Submission Cover Sheet

Inquiry into the Fiscal Sustainability of the ACT

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Our ref: CMTEDD2026/150

Ms Jo Clay MLA
Chair
Select Committee on the Fiscal Sustainability of the ACT
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Dear ~~Chair~~ Jo

Thank you for the opportunity to provide this submission to the Select Committee on the Fiscal Sustainability of the ACT.

The ACT Government's fiscal strategy, as set out in the 2025-26 Budget, provides a clear pathway to returning the budget to surplus and maintaining the Territory's strong fiscal position.

The Government remains committed to the principles of responsible fiscal management and, through its fiscal strategy, will ensure the financial position of the Territory remains strong. Importantly, this includes a commitment to supporting economic growth and employment. In addition, through its fiscal strategy, the Government will:

- return the Budget to operating cash surpluses over the forward estimates period;
- return the Headline Net Operating Balance 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.

The fiscal strategy has enabled us to deliver a record investment in public health while returning the budget to surplus in a sustainable manner. In addition, we have continued to prioritise reforms to advance housing choice and affordability, continue to deliver a world-class education system and provide targeted support to those who need it most.

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The Government's approach to responsible fiscal management has also supported a very substantial infrastructure investment program, delivering well-targeted investments in transport, health, cultural amenities and other facilities to support the future needs of our city and the wellbeing of Canberrans.

The Territory's fiscal position is strong

As outlined in the 2025-26 Budget, the Territory's net debt to Gross State Product (GSP) is around the average for all states and territories. The Headline Net Operating Balance (HNOB) to GSP ratio is also forecast to be similar to most other states and territories across the forward estimates period.

Net worth, the broadest measure of financial strength, is expected to be around 26 per cent of GSP by 2028-29. The reflects the prudent investment decisions made by the Government on behalf of the people of the Territory and our current investment pipeline will add to our net worth as these projects are delivered.

Consistent with our responsible management of the Territory's balance sheet, we are 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.

The ACT also has a strong economy with strong wage growth, high workforce participation and a low unemployment rate. The outlook for the economy is positive, with strong economic and employment growth, underpinned by an increase in private demand and solid growth in the ACT's population. The ongoing strength of the local economy provides the foundation to get the Budget on a sustainable footing.

The ACT'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 is committed to maintaining the strength of the Territory's balance sheet. 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.

Cost pressures have become an increasing challenge for all governments

In the 2025-26 Budget, the Government provided a record level of investment in our public health system, of over $1.19 billion over four years to 2028-29, to respond to rising demand and increasing cost pressures and ensure that quality health services continue to be delivered to all Canberrans.

Cost and demand pressures in public health are not unique to the Territory, with states and territories experiencing cost increases in 2025-26, in some cases of more than 10 per cent. All jurisdictions have experienced challenges in meeting increased activity in our public hospitals in recent years, including catching up on deferred care from the COVID-19 pandemic and challenges in accessing affordable primary and aged care. The viability of the private health care sector and growing out-of-pocket costs for patients are also driving increased activity into the public sector. Clearly, without additional investment, the quality-of-service delivery would have been substantially diminished.

These health funding challenges are occurring against a backdrop of a declining contribution rate to our public health system from the Commonwealth. At the time of the 2025-26 Budget, the Commonwealth's contribution towards the ACT's public health funding was estimated to be 34 per cent in 2025-26, well below the agreed target of 45 per cent by 2035.

On 30 January 2026, the Commonwealth and state and territory governments agreed to a new five-year National Health Reform Agreement which will have a significant impact for the ACT. Under the new deal, the ACT is forecast to receive $4.1 billion over five years to 2030-31, including an additional $557 million in public hospital funding.

This will increase the Commonwealth's contribution to public hospital funding to an estimated 37 per cent in 2026-27. The ACT will also receive additional funding to address the challenges that smaller jurisdictions face in delivering health services compared to larger jurisdictions while more permanent arrangements to address this issue are implemented. Changes to budget estimates from this agreement will be reflected in the 2026-27 Budget.

Our growing population also increases cost pressures in key areas of spending such as education, community safety and the provision of other government services.

Expenditure prioritisation

To ensure the fiscal position of the Territory, the Government is undertaking a range of expenditure reforms, as well as providing the record investment in the public health system in the 2025-26 Budget.

It is estimated the reforms will generate savings of $29.5 million in 2025-26, and $282.2 million over the four years from 2025-26 to 2028-29. 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 the reprioritisation and rebasing of expenditure and enhanced budgetary control processes.

Tax reform

The ACT remains a relatively low-taxing jurisdiction and the tax burden per capita is one of the lowest in the country relative to median household income. As shown in the 2025-26 Budget, the ACT's own-source revenue as a share of Gross State Product was the third lowest among all Australian states and territories in 2023-24, at 4.7 per cent – a decrease from the previous financial year and in-line with the ACT ten-year average.

However, the ACT has a narrower revenue base than other jurisdictions, particularly those that have access to funds from the resources sector. This means our capacity to raise funds is more heavily reliant on sources such as general rates and payroll tax.

The Government's comprehensive Tax Reform program, which commenced in 2012-13, will ensure that revenue is raised in an efficient, fair, simple, and sustainable way. The reform provides greater stability, protecting against future economic shocks, and maintains the Territory's economic credentials.

Beginning in 2012-13, the program is designed to be revenue-neutral, shifting the tax burden from volatile sources to more stable ones, such as general rates, which are a stable and predictable source of revenue. Before tax reform, the ACT's revenue was more volatile due to its reliance on conveyance and insurance duties, which are sensitive to economic conditions – the latter being fully abolished by 2017.

The share of insurance and conveyance duties in total own-source taxation revenue is expected to decline from around 26 per cent when the program started in 2012-13 to 9.9 per cent by 2028-29. General rates and payroll tax are estimated at 60 per cent of own-source taxation revenue for 2025-26.

The measures announced in the 2025-26 Budget will broaden the ACT's payroll tax base by reducing the payroll tax threshold and lowering the tax rate for small to medium local businesses from 1 July 2026. This will deliver a broader tax base and provide a more equitable tax distribution, which broadly aligns with findings from the 2010 Henry Tax Review. The ACT will continue to have one of the highest thresholds in Australia, while seeing a lower tax rate for most taxpayers, and businesses with payroll below $4 million will continue to pay less tax than in NSW.

Commonwealth funding

The Government continues to actively work to maximise funding for the ACT through the federal financial relations system.

Health and disability

As identified earlier, on 20 January 2026, the National Cabinet agreed to a new five-year National Health Reform Agreement which will provide $4.1 billion in public hospital funding to the ACT over the five years from the 2026-27 financial year until 2030-31. This represents an increase of funding in our public hospitals of $557 million.

As part of this new funding agreement, the ACT will also receive additional funding in recognition of the additional funding challenges that smaller jurisdictions, until more permanent arrangements are in place. Permanent arrangements to address this issue will be adopted after a review by the Independent Health and Aged Care Pricing Authority (IHACPA). This is a direct result of ACT Government advocacy to the Commonwealth Government.

The Commonwealth Government has made further national and ACT specific investments in primary care, including through a new Medicare Urgent Care Clinic in Woden and the new 1800Medicare service, and in respite care, in recognition of the need for continued efforts to take pressure off hospitals by ensuring patients are diverted to appropriate care settings in the community such as aged care and the National Disability Insurance Scheme (NDIS).

As part of this agreement, the states and territories will continue ongoing engagement with the Commonwealth on the need to continue reforms to the NDIS (NDIS), including through the new Thriving Kids program, the first phase of Foundational Supports.

Infrastructure

This includes actively seeking to maximise its share of Commonwealth funding for infrastructure projects, including in some cases up to 100 per cent of a project's total cost, through the Commonwealth's Infrastructure Investment Program and local funding programs (for example, the Roads to Recovery program).

The ACT and Commonwealth Governments have also worked together to establish the National Capital Investment Framework which seeks to recognise the shared ambition of our governments in supporting a strong national capital. The Framework provides an opportunity for ongoing strategic alignment between both Governments on a shared program of investment for Canberra - for the benefit of all Australians. To date, the Framework has supported Commonwealth funding for key infrastructure projects.

GST and Commonwealth Grants Commission

The ACT Government also continues to advocate strongly for the Commonwealth Government to address the persistent undercount of the ACT's population and the impacts on Commonwealth GST distribution.

While the ACT is compensated for its narrow payroll tax base and increased costs from national capital planning influences through the GST distribution system and municipal funding, the ACT Government actively seeks for the ACT to receive its fair share of funding through bilateral funding agreements and GST distribution system.

The Commonwealth Grants Commission (CGC) accounts for the ACT's higher share of the Australian public servants in its assessment of payroll tax revenue, with the ACT's assessed share of national payroll tax revenue being lower than its share of the Australian population. As such, the ACT sees a redistribution of GST to the ACT for this assessment. In its 2025 Review, the CGC estimated the GST impact of the payroll tax assessment in 2025-26 to be $51 million for the ACT. This reflects the ACT's narrow private sector tax base, partly offset by the ACT's private sector wages being above wages in most other jurisdictions.

If it were possible to tax the Commonwealth Government, the ACT would be able collect more payroll tax revenue. However, the ACT's share of the national payroll tax revenue base would be much higher than the ACT's share of the Australian population. Under the CGC payroll assessment, any assessed revenue share over and above a jurisdiction's population share would be redistributed away. Additionally, the ACT would lose the redistribution it currently receives. The net result would likely be worse off for the ACT.

The ACT Government will continue to advocate to maintain the integrity of the Horizontal Fiscal Equalisation system, which is important for the ACT as a small state with limited revenue raising capacity to mee the high costs of delivering public services.

Thank you again for the opportunity to provide a submission to the Inquiry. I commend the ACT Budget 25-26 and recently released Budget Review to the committee as the primary source of information in relation to the ACT's fiscal and economic position. Officials from ACT Treasury, and other relevant agencies, are available to provide information to support the Committee's deliberations as required.

Yours sincerely

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Chris Steel MLA
Treasurer
10 February 2026