# Submission Cover Sheet

## Inquiry into the Fiscal Sustainability of the ACT

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**Submission to the Legislative Assembly**
**Select Committee Inquiry into the Fiscal Sustainability of the ACT**

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It is positive that the majority of the members of the Legislative Assembly have recognised that the ACT is facing a debt crisis and are determined to address the issues and return ACT Government finances to a fiscally responsible basis, and to take steps to ensure that a debt crisis doesn't develop in the future. Given that recognition I will limit my comments on defining the debt crisis to those that assist in developing solutions. I would encourage the Committee members to read the analytical work of Jon Stanhope and Dr Khalid Ahmed on this topic.

**The debt crisis**
The ACT Budget for 2011-2012 was presented on 3 May 2011, by Katy Gallagher, who was both Chief Minister and Treasurer at the time. Andrew Barr became Treasurer on 1 July 2011 and administered this budget. The result was an operating surplus[1] of $43 million (the last surplus), with net acquisition of non-financial assets (infrastructure) of $379 million, leading to net borrowing of $337 million. The ACT Government remained in a net credit position (that is no net debt) on 30 June 2012. I regard this as the start point of the current debt crisis.

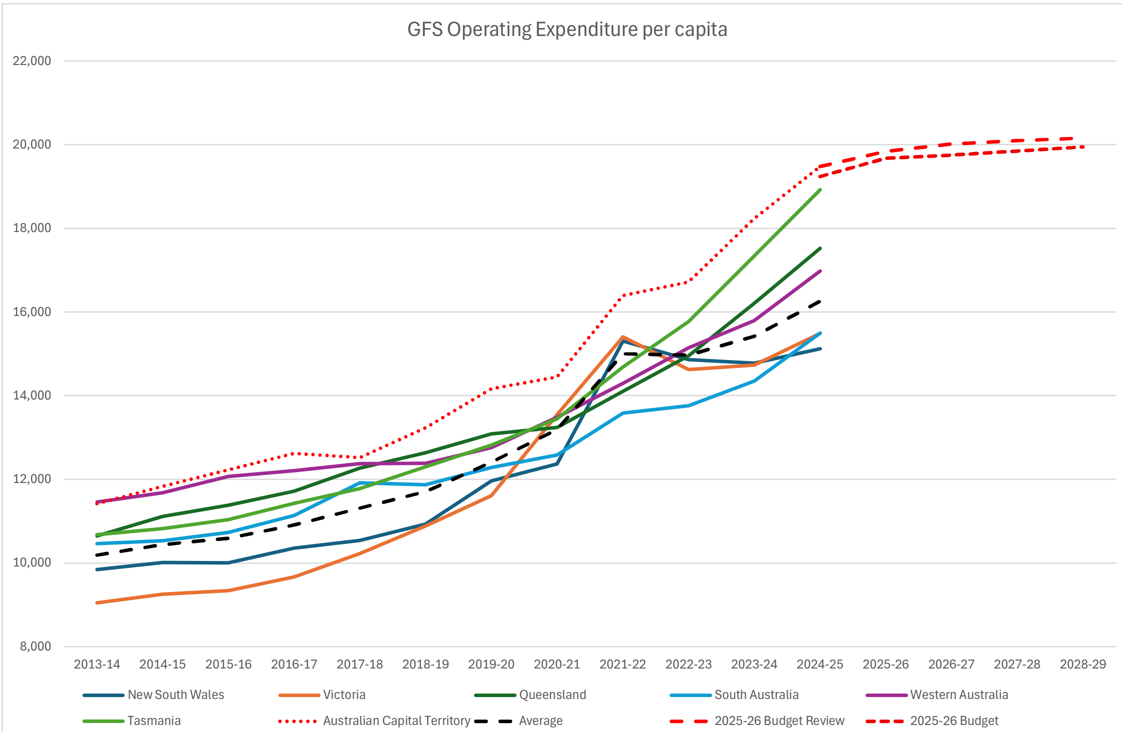
From 2012-13 we have had thirteen completed years with thirteen consecutive operating deficits totalling $7 billion and total net infrastructure spending of $5 billion. The majority of ACT general government net debt on 30 June 2025 comes from the failure of the government to run its day-to-day operations in a fiscally responsible manner, and not from infrastructure spend. The ACT government is incompetently or deliberately spending more than it collects. It always had the option of balancing its operating budgets over that period.

Over that period total revenue grew at an average annual rate of 7 per cent, surpassing the combined effects of population growth and prices that impact it. That is, revenue had the capacity to support an expansionary expenditure program. The ACT's tax per capita is near the top end of the range of jurisdictions.

Total operating expenses grew at an average annual rate of 10 per cent, which clearly identifies it as the primary driver of operating deficits. The chart below shows operating expenditure per capita in comparison to the states (the NT is not displayed because it is roughly double the magnitude of the other jurisdictions but is included in the average). Prior to COVID, ACT expenses per capita sat in a tight range averaging 14 per cent above the average of other jurisdictions. This narrowed during the peak pandemic expenditure

[1] Unless specifically noted, all references in this submission are to identities in the nationally and internationally accepted GFS (Government Finance Statistics) standards and GAAP (Generally Accepted Accounting Principles), the UPF (Uniform Presentation Framework).

year, 2021-22, probably due to the significant economies of centralisation that the ACT enjoys. Since then, ACT expenses per capita have moved rapidly to 20 per cent above the average of other jurisdictions. If Tasmania weren't facing its own debt crisis, this would be more evident.




2025-26 and outyears, as presented in the recent Budget Review, show no improvement to the deficit or net borrowing, in fact it has deteriorated since the 2025-26 Budget. Net operating deficits total $1.4 billion while net infrastructure spend totals $1.8 billion over the four-year period. The growth in debt has not been arrested; the ACT moves closer to the next credit rating downgrade.

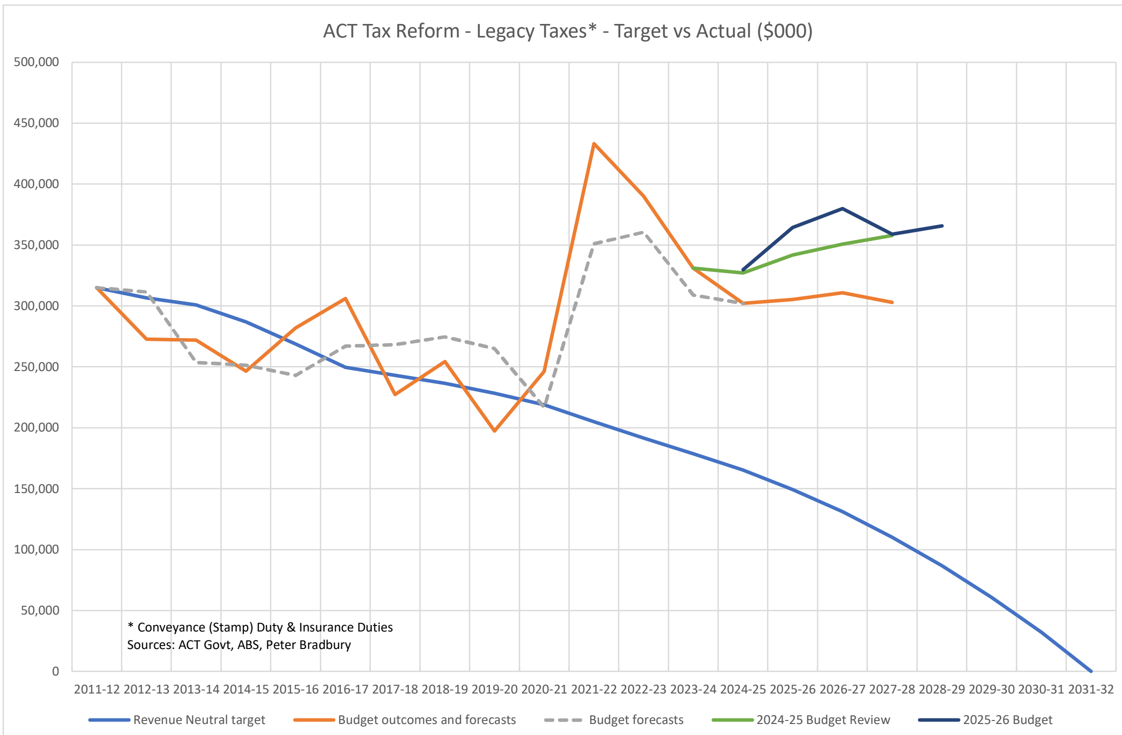
The Inquiry may receive submissions that the ACT is fundamentally fiscally unsustainable and has always been so. This should be discounted; the ACT is the jurisdiction with the highest average household income. So, it should be in the best position to sustainably fund its own government.

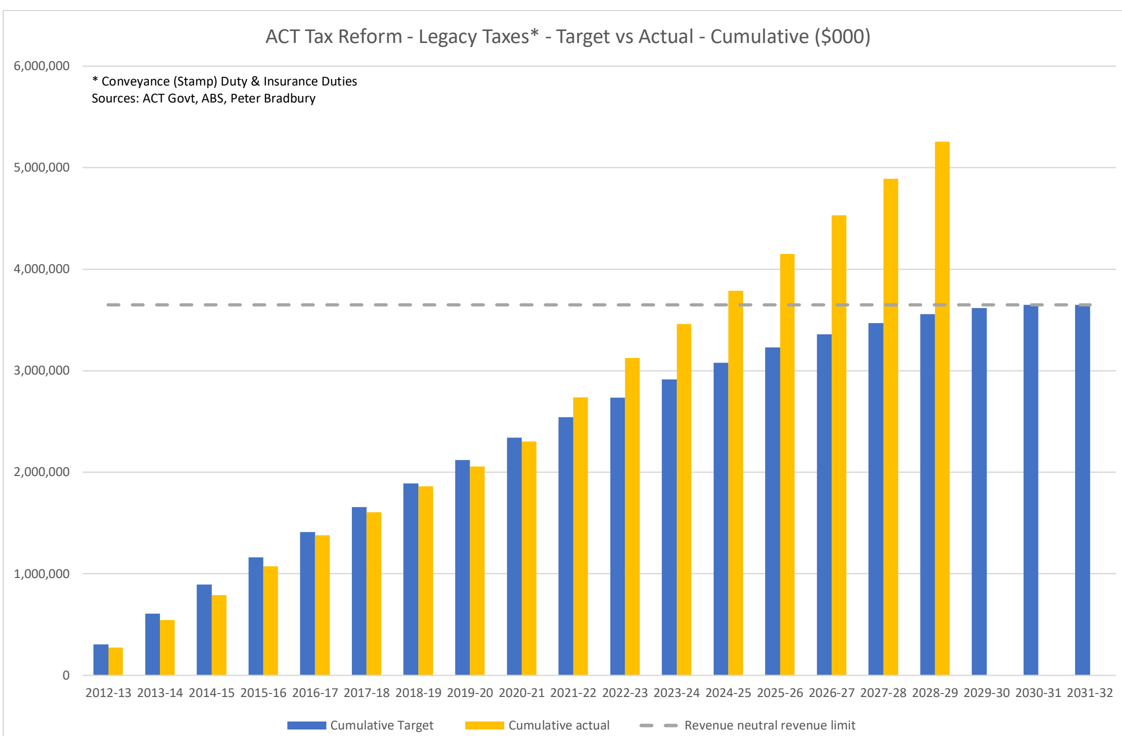
The inconvenient truth for those arguing that the ACT was fiscally unsustainable from the start, is that for almost a quarter of a century following self-government in 1988 it was fiscally sustainable. As noted above, in June 2012, the ACT government was in a net credit position, that is no net debt, showing that to that point the ACT was able to fund itself.

**The underlying situation is worse**

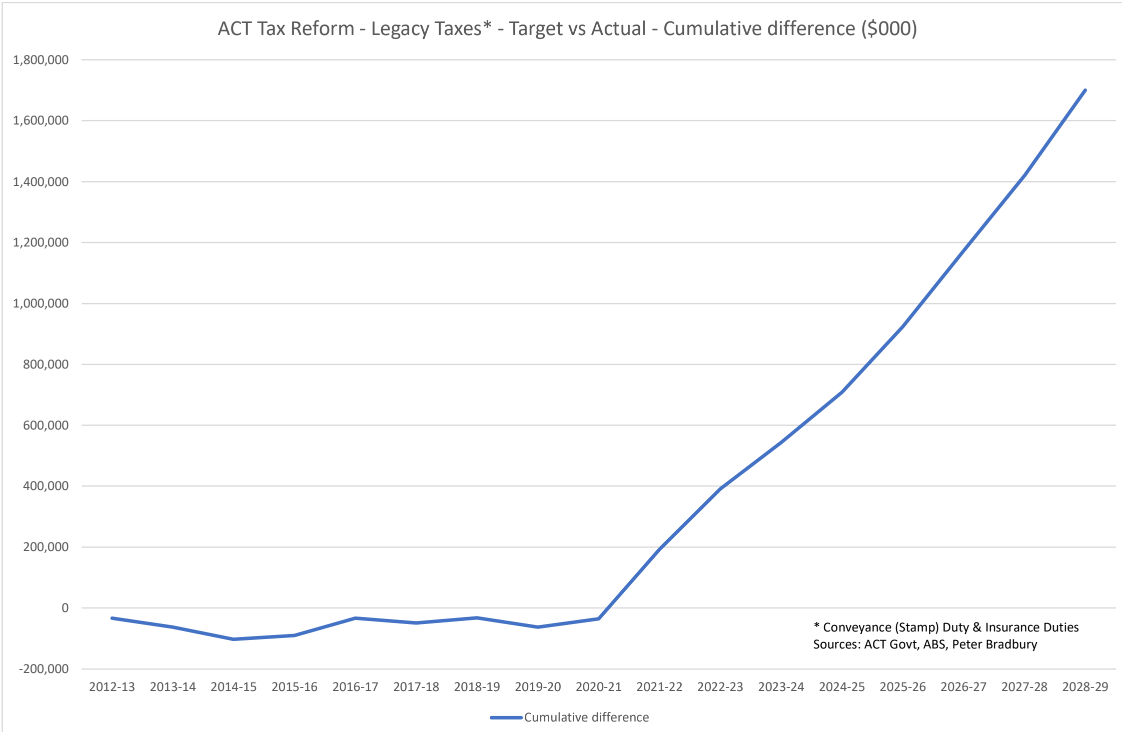
Two significant ACT fiscal projects have failed or show signs of imminent failure, and this means that budget documents may be giving a misleading view of the fiscal situation.

The following charts show the dire situation relating to the abolition of Conveyance (Stamp) Duty. The government has deliberately collected stamp duty well above the target, which has produced artificially lower deficits since 2021-22. The government has already broken its promise to the ACT community to be revenue neutral.



It is on track to be revenue positive to the tune of $1.7 billion by 2028-29. There are questions to asked about what will happen in 2031-32. Will an apparent $400 million hole appear in the operating balance? And will this need to be addressed with a new revenue (tax) measure.




It is reported that the government has fallen behind its own program to fund its unfunded defined benefit superannuation liability. While not the same magnitude as stamp duty it is also artificially lowering deficits. This expense has been shifted into future years, having a negative effect on those balances.

**Recommendations**

As the most substantial aspect of the current debt crisis is operating expenses that have run beyond sensible boundaries, some focus is required to reset expenses and create an atmosphere among Ministers and senior administrators that the lazy practices of the last decade or so are over. Some of these may be relatively small but is the signal that is important.

1. Identify savings in operating expenses as part of the Inquiry's work. Some suggestions:
    a. Abolish Our CBR. This is an extravagance that has originated in the period of operating deficits
    b. Review ACT government advertising, the internet seems to be awash with it, including custom made ads for the ACT where customisation doesn't seem necessary.
    c. Abolish expenditure that has is not delivering services directly relevant to the ACT, for instance funding of SBS documentaries on European history.

2. Create an office/role like the Parliamentary Budget Office in the Federal Parliament to support scrutiny of budgets and related issues particularly for opposition and crossbench MLAs.
3. That the Treasury be required to provide detailed line-by-line compilation notes for published Budget tables to enhance transparency and accountability.
4. If one doesn't already exist, create a long-term debt management schedule. The intent here is to ensure that debt entered into is amortised over time in a manner that is consistent with the use of debt funded infrastructure and ensure the funding of operating deficits occurs as close to expenditure as possible. This is intergenerationally more responsible.
5. Strengthen the Financial Management Act 1996 with a view to providing guiderails that ensure fiscally responsible budgets are delivered and administered.
    a. Impose tighter controls on budget approvals and appropriations so that governments will do the hard work in identifying expense savings and deliver budgets for all periods that are in surplus to an amount that equals or exceeds the amount included in the long-term debt management schedule.
    b. Require the government to use GFS/GAAP/UPF presentations.
    c. Prohibit the government from using misleading alternate presentations such as the so-called Headline Net Operating Balance.
    d. In a similar fashion to the recent Closing the Gap changes make the Treasurer and Chief Minister personally responsible for delivering fiscally responsible budgets, and administrating them, with appropriate consequences.
    e. Introduce penalties for Treasurers that present false and misleading documents such as the Aggregate-land-value-for-general-rates-settings-2025-26-Budget document.
6. Bolster the already distributed information about how government money is spent to include aspects such as total interest and individual or household share of debt and how it has changed from a year ago.
7. Ensure that releases of budget materials, such as the Budget and Budget Review, comply with data release standards like those of the IMF:
    a. Simultaneous release to all interested parties; and
    b. That Ministers and other government officials refrain from commentary prior to general release.
8. Ensure the Budget is presented with enough margin from the end of the financial year to enable proper scrutiny and resolution of contentious issues. Tuesday 24 June 2025 was inappropriate.
9. It is often suggested that the ACT is being short-changed in the allocation of GST by the Commonwealth Grants Commission because of s114 of the Australian Constitution.
    a. It would be worthwhile to see more transparency in this area because hard evidence would replace the finger pointing and vague hand waving that every Chief Minister and Premier engages in, they can't all be right. It certainly isn't wrong by the amount that would cover the accrued operating deficits of the ACT.

    b. Have estimates of tax loss prepared and confronted with the calculations of the Commonwealth Grants Commission.
    c. It may be appropriate for the Commonwealth to voluntarily pay relevant state and territory taxes. It would be more transparent, noting that there would be an offset in GST allocations.
10. Repeal Conveyance (Stamp) Duty immediately:
    a. Its phase out has been completely botched or distorted to cover the debt crisis.
    b. It is possible that a new tax measure will be needed to recover from the debt crisis. This may be an increase in the value-based charge of Rates.
    c. There are consequential advantages:
        i. It would enhance housing affordability.
        ii. It would produce savings as an expensive compliance program is no longer required.

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