Pegasus Economics – Review of the ACT Budget 2026-27 – Final Report

ACT Government – Government Response

July 2026

Acknowledgement of Country

The Chief Minister, Treasury and Economic Development Directorate acknowledges the Ngunnawal people as traditional custodians of the ACT and recognise any other people or families with connection to the lands of the ACT and region.

We respect the Aboriginal and Torres Strait Islander people, particularly our Aboriginal and Torres Strait Islander staff, and their continuing culture and contribution they make to the Canberra region and the life of our city.

Produced by the Chief Minister, Treasury and Economic Development Directorate. Enquiries about this publication should be directed to the Chief Minister, Treasury and Economic Development Directorate.

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Introduction

In its *Inquiry into Appropriation Bill 2026-2027 and Appropriation (Office of the Legislative Assembly) Bill 2026-2027*, the Select Committee on Estimates 2026-2027 commissioned Pegasus Economics (Pegasus) to review the ACT's 2026-27 Budget, consistent with the Committee's resolution of establishment. Pegasus produced the *Review of the ACT Budget 2026-27 – Final Report* (the Pegasus Report) for the Committee's consideration.

Pegasus notes in its report that it has been prepared to assist the Select Committee on Estimates in its consideration of the 2026-27 ACT Budget and to identify major features of the Budget that the Committee may wish to explore. Pegasus notes that its report is based on a desk-top review of ACT Budget documentation presented to the Assembly on Wednesday 10 June 2026, supplemented by other public documentation and information provided through a meeting with ACT Treasury on 17 June 2026 and subsequent discussions and written responses.

The Government remains committed to open, transparent and accountable practices in its management of the Territory's public finances, ensuring that service delivery levels are appropriate and supported through sustainable taxation revenues. The review of the 2026-27 Budget undertaken by Pegasus provides a number of important observations, and the Government presents this response to the matters raised by Pegasus for the Committee's consideration.

The Government also notes some minor errors in the Pegasus Report:

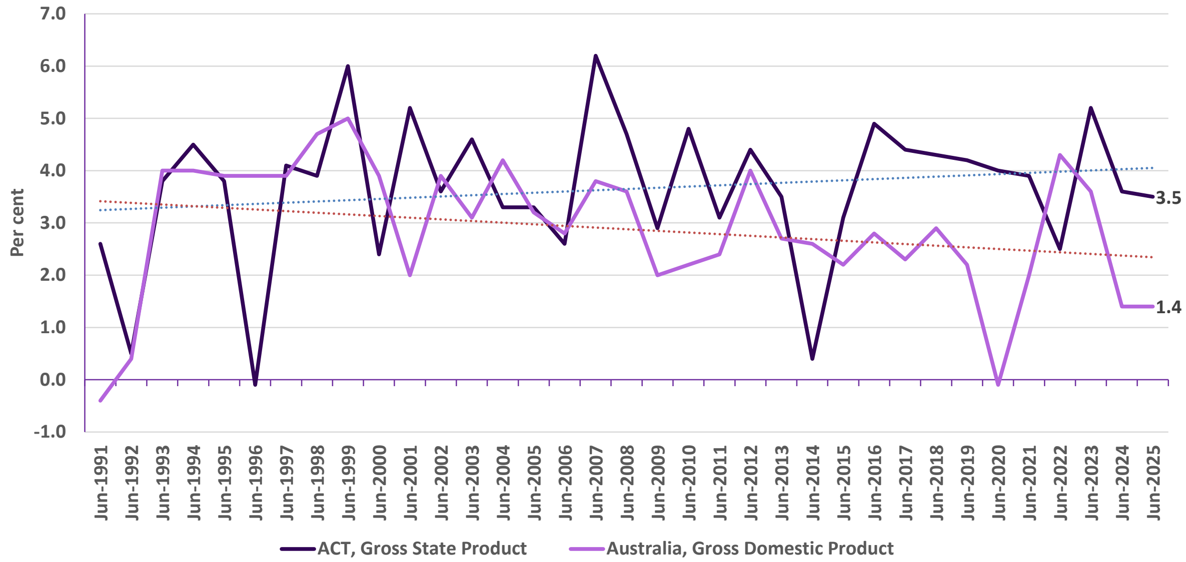
- Page 21, the increase from sales of goods and services from contracts with customers was $21.1 million, rather than $38 million;
- page 27, the $'000 dividends for Icon Water in 2028-29 was 83,521, rather than 85,521;
- page 45, Technology was $2.3 million, rather than $23 million; and
- page 46, the Northside Hospital transition projects in works in progress (WIP) total $10.2 million, rather than $2.2 million.

Economy

- *Pegasus notes that ACT economic growth is increasingly dependent on public sector demand, with GSP and population forecasts appearing optimistic and the economy becoming more reliant on government spending.*

The ACT economy regularly outperforms the national economy. Real Gross State Product (GSP) growth has exceeded real Gross Domestic Product (GDP) growth in 25 years out of 35. The average growth rate for the ACT is 3.6 per cent – compared to 2.9 per cent for Australia. In 2024-25, ACT GSP growth was 3.5 per cent and Australian GDP growth was 1.4 per cent (Figure 1).

Figure 1: Real economic output, annual growth

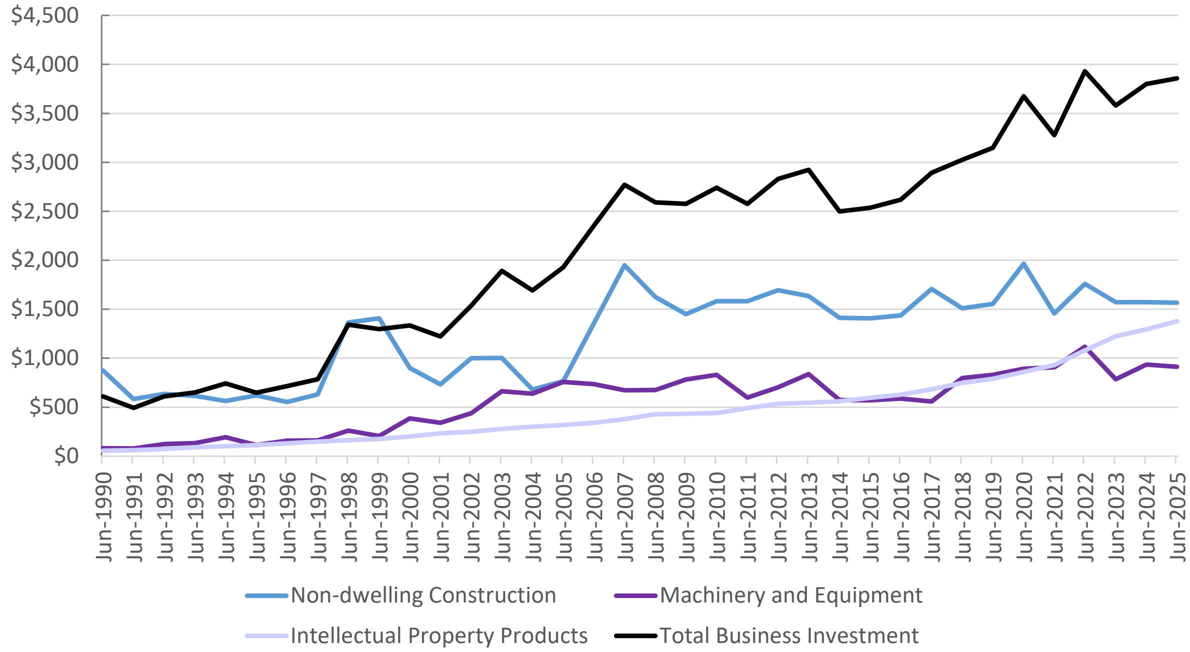


The ACT is less affected by economic cycles than other jurisdictions and the national economy and economic growth in the ACT remains resilient. Commonwealth Government consumption remains an important driver of economic activity. During periods of slower private sector growth, government sector activity ordinarily balances growth. Similarly, government sector activity ordinarily slows in response to increases in private sector activity.

The ACT forecasts appropriately capture the dynamic between private sector demand and public sector demand over the forward estimates. The estimates are constructed consistently with forecasting techniques used across all jurisdictions.

Business investment in the ACT reached $3.9 billion in 2024-25 and has averaged 6.5 per cent growth over the past 25 years and 4.7 per cent over the past 10 years. Business investment remains robust: non-dwelling construction has maintained investment levels at around $1.6 billion per annum since 2006-07, which includes construction of data centres; machinery and equipment has averaged almost $1 billion per year over the past five years; and intellectual property products is on track to be the largest component of business investment (Figure 2).

Figure 2: Real Business Output, annual, $ millions



Nevertheless, the ACT remains vigilant to changes in Commonwealth expenditure and the risks section of the Budget discusses the transmission link between Commonwealth spending and the local economy and the associated fiscal implications.

The ACT population forecasts are based on regular consultations with the Australian Bureau of Statistics (ABS), analysis of available Commonwealth data and ACT administrative data, and expected revisions following Census. Consistent with this historical experience, a further upward revision to population estimates is expected following the 2026 Census (Budget Outlook, Box 2.2.2, page 24).

The 2025-26 employment forecasts represent through the growth from the June quarter 2025 to the June quarter 2026 in seasonally adjusted terms. The forecast of 2 per cent growth over that period is equivalent to 5,500 additional employed persons. As at March 2026, employment was already at 6,500 above the June quarter-25. The 2 per cent forecast would be achieved with no change in employment levels from March 2026 and are wholly reasonable.

Fiscal position

- *Pegasus indicates the ACT's fiscal position remains vulnerable and has worsened, with the return to surplus delayed and forecasts repeatedly revised down. The reliability of expense forecasts was also questioned and noted that alternative accounting treatment would show larger deficits and no surplus across the forward estimates.*

- *Pegasus questions whether the Territory can achieve its fiscal targets given past forecasting performance, despite acknowledging a clearer fiscal strategy.*

- *Pegasus noted achievement of the fiscal targets will require a level of expenditure management and financial discipline that has not been evident in the Budgets produced in recent years.*

The 2026-27 Budget included an enhanced fiscal strategy (the Fiscal Strategy) which outlines ongoing reform measures to deliver balance and return to surplus across key fiscal metrics with measurable targets and defined timelines for achieving them. The Fiscal Strategy features resetting of the broader infrastructure program to ensure it remains sustainable, deliverable and aligned with industry capacity, a focus on continuing effort to ensure agencies operate within their allocated budgets, and limiting growth in government employment to the growth in population.

The 2026-27 Budget also provided funding certainty to a range of areas which reflects the need to invest in areas of priority for the community, and will improve long-term planning for service delivery. It is part of the multi-year exercise of prioritisation to ensure resources are directed to the highest priority and enhance budget management controls, including regular reviews to ensure value for money is delivered for the community.

The Government has balanced the timeframe to return to headline and net operating cash surpluses with the need to invest in community priorities, including housing, healthcare, domestic and family violence services, education, emergency services and public transport.

Measures and targets under the Fiscal Strategy will be reported on in future budget reviews and budgets.

Expenses

- *Pegasus notes that Government expenditure is forecast to keep rising, with 2026-27 expenses reaching $10.2 billion, driven by new spending decisions and growing interest costs; however, the forecasts rely on relatively low growth in health, education and employee expenses, creating risks around whether they can be achieved.*

- *Pegasus also notes that interest costs and employee expenses are key fiscal pressures, with interest expenses expected to more than double by 2029-30 and consume over 30 per cent of own-source taxation revenue, while employee expenses make up around 40 per cent of total expenditure. It was noted the Budget provides limited detail on how forecast reductions will be delivered without affecting services.*

The Government considers that interest expenses should be considered alongside the Territory's broader balance sheet, revenue growth, asset base and Fiscal Strategy. The ACT net debt to GSP continues to be under 19 per cent (to 2029-30). This reflects the Government's approach of ensuring borrowings remain at sustainable levels while investing in infrastructure and services that support future economic and population growth.

The comparison of interest expense to own-source taxation revenue also does not reflect the full revenue and asset position of the Territory. The Government receives a broader range of revenues besides taxation alone, including significant Goods and Services Tax (GST) and Commonwealth funding, interest revenue from cash balances, investments and loans, with interest revenue forecast to increase over the forward estimates. Moreover, the borrowings that give rise to interest costs have been used to fund long-term infrastructure assets that will continue to provide benefits to Canberrans for decades, rather than simply financing recurrent expenditure. Importantly, the ACT's borrowing program has supported significant investments in health, education, transport and other essential infrastructure that are required to meet the needs of a growing population.

The Government also recognises employee expenses are a significant component of expenditure. Over recent years, the Government has been reforming the ACT public service, including through insourcing services that will deliver benefits to workers and the broader community, and ensuring we can continue to deliver for our growing population.

However, growth in the public service must be sustainable, and the Government is undertaking a number of actions to ensure this. The 2025-26 Budget included a multi-year Whole of Government Expenditure Reform program. Through this reform, the Government will constrain the rate of growth in expenditure across a range of agencies and directorates, underpinned by whole of government principles for the reprioritisation to better align expenditure with Government priorities and a sustainable trajectory over time. This is supported by enhanced budgetary control processes. The 2026-27 Budget continues this focus, and includes enhanced funding for directorates to restructure their workforce and further measures to reduce the use of consultancies and contractors. The enhanced Fiscal Strategy also places a limit on employee growth being no greater than population growth.

These measures will ensure overall expenditure grows on a sustainable trajectory over time while ensuring that the Government continues to deliver on key priorities, including the provision of frontline services, and the needs of our growing community.

Revenue and Tax Reform

- *Pegasus notes the ACT is unlikely to achieve its original tax reform timetable for eliminating conveyance duty, while concerns remain about revenue transparency and growing reliance on payroll tax.*

- *Pegasus highlights potential tax reform options, including changes to payroll tax and gambling taxes, noting that gambling tax revenue is forecast to rise in nominal terms but fall as a share of own-source revenue, while economic rents from gambling businesses may offer a more efficient revenue source*.

Tax reform and payroll tax

The ACT's Tax Reform program seeks to improve the stability and predictability of the ACT's revenue base by shifting from transaction-based taxes like conveyance duty to broad-based land taxes like general rates. Under the program, insurance duty and commercial land tax have been abolished with the revenue replaced by general rates.

In 2020-21, the Government paused tax reform to provide relief to households and support the economy during COVID-19. In 2021-22, the third stage of tax reform commenced and continued the shift away from conveyance duty to general rates, the pace was moderated to help households manage cost of living pressures.

In the 2026-27 Budget, the Government commenced the next phase of tax reform removing residential conveyance duty for a number of cohorts, including first home buyers and increasing the commercial conveyance duty tax-free threshold.

The Government will continue tax reform with measures announced in each Budget. This allows the Government to adapt to changing economic conditions, grow revenue, repair the Budget and recognise cost of living pressures.

Total revenue from residential conveyance duty in 2026-27 is expected to represent approximately 9.1 per cent of total own-source taxation revenue, compared to the average 17 per cent prior to tax reform.

The 2012 ACT Taxation Review found that payroll tax is an important source of revenue to the Territory, which lacks volatility, can be forecast accurately and is an important part of a diversified tax base.

Payroll tax remains an important source of revenue in the ACT, as it does across all States and Territories. Payroll tax revenue reflects changes in private businesses coming into the tax base, private sector employment growth and private sector wages growth. As such, payroll tax collections have increased along with increases in the private sector in the ACT and payroll tax revenue is now equivalent in size to general rates revenue.

Gambling taxes

Gambling taxes comprise a small share of the ACT's own-source revenue and are projected to decline as a share over time. This reflects, in part, lower per capita gambling expenditure in the ACT relative to other states and territories.

Gambling taxes are estimated to account for $85 million (2.7 per cent) of the Territory's total own-source taxation revenue, with Gaming Machine Tax (GMT), Betting Operations Tax (BOT) and interstate lottery taxes accounting for most of the revenue.

The ACT's BOT is set at 25 per cent of net ACT betting revenue above a $150,000 tax-free threshold—the highest rate of any state or territory point-of-consumption tax, and around 10 percentage points higher than jurisdictions with a comparable threshold.

While the ACT's aggregate GMT effective rate may appear lower than in some jurisdictions, this comparison does not reflect two key factors.

1. The ACT imposes a range of mandatory financial obligations on operators, including community contributions (outlined below). When these are included, the ACT's effective tax rate is closer to the national average for gambling activities.
2. Most jurisdictions apply lower tax rates to gaming machines in clubs than in pubs and hotels. The ACT differs in that almost all machines are in clubs, whereas clubs account for fewer than half of machines in most jurisdictions and around two-thirds in New South Wales. This structural difference reduces the comparability of headline tax rates and makes it unclear whether the ACT's overall tax settings are lower than elsewhere.

Gaming machine licences pay 0.75 per cent of gross revenue to the Gambling Harm Prevention and Mitigation Fund. The totalisator, keno and casino licences contribute a Consumer Price Index (CPI) adjusted amount of around $50,000 per annum to that fund as a licence condition.

Gaming machine licences pay a further 0.4 per cent of net revenue to the Gambling Harm Prevention and Mitigation Fund, and 0.4 percent of net revenue to the Chief Minister's Charitable Fund. During 2024-25, these payments amounted to:

1. Gambling Harm Prevention and Mitigation Fund - $2.041 million.

2. Chief Minister's Charitable Fund - $0.428 million.

Gaming machine licensees that are clubs must make a minimum community contribution of 8 per cent of net revenue, with a minimum of 6 per cent being made as cash payments. During 2024-25, the minimum community contribution was valued at $7.405 million.

Infrastructure and Capital

- *Pegasus notes the Budget contains a substantial capital works program, but project re-phasing, delivery risks and future infrastructure reviews raise questions about timing and implementation.*

The 2026-27 Budget includes infrastructure investment of around $1.1 billion in 2026-27 and $5.05 billion over five years to 2030-31. Annual investment is forecast to peak at around $1.5 billion in 2027-28, including $528 million for the financial completion of Light Rail Stage 2A, before stabilising within a medium-term range of approximately $800 million.

This profile reflects both the natural progression of a large pipeline of projects towards completion and a deliberate policy choice to better align investment with construction market capacity and the Government's Fiscal Strategy which limits capital spending to no more than $1 billion a year from 2028-29. Decisions made through the 2026-27 Budget also create a modest capacity to respond to future infrastructure needs as they emerge.

Through a long-term approach to infrastructure planning, the Infrastructure Investment Program (IIP) is regularly reviewed and updated to ensure our investment is aligned with population growth, enables economic development and delivers the essential services Canberrans need.

Major infrastructure projects progress through planning, design, procurement and delivery phases over a number of years, with timing regularly refined to reflect workforce and contractor availability, market conditions, procurement outcomes and commercial arrangements. Funding for capital projects is routinely rephased through annual Budget processes to align funding profiles with expected project delivery.

Assets and Liabilities, Budget Accounting and Fiscal Presentation

- *Pegasus observes that net debt and net financial liabilities continue to grow reaching 17.3 percent of GSP, while net worth declines, reflecting a more vulnerable balance sheet despite debt remaining within stated fiscal targets.*

- *Pegasus argues that accounting treatments, particularly the Superannuation Return Adjustment, make the reported fiscal position appear stronger than conventional budget measures suggest.*

As noted in the Pegasus report, the Territory's balance sheet remains strong. This supports our capacity to invest in city-shaping infrastructure and support the future growth of our city. It also allows us the flexibility to continue to respond to any challenges that might arise and address the impact of any unforeseen fiscal shocks.

The level of net debt reflects the recent necessary funding increases to support the delivery of quality health services as well as once in a generation investments in health, education and transport. The ACT's net debt to GSP ratio is around the average for state and territories, noting this average can be significantly impacted by the circumstances of individual jurisdictions (such as Queensland and Western Australia, which benefit considerably from natural resource revenue) (refer Figure 3.1.4 2026-27 Budget Outlook).

Through the 2026-27 Budget, the Government has also adjusted the IIP to ensure it remains sustainable and deliverable, which has reduced the level of borrowing required.

Variations in net financial liabilities can reflect a number of factors. These include borrowings to deliver infrastructure to meet the future community needs in health, education and transport; changes to the superannuation liability as a result of discount rate and demographic changes; and the need to maintain adequate cash liquidity provisions.

The profile for net financial liabilities has also been impacted by weaker investment returns expected for 2025-26, driven by conflict in the Middle East which weighed on financial markets with expectations for higher inflation and slower economic growth, and increased borrowings.

The broadest measure of a jurisdiction's balance sheet is net worth, which measures the total value of all assets less the value of all liabilities. The profile for net worth reflects the trend in net financial liabilities. However, it is important to note that the budget estimates do not anticipate the extent to which the Territory's property, plant and equipment assets will be revalued in future years which is undertaken and updated on an annual basis as part of the preparation of the Annual Financial Statements and then translated through to the budget estimates.

The Government's Fiscal Strategy, updated with measurable targets in the 2026-27 Budget, will ensure that the Territory's balance sheet will strengthen across the forward estimates period and beyond. In particular, the Government will:

- return to Headline Net Operating Balance (HNOB) surplus by 2029-30 and maintain surpluses beyond this point;
- return to operating cash surplus by 2028-29 and maintain surpluses beyond this point;
- maintain net debt below 19 per cent of GSP in any year of the forward estimates period (to 2029-30), with net debt to decline thereafter;
- ensure the IIP does not exceed $1 billion per year from 2028-29; and
- fully fund the defined benefit superannuation liability by 2035, which will reduce net financial liabilities when the obligation is extinguished.

The unique nature of public sector superannuation arrangements in the ACT means that under the Uniform Presentation Framework (UPF) reporting framework, the net capital gains on financial assets for the Superannuation Provision Account are not included in the Net Operating Balance (NOB) but are recognised in the Operating Result. To ensure superannuation expenses and investment revenue are reported on a consistent basis, total investment returns are recognised in the HNOB through the Superannuation Return Adjustment (SRA). Further details on the use of the SRA HNOB is provided in the 2026-27 Budget Outlook (refer Box 3.1.3, 2026-27 Budget Outlook).

Importantly, the Government publishes both the General Government Sector (GGS) UPF NOB estimates and the HNOB estimates, as well as cash operating statements. The Government takes all measures into account when considering the sustainability of the Budget position.

The Government continues to maintain that the HNOB provides the most relevant and meaningful information for making long-term budget allocation decisions, and the inclusion of the SRA ensures the superannuation expenses and the associated investment revenues are reported on a more consistent basis.

Housing

- *Pegasus suggests the ACT Government's housing targets and public housing investment may not be enough to meet population-driven demand. While the 30,000 new homes target aligns with long-term trends, recent developments may make it difficult to achieve, and public housing supply has not kept pace with strong population growth.*

The ACT's share of the national housing target is around 21,000 homes by 2028-29, is part of our broader commitment to enable 30,000 new homes by the end of 2030. In the ACT, this will be achieved through a combination of land-release, planning reform and directly funding new social and affordable homes.

The National Housing Supply and Affordability Council's (NHSAC's) estimates for the early 2026 outlook were for the ACT to reach our share of the Accord target within the Accord period of June 2029. Gross new supply estimates as ratio to share of target is expected to be 103 per cent (NHSAC, *State of the Housing System 2026*).

The ACT Government's *Housing Supply and Land Release Program 2026-27 to 2030-31* released in June 2026 (the Program) sets out a clear, forward looking pipeline to increase housing supply and land for commercial and community facilities. This will see land released for 25,794 homes over the next five years.

In addition to land release, the Government's planning reforms will enable the development of more homes on leased (private) land. These reforms include the Missing Middle Housing Reforms, Transit Oriented Development in key public transport corridors and shop-top and shop adjacent housing.

These reforms create new development opportunities in locations with existing infrastructure, services and public transport, improving project feasibility and will help to unlock additional housing supply. By broadening the range of housing products that can be delivered, the ACT is attracting investment into a wider segment of the residential market rather than relying solely on traditional detached housing or large-scale apartment developments. As a result, planning reforms are expected to support a more resilient development pipeline, helping to sustain dwelling investment and housing supply outcomes in the ACT, even in the context of changes to Commonwealth investor tax settings.

In addition to land release and planning reforms, the Government is also making a direct investment in new community and public housing. One of the most significant investments the Government is making in the 2026-27 Budget is $360 million for the public housing pipeline. This new investment will deliver 450 new public housing homes, half of which the Government is also putting forward for the Housing Australia Future Fund Facility (HAFFF) Round 3 funding, which includes concessional loans and availability payments over 25 years.

This pipeline is above and beyond the final year of the remaining Growing and Renewing Public Housing Program dwellings, with 85 dwellings set to be delivered through HAFFF Round 2 and 55 dwellings being delivered through the Social Housing Accelerator Program. This is a significant step forward in delivering 13,200 new public housing homes by 2030.

The Government is also continuing to support the community housing sector to provide both social and affordable housing, which complements the growth of the Housing ACT property portfolio, including offering loan guarantees to support more than 1,000 dwellings in the detailed application stage of HAFFF Round 3.

While dwelling investment is expected to be softer in the near term than previously forecast in the Budget, reflecting the ongoing impact of higher building costs and interest rates through 2026-27, it is expected to strengthen from 2027-28, supported by solid population growth, easing construction cost pressures and stabilising interest rates. Further, while the Commonwealth Government’s recently announced changes to limit negative gearing to new residential dwellings (new builds) only could contribute to subdued dwelling investment by reducing the attractiveness of non-owner occupiers investing in established residential properties, the changes are specifically designed to redirect investment toward new housing supply, which may support new dwelling construction over time.