Submission Cover Sheet

Inquiry into the Fiscal Sustainability of the ACT

Submission number: 012

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Date authorised for publication: 17 February 2026

Bruce Paine – Submission to the Select Committee on the Fiscal Sustainability of the ACT

The ACT government's fiscal situation does not appear sustainable without significant changes. Spending and own-source revenue appears to be relatively high compared to other jurisdictions – suggesting that reducing prospective spending is more appropriate than further increasing ACT government taxes and charges.

Current fiscal situation

As shown in the most recent audited accounts, in the 2024-25 fiscal year the ACT government had an (annual) operating deficit of around $1 billion or $1,000 million. The government is clearly not covering its day-to-day expenses.
This is an important point for the Select Committee to highlight to the Assembly and Canberrans.

There has also been a consistent trend of underestimating spending and overestimating revenue. This means that the annual Budget is not a reliable indicator of the likely fiscal outcome.

The above have already been documented by several credible commentators. Nevertheless, it would be useful for the Committee to place these points on the public record, so they are beyond any reasonable argument.

Possible consequences of the current fiscal situation

These are broadly known, but uncertain as to magnitude and timing.

If we assume that Australia remains a functioning and rational democracy, it is very unlikely that that a federal government would allow an ACT government to default. Nevertheless, a federal government and/or financial markets could require large and quick adjustments by the ACT government.
A key point is that the ACT government should be reducing the risk of getting into this situation by commencing to adjust fiscal policy in 2026-27 .

Causes of the current situation

Properly analysing *government spending* is complex.
A distinction can be made between spending on inputs (eg Public Servants), outputs (eg services provided) and outcomes (eg impacts on the community). However, it can become very difficult to accurately identify outcomes – so some judgement is often required.

Another possible approach to analysing spending is to compare the ACT government's operations with other jurisdictions in a few specific areas by way of case studies – for example, driver licensing, out of hospital care, etc.

At the aggregate level it is possible to compare ACT government spending with other jurisdictions using data and analysis from the Commonwealth Grants Commission. In broad terms this analysis shows the ACT government spends a lot more on a per capita basis than the average of all States/Territories, after adjustment for the different characteristics of each jurisdiction. It could be useful for the Select Committee to establish this as a fact (or not), and at least in broad terms to identify reason(s) for this – for example, whether ACT governments have made a policy choice to provide more services and/or there is more spending by the ACT to produce similar services.

In terms of ACT government spending on specific areas, the Committee could consider the following points:

a. Health – spending in this area is large and multi-faceted, and a lot of factors impact on health outcomes for the community.
   There could be some 'win/win' areas for the short-term that all stakeholders can agree on (for example where improved processes should reduce the prospective growth in inputs). However, beyond that it may be that a firm commitment by all stakeholders to developing and following best practice is the best way to sustainability.
b. Public schools. It may be that spending in this area is relatively easy to analyse. A possible area to examine is the % of non-student facing staff in the ACT vs other jurisdictions. However, it must be acknowledged that the school environment can be very complex and challenging for all stakeholders.
c. General public services. The Committee could seek information on and examine the number and seniority of Public Servants. It is obviously critical to protect the identify of individuals, however anonymised staffing charts could indicate if/where there are, for example, too many levels of reporting.
d. Spending on consultants. The Committee could consider if the number and role of consultants is appropriate. There do seem to be examples where relatively straight-forward tasks are undertaken by consultants – for example conducting community consultation and preparing a 'listening report'.
   The extent to which the ACT government uses consultants may be influenced by the competition the ACTPS faces from the Federal PS in hiring good people. Does this adversely impact on the capability of the former?
e. Impact of the 'Secure Local Jobs' legislation, both on the cost of ACT Govt operations and flow on impacts for private sector operations.
   More generally, what is the extent of Unions' influence over the number of ACT Public servants (eg Union representatives on staffing committees) and on government spending and taxes and charges via the structure and voting membership of the ACT Labor Party?

f. Structure and relative efficiency of ACT government business enterprises, eg Icon and ACTEW? While these are not within the general government sector and hence the Budget, their efficiency impacts on public sector debt.
g. Regulation – perhaps over-regulation in some areas and under-regulation in other areas. What is the direct impact on number of staff and are there broader economic impacts especially on current and prospective small businesses?
h. Community expectations – are these consistent with a fiscally sustainable ACT government?

It is much easier to identify and analyse 'causes' on the *revenue* side (but no easier to identify solutions).
It could be useful to examine some matters that have been raised, for example that the ACT is short-changed by the GST distribution.
The ACT government's own source revenue appears relatively large in per capita terms. The Government often compares its revenue to ACT Gross State Product. However the latter includes the Federal government, which is exempt from ACT taxes. Hence that comparison is mis-leading.

It would be useful if the Committee could reach a conclusion on the causes of the ACT government's fiscal situation – for example, in terms of whether the situation reflects policy decisions and/or exogeneous factors.

Possible solutions
There could be some 'easy wins' on the spending side– for example, the Government itself has already flagged some areas where staffing could be reduced (albeit they concurrently promise more staff in other areas).
There could be other areas where the pros and cons of reducing staffing and/or spending is fairly clear, but there is room for different judgements on the best way forward. These could be discussed in the report to facilitate discussion in the Assembly and possible decisions by the Government.
There could be further areas, for example health, where the Committee could recommend further work.
On the revenue side, the Committee should bear in mind the effective incidence of any suggestions to increase revenue (for example, higher payroll tax arguably has more impact on people with fewer alternative employment opportunities).
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