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THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

ELEVENTH ASSEMBLY

Credit Rating Stabilisation Plan – Assembly Resolution of 18 September 2025
Government Response

Presented by
Chris Steel MLA
Treasurer
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Response to Legislative Assembly resolution *Credit Rating Stabilisation Plan* of 18 September 2025

The Government continues to manage the Territory's finances in accordance with the *Financial Management Act 1996* and notes the broad range of requirements the Act places on the Government particularly with regard to balancing responsible fiscal management, sustainable social and economic services and infrastructure as well as ecologically sustainable development.

The context of the 2025-26 ACT Budget was the need to make an unprecedented $1.19 billion investment in the ACT public health system to ensure the continued delivery of essential health services, with costs rising faster than revenue to the Territory. The ACT's credit rating is stable and while the rating has the potential to affect borrowing costs, other factors, such as broader market forces, also have an impact. Interest repayments continue to be forecast to be less than a tenth of Government expenditure, as the reasonable cost of infrastructure is borne over time by those who use it.

The Government has tabled the Budget Review which outlines the ACT Government's updated fiscal strategy which incorporates the substantive elements of the motion passed by the Assembly; a credit ratings stabilisation plan and a strategy and timeline to ensure current Budget spending is met by revenue are subsets of the Government's broader fiscal and economic strategies.

The Government will report against the Territory's credit rating in the 2026-27 ACT Budget and will continue to note commentary made by ratings agencies in development of future budgets.

Credit Rating Stabilisation Plan

The Government is ensuring credit rating stabilisation through improved accrual and operating balances, sustainable levels of debt, maintaining the credible funding plan to extinguish the unfunded superannuation liability and continue to maintain our strong financial management and high levels of liquidity.

As a result of the Government's fiscal strategy, the Headline Net Operating Balance (HNOB) deficit will reduce from $1.1 billion in 2024-25 to a forecast deficit of $499.1 million in 2025-26; a significant improvement of more than $500 million. This improvement continues across the forward estimates period with the forecast HNOB deficit reducing further to $79.7 million in 2026-27 before surpluses of $63.3 million in 2027-28 and $280.3 million in 2028-29.

This profile ensures the continued strength of the Territory's balance sheet supporting our capacity to invest in city-shaping infrastructure and invest in essential services. It also allows us the flexibility to continue to respond to any challenges that might arise and address the impact of any unforeseen economic challenges or fiscal shocks.

The credit rating stabilisation plan will see the Territory maintain levels of net debt and net financial liabilities around the average of Australian states and territories. As such forecast net debt remains broadly in line with the 2025-26 Budget estimates, with net financial liabilities and net worth showing an improvement.

Further improving our capacity to pay down debt over time and consistent with our responsible management of the Territory's balance sheet, the Government is also prudently managing our defined benefit superannuation liability we have with the Commonwealth, and we are on track to extinguish this liability over the next decade. This will provide the Government with capacity to invest in other priorities and further strengthen our balance sheet.

Our proactive engagement with ratings agencies will continue, noting that the Territory's AA credit rating, and long-term rating with a stable outlook, signifies a very strong capacity to meet financial commitments and a very low risk of default.

This is reinforced by S&P Global Ratings (S&P) assessment that the Territory has strong financial management by global standards, a very high-income economy and exceptional liquidity. In addition, S&P noted the excellent institutional frameworks enjoyed by state and territory governments, which are among the strongest in the world.

The Government recognises it is necessary to make difficult decisions and balance a broad range of priorities. The Canberra community expects a high level of government service provision, infrastructure investment and support through crises.

The Government's fiscal strategy, as updated in the Budget Review, outlines a pathway back to a positive cash operating balance and a surplus over the forward estimates. S&P has recognised this alongside the savings measures in the Budget. The strategy sets out a clear pathway to surpluses within the forward estimates period.

The Government's expenditure prioritisation reforms will address structural budget pressures while providing the capacity to ensure quality service delivery. In addition to the institutional strengths acknowledged by S&P, the fiscal strategy provides the basis for stabilising the credit rating and for future improvements.

Budget balance strategy and timeline

The Government has set out a clear timeframe for a return to balance and surplus of both the HNOB and cash positions of the ACT Government.

Our fiscal strategy steps out the pathway to return the Budget to surplus and maintain the Territory's strong fiscal position. This strategy and our ongoing commitment to the principles of responsible fiscal management, will ensure the continuing strength of the Territory's balance sheet. Importantly, decisions taken to return to surplus will not undermine the Government's economic objectives a key requirement of the *Financial Management Act 1996 (the Act)*.

Similarly, the Government is also required by the Act to consider sustainable social and economic services as part of the Budget. This fiscal strategy has enabled us to deliver a record investment in public health services and provide further funding to support our public education system. We continue to prioritise reforms to advance housing choice and affordability for all Canberrans. We do this while continuing to provide targeted support to those who need it most.

Alongside efforts to continue economic growth and support employment, the Government's fiscal strategy supports the continued delivery of high-quality services to improve the wellbeing of all Canberrans. Like all jurisdictions, the Territory has experienced structural funding pressures in core service delivery through increasing costs and rising demand.

The public health system has experienced significant cost increases and rising activity levels that have created funding pressures. As part of the 2025-26 Budget, the Government provided additional funding for our public health system, including a record level of investment of over $1.19 billion over four years to 2028-29. This additional investment in our public health system supports the continued quality of service delivery for the community.

Increasing costs in the delivery of public health services have occurred against a backdrop of a declining contribution rate to our public health system from the Commonwealth in recent years. At the time of the 2025-26 Budget, the contribution rate to the Territory was estimated to be 34 per cent in 2025-26, below the agreed target of 45 per cent by 2035. In January 2026, the

Commonwealth Government and States and Territories agreed to a new five-year National Health Reform Agreement. This is expected to have a significant positive impact for the ACT with changes from this agreement to be reflected in the 2026-27 Budget.

Other key areas of government service are also experiencing cost pressures. This is consistent across all states and territories. The ACT has seen these pressures materialise most acutely in the public school system. To meet these challenges, the Government is providing additional support for public schools while further work to understand the resourcing needs and cost drivers in public schools is undertaken through the independent ACT Public School System Resourcing Review.

The expenditure reforms outlined in the 2025-26 Budget will enable the Government to prioritise funding for services that matter most to the community. These reforms are estimated to generate savings of $29.5 million in 2025-26 and $282.2 million over the forward estimates. Savings will be achieved by constraining the rate of growth in expenditure across a range of agencies and directorates, supported by whole of government principles for reprioritising expenditure and enhancing budget control mechanisms.

Our fiscal strategy includes a commitment to supporting economic growth and employment. In addition, we will:

- 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;
- 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.

The Government will progressively improve the operating cash surpluses to provide the capacity to reduce borrowings and fund a greater proportion of the ongoing capital investment requirements from these cash surpluses. Net operating cash is expected to move from a deficit of $430.0 million in 2024-25 to a surplus of $794.6 million in 2028-29, a cumulative improvement of over $1 billion.