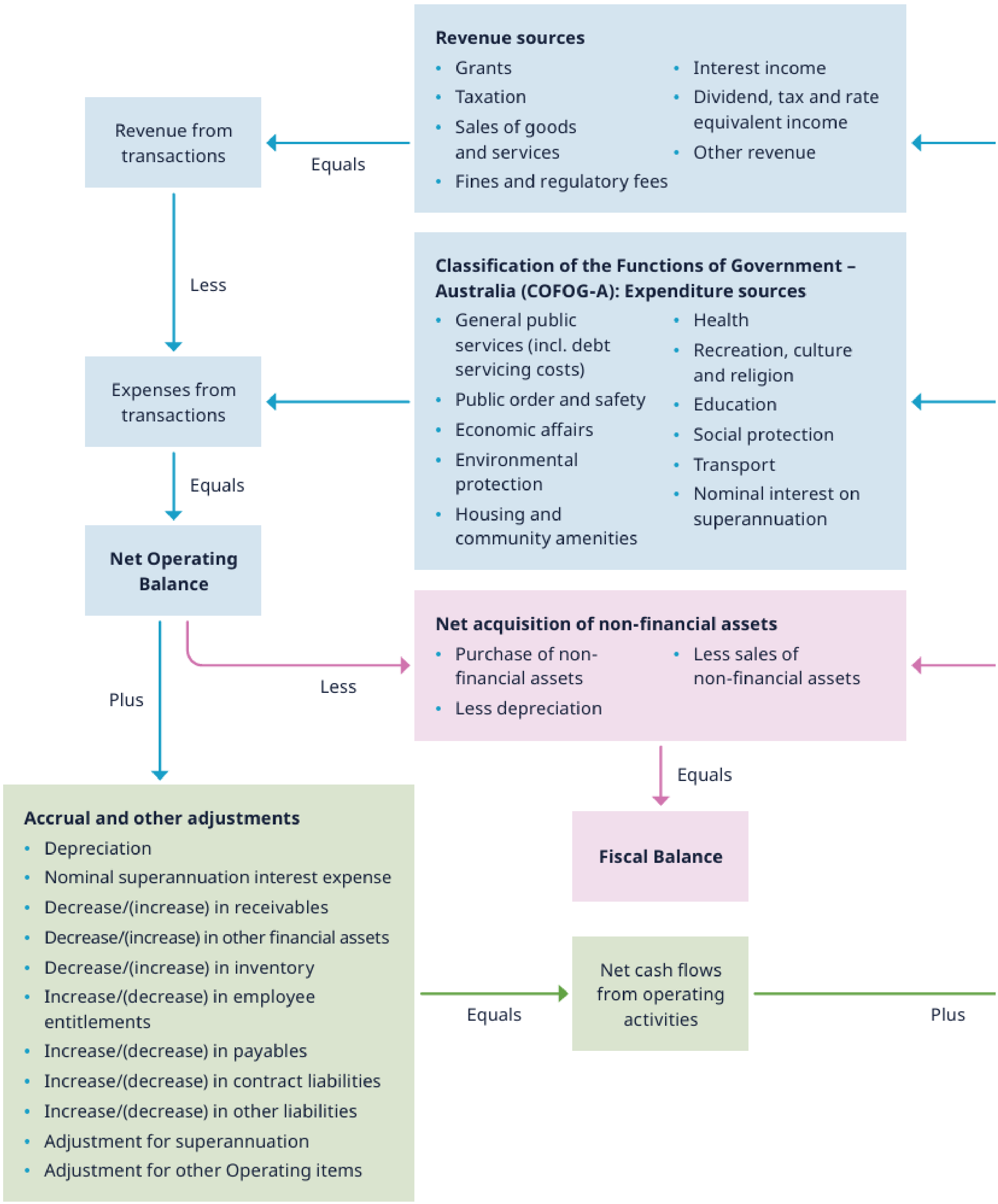
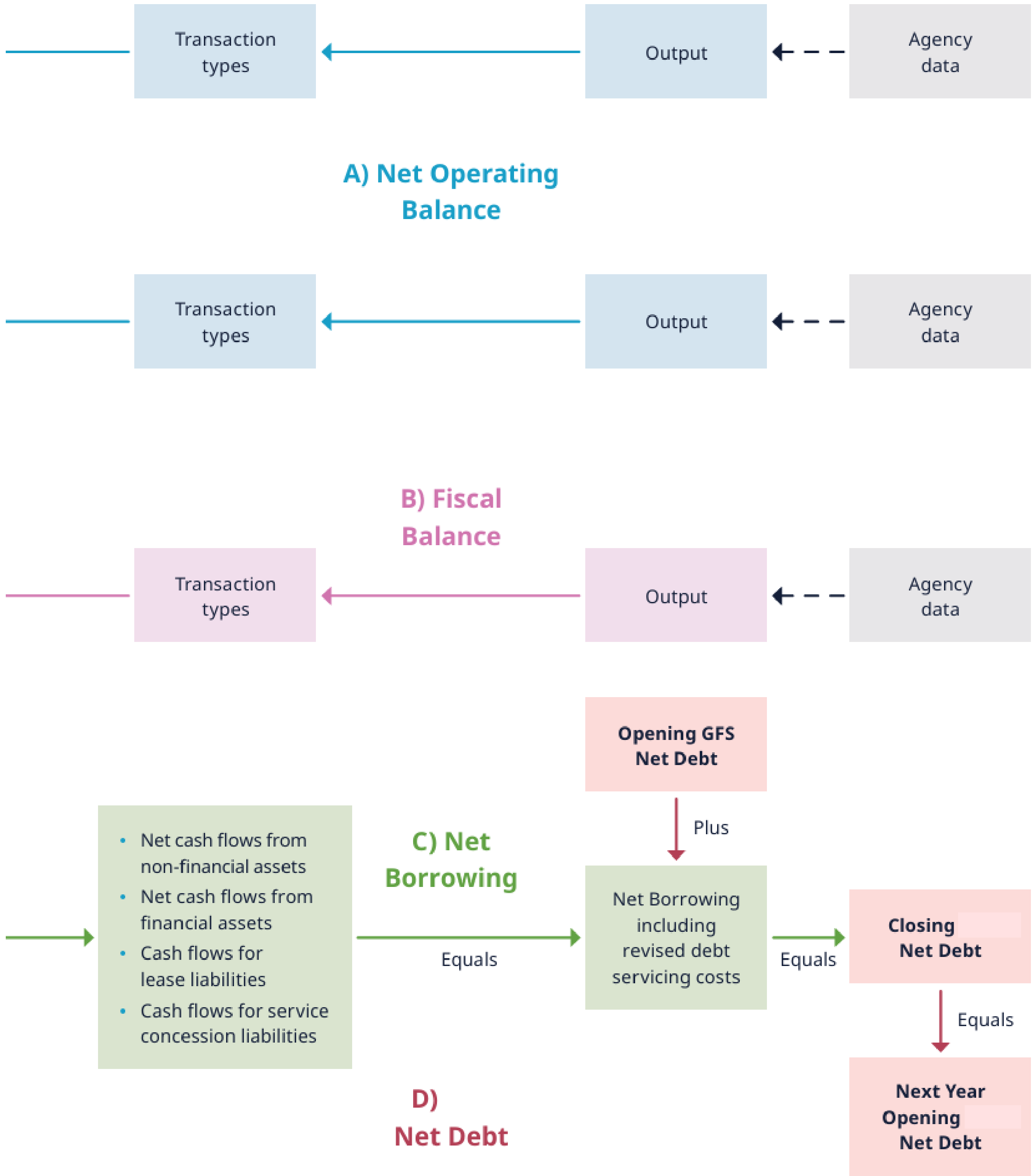
Appendix 1 – Terms of Reference

In relation to the finances of the ACT, the specialist advisor shall investigate and report on:

1. fiscal sustainability;
2. fiscal projections to 2035-2036, or later;
3. comparisons across jurisdictions;
4. the context/special circumstances of the ACT;
5. revenue from the Commonwealth;
6. underlying structural drivers of the ACT's fiscal position;
7. any changes that should be made to the analysis and presentation of information in the Government's key financial documents;
8. if required, options for remedying the ACT's financial position; and
9. any other relevant matter.

Appendix 2 – Government accounting illustrated





Source: Tasmanian Department of Treasury and Finance (2026b: 46-47).