

FIXING THE TERRITORY BUDGET WITHOUT FRACTURING THE TERRITORY ECONOMY

PRESENTATION TO THE ACT BUSINESS CHAMBER

HYATT HOTEL, CANBERRA
15TH OCTOBER 2026



SAUL ESLAKE

CORINNA ECONOMIC ADVISORY

The ACT's economy has out-performed other states and territories in multiple dimensions – but mainly driven by growth in public spending

Real GSP growth, 2014-15 to 2024-25



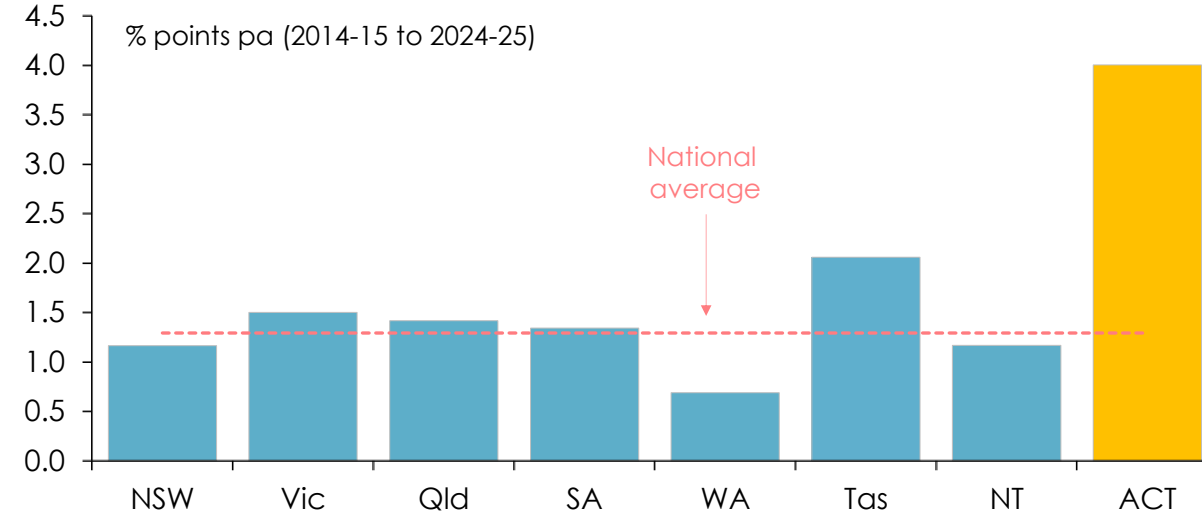
Labour productivity growth, 2014-15 to 2024-25



Real per capita GSP growth, 2014-15 to 2024-25



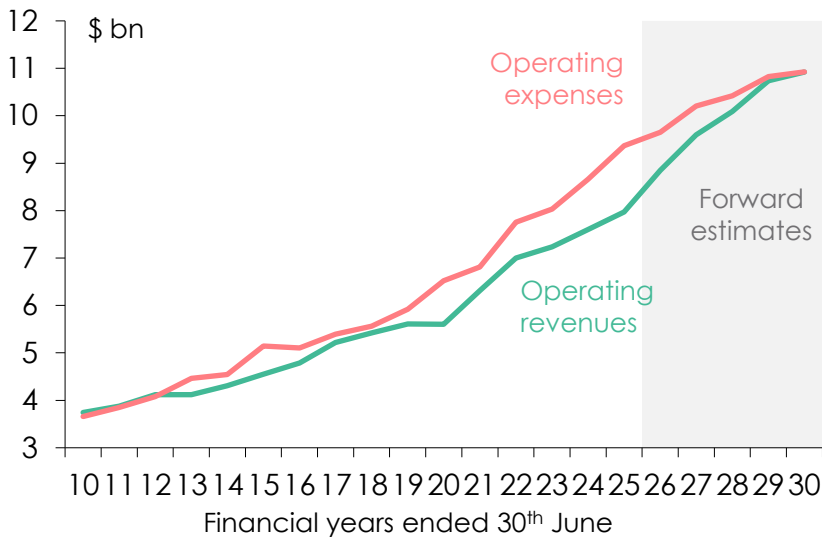
Contribution of public spending to real GSP growth



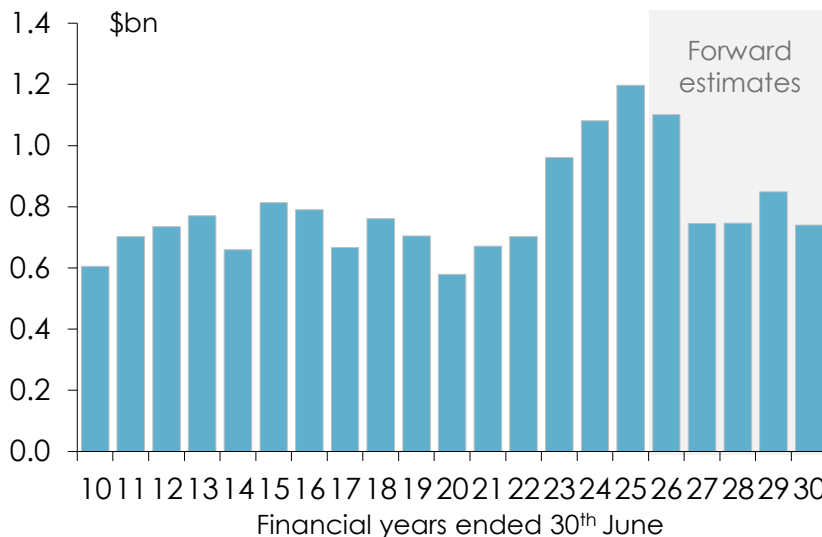
Note: GSP is gross state product. Labour productivity is GSP per hour worked.
Sources: ABS, ABS, [Australian National Accounts: State Accounts](#), 2024-25; [Labour Force, Australia](#), August 2026

The rapid expansion in public sector spending has led to a marked deterioration in the ACT Government's financial position

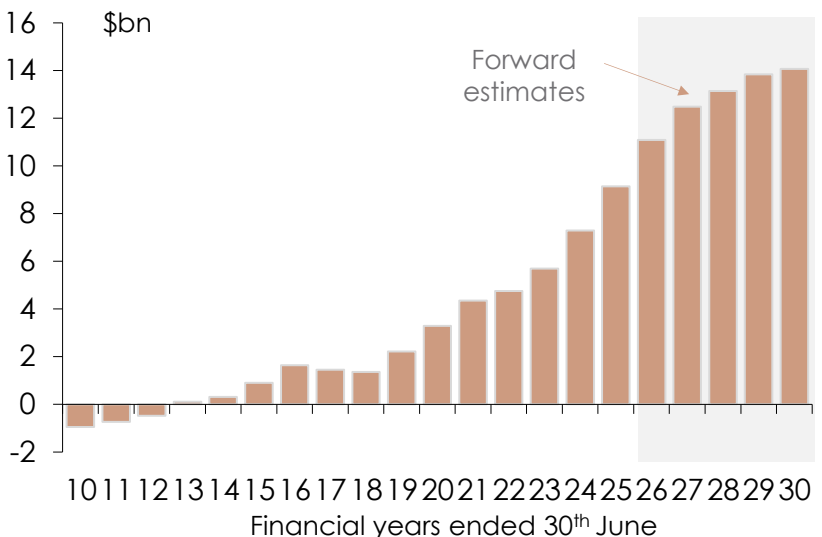
‘Operating’ revenue and expenses



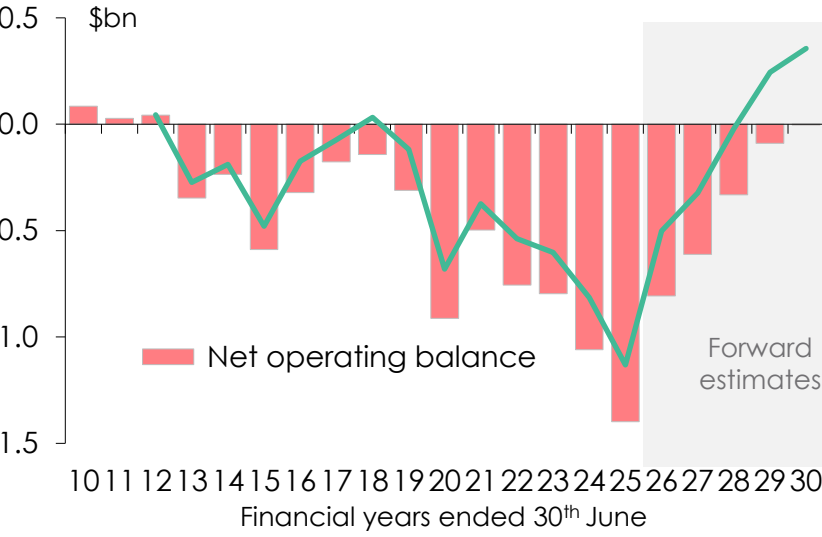
‘Purchases of non-financial assets’



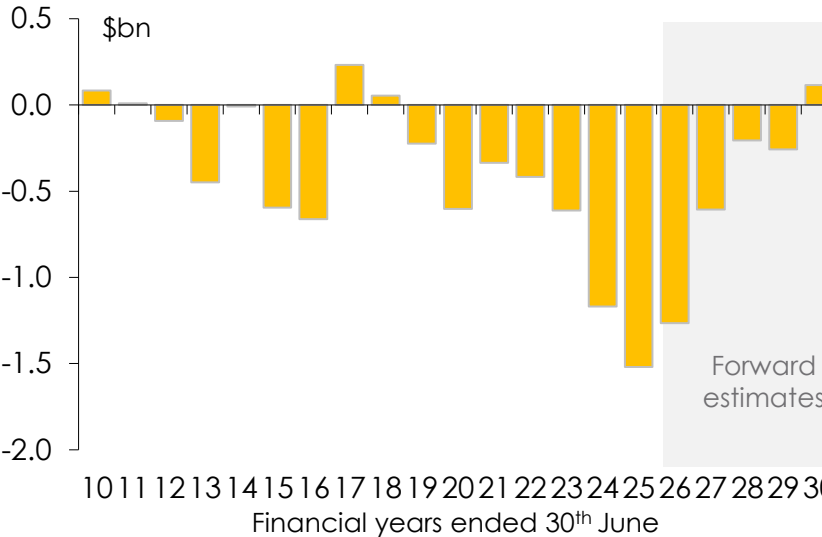
Net debt



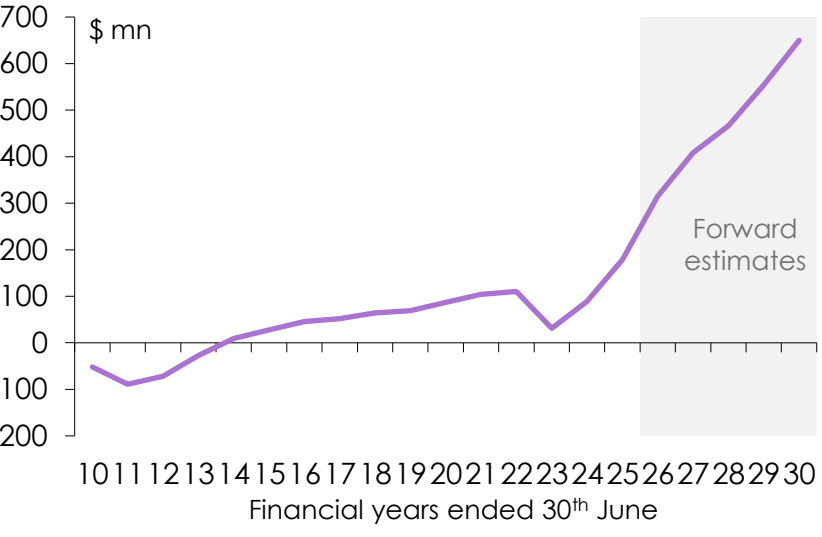
Net operating balance (NOB)



Cash balance



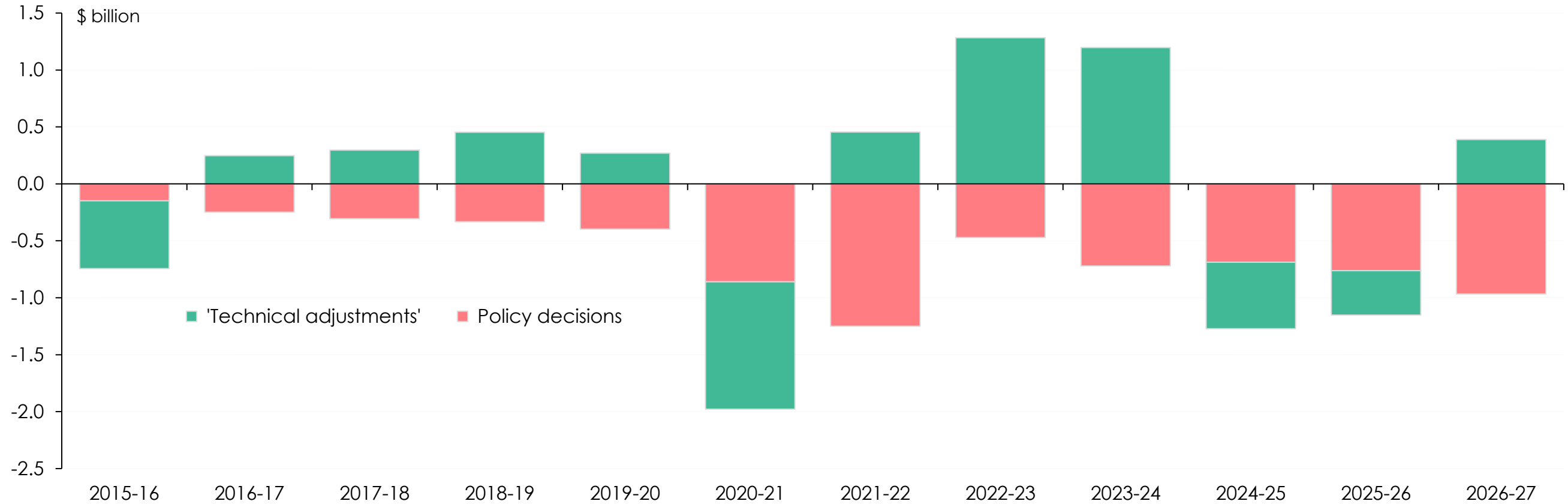
Net interest payments



Note: The ‘general government sector excludes public corporations. The ‘headline’ operating balance includes the super-annuation return adjustment. Both measures of the NOB exclude net purchases of non-financial assets (‘capex’). Sources: ACT Treasury, [Previous ACT budgets](#); [Consolidated Annual Financial Statements](#), 2024-25 and previous years; and [2026-27 Budget Outlook](#).

The deterioration in the ACT's fiscal position over the past decade is entirely attributable to 'policy decisions' ...

Impact of policy decisions and 'technical adjustments' (aka 'parameter variations') on forward estimates of the ACT general government sector net operating balance over rolling four-year periods

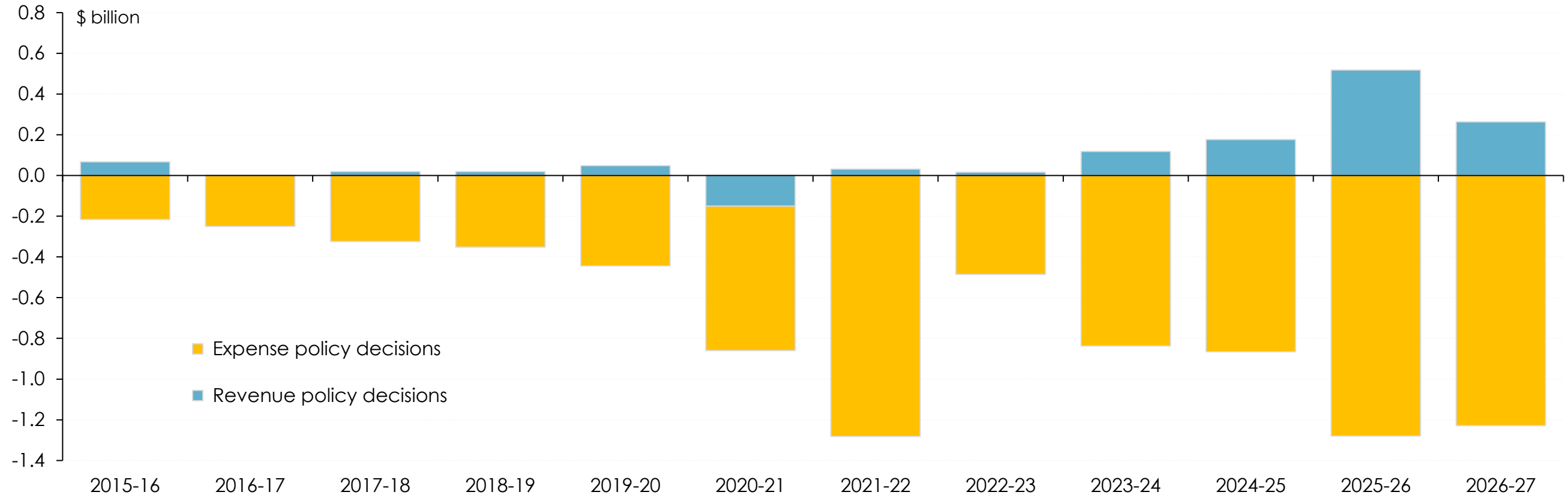


'Policy decisions' (to increase or decrease spending or revenue) have detracted at least \$6.3 billion from the 'net operating balance' over the past 11 Budgets (of which \$2.6 billion has been since 2022-23), while 'technical adjustments' (to assumptions underpinning forward estimates) have improved the net operating balance by at least \$1.1 billion (or by \$1.5 billion since 2022-23)

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. Source: ACT Treasury, [Previous ACT budgets](#) and [2026-27 Budget Outlook](#).

... in particular, to increase spending, of which only about one-sixth was 'paid for' by decisions to increase revenues

Impact of expense and revenue policy decisions on forward estimates of the ACT general government sector net operating balance over rolling four-year periods

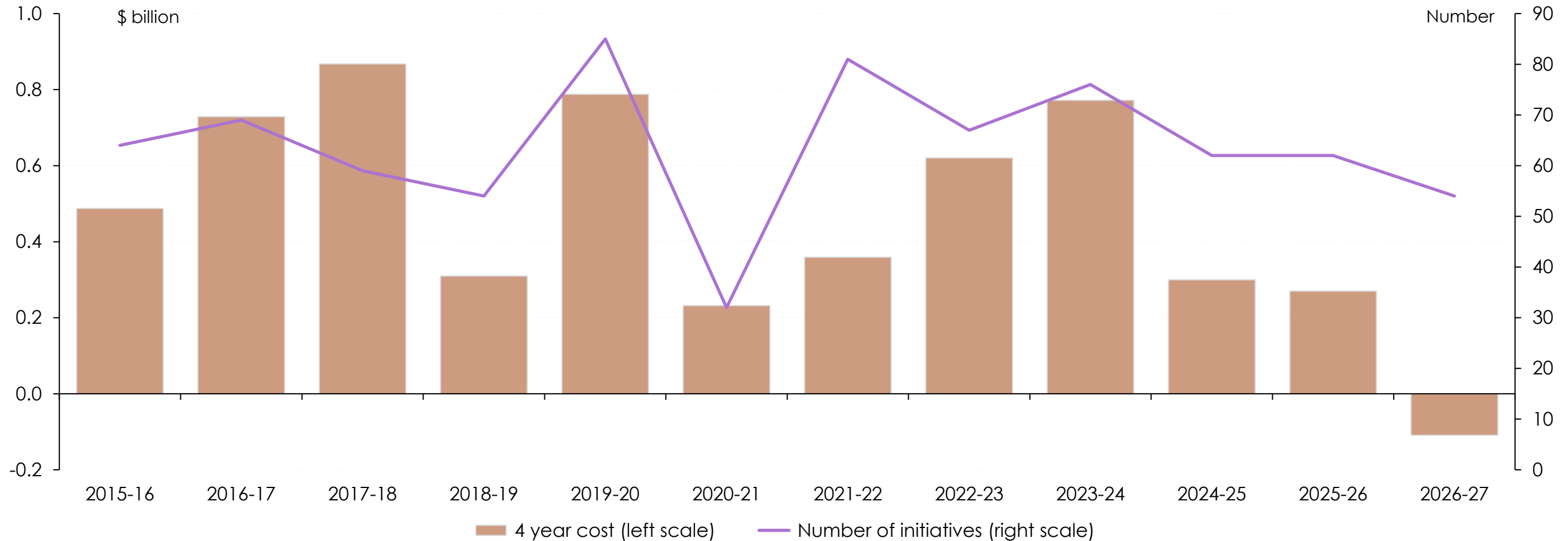


'Expense policy decisions' have worsened the 'net operating balance' by at least \$8.3 billion over the past decade (of which \$4.7 billion has occurred since 2022-23), while 'revenue policy decisions' have improved the 'net operating balance' by only \$1.1 billion (nearly all of which has occurred since 2023-24)

Note: The figures presented above under-state the total impact of expense and revenue policy decisions over the period shown since they only cover the four years of the forward estimates period for each successive Budget. Source: ACT Treasury, [Previous ACT budgets](#) and [2026-27 Budget Outlook](#).

A large number of 'capital initiatives' – entirely funded by debt – have also detracted from the overall cash balance

Number and 4-year cost of 'capital initiatives' funded in successive Budgets

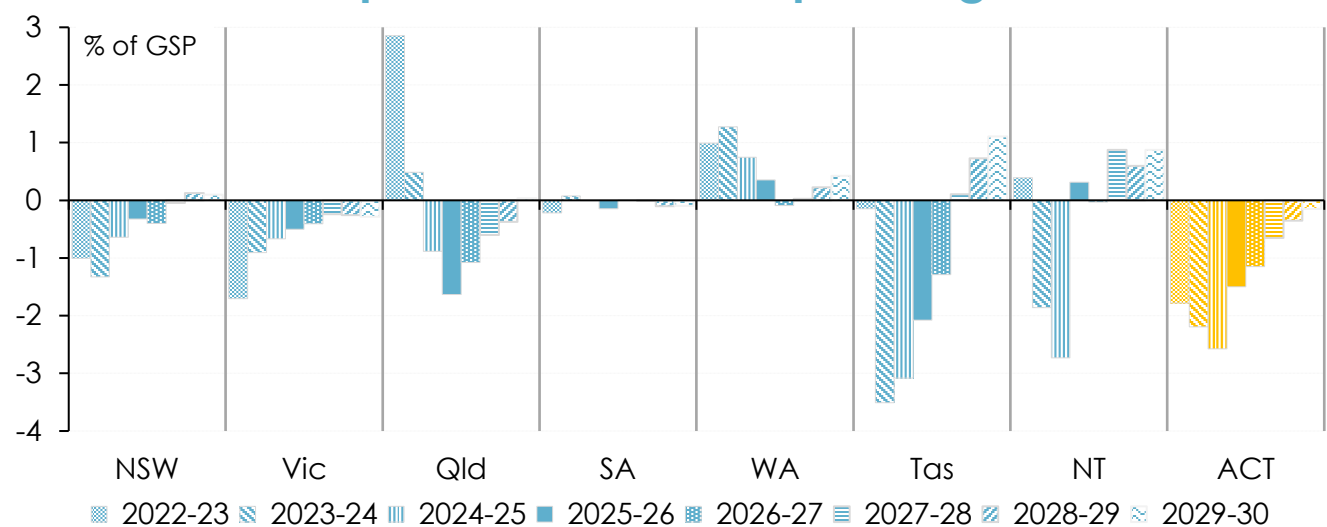


Budgets over the past decade have also included provisions for 'capital initiatives' totalling at least \$5.7 billion – which have been entirely funded by debt (since the net operating balance has been in deficit throughout this period) – although in the most recent Budget they were (rightly) scaled back

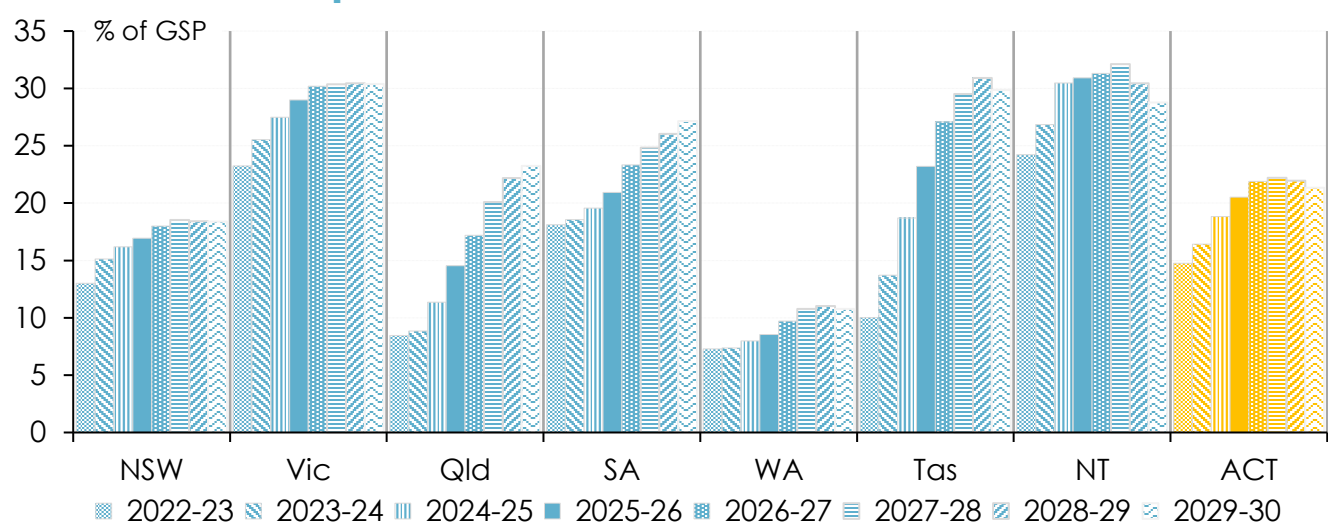
Note: The figures presented above may under-state the total impact of 'capital initiatives' shown since they only cover the four years of the forward estimates period for each successive Budget. Sources: ACT Treasury, [Previous ACT budgets](#) and [2026-27 Budget Outlook](#).

The ACT's overall public sector finances are the third or fourth-worst of all states and territories

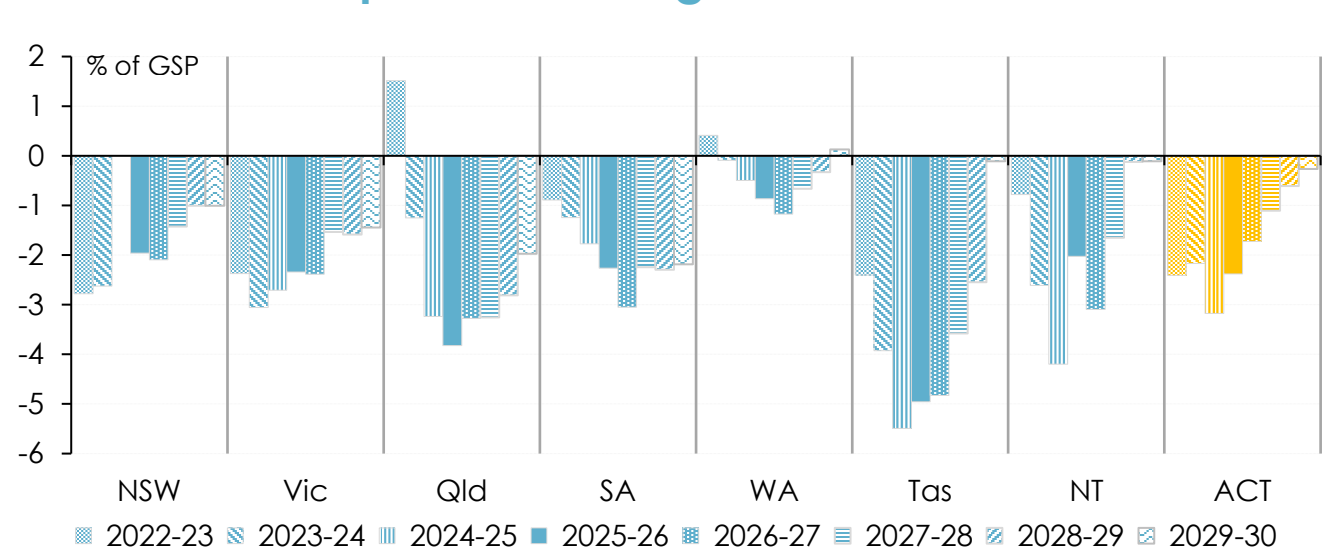
Non-financial public sector net operating balances



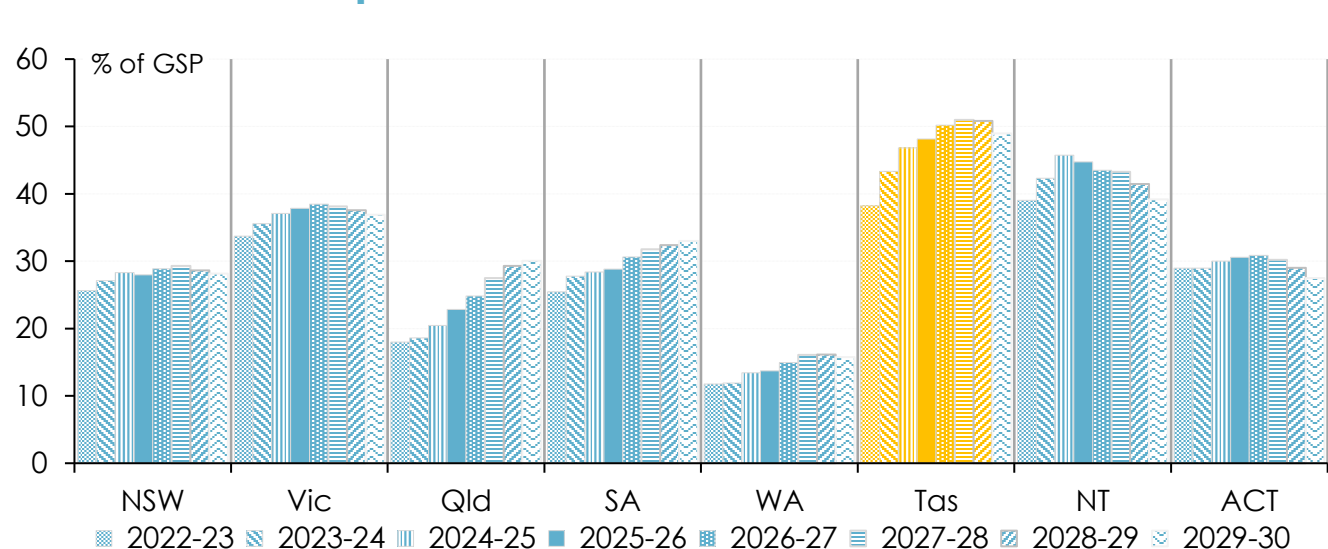
Non-financial public sector net debt



Non-financial public sector government cash balances



Non-financial public sector net financial liabilities



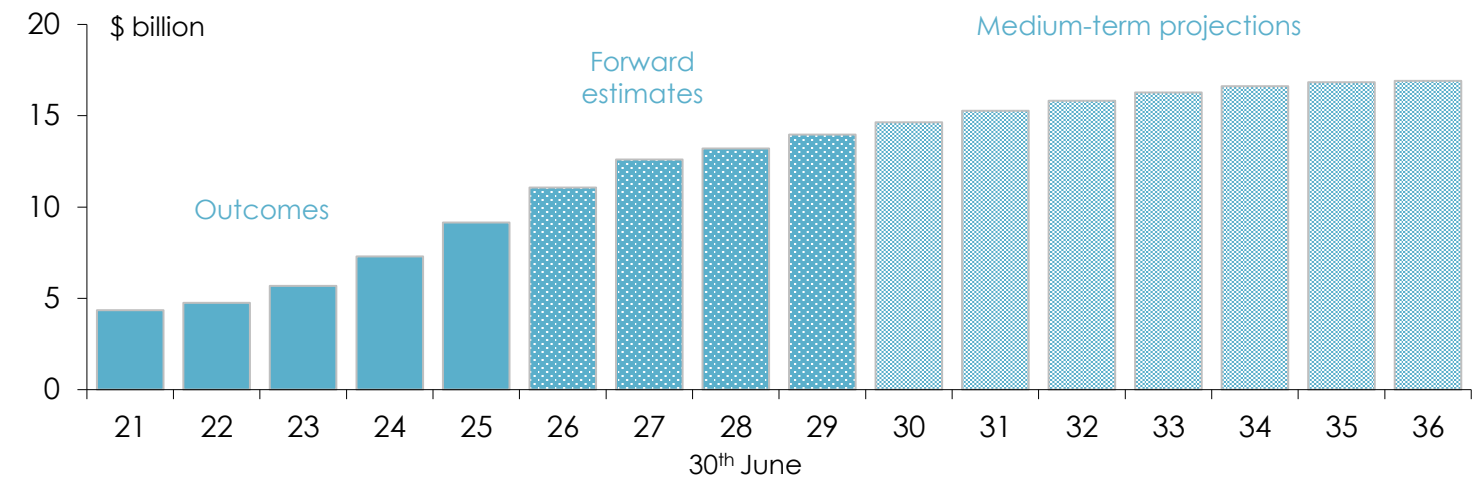
Note: 'GSP' is (nominal) gross state product. Sources: Consolidated financial reports and budget papers for the ACT and other states and territories.

The ACT Government's fiscal position is not sustainable

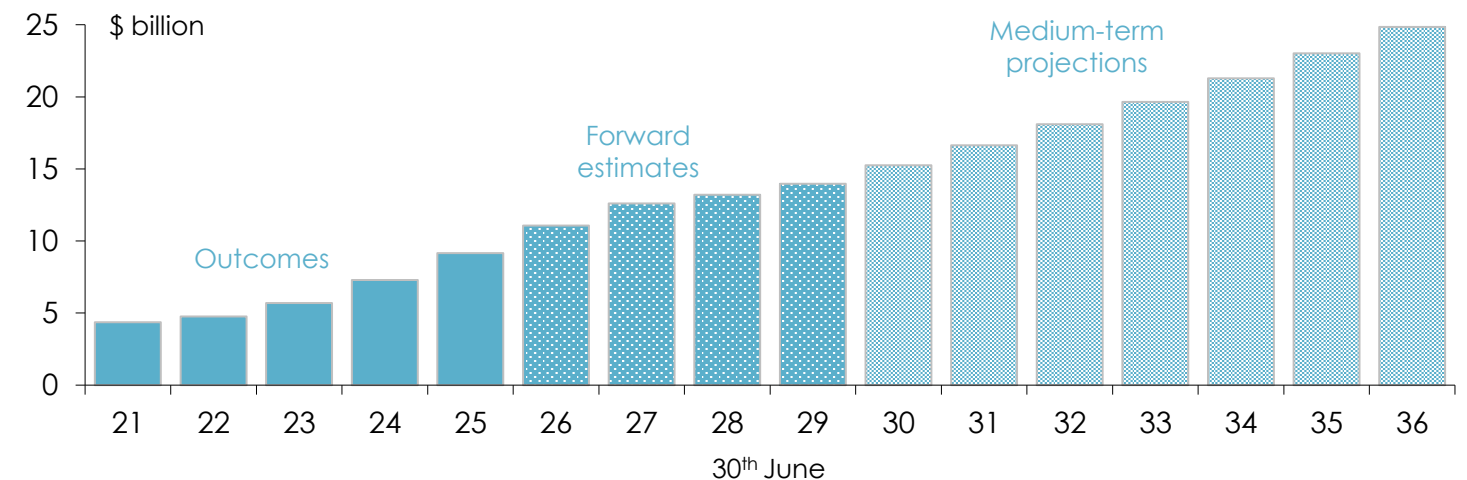
What is 'fiscal sustainability'?

- ❑ “The ability of a government to maintain public finances at a credible and serviceable position over the long term”
— [OECD \(2013\)](#)
- ❑ “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 \(2017\)](#)
- ❑ “A government's ability to maintain its long-term fiscal policy settings indefinitely without the need for major remedial policy interventions ... [that is] if the debt-to-GDP ratio is expected to be stable or trend downwards over the long-term”
— [Australian Parliamentary Budget Office \(2026\)](#)

ACT net debt under 'relatively optimistic' assumptions



ACT net debt under 'more pessimistic but plausible' assumptions



The ACT Government has – appropriately – strengthened its fiscal strategy statement – it needs to deliver on those targets

The ACT Government’s fiscal strategy in its 2025-26 Budget

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.

The ACT Government’s fiscal strategy in its 2026-27 Budget

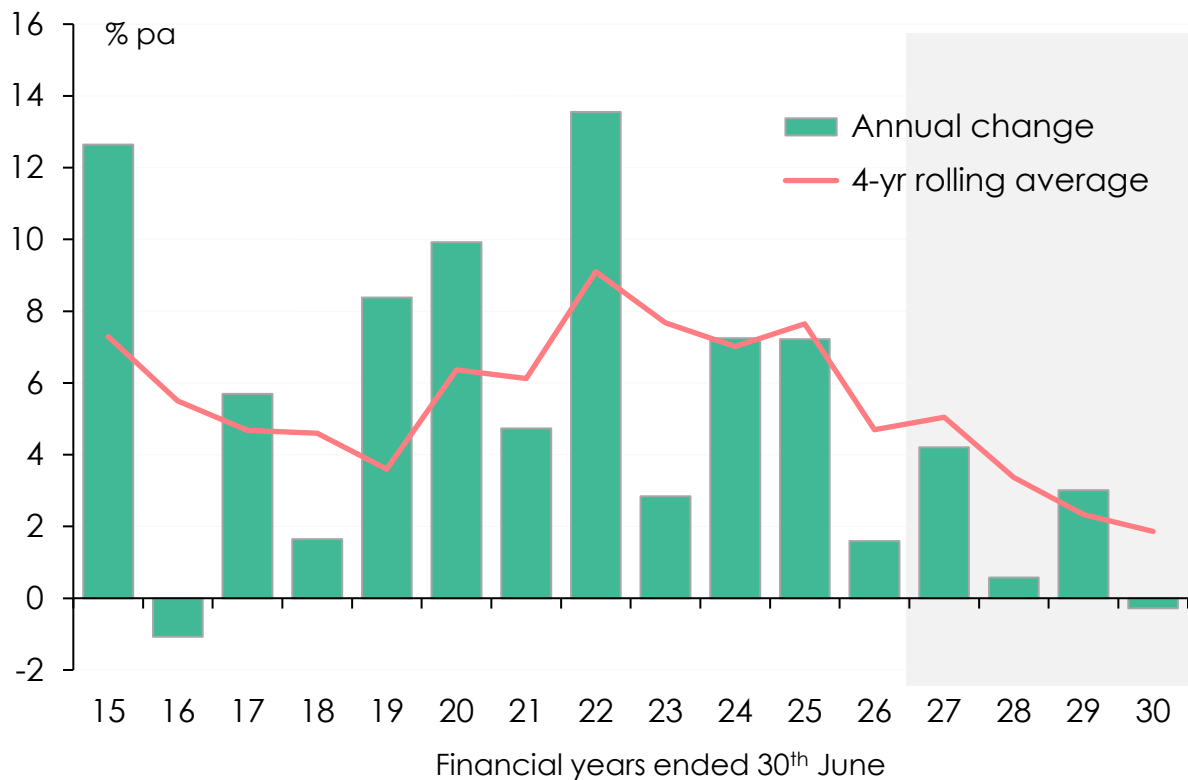
Fiscal measure (GGS)	Target
Headline Net Operating Balance	Return to surplus by 2029-30 and maintain surpluses beyond this point
Operating cash	Return to surplus by 2028-29 and maintain surpluses beyond this point
Net debt	Not to exceed 19 per cent of GSP in any year of the forward estimates period (to 2029-30) and to decline thereafter
Unfunded defined benefit superannuation liability	To be extinguished by 2035
Deliver sustainable public finances through efficient expenditure alongside revenue measures supporting critical services and the needs of our community	Infrastructure Investment Program does not exceed \$1 billion from 2028-29; and growth in general government employment does not exceed growth in the ACT population

Under the Fiscal Strategy, the Government will ensure that employment in the ACT public service does not grow faster than the ACT population

Sources: ACT Government, [Budget Review](#), 2025-26, February 2026, Box 3.1.1, p. 23; and [Budget Outlook](#), 2026-27, June 2026, Table 3.1.1, pp. 30-31.

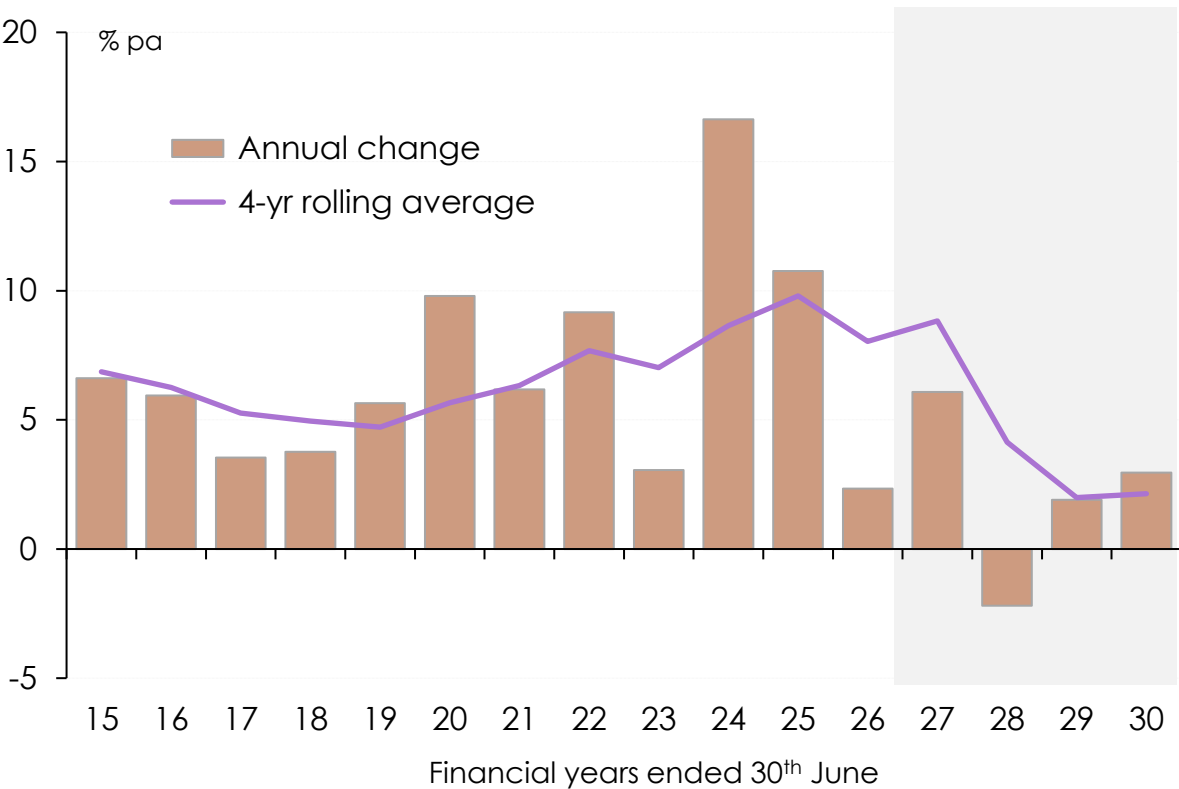
The 2026-27 Territory Budget forward estimates imply an unprecedented degree of spending restraint

Growth in total 'operating expenses' excluding interest



The 2026-27 ACT Budget projects that growth in operating expenses excluding interest will slow to just 1.9% per annum over the four years to 2029-30 (less than the 2.5% pa forecast for the Canberra CPI) – from an average of 6.2% per annum over the past decade

Growth in employee expenses

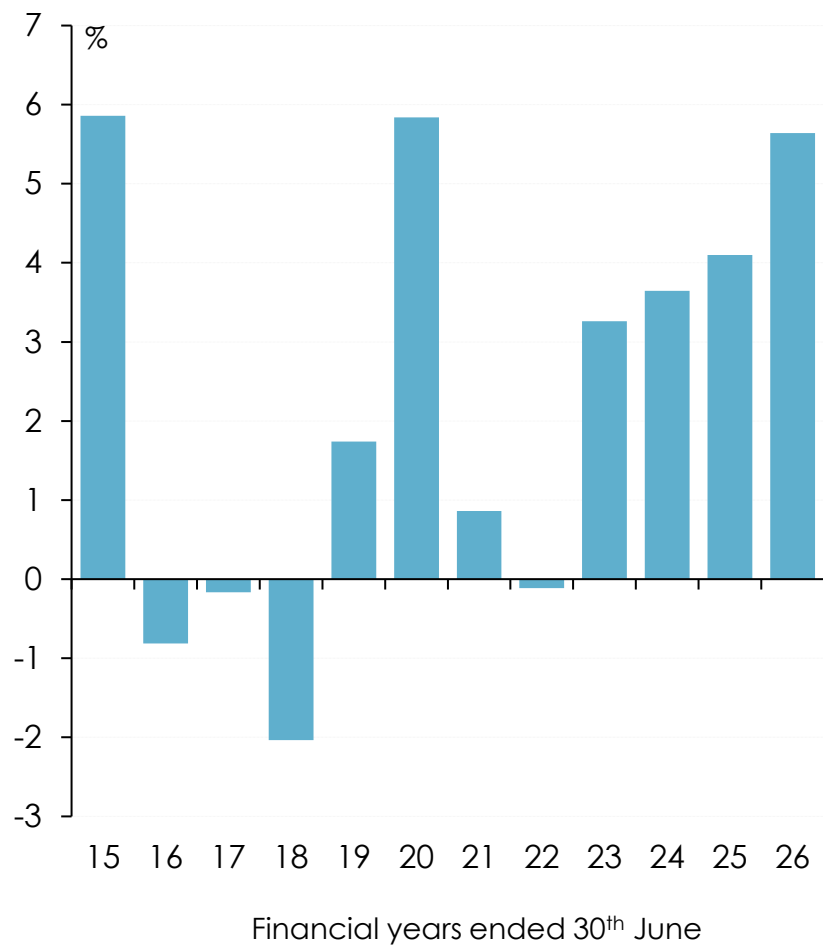


The 2026-27 ACT Budget projects that growth in employee expenses will slow to just 2.1% per annum over the four years to 2029-30 (compared with the forecast for ACT wages of 3.1% pa, on average) – from an average of 7% per annum over the past decade

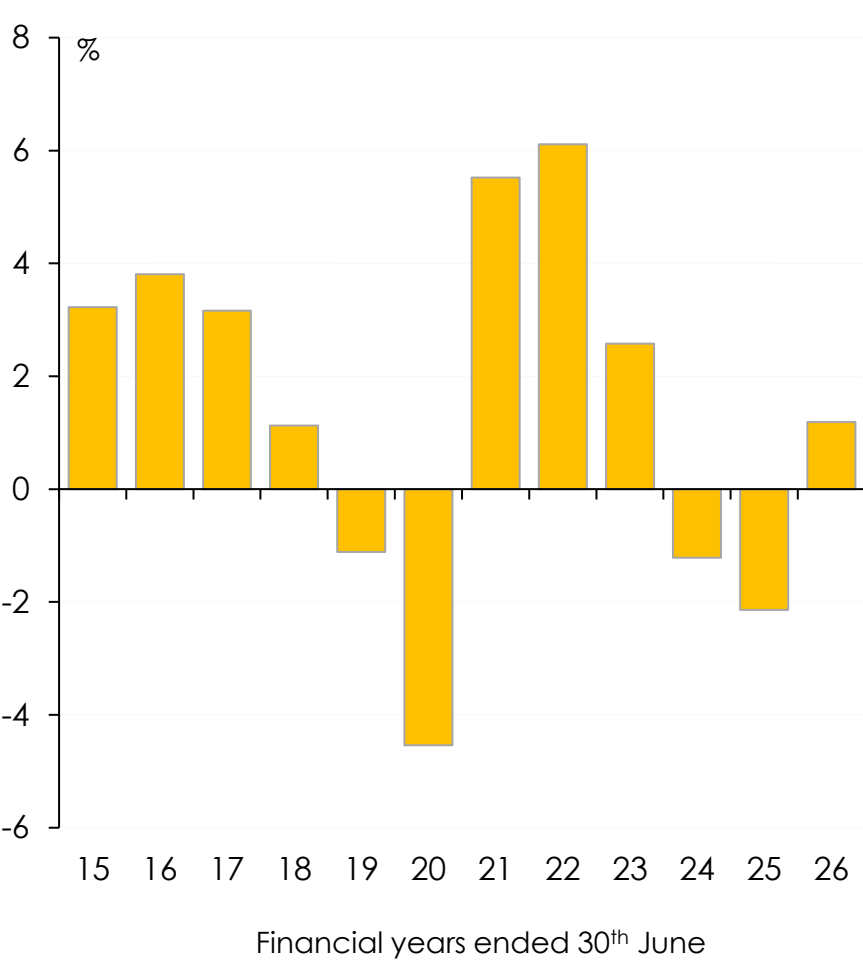
Sources: ACT Treasury, [Previous ACT budgets](#), [June Quarter 2026 Consolidated Financial Report \(2025-26 Interim Result\)](#) and [2026-27 Budget Outlook](#).

Budget forecasts, particularly of spending, have become an increasingly inaccurate guide to eventual outcomes ...

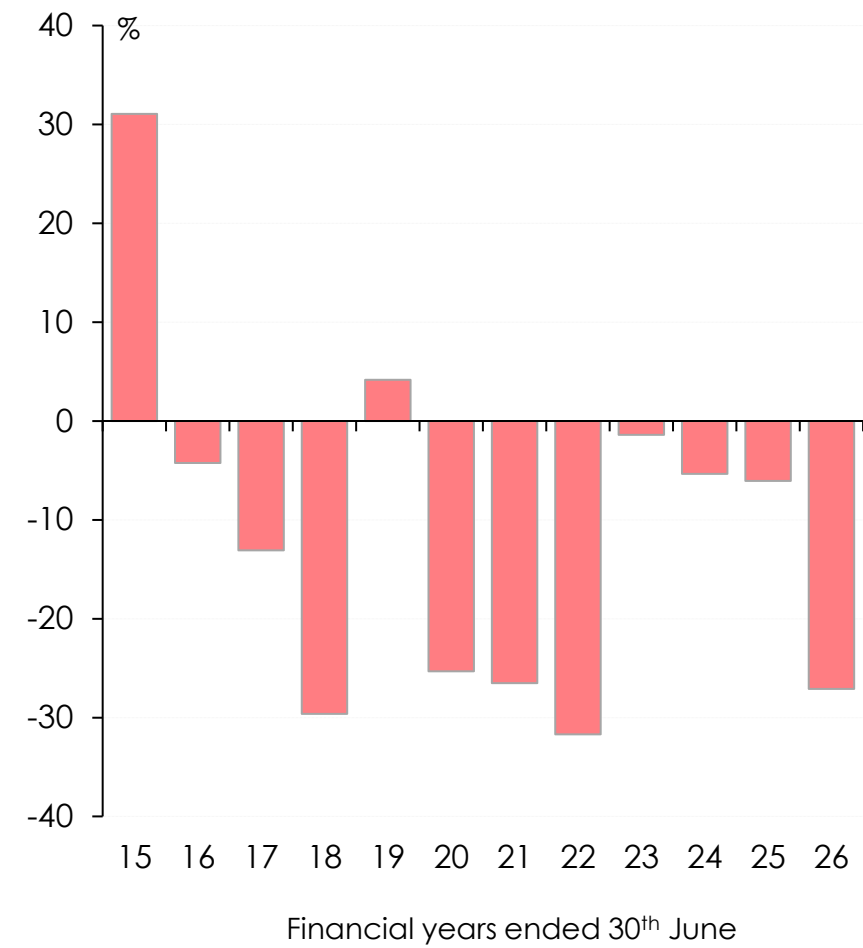
Actual 'operating' expenses compared with immediately preceding Budget estimates



Actual 'operating' revenues compared with immediately preceding Budget estimates



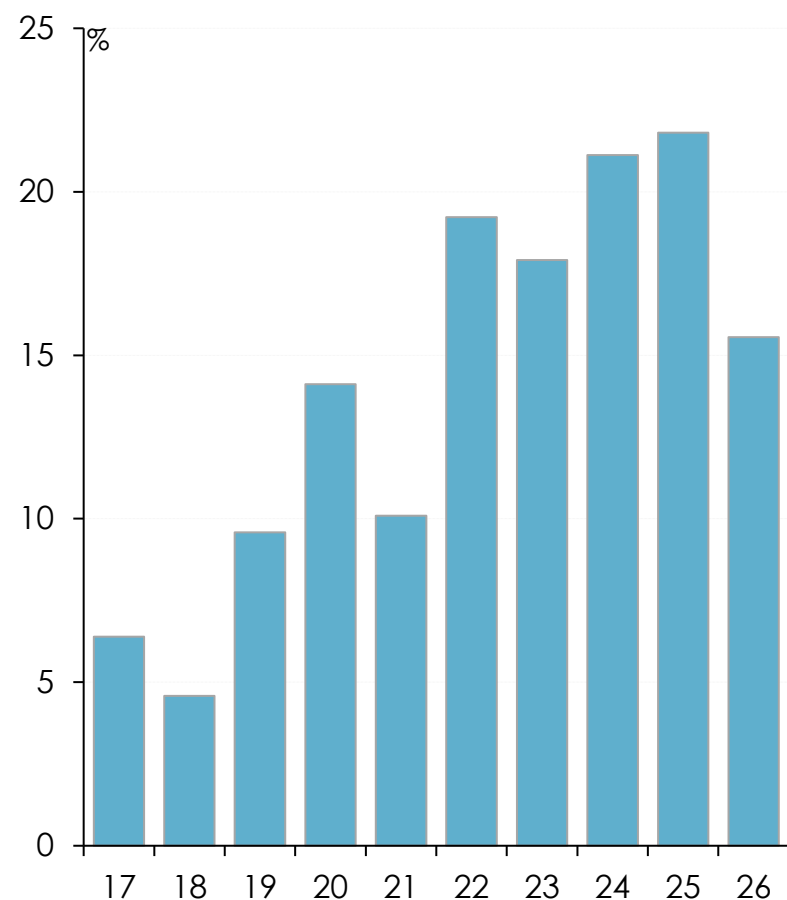
Actual capital works spending compared with immediately preceding Budget estimates



Sources: ACT Treasury, [Previous ACT budgets](#) and [Consolidated Annual Financial Statements](#), 2024-25 and previous years; and [June Quarter 2026 Consolidated Financial Report \(2025-26 Interim Result\)](#).

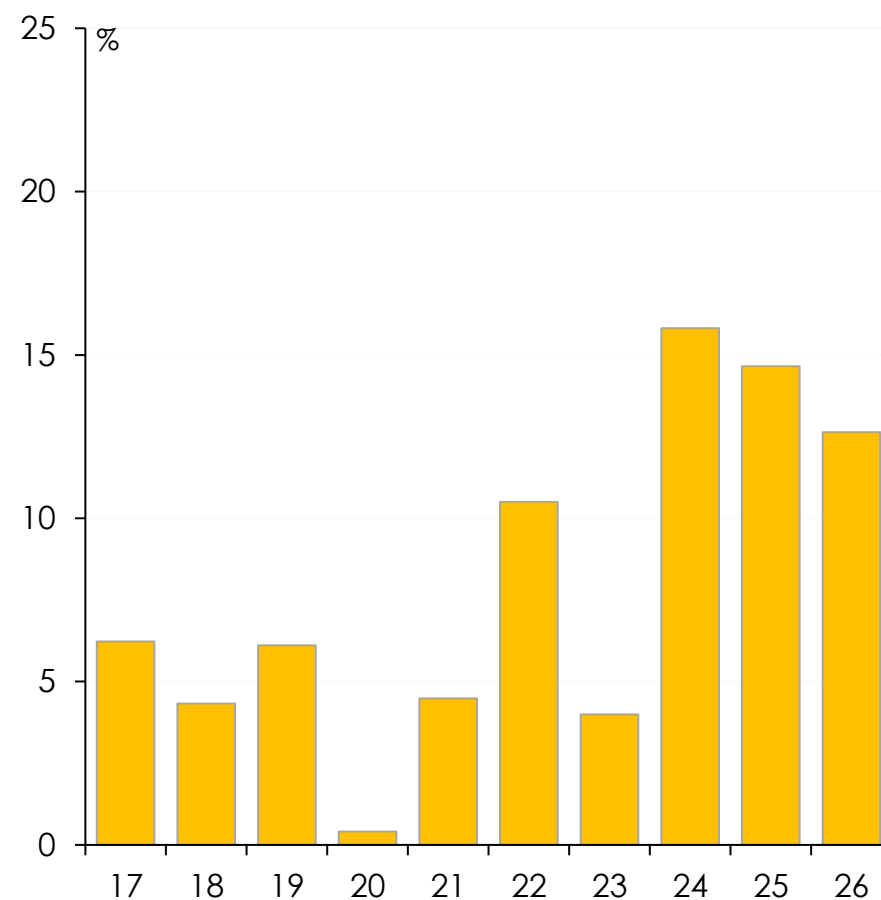
... and longer-term forward estimates even more so

Actual 'operating' expenses compared with Budget estimates three years earlier



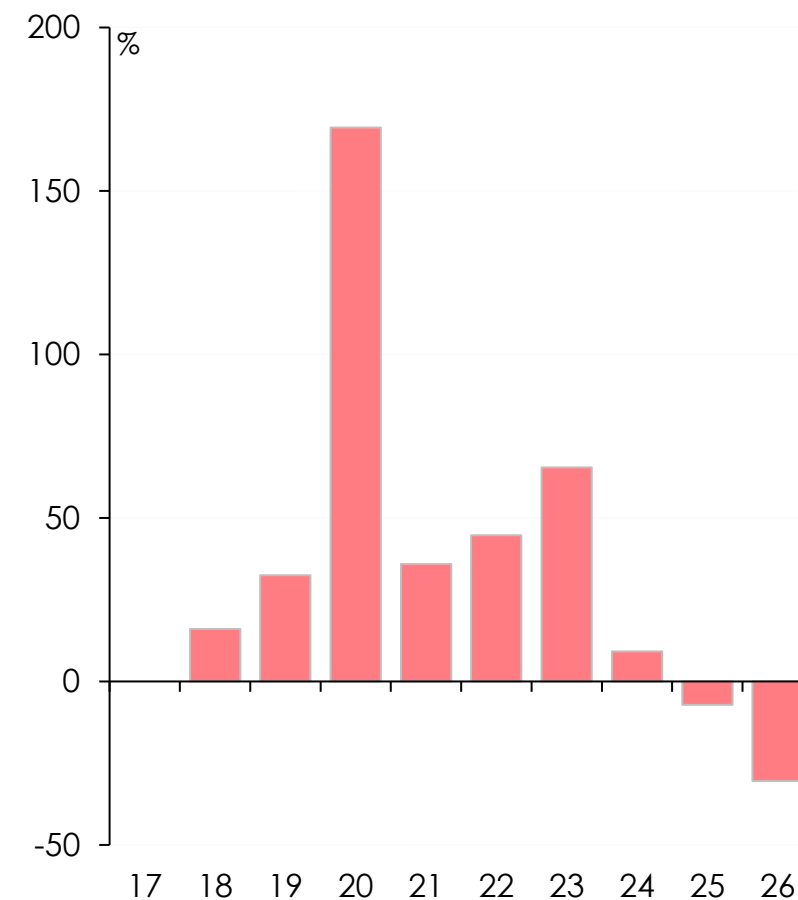
Financial years ended 30th June

Actual 'operating' revenues compared with Budget estimates three years earlier



Financial years ended 30th June

Actual capital works spending compared with Budget estimates three years earlier

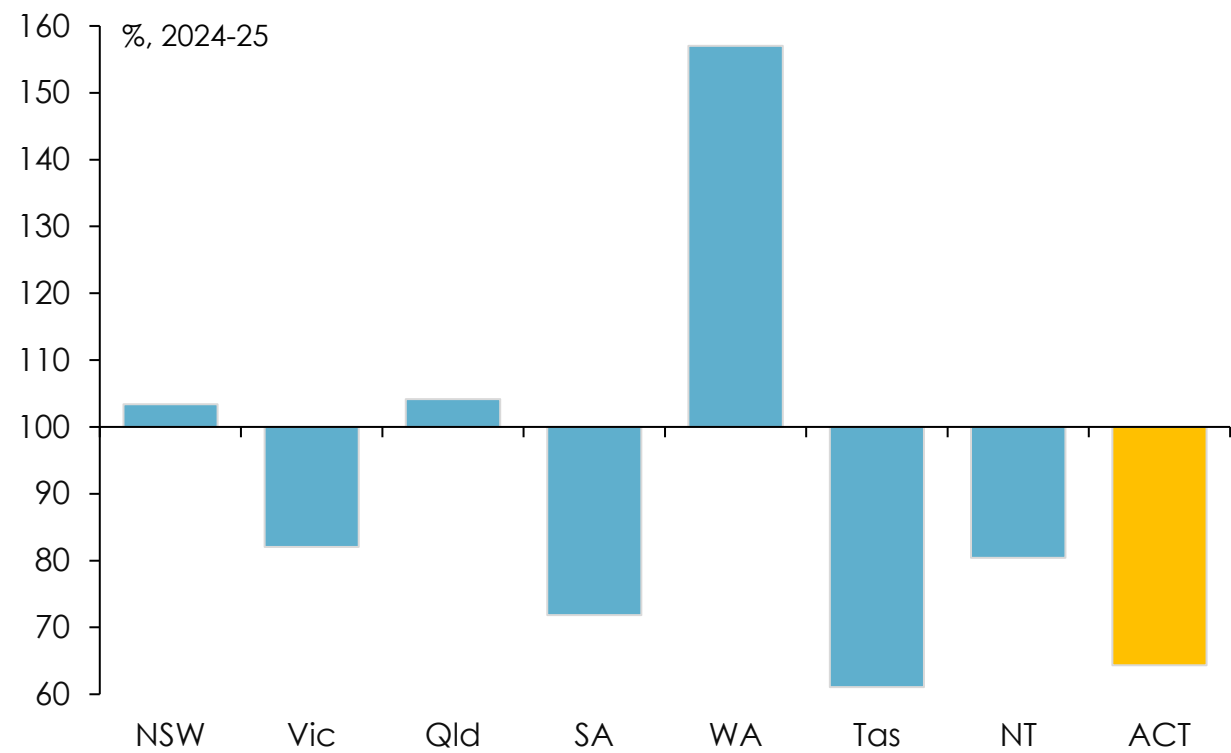


Financial years ended 30th June

Sources: ACT Treasury, [Previous ACT budgets](#) and [Consolidated Annual Financial Statements](#), 2024-25 and previous years; and [June Quarter 2026 Consolidated Financial Report \(2025-26 Interim Result\)](#).

The ACT has less capacity to raise revenue than most other jurisdictions – but it raises more than the average from the revenues sources it does have

Revenue-raising capacity, as assessed by the Commonwealth Grants Commission



Revenue-raising effort, as assessed by the Commonwealth Grants Commission



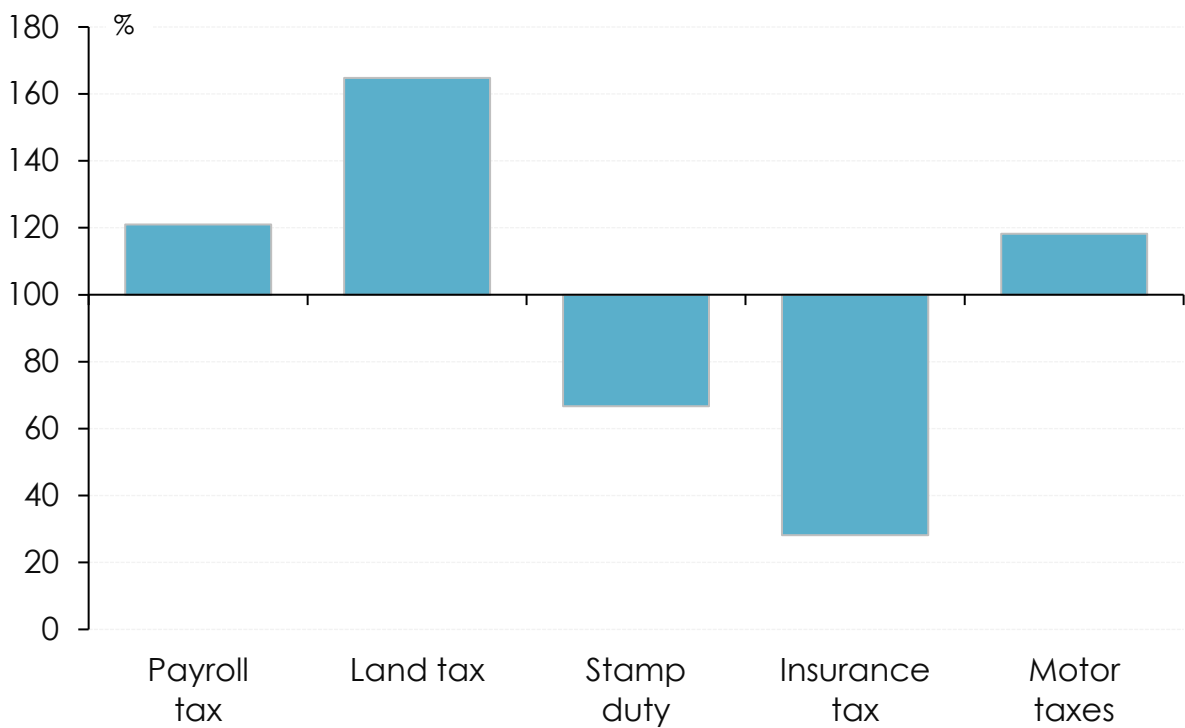
The ACT’s capacity to raise revenue is less than that of most other jurisdictions, principally because it can’t tax the largest employer and landholder (the Commonwealth), and it has no mining industry on which it can levy royalties

The ACT does however collect relatively more revenue from the tax bases it does have than other jurisdictions, because most of its tax rates are relatively high

Note: ‘Revenue-raising capacity’ is the ratio of ‘assessed revenue’ (per capita) to the average revenue (per capita) of all states and territories, where ‘assessed revenue’ is the revenue which the Grants Commission assesses each state or territory would raise if it taxed its revenue base at the average rate of all states and territories. ‘Revenue-raising effort’ is the ratio of actual revenue (per capita) to actual revenue. The data shown here exclude ‘other revenue’ which for the ACT is mostly municipal rates.
Source: Commonwealth Grants Commission, 2026 Update – Tables, Charts and Supporting Data, [Revenue and expense ratios](#), and Corinna calculations.

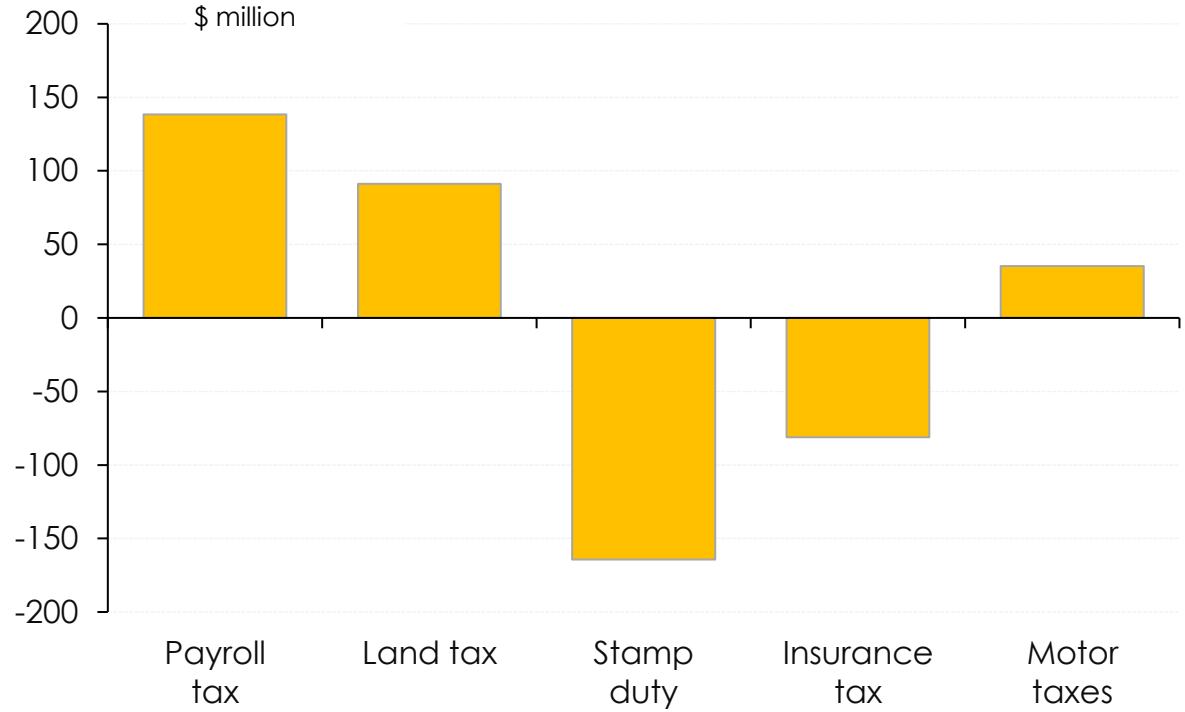
The CGC’s assessment of ACT revenue-raising doesn’t suggest much room for raising more revenue – unless it wants to be a ‘high tax’ jurisdiction

Ratio of actual ACT Government revenue (per capita) in 2024-25 to that assessed by the CGC as would be raised by an all-state-and-territories average tax regime



The ACT collects more per head from most taxes – except stamp duties and insurance taxes – than the Grants Commission assesses it would if its tax regime were equivalent to the ‘all-states-and-territories’ average

Difference between actual and ‘assessed’ spending by the ACT Government in 2024-25 expressed in dollar terms



Hence, bringing the ACT’s tax regime into line with the ‘all-states-and-territories average’ would require the ACT to reverse its property tax reforms and increase a notoriously ‘bad’ tax (on insurance premiums)

The ACT has the highest payroll tax rate of any jurisdiction, and the equal second-highest rates of duty on motor vehicle transfers

Effective state and territory payroll tax rates at various annual payroll levels for 2024-25

Payroll \$ mn	Rate of tax payable on selected size payrolls (%)							
	NSW	Vic	Qld	SA	WA	Tas	NT	ACT
1.5	1.09	1.62	0.72	0.00	2.12	0.67	0.00	0.00
2	2.18	2.43	1.90	3.47	3.17	1.50	0.00	0.00
5	4.14	4.85	4.02	4.36	5.08	4.26	4.10	4.11
10	4.80	4.85	4.92	4.65	5.50	5.18	5.50	5.48
50	5.32	5.65	5.15	4.89	5.50	5.93	5.50	6.58
100	5.38	5.75	5.18	4.92	5.50	6.01	5.50	7.06
500	5.44	6.63	5.60	4.94	5.50	6.08	5.50	7.67

Effective state and territory duties payable on transfer of ownership of motor vehicles

Value (\$'000)	Rate of duty payable new vehicles of selected values (%)							
	NSW	Vic	Qld	SA	WA	Tas	NT	ACT
10	3.00	4.20	3.00	3.40	2.75	3.00	3.00	3.17
20	3.00	4.20	3.00	3.70	2.75	3.00	3.00	3.17
40	3.00	4.20	3.00	3.85	5.00	4.00	3.00	3.17
60	3.50	4.20	3.00	3.90	6.50	4.00	3.00	3.78
80	3.88	4.20	3.00	3.93	6.50	4.00	3.00	4.24
100	4.10	5.20	3.00	3.94	6.50	4.00	3.00	4.99
150	4.40	7.00	5.00	3.96	6.50	4.00	3.00	6.00
200	4.55	9.00	5.00	3.97	6.50	4.00	3.00	6.50

Sources: Western Australian Department of Treasury and Finance, [Overview of State Taxes and Royalties 2025-26](#), 27th November 2025, pp. 7 and 40

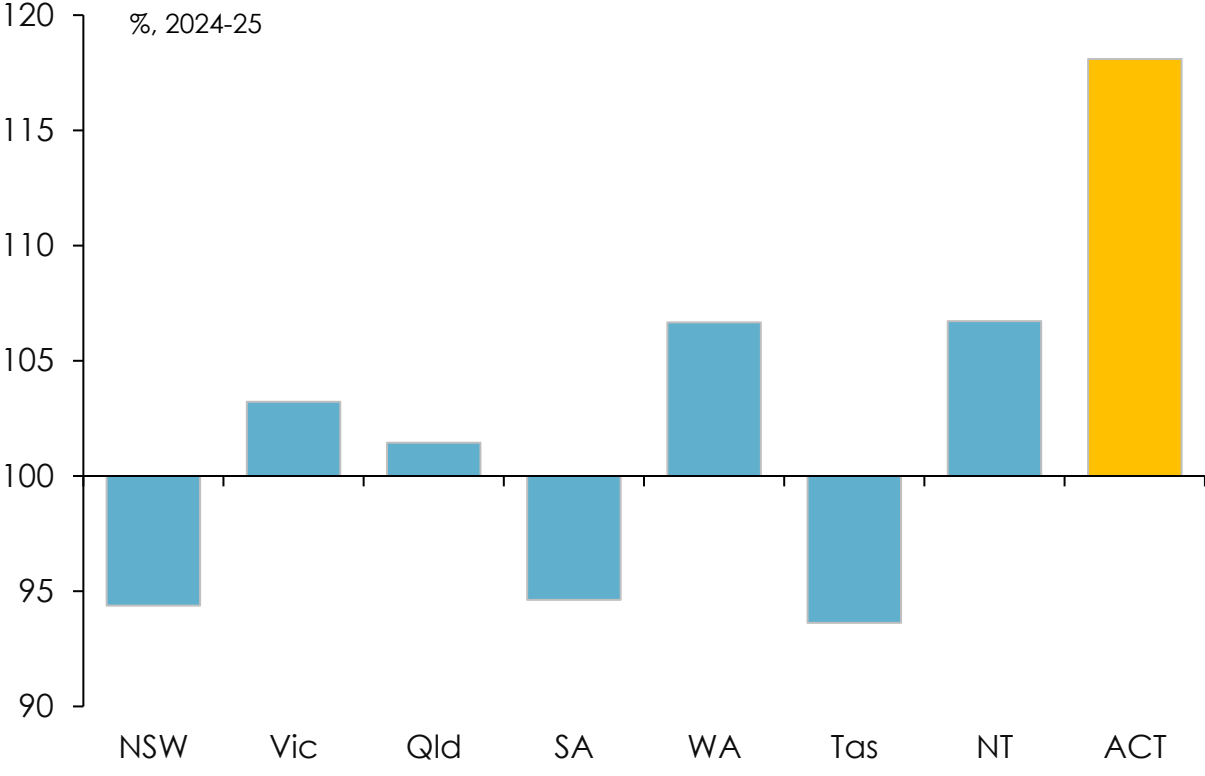
It costs the ACT relatively less to provide the average level of services to its population – but the ACT actually spends a lot more than that

Expenditure needs, as assessed by the Commonwealth Grants Commission



The ACT doesn't need to spend as much (per capita) as other states & territories in order to provide its population with the same range and quality of public services as other jurisdictions (because it is more compact, and has fewer needs)

Level of service provision, as assessed by the Commonwealth Grants Commission

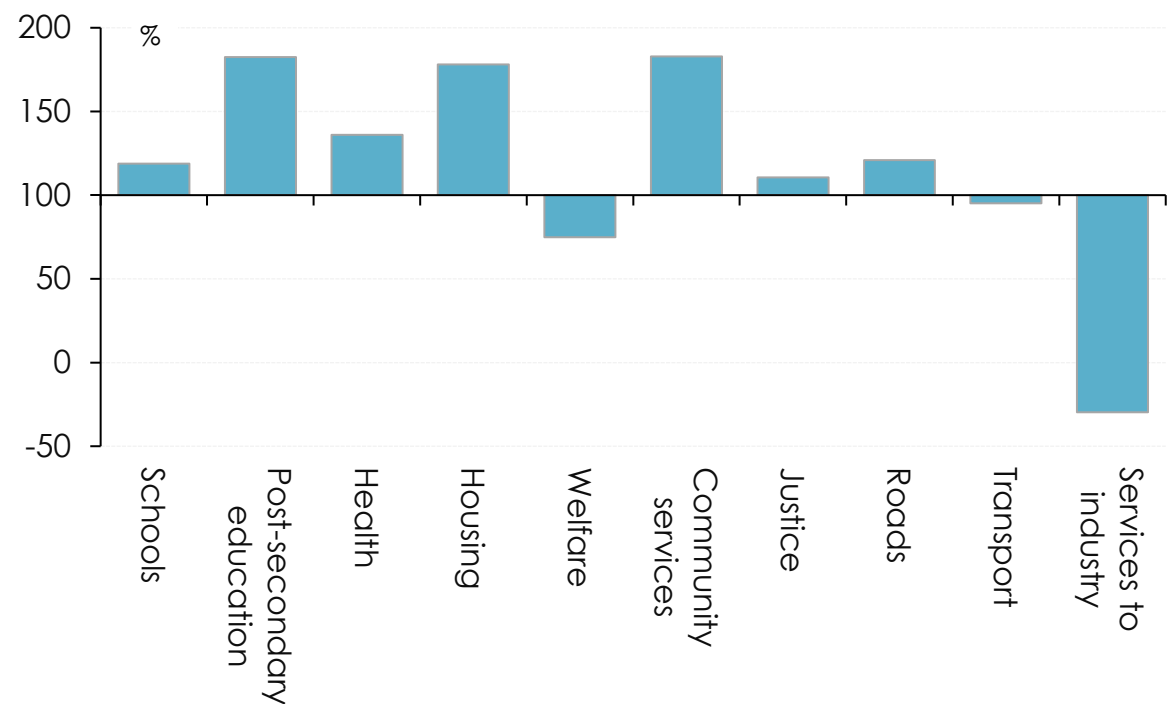


The ACT spends (considerably) more than it 'needs' to in order to provide its population with the same range and quality of public services as other jurisdictions – partly because it (uniquely) provides local government services

Note: 'Expenditure needs' are the per capita spending required, according to the Grants Commission's assessments, required to provide a state or territory's population with the all-states-and-territories average level of services at the average level of efficiency (in these charts, excluding 'other services' which for the ACT are mostly municipal-type services). A ratio above (below) 100 suggests above (below) average costs to provide average levels of services. 'Level of service provision' is the ratio of actual per capita expenses to 'assessed' expenses (required to provide the average level of services). Source: Commonwealth Grants Commission, 2026 Update – Tables, Charts and Supporting Data, [Revenue and expense ratios](#), and Corinna calculations

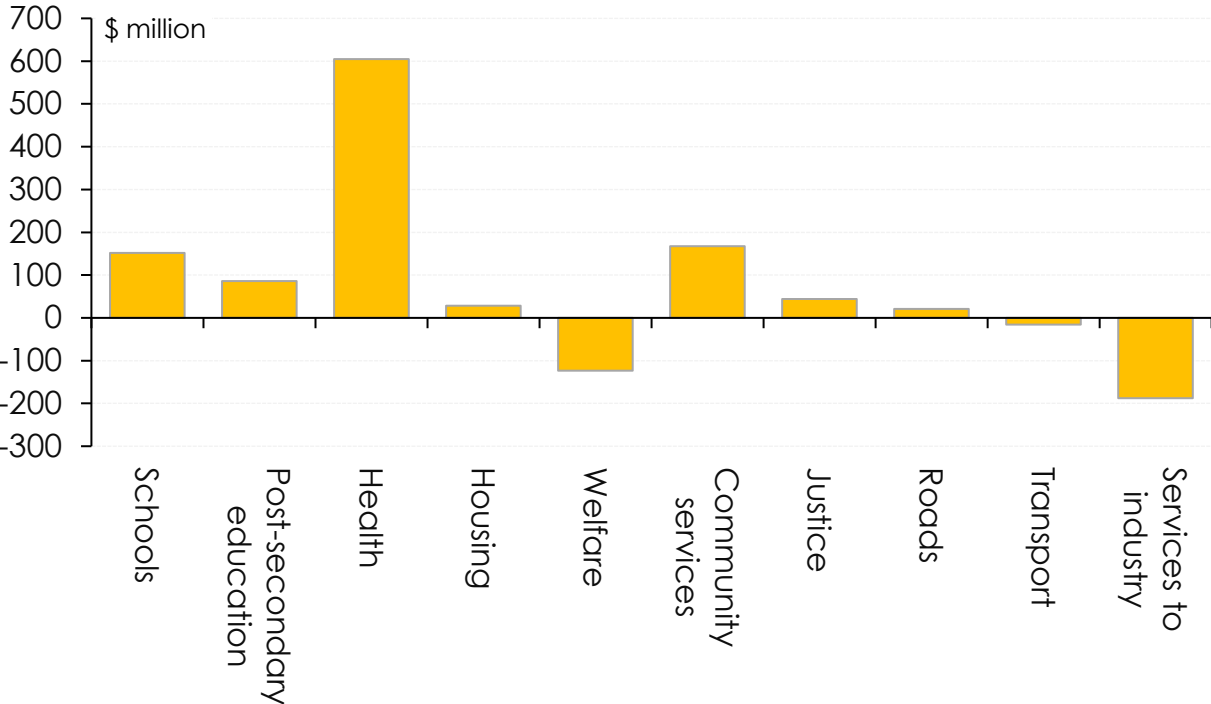
The Grants Commission’s assessments of ACT spending relative to what’s needed to provide the average level of services provide some insights

Ratio of actual ACT Government spending (per capita) in 204-25 to spending assessed by the CGC as being required to provide the ‘average’ level of services



The ACT spends more per capita on most areas of service provision (apart from welfare and ‘services to industry’) than the Grants Commission assesses as being necessary to provide the all-states-and-territories average level of services with average efficiency

Difference between actual and ‘assessed’ spending by the ACT Government in 2024-25 expressed in dollar terms

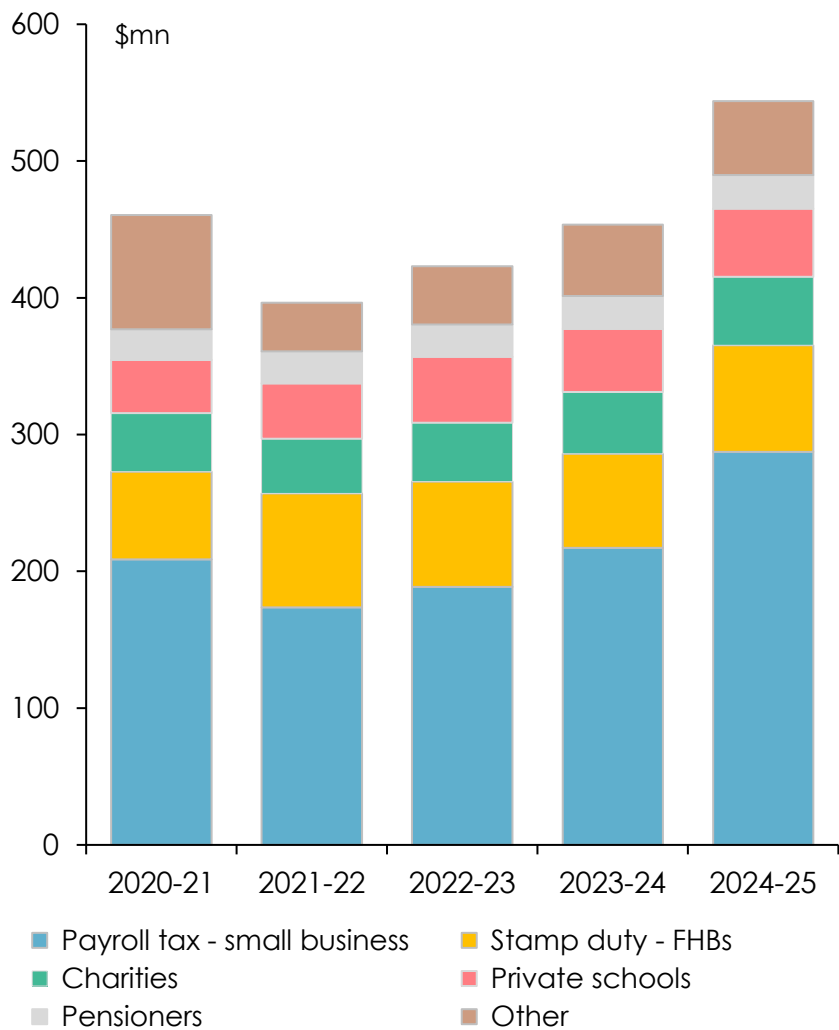


Conceptually, the ACT Government could have reduced spending by \$778 mn if it spent the amounts assessed by the Grants Commission as being required to provide the average level of services with average efficiency (this calculation excludes municipal services)

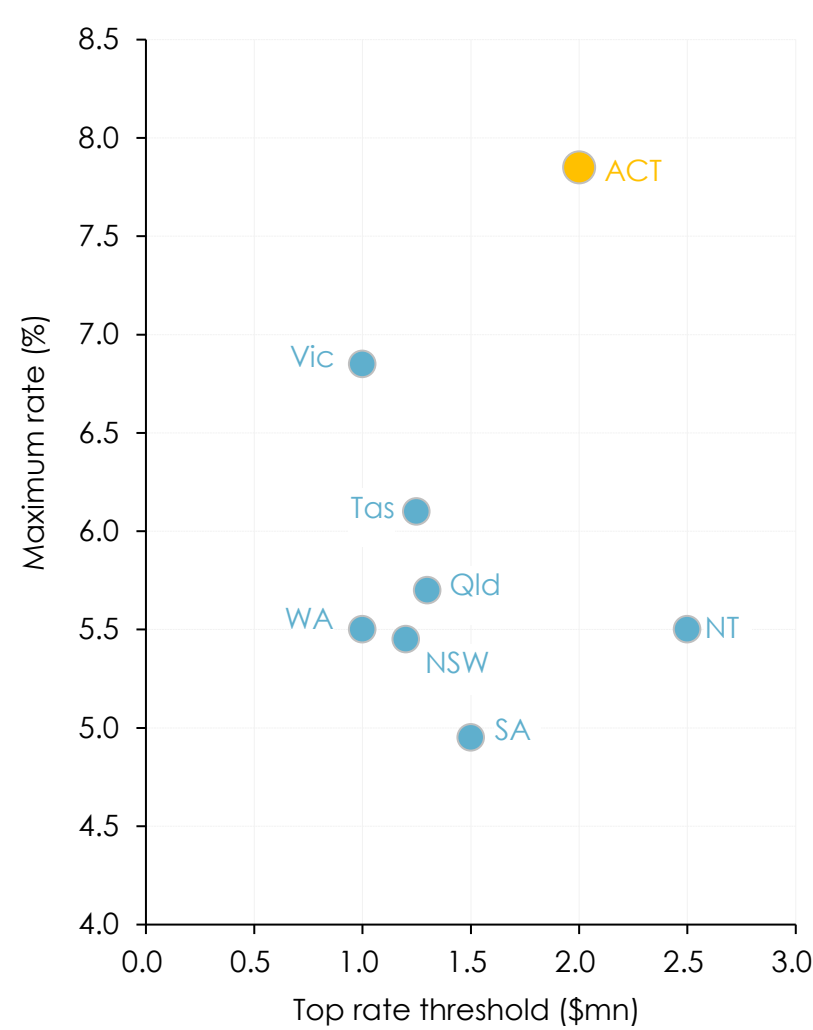
Source: Commonwealth Grants Commission, 2026 Update – Tables, Charts and Supporting Data, [Revenue and expense ratios](#), and Corinna calculations.

The ACT could consider reducing its ‘tax expenditures’ – especially the small business exemption from payroll tax

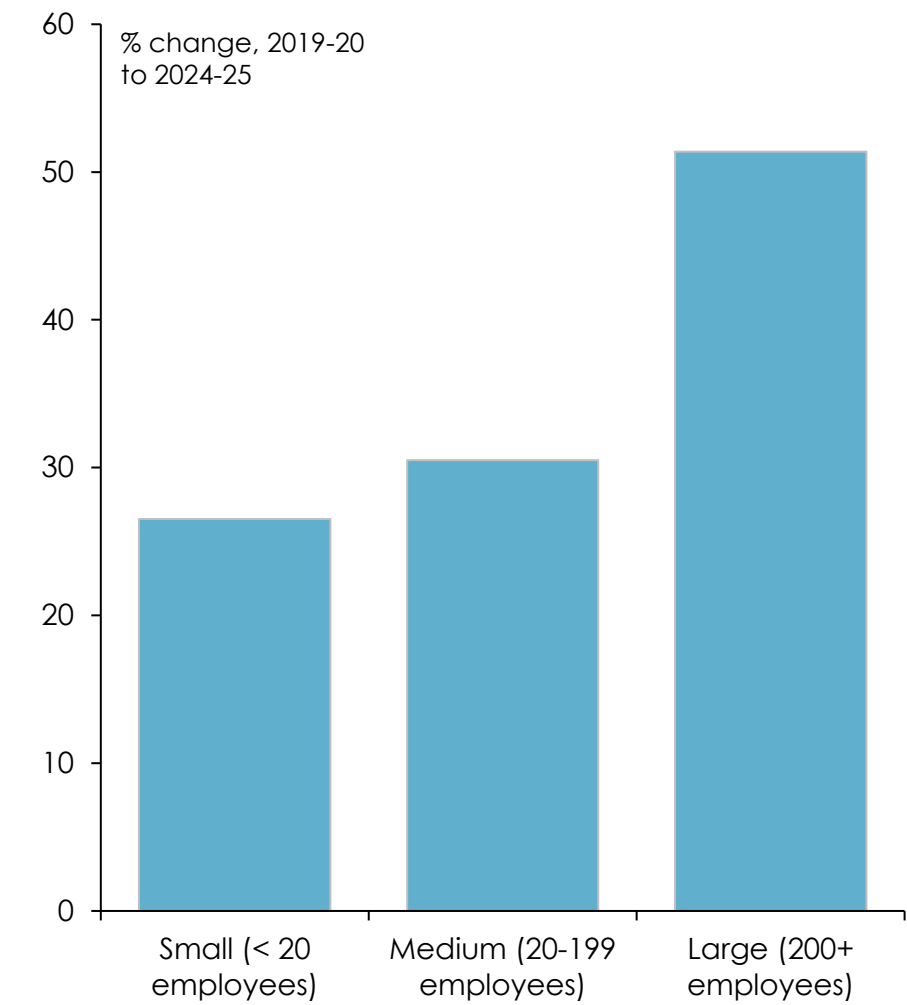
Revenue foregone through ACT ‘tax expenditures’



Payroll tax rates and thresholds, states & territories, 2025-26



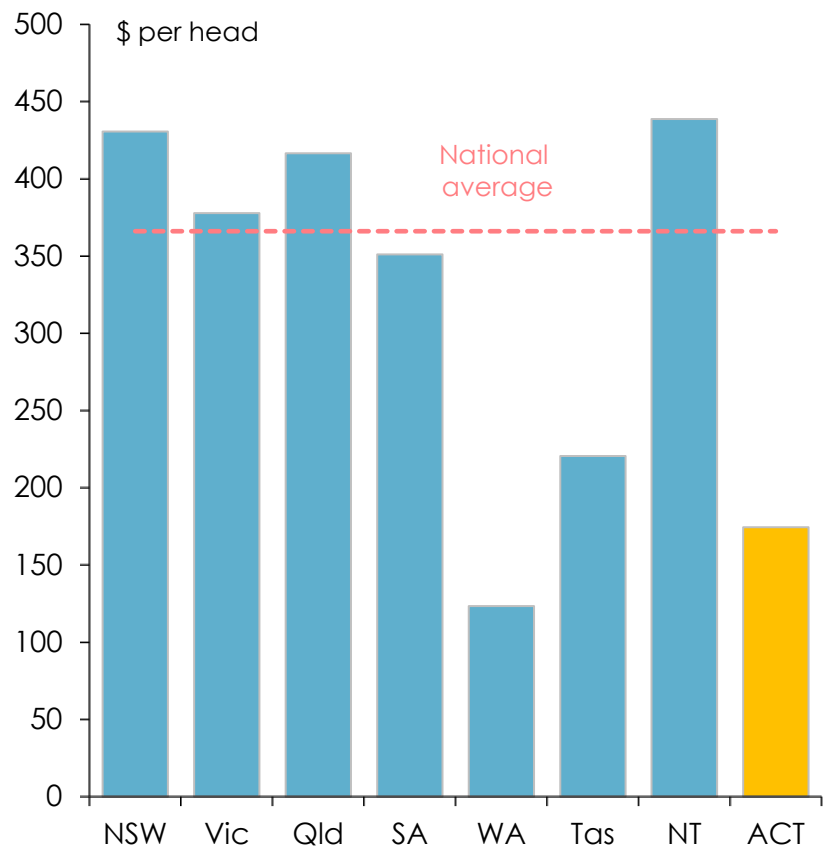
Employment growth by business size in the ACT, June 2020 - June 2024



Sources: ACT Treasury, [Tax Expenditure Statement 2024-25](#), May 2026; WA Department of Treasury & Finance, [Overview of State Taxes and Royalties 2025-26](#), November 2025; and ABS, [Australian Industry](#), 2024-25 financial year, June 2026.

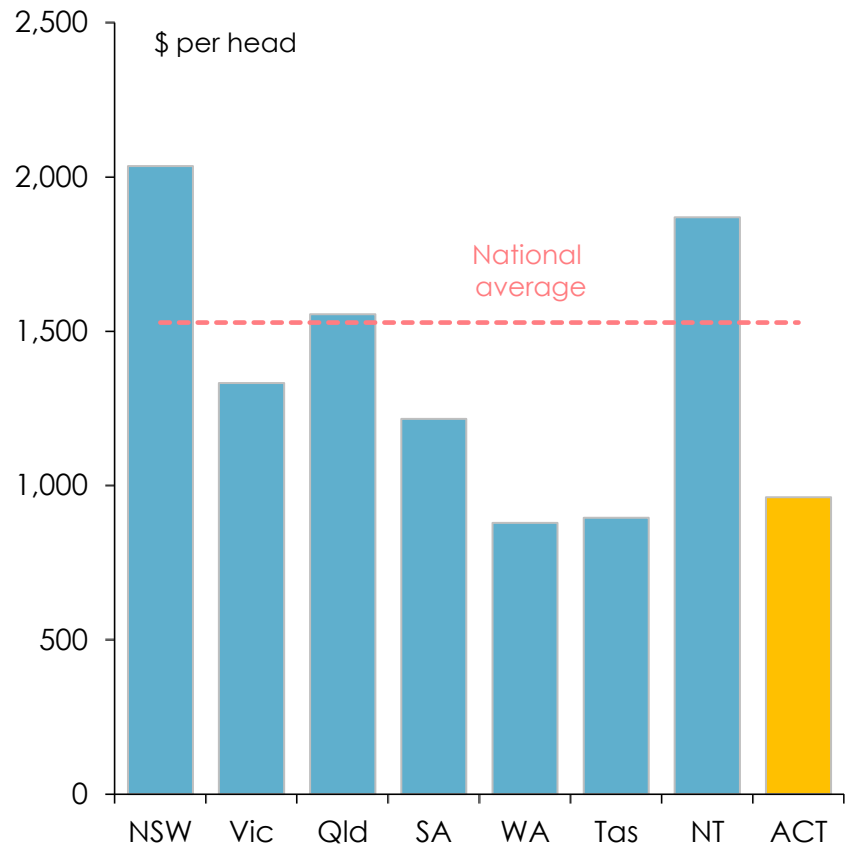
The ACT could raise more revenue from taxes on gambling

Gambling tax revenue per head of population, 2024-25



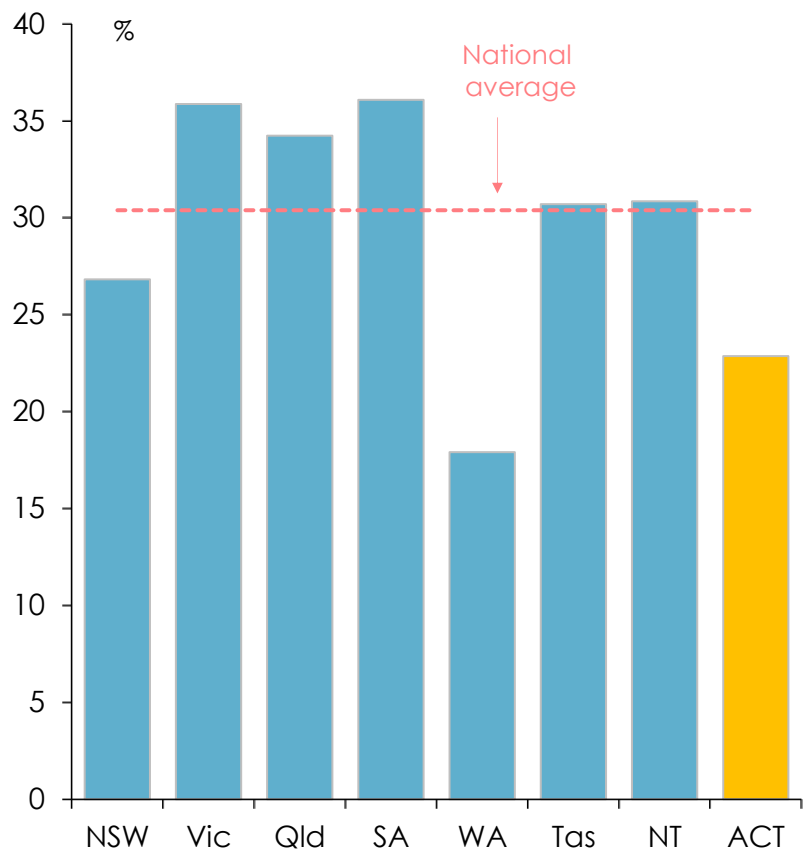
The ACT collects \$192 per head (52%) less from taxes on gambling than the average of all states & territories ...

Spending on gambling per head of population, 2024-25



... partly because Canberrans spend \$566 per head (37%) less on gambling than all Australians, on average ...

Revenue from gambling taxes as a pc of gambling spending, 2024-25



... but also because taxes represent a smaller percentage of the gambling spend than anywhere except WA

The ACT also has some legitimate ‘beefs’ with the New South Wales and Commonwealth Governments

- ❑ **Over 20% of the services provided by ACT hospitals are to NSW residents**
 - the NSW Government reimburses the ACT Government for these services at the ‘national efficient price’ for those services (\$248 mn in 2025-26)
 - but the unit cost of providing these services in ACT hospitals is about 30% higher than the ‘national efficient price’, largely because of the relatively small scale of the ACT hospital system
 - the NSW Government doesn’t contribute anything towards the capital cost of new hospital facilities in the ACT
- ❑ **The NSW Government doesn’t contribute anything towards the cost of providing school and (especially) TAFE services to students who come from NSW**
- ❑ **The Commonwealth Government is arguably not fully compensating the ACT Government for the municipal services it provides to Commonwealth departments and agencies operating in Canberra**
 - Commonwealth Government payments to the ACT for municipal services have risen at an average annual rate of 1.9% over the past decade, well below the Canberra CPI (3.0% per annum) over the same period
 - the Commonwealth doesn’t make any payment for the additional policing services it requires ACT Police to provide during (eg) state visits to Canberra by foreign dignitaries
 - the ACT continues to make debt service payments to the Commonwealth in respect of public housing assets transferred to the Territory at the time of self-government in 1989 (\$11.6 mn in 2024-25), despite similar debts owed by South Australia and Tasmania having been waived’ by previous Federal Governments
- ❑ **The ABS has consistently under-estimated the growth rate of the ACT’s population between successive Censuses, which has adversely impacted the ACT’s share of GST revenues**
 - ACT Treasury estimates this cost the ACT \$550 million in GST revenue between 2016-17 and 2022-23

Conclusions

- ❑ **The ACT's financial position is by no means the worst in Australia**
 - it's not as bad as Tasmania's, the Northern Territory's, or Victoria's
 - although that's hardly something to celebrate
- ❑ **But it is, nonetheless, not 'sustainable' without more 'corrective actions' than have been foreshadowed thus far**
 - returning the ACT's finances to a sustainable position will – on current policy settings – require 'everything to go right' for the ACT, and an unprecedented degree of expenditure restraint over and extended period
 - it would be brave to make either assumption, let alone both of them
- ❑ **A credible strategy for returning the ACT's finances to a sustainable position will require some combination of spending cuts and revenue increases**
 - the balance between spending cuts and revenue increases is in large part a matter of political choice
 - but those choices will have economic consequences
 - especially considering that the ACT is a relatively high-tax jurisdiction, and that there is greater potential for movement of both people and businesses across the ACT's borders than there is across other inter-state borders
- ❑ **It's not in the interests of the ACT's economy for the Canberra business community to lend its support to calls for big cuts in the number of Canberra-based public servants**
 - instead the Canberra business community should lend its support to more balanced strategies for putting Federal Government finances on a sustainable footing

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. None of Saul Eslake, Corinna Economic Advisory Pty Ltd nor In Economics Pty Ltd however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. Saul Eslake, Corinna Economic Advisory Pty Ltd and In Economics Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.



SAUL ESLAKE
CORINNA ECONOMIC ADVISORY