Review of the ACT Budget 2025-26

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Pegasus Economics is a boutique economics and public policy consultancy firm that specialises in strategy and policy advice, economic analysis, trade practices, competition policy, regulatory instruments, accounting, financial management and organisation development.

This report has been commissioned by the ACT Legislative Assembly's Select Committee on Estimates 2025-2026 to assist the Committee in its deliberations in relation to the 2025-26 ACT Budget.

The views and opinions expressed in this report are entirely those of the authors.

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Table of Contents

Executive Summary

The Budget forecasts a headline net operating deficit of $424.9 million in 2025-26. The return to surplus previously forecast in last year's budget has been pushed back a year. This repeats a pattern experienced over many years in which a forecast surplus in the outyears recedes into the future as each successive Budget is brought down.

The Budget also includes funding for an ambitious program of substantial major projects, infrastructure and capital works across the Budget and forward years. The government intends to invest $1.8 billion in capital works in 2025-26 and approximately $8.1 billion out to 2029-30.

The ACT has a strong balance sheet but its fiscal position has become more vulnerable over time as the government has borrowed to cover its operating deficits and infrastructure program. Despite the forecast return to surplus in 2028-29, net debt and net financial liabilities are continuing to grow through the forecast period while net worth is falling.

The ACT is now expecting to generate a cash operating deficit in the three years from 2023-24 to 2025-26. Previous forecasts to return to a cash operating surplus have not been achieved. The Territory is borrowing to fund its current spending.

Standard & Poor's, a global ratings agency, has put the Territory on notice that its credit rating is at risk unless the government can restore its fiscal position.

The Budget Papers point to structural vulnerabilities in the Territory's fiscal position. The Government has indicated that it is seeking to develop matching revenue lines that are more structural in nature (such as the switch from conveyance and insurance duties to general rates) while introducing new expenditure reduction initiatives. The measures announced in this Budget do very little to address any structural imbalance in the composition of the Territory's budget.

In the meantime, there is significant risk in the 2025 Budget estimates. The Territory has a poor record in achieving its Budget forecasts. There is also likely to be considerable pressure on the health budget and the costs of building new infrastructure. The Budget Papers acknowledge these pressures in the Statement of Risks.

The Budget sets out a fiscal strategy that includes six specific tenets that will guide budget decision-making over the medium term. While these tenets might provide a basis against which future Budgets could be assessed, there is little evidence in this Budget of progress toward a more sustainable fiscal position.

In the meantime, interest costs are placing an increasing burden on the ACT taxpayer.

1 Introduction

1.1 Purpose

This report has been produced to assist the Select Committee on Estimates in its consideration of the 2025-26 ACT Budget.

The purpose of the report is to identify major features of the Budget that the Committee may wish to explore in its consideration of the Budget. The report does not express any judgement on the appropriateness of individual decisions reflected in the document. The focus of the report is on explanation and elucidation of key features of the Budget, assessment of the reasonableness of assumptions, and the consistency and transparency of the presentation of the Budget aggregates.

Additional comment has been provided in the report on issues specifically identified by the Committee.

1.2 Approach

The report is based on a desk-top review of the ACT Budget documentation presented to the Assembly on Tuesday 24 June 2025. We have also consulted other documentation in the public domain including Commonwealth Government Budget Papers, the Budget Papers of other States and the Northern Territory, and economic statements, previous ACT Budget documents, reports of the ACT Auditor-General, various Ministerial statements, Departmental reports and other research literature.

Pegasus was greatly assisted by ACT Treasury officials at a meeting on 1 July 2025. ACT Treasury provided the opportunity for us to gain a better understanding of the processes and thinking that helped shape the Budget and to clarify assumptions and accounting treatments in the Budget numbers. ACT Treasury also subsequently provided written answers to questions. Pegasus thanks the ACT Treasury officials for making this opportunity available to us at a busy time of the year, for their careful and considered answers to our many questions and for their prompt responses. Information provided by ACT Treasury is noted in the text.

All numbers in the report are from the 2025 ACT Budget documents, unless otherwise indicated.

1.3 Limitation of scope

In preparing advice for the Select Committee, Pegasus has relied on details contained in the Budget Papers, our independent research and analysis and other public sources.

We are aware of various announcements subsequent to the Budget, including possible variations to the proposed Health Levy and payroll tax. All budgets are subject to change as they are negotiated through the legislature. Rather than attempting to anticipate the outcome of these processes, this report relies on the Budget as presented by the Treasurer on 24 June.

A final report was provided within 24 days of the presentation of the Budget to the Legislative Assembly.

These matters have constrained the analysis that could be undertaken.

2 Economic Forecasts

Most of the ACT Budget economic forecasts appear reasonable. While Pegasus suspects the Budget estimate for ACT final demand in 2024-25 for growth of 2¾ percent may be on the low side, we have no reason to query the projections in the out-years.

While the WPI outcome for the year ending June 2025 will likely come in much higher than the Budget estimate for 2024-25, the forecasts and projections for wages growth appear reasonable.

The population forecasts and projections presented by the ACT Government are on the high side based on forecasts for the Commonwealth Government by the Centre for Population. Over the period to the end of 2028-29, the ACT Government is projecting the ACT will have a resident population that is just over 12,000 people larger than the Centre for Population.

2.1 Economic Overview

A summary of current economic trends alongside the economic estimates and forecasts contained in the 2025-26 ACT Budget are provided in Table 1 below.

Table 1: Current outcomes and economic estimates and forecasts in the 2025-26 ACT Budget, percentage change

Indicator	Current outcomes	2024-25 Estimate	**2025-26 Budget Forecast**	2026-27 Projection	2027-28 Projection	2028-29 Projection
Gross State Product[1]		3½	3¼	3½	3¼	3¼
State Final Demand[1,2]	3.9	2¾	2½	2¾	3	3
Employment[3,4]	1.8	2	1¾	1¾	2	2
Wage Price Index[2,3]	3.9	3½	3¼	3¼	3¼	3
Consumer Price Index[2,3]	2.2	2¼	2¾	2½	2½	2¼
Population[3,5]	1.4	2	1¾	1¾	1¾	1¾

1. In year average terms.
2. Outcome to the end of March 2025.
3. Through the year.
4. Outcome in trend terms for the three months ended May 2025.
5. Outcome to the end of December 2025.

Sources: ACT Government (2025), Australian Bureau of Statistics (ABS) (2025, 2025c, 2025d, 2025e, 2025g).

2.2 ACT Gross State Product and final demand

Gross state product (GSP) is the equivalent of Gross Domestic Product for a region of a national economy (Australian Bureau of Statistics, 2021b). However, GSP is only available on an annual basis (Li & Gao, 2021, p. 1).

For analysis of within year changes in 2024-25, state final demand offers the most readily available within-year indicator of economic activity within the ACT. State final demand differs from GSP in that it excludes international and interstate trade as well as the change in inventories but tracks closely to changes in GSP over time, as shown in Pegasus reports on previous ACT Budgets.

ACT final demand grew by 0.6 percent in the March quarter 2025. This result was primarily driven by public sector investment that rose by 9.4 percent in the March quarter.

Public sector investment rose by 9.4 percent in the March quarter 2025

In the year to the end of March 2025, overall private investment in dwellings has fallen by 5 percent, with investment in new and used dwellings down by 4.5 percent and investment in dwelling alternations and additions down by 6.4 percent. This suggests that the previous tightening of monetary policy through the raising of the official cash rate by the Reserve Bank of Australia (RBA) has continued to have an adverse impact on dwelling investment in the ACT.

In relation to the national economy, overall private investment in dwellings recorded modest growth of 1.8 percent to the in the year to the end of March 2025, suggesting the tightening of monetary policy has had a more severe impact on overall dwelling investment in the ACT than it has had across the national economy. However, the RBA has recently cut the official cash rate from 4.35 percent in February 2025 by 0.25 percentage point followed by another cut of 0.25 percentage point in May 2025 to its current level of 3.85 percent. This suggests that dwelling investment in the ACT should begin to grow again. This is consistent with the ACT Budget forecast for dwelling investment to rise slightly in 2025-26 (ACT Government, 2025, p. 16).

Growth in final demand (in year average terms) for the year ending March 2025 was 3.9 percent, which is somewhat higher than the Budget estimate for an increase in ACT final demand of 2¾ percent for 2024-25. On this basis, final demand for 2024-25 is likely to be somewhat higher than the Budget estimate.

For 2025-26, growth in ACT final demand is forecast to rise by 2½ percent, which is consistent with the Commonwealth Government (2025a, p. 43) budget forecast of growth in national final demand (gross national expenditure) of 2½ percent in 2025-26.

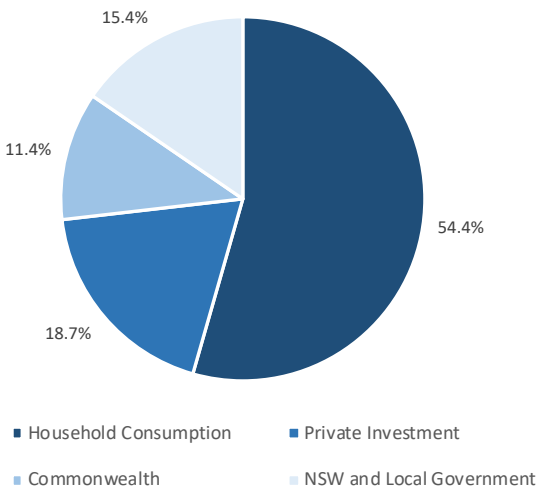
Forecasts of GSP and final demand appear reasonable

While Pegasus suspects the Budget estimate for ACT final demand in 2024-25 for growth of 2¾ percent may be on the low side, we have no reason to query the forecasts of ACT final demand growth of 2 ½ percent in 2025-26, rising to 2¾ percent in 2026-27, nor projections of 3 percent in 2027-28 and 2028-29 (which is essentially a return to trend). The forecasts for GSP in 2025-26 and 2026-27 and the projections in the out-years appear reasonable based on a return to trend.

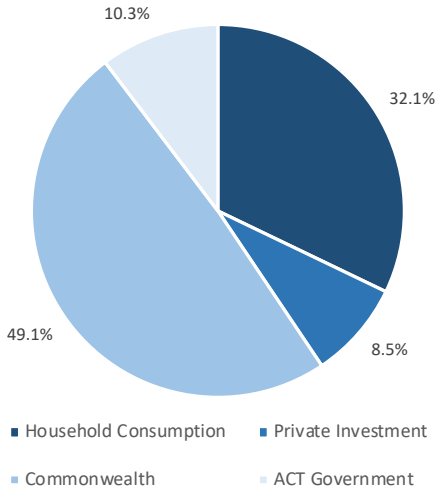
The ACT is heavily dependent on the consumption and investment decisions of the Commonwealth Government. This can be seen in Figure 1 below, which compares the four main components of the New South Wales (NSW) and ACT economies.

Figure 1: Components of Final Demand for the New South Wales and ACT economies, year ended March 2025

(a) New South Wales



(b) ACT

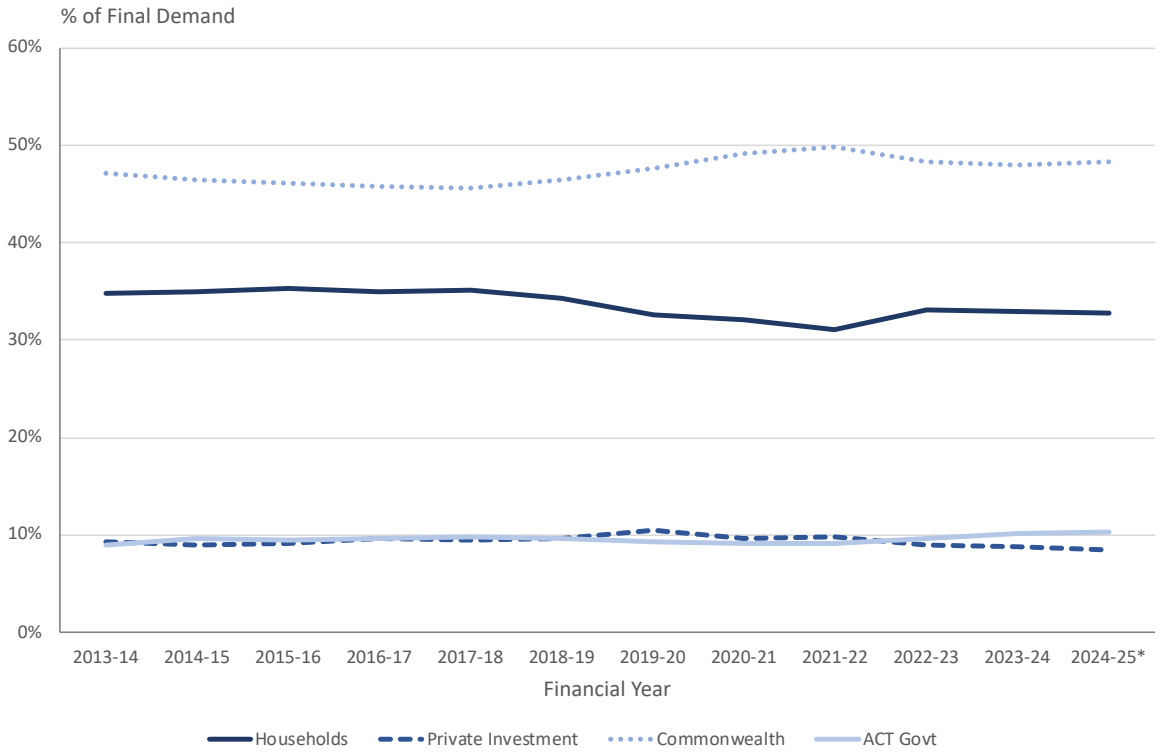


Source: ABS (2025).

In the year to the end of March 2024, the Commonwealth represented 49.1 percent of total demand in the ACT economy while household consumption represented 32.1 percent, private investment 8.5 percent, and 10.3 percent for the ACT Government.

The relative shares of ACT final demand are provided in Figure 2 below.

Figure 2: Relative shares of ACT Final Demand – 2013-14 to 2024-25*



Source: ABS (2025).

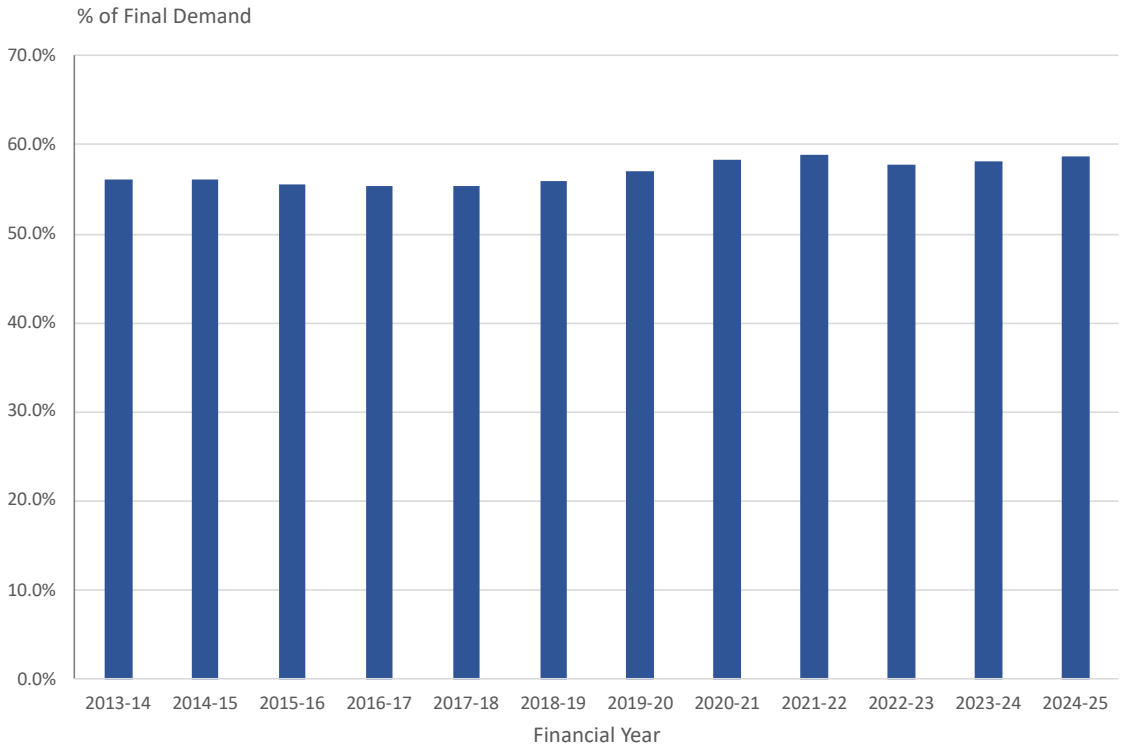
* 2024-25 only includes the September and December quarters 2024, and the March quarter 2025.

Between 2019-20 and 2021-22 with the onset of COVID-19 pandemic, there was a contraction in household consumption that was largely offset by an expansion in expenditure by the Commonwealth Government. However, household consumption has not fully recovered back to its pre-COVID-19 pandemic levels. There has also been a noticeable uptick in the relative contribution of the ACT Government to final demand, as private investment (composed of both dwelling and business investment) has declined.

The ACT economy has become slightly more dependent on the public sector since COVID

Since the onset of the economic disruption caused by the COVID-19 pandemic, the ACT economy has become slightly more dependent on the public sector, with the Commonwealth and ACT governments' now accounting for about 58 percent of final demand, as compared to around 56 percent pre-COVID. This is shown in Figure 3 below.

Figure 3: Percentage of ACT Final Demand made up by the Public Sector (Commonwealth and ACT Government) – 2013-14 to 2024-25*

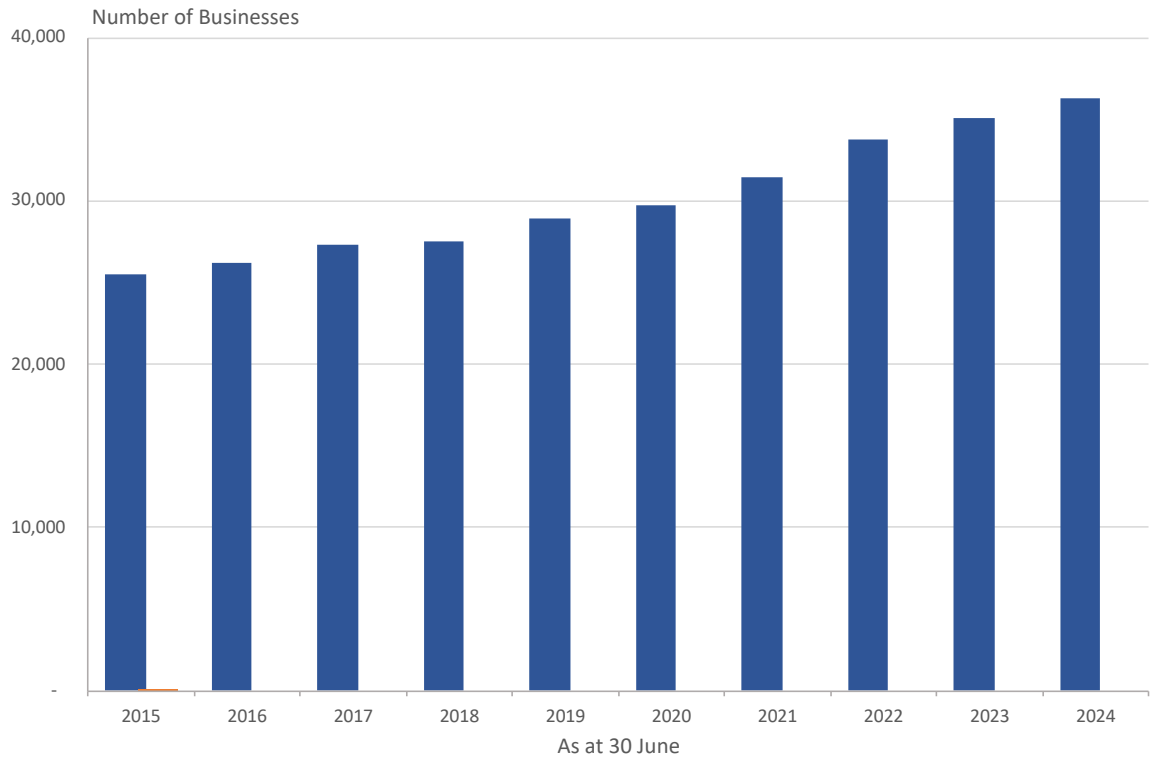


Source: ABS (2025).
* 2024-25 only includes the September and December quarters 2024, and the March quarter 2025.

2.2.1. Businesses in the ACT

Since emerging from the COVID-19 pandemic, the ACT has enjoyed some of the strongest growth in new businesses in the country. In 2020-21 the number of new businesses operating in the ACT grew by 1,761 for a total of 31,479, an increase of 5.9 percent which was the largest percentage growth in any state/territory. In 2021-22 the number of new businesses operating in the ACT grew by 2,288 for a total of 33,767, an increase of 7.3 percent which was the second largest percentage growth in any state/territory. In 2022-23 the number of new businesses operating in the ACT grew by 1,307, an increase of 3.9 percent and the largest percentage growth in any state/territory. In 2023-24 the number of businesses operating in the ACT grew by 1,239, an increase of 3.5 percent and the equal largest percentage growth in any state/territory. This is shown in Figure 4 below.

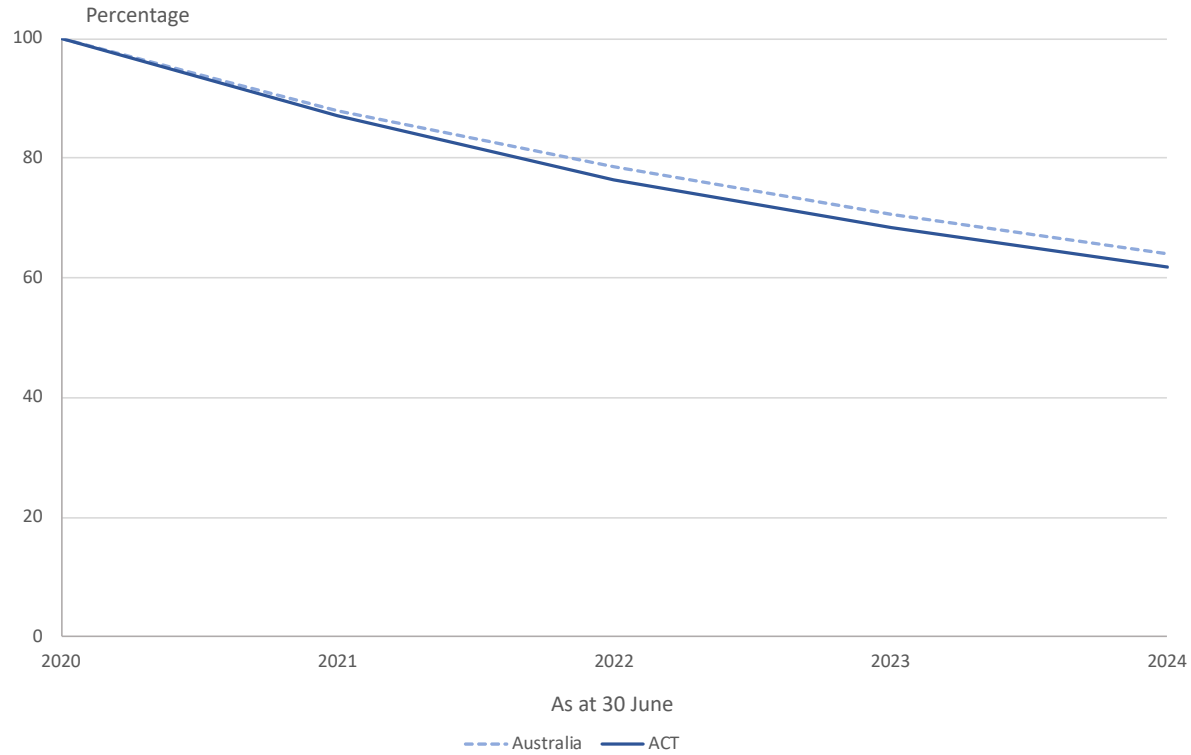
Figure 4: Number of Businesses Operating in the ACT – June 2015 to June 2024



Source: ABS (2024a).

For all businesses that were operating as at 30 June 2020, the survival rate in the ACT is running slightly below the national average, as shown in Figure 5 below.

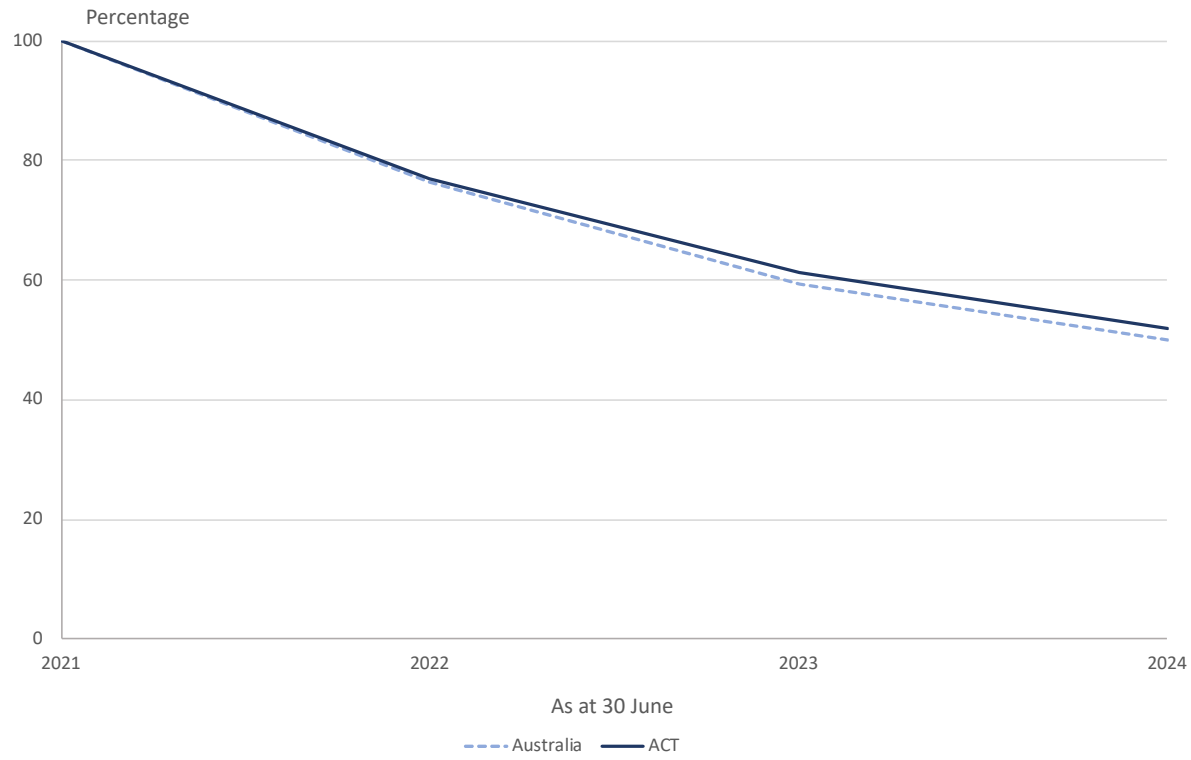
Figure 5: Business Survival Rate for All Businesses Operating at 30 June 2020



Source: ABS (2024a).

Similarly, the survival rate for new business start-ups in 2020-21 in the ACT is also running slightly below than the national average. This is outlined in Figure 6 below.

Figure 6: Business Survival Rate for New Business Start-Ups in 2021



Source: ABS (2024a).

The available evidence suggests that conditions conducive for business survival in the ACT are similar to those prevailing across the rest of the country.

2.3 Employment

Employment growth through the year to the end of May 2025 for the ACT was running at 1.4 percent in trend terms (Australian Bureau of Statistics, 2025d). In the three month period to the end of May 2025, an additional 5,000 jobs had been added over the period for the previous year. This is running just slightly below the 2025-26 ACT Budget estimate for employment growth of 2 percent in 2024-25 (ACT Government, 2025).

In order to meet the Budget estimate of employment growth in 2024-25 of 2 percent there needs to be employment growth of additional 4,800 jobs added in June from the outcome for May 2025. On this basis, the employment growth estimate of 2 percent for 2024-25 is probably not going to be met.

In the 2025-26 ACT Budget, the ACT Government is forecasting a moderation in employment growth to 1¾ percent in both 2025-26 and 2026-27, with projections for growth of 2 percent in the out-years. In order to reach the Budget forecast of employment growth of 1¾ percent in 2025-26, something in the order of an additional 4,800 jobs will need to be added to ACT employment levels by the end of the June quarter 2026.

Employment growth forecasts for 2025-26 may be on the high side

In light of only modest employment growth expected across the Commonwealth Government (2025, p. 165) civilian workforce of less than 3,500 expected during 2025-26 with 36.9 percent of Commonwealth employees based in the ACT (Australian Public Service Commission, 2024, p. 52), the

bulk of employment growth will need to made up from elsewhere. While the employment growth forecast for 2025-26 doesn't look unreasonable, it may be on the high side.

2.4 Wage price index

The Wage Price Index (WPI) was running at 3.9 percent through the year to the end of the March quarter 2025 (Australian Bureau of Statistics, 2025g), which is significantly higher than the ACT Budget estimate of 3½ percent growth in the WPI for 2024-25 (the year to the end of June 2025). In the year ended March 2025 in the private sector the WPI was running at 3.1 percent growth through the year while in the public sector it was running at 4.8 percent growth through the year. It is likely the WPI outcome for the year ending June 2025 will come in much higher than the Budget estimate for 2024-25.

The ACT Government (2025) is forecasting growth in the WPI of 3¼ percent for both 2025-26 and 2026-27, with projections of growth for the out-years of 3¼ percent in 2027-28 and 3 percent in 2028-29.

Forecasts for wages and CPI appear reasonable

The ACT Budget forecasts for 2025-26 are consistent with the Commonwealth Government (2025a, p. 43) budget forecast of growth in the WPI for the nation in both 2025-26 and 2026-27 of 3¼ percent growth. It also consistent with the most recent enterprise bargaining pay offer by the Commonwealth Government across the entire Australian Public Service (APS) of a 3.4 percent pay increase as from March 2026 (Riordan, 2023).

On this basis, forecasts and projections for wages growth appear reasonable.

2.5 Consumer price index

The percentage change for in the Consumer Price Index (CPI) for Canberra through the year to the end of the March quarter 2025 was 2.2 percent (Australian Bureau of Statistics, 2025c). This is entirely consistent with the ACT Government (2025) Budget estimate for growth in the CPI of 2¼ percent in 2024-25.

The ACT Government (2025) is forecasting CPI growth for Canberra to increase to 2¾ percent through the year to the end of June 2026. One of the explanations for the increase in 2025-26 is due to the withdrawal of Commonwealth Government's electricity subsidies at the end of 2025 (ACT Government, 2025, p. 23). The Budget forecasts the CPI for Canberra to ease slightly to 2½ percent in 2026-27, with projected growth of 2½ percent in 2027-28 and 2¼ percent in 2028-29.

The ACT Budget forecast is consistent with the Commonwealth Government (2025a, p. 43) budget forecast for national CPI growth of 3 percent in 2025-26, moderating to 2½ percent in 2026-27. Similarly the Reserve Bank of Australia (RBA) (2025) is forecasting national CPI growth of 3.1 percent in 2025-26 before moderating to 2.6 percent in 2026-27.

The ACT Budget CPI growth estimate for 2025-26 as well as the Canberra CPI forecast growth in 2025-26 and 2026-27 are not unreasonable in light of the Commonwealth Government and RBA forecasts.

2.6 Population growth

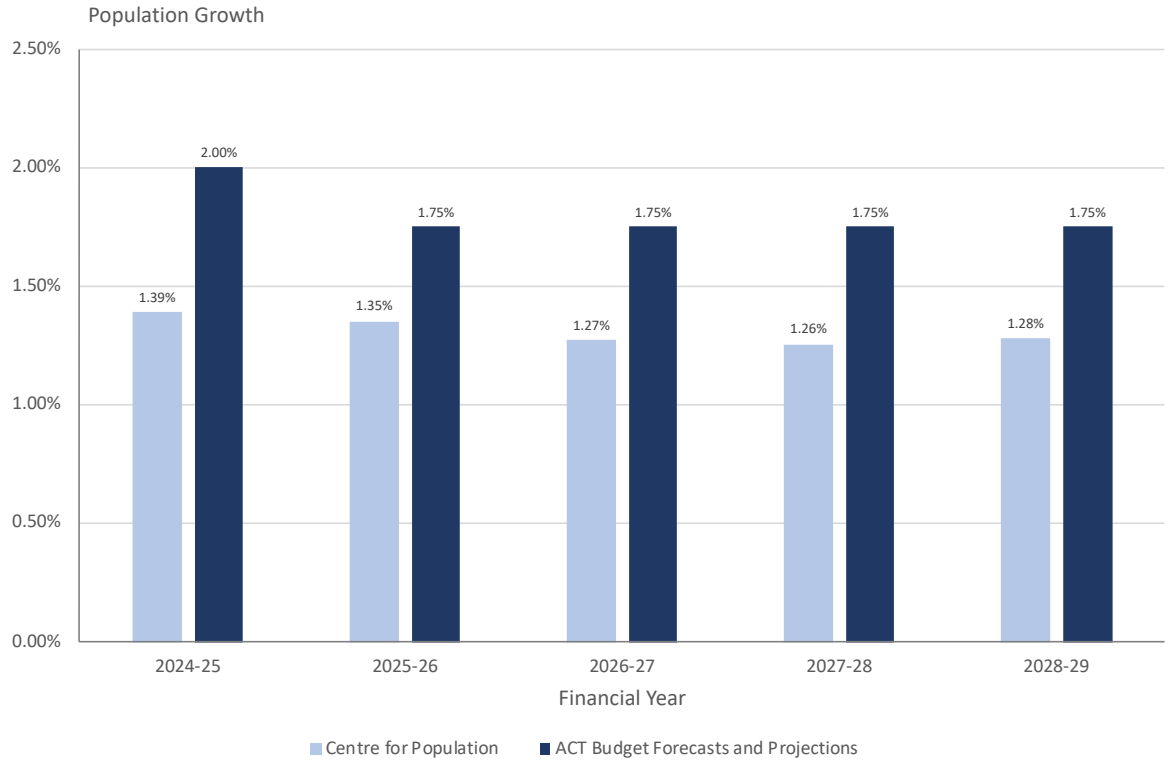
Population growth for the ACT is currently running at 1.4 percent through the year to the end of December 2024 (Australian Bureau of Statistics, 2025e), which is somewhat lower than the ACT Government (2025) Budget estimate of population growth of 2 percent in 2024-25. It is about the same as the latest Commonwealth Government population forecast of growth in the ACT of 1.4 percent during 2024-25 (Centre for Population, 2025).

The ACT Government (2024) is forecasting the ACT population to continue to grow at 1¾ percent in both 2025-26 and 2026-27, with the projections for ACT population growth also remaining at 1¾ percent in the out-years.

ACT forecasts for population growth are higher than Commonwealth government projections

The outlook for population growth presented by the ACT Government is significantly higher than those prepared for the Commonwealth Government by the Centre for Population (2025). The difference between ACT Government and the Centre for Population ACT population growth forecasts is outlined in Figure 7below.

Figure 7: ACT Government and Centre for Population ACT Population Growth Forecasts: 2024-25 to 2028-29



Sources: ACT Government (2025) and Centre for Population (2025).

Over the period to the end of 2028-29, the ACT Government is projecting the ACT will have a resident population that is just over 12,000 people larger than the Centre for Population.[1]

While the population forecasts presented by the ACT Government may not be unreasonable, they are arguably on the high side based on forecasts by the Centre for Population.

[1] Based on the ACT Budget estimates, forecasts and projections, the ACT resident population is estimated to be 523,100 at the end of 2028-29 as compared to the Centre for Population projections of 510,700 (with the 2023-24 base adjusted for the most recent population estimates).

3 Fiscal Position

The Budget forecasts a headline net operating deficit of $424.9 million in 2025-26. The return to surplus previously forecast in last year's budget has been pushed back a year. This repeats a pattern experienced over many years in which a forecast surplus in the outyears recedes into the future as each successive Budget is brought down.

The ACT has a strong balance sheet but its fiscal position has become more vulnerable over time. Despite the forecast return to surplus in 2028-29, net debt and net financial liabilities are continuing to grow through the forecast period while net worth is falling.

The Government is now forecasting net operating cash deficits three years in a row between 2023-24 and 2025-26. This means that the ACT at present is borrowing to fund its current spending.

Standard & Poor's, a global ratings agency, has put the Territory on notice that its credit rating is at further risk unless the government can restore its fiscal position.

The Budget sets out a fiscal strategy that includes six tenets that will guide its budget decision-making over the medium term. While these tenets might provide a basis against which future Budgets could be assessed, there is little evidence in this Budget of progress toward a more sustainable fiscal position.

3.1 Operating Statement - Headline Operating Balance

The Budget Papers present a headline net operating deficit of $424.9 million in 2025-26, improving over the forward years to a surplus of $330.6 million by 2028-29.

Table 2: General Government Sector Headline Net Operating Balance

	2024-25 Est. outcome $m	2025-26 Budget $m	2026-27 Estimate $m	2027-28 Estimate $m	2028-29 Estimate $m
Revenue	7,873.9	8,928.2	9,435.4	9,787.0	10,273.5
Expenses	9,255.1	9,608.9	9,813.2	10,034.7	10,260.8
Superannuation return adjustment	267.3	255.9	275.1	295.7	317.9
HEADLINE NET OPERATING BALANCE	**-1,113.8**	**-424.9**	**-102.8**	**47.9**	**330.6**

The ACT is unique in reporting its fiscal position in terms of the Headline Net Operating Balance. This measure is derived by including in the balance an estimate of expected returns from the Territory's Superannuation Provision Account.

On a net operating balance basis, which is closer to the fiscal measure used by other States, and which is the fiscal measure agreed by the Heads of State, Territory and Commonwealth Treasuries, the ACT deficit would be around $680.7 million in 2025-26 and would not return to surplus until 2028-29 (Table 4.1.1 of the 2025 Budget Outlook) (ACT Government, 2025, p. 233).

We remain of the view that if the Superannuation Return Adjustment (SRA) is to be included in the headline net operating balance, it should not lead to a bias in outcomes. This would mean calculating the SRA on an assumption that the total return on the assets of the Superannuation Provision Account is identical to the long-term discount rate used in valuing the liability. In the Budget year, this would imply an SRA of $91 million. Use of the projected long-term investment

return in the Budget rather than the long-term valuation discount rate of 5% per annum reduces the reported deficit by around $165 million.

A more detailed discussion of accounting and classification issues in the Budget, including issues around the superannuation return adjustment, is provided at section 9 of this report.

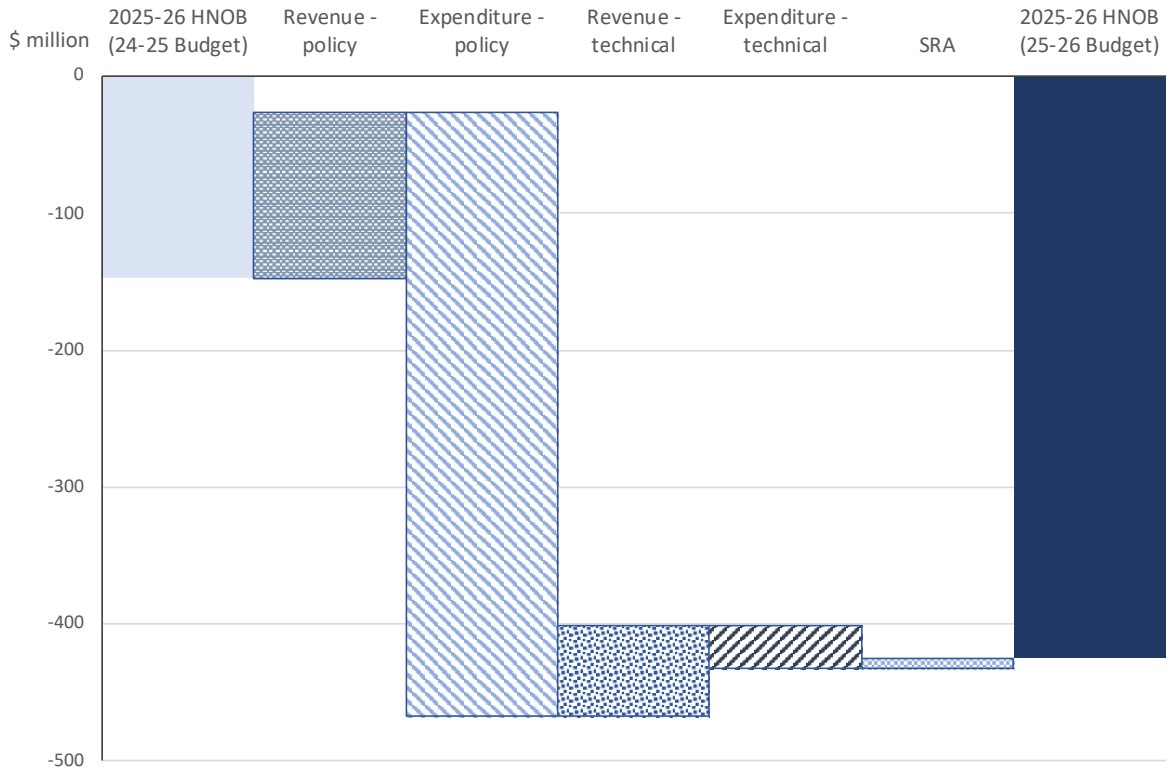
3.2 Headline Operating Balance – variations since the last Budget

The forecast Headline Net Operating Balance in this year's Budget is worse for each of the Budget and forward years than forecast in the 2024-25 Budget, and the return to surplus is one year later than previously forecast.

The promised return to surplus has once again been pushed back a year

The following Figure 8 shows the key factors influencing the change in the Budget forecasts for 2025-26.

Figure 8: Changes in the forecast 2025-26 Budget between the 2024-25 and 2025-26 Budgets



The chart shows that the change in the 2025-26 Budget forecast since the last Budget is primarily the result of policy changes affecting both revenue and expenditure.

The major policy changes affecting the revenue forecasts for 2025-26 include a levy to support the public health system, $50.0 million in 2025-26 and $155.7 million over the following three years, and changes to motor vehicle duties ($19.1 million in 2025-26 and $81.8 million over the following three years).

Policy decisions driving higher expenditure forecast for 2025-26 include an additional $430 million in 2025-26 for new initiatives (and $984 million over the three years to 2027-28), primarily in health.

Expenditure forecasts have also increased due to higher interest expenses of $25 million in 2025-26 (and $104.9 million over the forward years), due to the impact of new policy decisions on higher levels of borrowings.

All the major policy changes were made following the Mid-Year Review.

Technical adjustments since the last Budget include lower dividends of $188.2 million in 2025-26 ($346.5 million over three years to 2027-28) and lower fines and parking revenue of (12.6 million in 2025-25 ($42.6 million over the three forward years), which were partly offset by higher than anticipated GST revenue of $82 million in 2025-26 ($108 million over the following three years).

Technical adjustments affecting expenses since the last Budget largely off-set one another.

3.3 Medium term forecasts

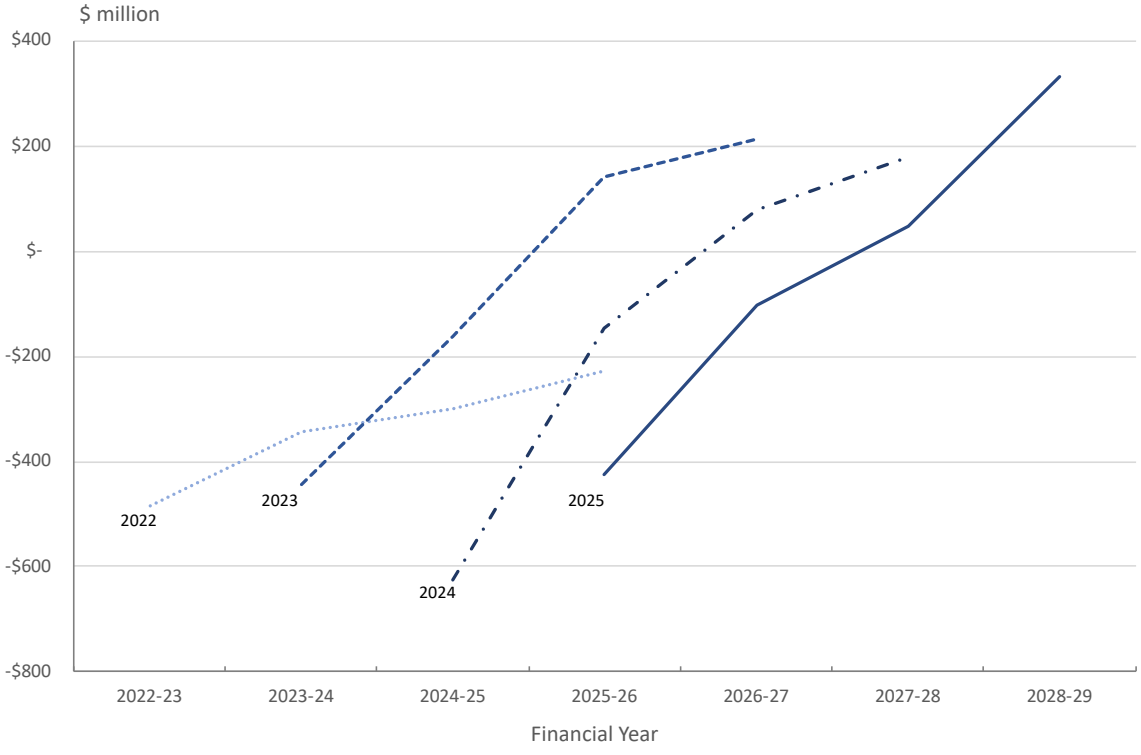
The medium-term outlook is worse than forecast in recent Budgets.

As we have noted in previous reports, the long-term trend in the ACT has been for successive Budgets to promise improved fiscal positions in the forward years only to set out progressively worse forecasts in subsequent Budgets. The post-pandemic Budgets in 2022 and 2023 were an exception to that trend but the 2024-25 and 2025-26 Budgets return to the profiles forecast in earlier years, with forecasts in the Budget and forward years worse than previously estimated.

The medium-term outlook is worse than forecast in recent Budgets.

Figure 9 below shows the Budget and forward estimates published in each year between 2022-23 and 2025-26. Over the past two Budgets, the Budget and forward estimates in any year have been worse than had been forecast in the previous Budget.

Figure 9: Forecast returns to surplus



3.4 Measures of the ACT Government's financial position

The ACT has a strong balance sheet, but that position is deteriorating over time.

The strength of the Government's finances over the medium term can be assessed in terms of reported levels of net debt, net financial liabilities and net worth.[2] These indicators are influenced by the level of outstanding borrowings that are used to fund the Government's priorities and to maintain cash liquidity for working capital requirements and forward debt servicing obligations.

Table 3 below presents movements in these measures for the Budget and forward years.

Table 3: General Government Sector Key Balance Sheet Measures

	2024-25 Est. outcome $m	2025-26 Budget $m	2026-27 Estimate $m	2027-28 Estimate $m	2028-29 Estimate $m
Net Debt (excluding superannuation)	9,278.0	11,001.8	12,626.1	13,229.5	13,637.5
Net Financial Liabilities	15,148.8	16,459.4	17,546.4	17,818.2	17,914.8
Net Worth	20,006.3	19,572.7	19,367.4	19,318.0	19,506.8

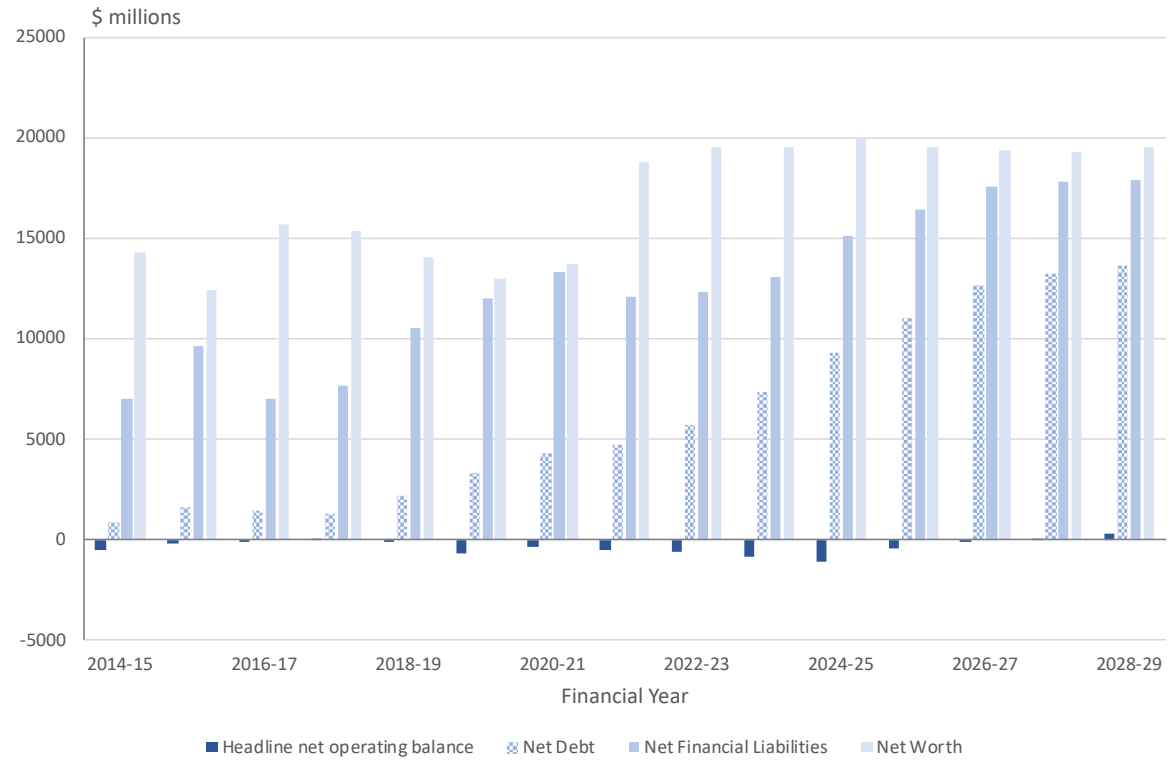
Table 3 shows that the Territory's financial position is becoming more vulnerable over the Budget and forward years. All of these indicators are deteriorating over time and are worse than forecast for the same years in last year's Budget.

Net debt is forecast to increase by 46 percent over the Budget and forward years compared to the expected 2024-25 outcome. After a period of measured improvement between 2019-20 and 2022-23 due to valuation effects, net financial liabilities are expected to stabilise over the Budget and forward years. Net worth, which is the broadest measure of the Territory's financial position, is now expected to decline over each year.

While the key balance sheet measures can vary from year to year with changes in underlying assumptions, the long-term trend shows a continuing deterioration in the Territory's indebtedness and financial obligations. This is illustrated in Figure 10 below.

[2] Definitions and further discussion of the application of these measures are provided in section 8 of this report.

Figure 10: Key balance sheet measures



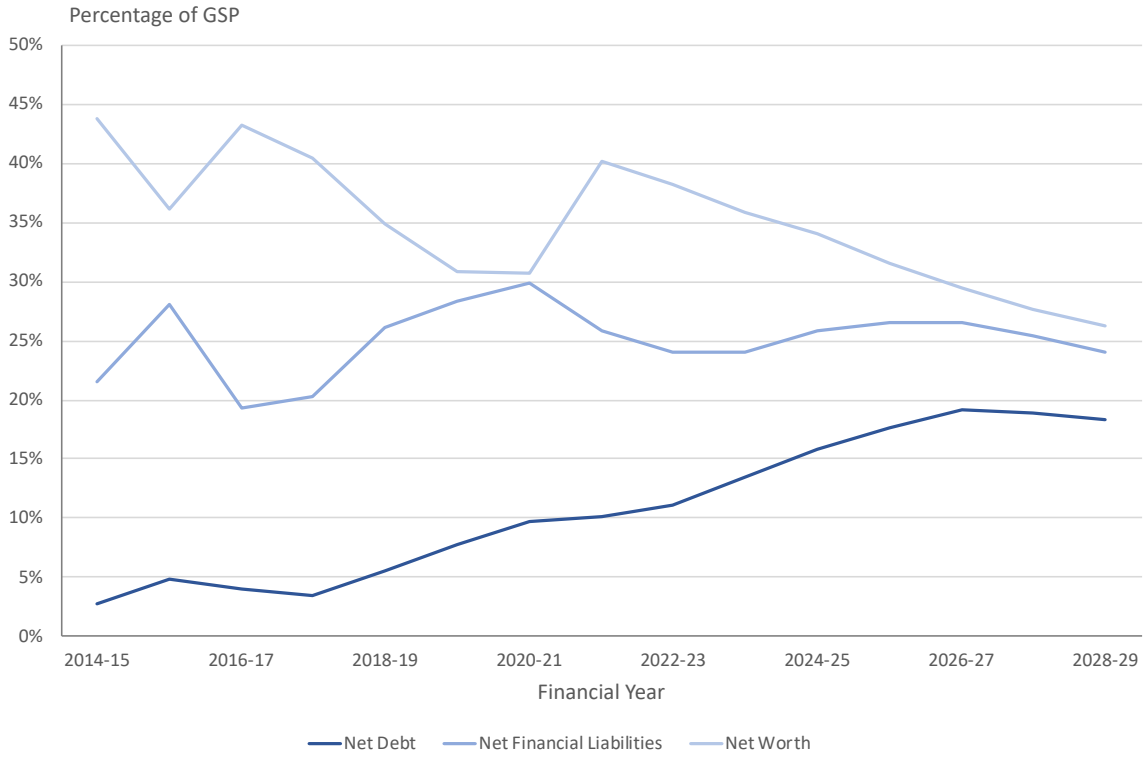
Note: From 2019-20, net debt includes the impact of accounting changes in relation to the treatment of leases. The ACT Government has indicated that for this reason net debt from 2019-20 is not directly comparable to prior years.

Figure 10 shows that net financial liabilities will have more than doubled since 2014-15. Over the same time, net debt will have grown from around $910 million in 2014-15 to just over $11 billion in 2024-25 and over $13 billion by the end of the forecast period; a ten-fold increase in debt over the 10 years. Net worth has grown since 2014-15 but is now forecast to fall over the forward years.

Net financial liabilities have more than doubled since 2014-15.

Expression of these measures as a proportion of Gross State Product provides an indication of their magnitude in terms of the size and growth of the Territory's economy. Figure 11 shows the key balance sheet measures as a proportion of Gross State Product.

Figure 11: Key balance sheet measures as a proportion of Gross State Product



These measures can be subject to variations in the short term due to fluctuations in the economy and changes in the valuation of assets and liabilities. However, over the longer term they provide an indication of the sustainability of the Territory government's key balance sheet measures. The chart shows a long-term deterioration in the Territory balance sheet, moderated in the final forward years by anticipated growth in the Territory economy.

Further detail on the reasons for change in these key fiscal measures is provided in section 8 of this report.

3.5 Cash Flow Statement – General Government

The cash position is an important indicator of the sustainability of the Territory's fiscal settings. The Golden Rule of Budgeting is that over the economic cycle, governments should only borrow to invest and not to fund current spending.

The ACT is now expected to produce cash operating deficits three years in a row between 2023-24 and 2025-26. A deficit of $63.0 million in the Net Operating Cash Balance has been forecast for 2025-26, on top of an expected cash deficit in 2024-25 of $339.7 million.

The forecast deficit for 2025-26 compares with an expected surplus of $159 million forecast at the time of the 2024-25 Budget. Government expenditure decisions are the main cause of the deterioration in the expected cash position since the last Budget.

The ACT is borrowing to fund its current spending.

Returning the ACT's cash from operating activities to surplus would be critical if the Territory wants to maintain its AA+ rating. An S&P Global Ratings analyst has been quoted as saying that:

> *We could lower the AA+ rating if we believe the ACT cannot achieve a cash operating surplus and lower its fiscal cash deficit in the next year or two. Operating deficits are very rare for AA+-rated governments globally. (Read, 2025)*

Improvements in the cash position are forecast for each of the forward years out years. It is important that these forecasts are achieved to avoid a further downgrade of the Territory's credit rating.

It should be noted that the overall cash position, which includes cash investments in non-financial assets such as infrastructure and capital, is also forecast to be in deficit of $1.1 billion in 2025-26 and to remain in deficit in each of the forward years to 2028-29.

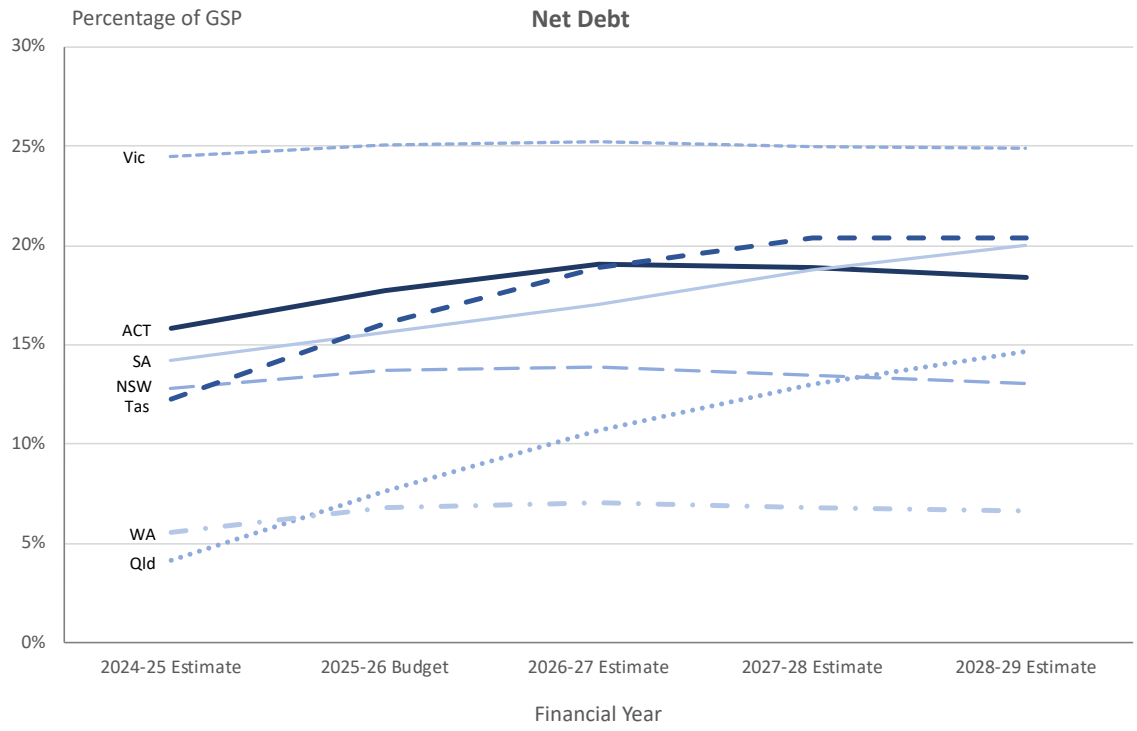
The Territory's cash position is not sustainable over the medium term and will require the Government to make additional borrowings that will add to net debt.

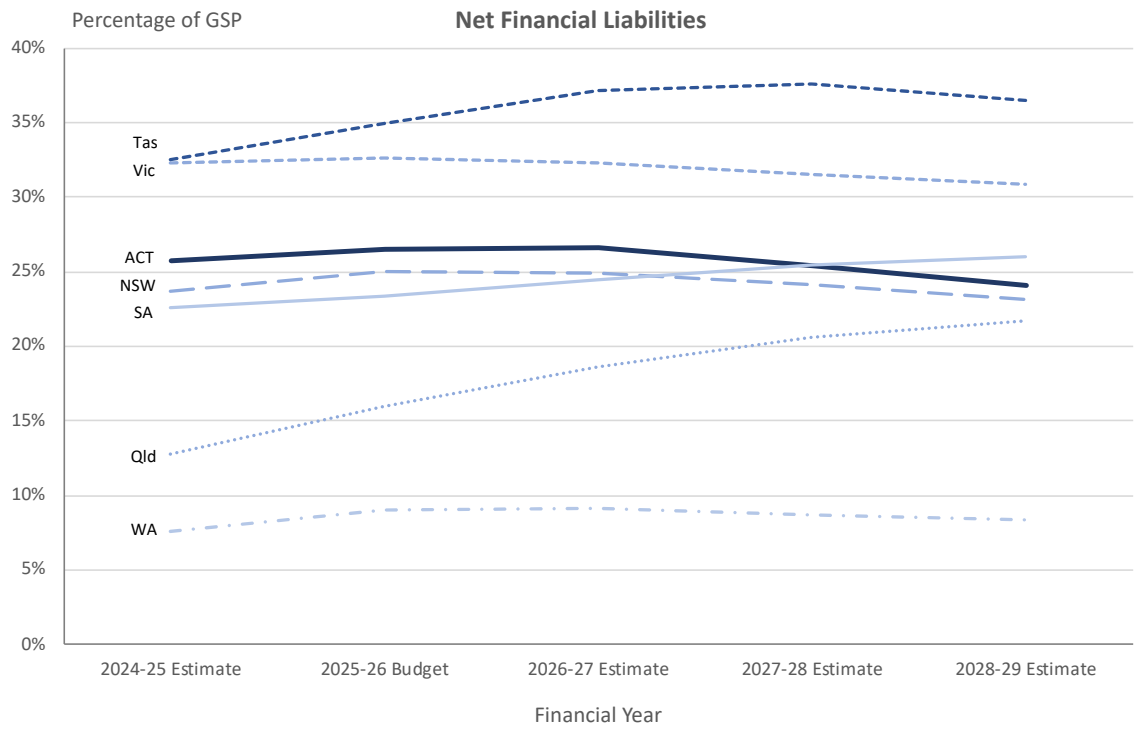
3.6 Comparisons with other States and Territories

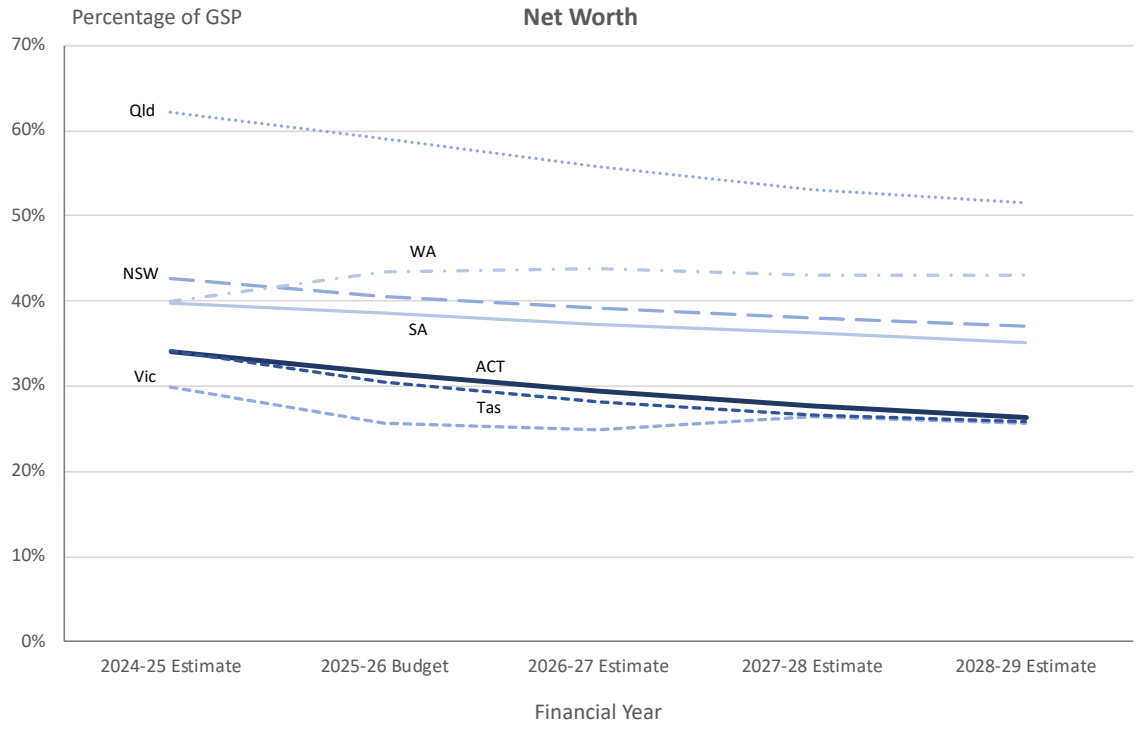
The ACT's fiscal position has deteriorated over time but still sits within the range reported by other States and Territories, albeit on some indicators at the wrong end of that range.

Figure 12 shows a comparison of the three key balance sheet measures for the ACT in comparison with other States and Territories over the Budget and forward years.

Figure 12: Net debt, net financial liabilities and net worth comparison across jurisdictions







Sources: 2025 State and Territory Budget Papers.

Figure 12 shows that the ACT's level of net debt as a proportion of GSP is around the middle of the range reported by other State and Territory governments and that, like other States, growth in net debt as a proportion of GSP appears to be stabilising into the forward years.

The ACT's net financial liabilities as a share of GSP have been growing slightly in recent years but the growth is expected to reverse by the end of the forward estimates period and the ACT's position on net financial liabilities is at the lower end of the range reported by other States.

While the ACT's net worth as a proportion of GSP is also within the range reported by other States and Territories, ACT net worth as a proportion of GSP is declining faster than any other State than Queensland.

As the discussion in the following section shows, comparisons with other Australian States, some of which are amongst the most indebted sub-national jurisdictions in the developed world, are not totally reassuring.

3.7 Credit rating

Credit ratings are an independent assessment of how risky a borrower is in terms of their expected willingness and capacity to repay any debt on time, taking into account the entity's economic performance, debt levels, fiscal policies, political stability, institutional strength and vulnerability to external shocks.

The credit rating of all State and Territory debt is assessed from time to time by independent ratings agencies.

The ACT's credit rating was downgraded in 2023 from AAA to AA+. The ratings agency Standard & Poor's was reported as saying that the ACT's total tax-supported debt as a proportion of operating revenues had grown significantly and was now much higher than for other 'AAA' rated jurisdictions (Lindell, 2023).

A ratings downgrade increases the cost of borrowings and potentially limits the parties from which an entity might borrow.

The ACT is at risk of a further downgrade in its credit rating.

In September 2024, Standard & Poor's put a number of States and Territories, including the ACT, on negative watch. Standard & Poor's noted the Territory's protracted fiscal recovery and higher debt levels compared with peers. The Budget papers indicate that the revision of the long-term rating on the Territory to negative from stable reflects the rating agency's view that the Territory's fiscal outcomes could underperform forecasts over the next two years. Questions about whether the ACT can restore its fiscal position are supported by the experience over more than a decade of governments promising surpluses that are not delivered, as shown in Figure 9 above.

In an update following the 2025 Budget, Standard & Poor's said the negative outlook on the ACT reflects a loosening of fiscal controls (Kehoe, 2025).

The ratings agency has been quoted as saying that returning the ACT's operating balance to surplus would be critical if the Territory wanted to maintain its AA+ rating (Read, 2025).

Table 4 below sets out the credit ratings on long-term debt for all States and Territories.

Table 4: Long-term credit rating as reported by States and Territories, 2025-26

Jurisdiction	S&P	Moody's	Fitch
ACT	AA+ (Negative)	n.a.	n.a.
NSW	AA+ (Negative)	Aaa (Stable)	AAA (Stable)
Vic	AA (Stable)	Aa2 (Stable)	AA+ (Stable)
Qld	AA+ (Negative)	Aa1 (Stable)	AA+ (Stable)
SA	AA+ (Stable)	Aa1 (Stable)	AA+ (Stable)
WA	AAA (Stable)	Aaa (Stable)	n.a.
Tas	AA+ (Negative)	Aa2 (Stable)	n.a.
NT	n.a.	Aa3 (Stable)	n.a.

Source: State Budget Papers, State Treasury and audit office websites.

The table shows that the ACT has a level of creditworthiness that is at about the level of other States. It is better than Victoria's but not as strong as WA's rating. Comparison with other Australian States is not perhaps completely reassuring, however. Victoria is now the fourth-most-indebted state government from advanced economies outside the US in absolute dollar terms and Australian States and Territory governments are posting some of the largest budget deficits among sub-national governments in the developed world (Read, 2024; Read, 2025).

The ACT's AA+ credit rating indicates that it has a strong capacity to meet its long and short-term financial commitments. However, the current credit rating is under threat and if the ACT is unable to restore its fiscal position, and particularly its operating cash position, a further downgrade could be expected to increase the interest burden on ACT taxpayers.

3.8 Other measures of sustainability

Additional measures of the Territory's financial position are also available. In financial audits, the ACT Auditor-General has employed measures such as:

- Assets to liabilities coverage;
- Short term assets to short term liabilities coverage; and
- Financial assets to liabilities coverage.

The benefit of these measures is that they provide an indication of the Territory's capacity to meet its obligations over the short and medium-term.

The coverage of total assets to total liabilities falls over the Budget and forward years from about 1.7 times in 2025-26 to about 1.5 times in 2028-29.

The ratio of short-term assets to short term liabilities also deteriorates over the Budget and forward years.

Financial assets are forecast to exceed net financial liabilities by approximately 1.48 times in 2025-26 to approximately 1.4 times in 2028-29.

This analysis reinforces the suggestion that the ACT Government's financial position is deteriorating over the medium term.

Net cash flows from operating activities are forecast to be negative for the Budget year and increase significantly across the forward years, primarily due to forecast increases in receipts from taxes, sales of goods and services, grants and contributions, dividends, and other receipts.

However, net cash flows from investments for policy purposes are forecast to be negative across the Budget and forward years.

An overall General Government cash deficit of $1 billion, and negative net cash from operations of $63 million, have been forecast for 2025-26.

Whilst the cash position has deteriorated since 2024-25, these positions are forecast to improve over the forward years.

The ACT Government will be able to meet its immediate obligations over the Budget and forward estimates period, but the current fiscal trajectory is not sustainable over the long-term.

3.9 Fiscal strategy

The Government has noted structural vulnerabilities in the ACT Budget. While traditional revenue items are cyclical, as they fluctuate with levels of economic activity, many of the ACT's expenditure items are structural, with drivers such as demography affecting demand on health services and education, the two largest areas of government spending. Additionally, the government's expenditure is sticky, in that wages and salary expenses are difficult to reduce in the short term while interest and superannuation payments are unavoidable.

The Government has indicated that it will be seeking to develop matching revenue lines that are more structural in nature (such as the switch from conveyance and insurance duties to general rates and the health levy) while introducing new expenditure reduction initiatives. Little detail is provided on how the planned expenditure reduction will be achieved.

The Government has set out a fiscal strategy – a mix of medium-term targets and general statements of intent

While the Government has for some time acknowledged the need for budget repair, Pegasus has in previous reports noted the absence of a clearly articulated strategy for restoring the fiscal position. In this Budget the Government has set out a fiscal strategy that includes:

- a commitment to support economic growth and employment;
- returning the Budget to operating cash surpluses over the forward estimates period;
- returning the Headline Net Operating Balance to surplus over the forward estimates period;
- ensuring net debt is at sustainable levels over time, while delivering once in a generation infrastructure projects in health and transport;
- to extinguish the Territory's unfunded defined benefit superannuation liability over the next decade; and
- to deliver sustainable public finances through efficient expenditure alongside revenue measures supporting critical services and the needs of our community (2025 Budget Outlook, p31).

This statement provides a mix of specific, measurable targets, to be delivered over the medium-term future, and general statements of intent. A number of the principles, such as the return to HNOB surplus over the forward estimates have been forecast many times in the past but rarely achieved. The commitment to extinguish the unfunded superannuation liability over the next decade is a slippage from previous undertakings to fully cover the liability by 2030.

By contrast, in 2012-13, when the Territory moved from a fiscal surplus into deficit, and from being a net lender to net borrower, the Budget Papers included specific, measurable and immediate fiscal targets. These included:

- Achieve a General Government sector Net Operating surplus;
- Maintain a AAA credit rating;
- Maintain operating cash surpluses;
- Maintain a strong balance sheet; and
- Fully fund the Territory's unfunded superannuation liability by 2030 (2012 ACT Budget Paper3, p.9).

Some other State jurisdictions have also attached specific indicators and metrics to guide their decision making and allow their fiscal strategy to be assessed over time. South Australia, for example, has committed to achieve a net operating surplus every year and to limit average growth in expenses to trend growth in household income (4 percent per annum). These targets are specific and measurable and can be tracked with precision over time.

There is a little evidence of actual budget repair in this Budget, apart perhaps from a moderation in the growth of net debt to GSP in the final out-years. The Government's fiscal strategy is expressed in fairly general and not always measurable terms. Nevertheless, clarification of the Government's medium-term strategy provides a basis against which future Budgets might be assessed.

4 New policy

The Budget includes over 250 separate new policy initiatives involving expenses, revenue and capital, including detailed descriptions of the individual measures. These initiatives are loosely attached to individual Wellbeing domains. Information on new policy is provided on a different accounting basis from the rest of the Budget. While much of the new spending has been off-set, only limited information is provided on the nature of the savings and offsets or their possible impacts on programs and services.

4.1 New initiatives

The Budget includes over 250 separate new policy initiatives involving expenses, revenue and capital.

The most significant new spending is in Health, where the Government says it is planning to spend an additional $1.2 billion over four years. New revenue measures, include some $205 million over four years from a levy to support the health system, $171 million from changes to payroll taxes and $101 million from changes to motor vehicle duties. We understand that the Government has subsequently announced modifications to this measure.

Individual measures are listed in detail under the relevant agency and loosely associated with the Wellbeing themes.

The following Table 5 sets out a summary of the new policy initiatives, expressed in terms of the net cost of services.

Table 5: New policy expenses, revenue and capital, Budget and forward years, net cost of services

	2025-26	2026-27	2027-28	2028-29	**Total**
Expenses					
Expenses	737,534	545,888	490,424	474,906	**2,248,752**
Depreciation	3,147	7,375	13,567	14,935	**39,024**
offset by					
Expense offsets	-281,021	-189,653	-165,328	-162,692	**-798,694**
Savings	-29,611	-59,039	-89,291	-102,919	**-280,860**
Net expenses	430,049	304,571	249,372	224,230	1,208,222
Revenue					
Revenue	-137,289	-193,849	-211,507	-211,667	**-754,312**
Revenue forgone	8,476	3,347	2,084	3,166	**17,073**
Net revenue	**-128,813**	**-190,502**	**-209,423**	**-208,501**	**-737,239**
Net Cost of Services	**301,236**	**114,069**	**39,949**	**15,729**	**470,983**
Capital					
Capital	381,032	394,767	174,714	84,604	**1,035,117**
offset by					
Capital offsets	-204,833	-209,163	-180,931	-51,384	**-646,311**
Net Capital	**176,199**	**185,604**	**-6,217**	**33,220**	**388,806**

Note:

1. An explanation of the concept of net cost of services and how it is constructed is provided on page 52 of the Budget Outlook. As this concept is different from the accounting conventions in other parts of the Budget, caution should be exercised in seeking to read across from this section of the Budget to other parts of the Budget documentation.

2.This table separates revenue and expenses, consistent with usual Budget practice, but retains the concept of net cost of services used throughout section 3.2 of the Budget Outlook and the Wellbeing Statement. In this table + indicates an increase in the deficit and – indicates a reduction in the deficit.

While all the individual initiatives are listed by Directorate and under the primary domain, neither the Budget Outlook nor the Wellbeing statement provide a comprehensive summary table that shows the net investment across the 12 domains, the seven categories identified by Government on page 48 that approximate domains or against the six priority areas identified by the Government on page 1 of the Budget Outlook as worthy of investment.

Given the prominence attached to the Wellbeing Framework, and the six Wellbeing priority areas for investment identified in the Wellbeing Statement, it would be natural for an interested observer to want to know how much of the Government's new investment is being directed to each domain. We understand from ACT Treasury that the initiatives are not aggregated by domain because of a concern that many initiatives contribute to more than one domain. Aggregating to a single domain would risk under-stating the overall impact of the measures on each domain while aggregating to multiple domains risks overstating the value of the measures. At the same time, we note that a primary domain is attached to each measure in section 3.2 of the Budget Outlook.

Because different protocols are employed in section 3.2 from the rest of the Budget Outlook, there is no one-to-one correspondence between the presentation of the new wellbeing initiatives and the expense, revenue and capital figures reported elsewhere in the Budget Outlook.

Budget transparency, and clarity for readers, would be improved if consistent counting conventions were used throughout the Budget documents.

4.2 Savings

The Budget identifies expense savings and offsets of $1.1 billion and capital offsets of $0.6 billion over four years.

While the Budget Outlook generally identifies in which agencies the savings and off-sets will be made, and the savings and off-sets attached to particular measures, very little information is provided on how these savings will be made, other programs that will be affected or the effect of the savings and offsets on service delivery.

The largest single savings measure involves whole of government savings of $282.2 million over four years. Treasury has indicated that these savings have already been applied against agency budgets. However, we understand that there is no central reporting on where and how the savings will be made, and whether they are achieved.

This measure is on top of a similar across the board saving of $81 million over four years announced in last year's Budget. The Government indicated in the 2024-25 Budget Outlook that the savings would be achieved by agency heads but would have no impact on frontline services and would explicitly exclude employee expenses, staff development and recruitment. Pegasus noted at the time that this would be a significant challenge given that employee expenses alone account for almost half of total expenses. It is not clear from the Budget documentation whether these savings were realised as intended, or what their impacts might have been and in particular whether any front-line services were affected.

In response to requests for further information on strategies for restraining expenditure growth, the Treasury has advised that additional guidance will be provided within Government alongside more regular reporting and explanation of spending trends to ERC and Cabinet. Treasury has also foreshadowed an enhanced Budget Control Framework to implement improved frameworks for establishing baselines and monitoring of labour costs and financial performance more broadly.

Accountability would be improved, and more credibility could be attached to the magnitude of the savings promised in the Budget, if more information were provided by the Government on how proposed savings are to be achieved and the success or otherwise of savings announced in previous Budgets and Reviews.

5 Revenue

Revenue is forecast to be $8.9 billion in 2025-26, roughly $1 billion higher than the expected outcome for 2024-25. Revenue rises over the forward years to $10.3 billion by 2028-29.

Policy decisions in the 2025-26 Budget are estimated to raise $722 million from 2025-26 to 2028-29, including $521.3 million of new tax measures, and initiatives incorporating fees and charges amendments.

The ACT Government is in the process of rebalancing its tax base by reducing and eventually eliminating stamp duty over a 20-year period and replacing the shortfall through an increase in the general rates system.

Notwithstanding the Government's commitment to phasing out stamp duties and the phasing in of the new general rates system over the course of 20 years, it appears that the reduction in revenue from commercial and residential conveyances will exceed the increase in general rates as an overall percentage of ACT Government own-source taxation revenue going out to 2028-29, which now includes three years of stage 4 of tax reform.

Revenue from payroll tax is now forecast to increase from 29.9 percent of ACT Government own-source taxation revenue in 2024-25 to 33.3 percent by 2028-29 – an overall increase of 3.4 percentage points.

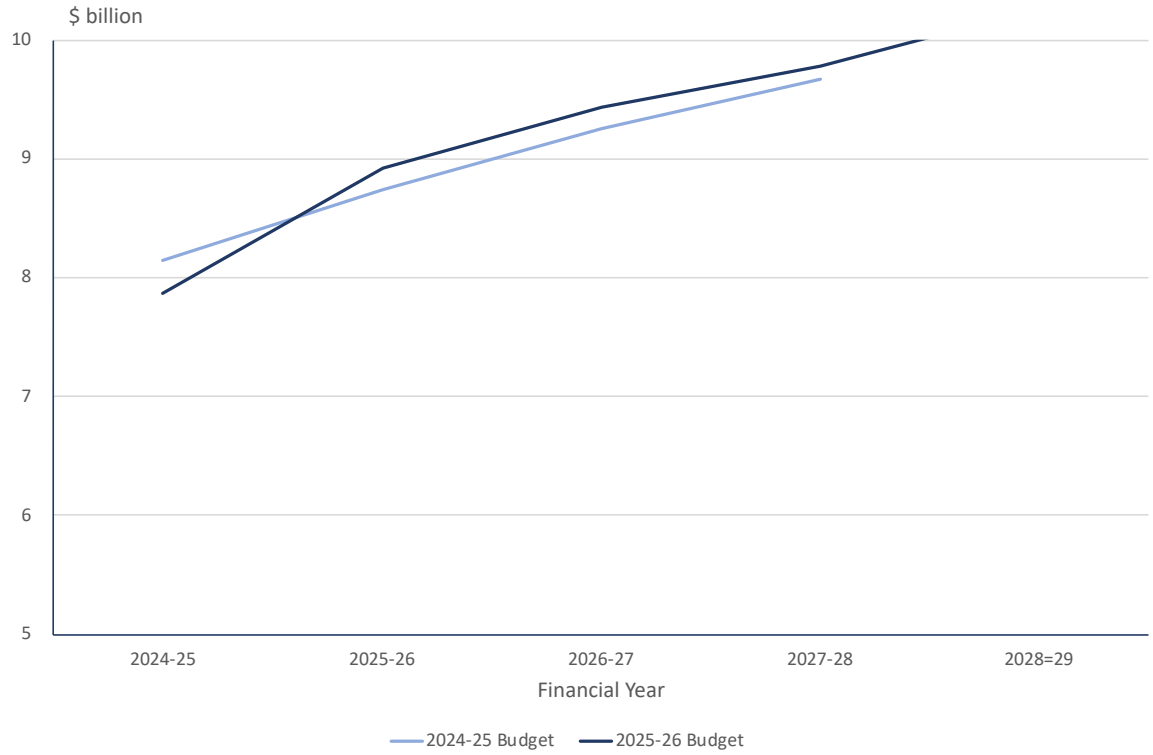
5.1 Overview

ACT revenue is now forecast to be some $272 million lower in 2024-25 than previously forecast in the 2024-25 Budget (ACT Government, 2025, p. 169). The largest contributions to the change in ACT revenue in 2024-25 over the 2024-25 Budget forecasts have come from:

- $137 million decrease in Commonwealth Grants
- $51 million decrease in gains from contributed assets
- $37 million decrease in investment revenue
- $36 million decrease in dividend and income tax equivalent income
- $26 million decrease in own-source revenue due to a fall payroll tax receipt
- partially offset by a $26 million increase in interest revenue.

ACT Budget revenue is now estimated to be $186 million higher in 2025-26 than previously estimated in the 2024-25 Budget. ACT Budget revenue is now also estimated to be higher in the out-years – by $177 million in 2026-27 and by $528 million in 2027-28. This is shown in Figure 13 below.

Figure 13: Estimated ACT Budget Revenue in the 2023-24 and 2024-25 ACT Budgets



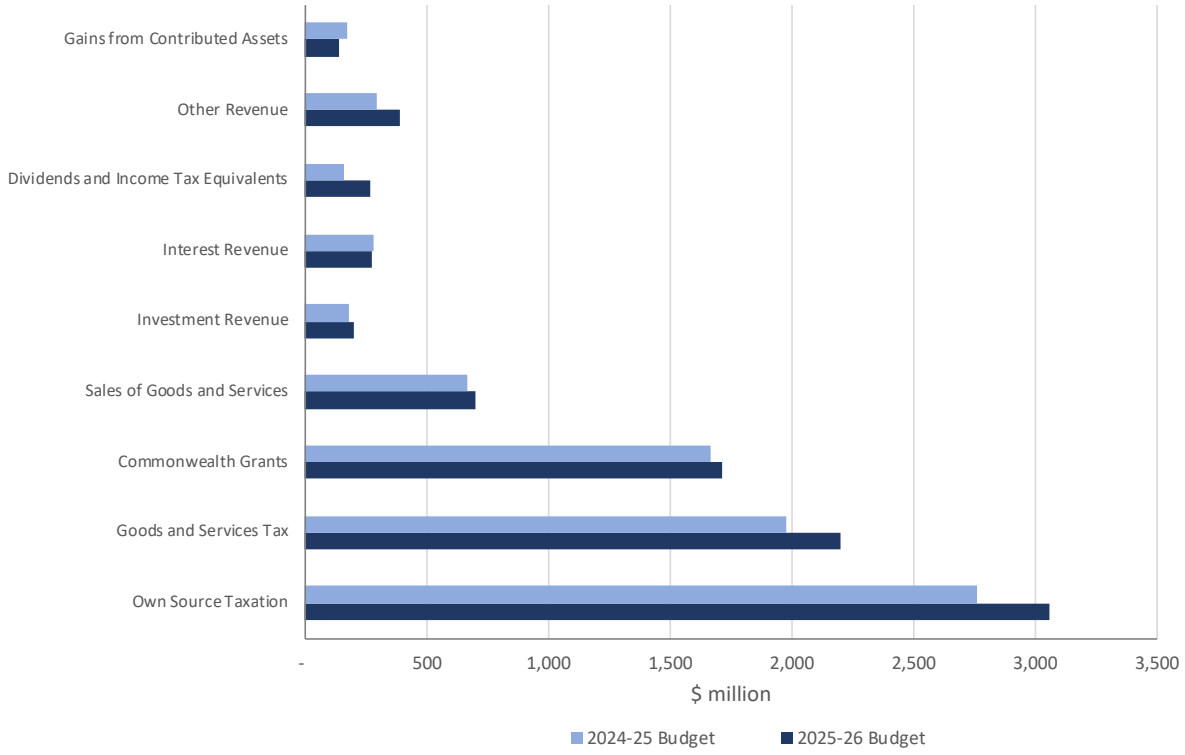
Revenue in 2025-26 is expected to be $1 billion higher than for 2024-25

In 2025-26, revenue is expected to increase by over $1 billion over the expected outcome for 2024-25 (ACT Government, 2025, p. 169). The largest contributors to the change in revenue over the expected outcome in 2024-25 will come from:

- a $323 million increase in own-source taxation
- a $221 increase in GST revenue
- a $185 million increase in Commonwealth Government grants
- a $151 million increase in dividend and income tax equivalents
- a $100 million increase in other revenue
- a $57 million increase in investment revenue
- a $38 million increase from sales of goods and services from contracts with customers
- a $15 million increase in gains from contributed asset
- partially offset by a $36 million decrease in interest revenue.

A comparison of the revenue estimated outcome for 2024-25 and the revenue estimate for 2025-26 is provided in Figure 14 below.

Figure 14: Revenue Estimated Outcome 2024-25 and Forecast 2025-26



5.2 Tax reform

In the 2012-13 Budget, the ACT Government committed itself to improving the stability and predictability of its tax base through a process of gradually reducing and eventually eliminating transaction-based taxes like conveyance duties (stamp duties) over a 20-year period and replacing the shortfall through an increase in broad-based land taxes through the general rates system. The tax reform program is intended to be revenue neutral.

Tax reform is intended to replace conveyance duties with increases in general rates

The phasing out of stamp duties and the phasing in of the new general rates system over the course of 20 years is being implemented in four stages to avoid a shock to the property market and to enable the change to be revenue neutral (Reardon & Hopkins, 2018, p. 4).

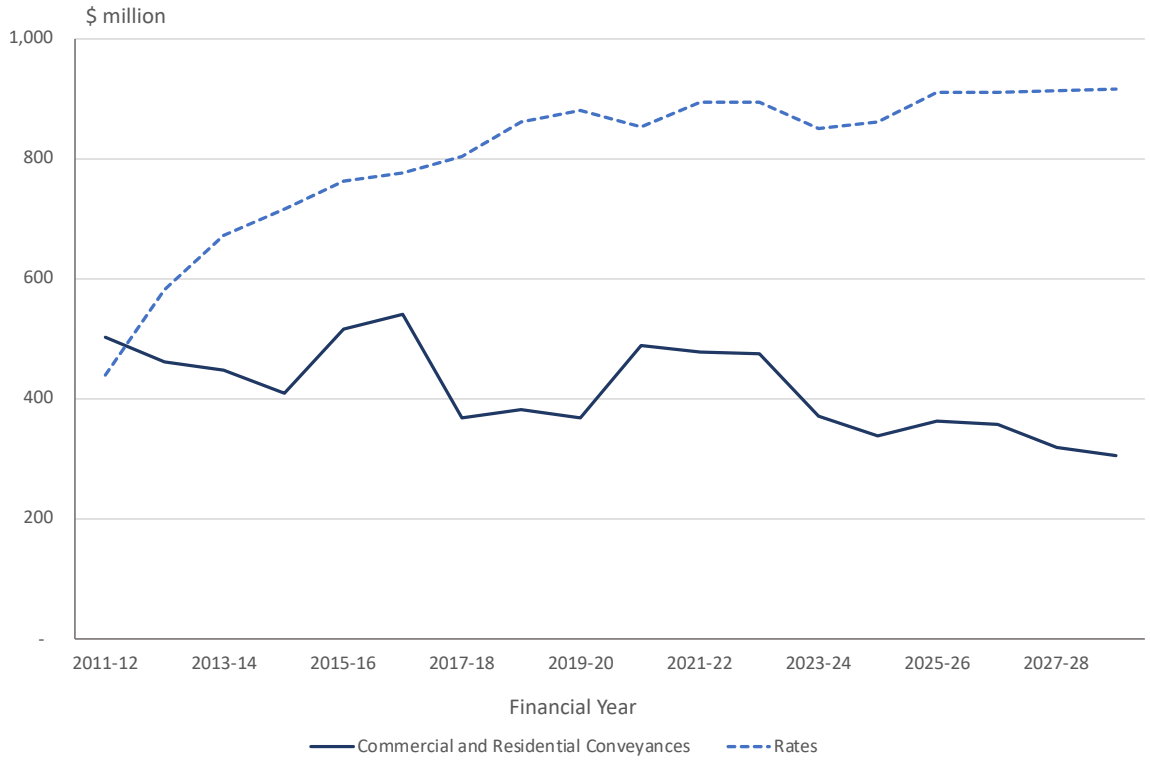
Under stage 3, which commenced in 2021-22 and will run until 2025-26, rates are expected to increase on average by 3.75 percent per annum (ACT Government, 2021, p. 141). Increases in general rates from tax reform that are above Wage Price Index (WPI) growth are used to fund corresponding reductions in conveyance duties (2025, p. 172).

Given that general rates (except for rural properties and excluding the proposed Health Levy) will be increasing by 3.75 percent in 2025-26 but the forecast for growth in the ACT WPI in 2025-26 is only 3.25 percent (that is used to index various ACT government taxes and fees), this implies that the ACT Government is directing the additional 0.5 percentage points above the forecast increase in WPI to fund reductions in conveyance duties.

The 2025-26 Budget continues the process of rebalancing of revenue over time. Figure 15 illustrates the real growth in revenue from general rates and the real decline in revenue from property since 2012-13 when the tax reform program started. This shows considerable progress toward the

Government's tax reform objective, although there is still some way to go before conveyancing duties are completely replaced.

Figure 15: Revenue from general rates and conveyances (GSP deflated), 2011-12 to 2028-29 (forecast)



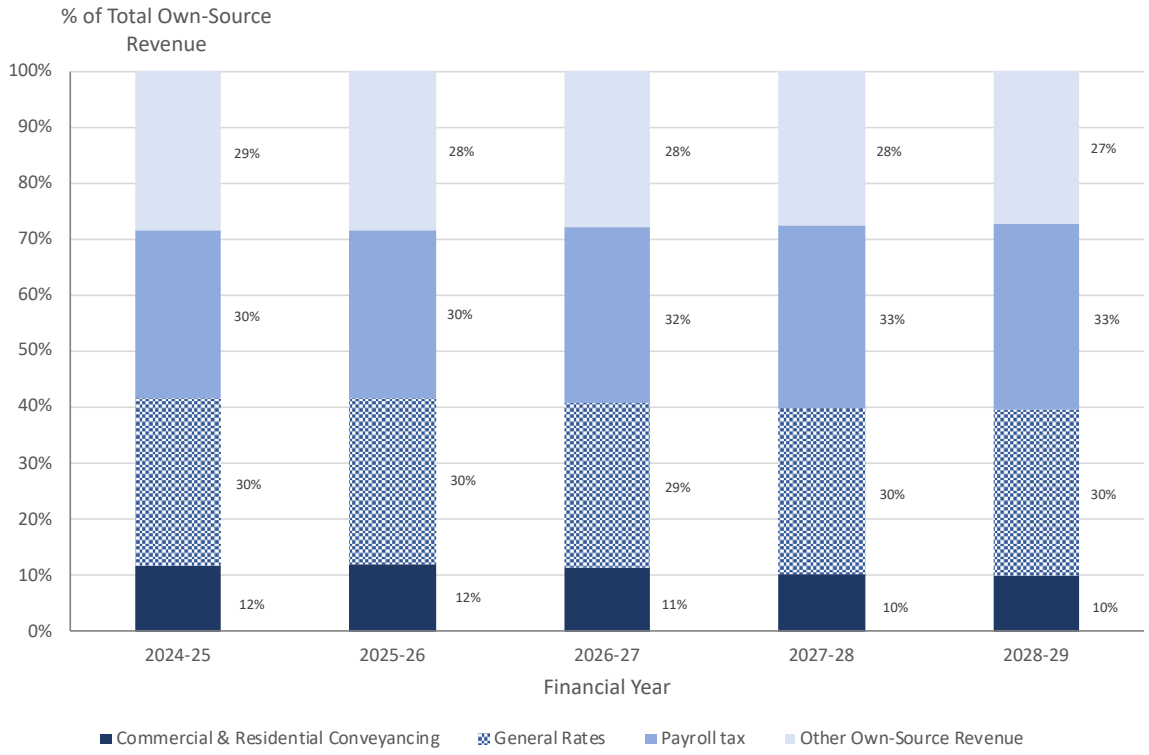
The Government has indicated that it took deliberate steps in recent years to slow the progress of tax reform rate in response to pressures felt in the community from COVID-19 and cost of living pressures.

The Budget indicates that revenues from conveyancing and general rates are both expected to increase in 2025-26 and 2026-27. While revenue from general rates is forecast to continue to grow through the Budget and forward estimates period, revenue collected from commercial and residential conveyances is forecast to taper off in the out-years, in line with the Government's objectives.

When expressed as a percentage of total own-source revenue, the share of insurance and conveyance duties is expected to decline from around 26 percent when the program started in 2012-13 to 9.9 percent by 2028-29. Over the same period, the proportion of own-source revenue derived from general rates has increased from around 17.2 percent in 2012-13 to 29.6 percent in 2028-29.

However, over the Budget and forward years, the rate of substitution of revenue from stamp duties by revenue from general rates appears to have slowed. This is shown in Figure 16 below.

Figure 16: Composition of ACT Government Own-Source Taxation Revenue



Source: ACT Government (2025, p. 170).

Over the Budget and forward years, the proportion of own source revenue collected from conveyancing falls slightly while revenue from general rates is roughly constant.

5.3 Health Levy

The ACT Government (2025, p. 36) has also proposed a new time-limited Health Levy:

> *We are introducing a four-year Health Levy for all residential, commercial and rural properties, with a review in the 2029-30 Budget, so that all ACT property owners contribute to ensuring sufficient and sustainable funding for our local health system.*

The Health Levy is forecast to raise $50 million in 2025-26, and almost $206 million over 4 years. The Government has indicated that from 2025-26 to 2028-29, general rates bills for each rateable property will include a $250 levy to address increased costs in the health system.

Pegasus understands that discussions since the Budget was announced may lead to changes in the proposed measure.

The proposed Health Levy is an example of an earmarked tax where the revenue collected is designated to be used for a specific purpose, in this case funding of the ACT public health system. Identifying a tax or levy with a purpose that is generally valued by the population is often used by governments to gain public support for tax increases (Doetinchem, 2010).

The Budget documents do not indicate how the funds collected through the Health Levy would be allocated or managed, other than as a general contribution to address increased costs in the health system. Pegasus notes that in a 2024 report, the ACT Audit Office (2024b) identified issues associated with the management, performance monitoring and public reporting of the use of monies collected through the very similar Safer Families Levy introduced in 2016-17. Given that experience, the Committee could enquire whether the Government intends to establish transparent

principles and a public reporting framework around the use of funds collected through the Health Levy.

5.4 Health Funding

The ACT Government has suggested that the Health Levy is a response to a perceived shortfall in Commonwealth funding for the ACT public health system. In discussing this shortfall, the ACT Government (2025, p. 29) has said:

> *These are costs that have been building for some years and, like other jurisdictions, the Government has been shouldering the impact through additional investment and managing services demand. The Territory has had to make these investments and deliver these services while facing a declining contribution rate from the Commonwealth to the public health system. This will fall from 37 per cent in 2024-25 to an estimated 33 per cent in 2025-26 in the context of an agreed ambition to achieve 45 per cent by 2035. This has a significant impact on the Territory, as we experience one of the lowest Commonwealth Contribution Rates (CCR) of any state or territory. For 2025-26, the funding gap between the CCR and the target of 45 per cent is estimated at approximately $189 million.*

The Commonwealth has put a difference perspective on the issue. According to the Commonwealth Government (2025b, p. 20):

> *National Health Reform funding is linked to growth in public hospital activity, the national efficient price and national efficient cost determined by the Independent Health and Aged Care Pricing Authority. The Australian Government funds up to 45 per cent of the efficient growth in the activity, price and cost of public hospital services, with growth in total Australian Government funding capped at 6.5 per cent a year.*

In other words, the Commonwealth funding is based on the national efficient cost of public hospital services.

The Independent Health and Aged Care Pricing Authority (IHACPA) (2025b, p. 4) enables the implementation of national activity based funding (ABF) for Australian public hospital services through the annual determination of the national efficient price (NEP). The NEP underpins ABF across Australia for public hospital services. ABF is a way of funding hospitals whereby they are paid for the number and mix of patients they treat.

The NEP is based on the average cost of an admitted acute episode of care provided in public hospitals during a financial year (Independent Health and Aged Care Pricing Authority, 2025b, p. 4). Each episode of patient care is allocated a national weighted activity unit (NWAU).

The NWAU is a measure of hospital activity expressed as a common unit, against which the NEP is paid (Independent Health and Aged Care Pricing Authority, 2025b, p. 4). It is a point of relativity for the pricing of public hospital services, which are weighted for clinical complexity. The 'average' hospital service is worth one NWAU. More complex and expensive activities are worth multiple NWAUs, and simpler and less expensive activities are worth fractions of an NWAU.

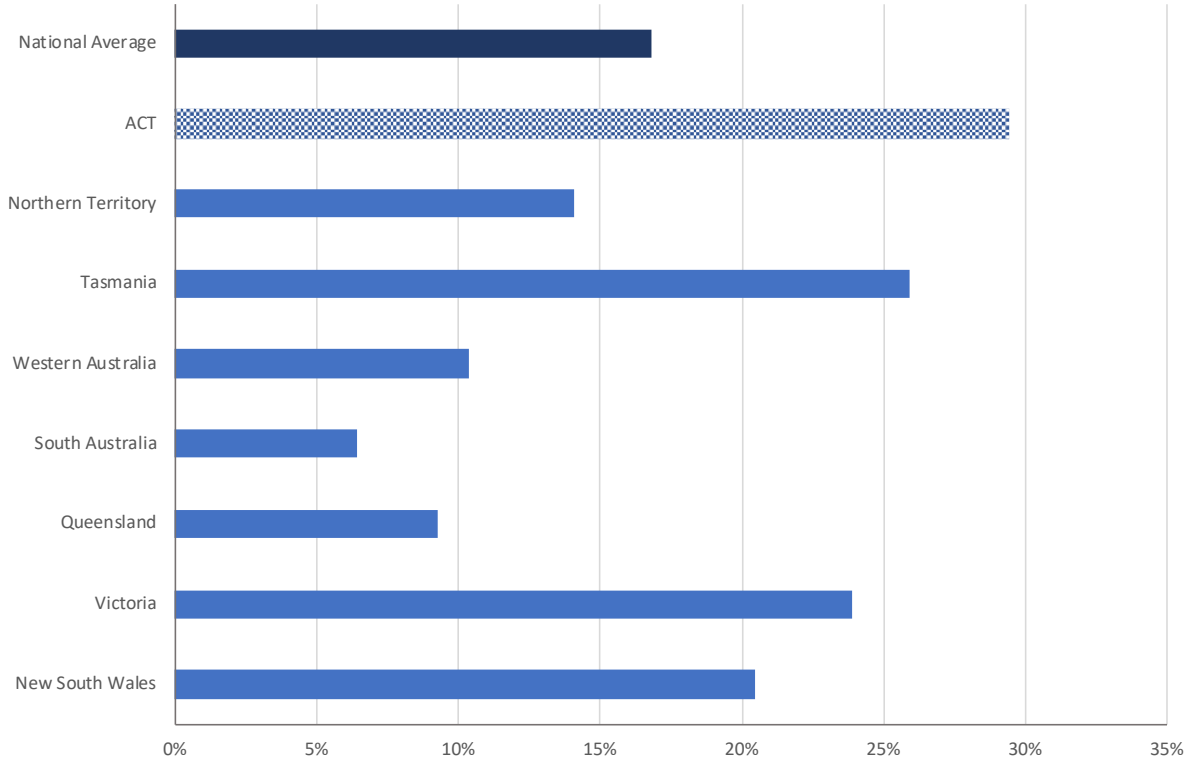
The IHACPA (2025a, p. 7) receives National Hospital Cost Data Collection (NHCDC) data from the States and Territories. However, IHACPA did not receive NHCDC data from the Australian Capital Territory (ACT) for 2022-23 due to a significant health Information Technology (IT) infrastructure project impacting ACT's ability to submit data.

For 2025-26, the IHACPA (2025, p. 7) has determined the NEP to be $7,258 per NWAU (NWAU(25)). The NEP is based on the average cost of public hospital activity in 2022-23 of $6,114 per NWAU(25),

indexed at a rate of 5.6% per annum, plus an additional 0.81% to account for increases in the minimum superannuation guarantee between 2022-23 and 2025-26. The ACT Government estimated the ACT price per NWAU at $8370 in 2024-25 (ACT Government Health, 2024, p. 24).

For years in which comparisons can be made for the ACT and other jurisdictions regarding the NWAU from 2018-19 until 2021-22, the ACT price per NWAU increased by the largest percentage amount across all jurisdictions by 29.4 percent as compared to the national average of 16.8 percent. This is outlined in Figure 17 below.

Figure 17: Percentage Increase in the Price per National Weighted Activity Unit per State and Territory and National Average– 2018-19 to 2021-22



Source: The National Benchmarking Portal by the IHACPA.

Figure 17 shows that price per NWAU in the ACT has been increasing at almost double the national average.

The implication of this analysis is the Commonwealth believes that the ACT system is operating at above the efficient cost that it is prepared to fund.

5.5 Payroll Tax

Revenue from payroll tax is forecast to increase from 29.9 percent of ACT Government own-source taxation revenue in 2024-25 to 33.3 percent by 2028-29 – an overall increase of 3.4 percentage points. This is in marked contrast to the percentage of ACT Government own-source taxation revenue expected to be collected from general rates over the same period that actually declines from level estimated and forecast in 2024-25 and 2025-26.

The 2025-26 Budget continues a trend toward increasing reliance payroll tax. In the 2023-24 budget the ACT Government (2023, p. 120) also announced the introduction of a payroll tax surcharge for very large businesses from 2025-26.

Payroll tax is levied on employers. Because payroll taxes are generally levied on all components of employee remuneration, they are designed to tax the value-added from labour (Henry, Harmer,

Piggott, Ridout, & Smith, 2009a, p. 293). As such, payroll taxes are similar to the labour component of Australia's personal income tax as well as the goods and services tax — they all generate revenue by reducing the real return from working.

The Budget is increasingly reliant on payroll taxes

Business organisations often assert that payroll tax is an impost on business rather than a payment by workers (Freebairn, Stewart, & Liu, 2015, p. 14). However, the long-term incidence and distributional effects of a selective payroll tax are very different to the statutory incidence. The adjustment of the wage cost and of employment mean that most of the tax in a long run equilibrium is passed back to employees of both large and small businesses as a lower market wage than otherwise (or lower rate of wage increase over time). That is, all employees, including those employed by small business, bear most of the payroll tax levied on large business.

5.6 Duty on motor vehicle registrations

The ACT Government (2025, p. 176) is proposing to reduce motor vehicle duty concessions for zero emission vehicles to ensure a minimum 2.5 percent duty on new transactions and with increasing duty rates proportionally based on emission and value, from 1 September 2025. In addition, a new tax rate of 8 percent for motor vehicle duty on the value of vehicles above $80,000 will also apply.

Together these measures are expected to generate additional revenue of about $101 million over four years.

The additional tax rate of 8 percent on vehicles over $80,000 will add at least an additional $6,400 to the purchase price of a new vehicle in the ACT costing in excess of $80,000 and is imposed at a substantially higher rate than the duty imposed on most other vehicles costing up to $80,000 or less. By way of comparison, a new motor vehicle costing $80,000 that is in category C will only add an additional $4,496 to the purchase price.[3]

This new impost is analogous to the Commonwealth Government's luxury car tax (LCT). The LCT imposes an additional 33 percent rate on the cost of a new motor vehicle over a certain threshold. In 2025-26 the threshold for the LCT will be $80,567, which is similar to the threshold set for the imposition of the motor vehicle duty.

On the assumption that luxury goods are disproportionately consumed by higher-income groups, the imposition of relatively higher rates of taxation upon them should enhance the progressivity of the tax system (Cnossen, Reform and Coordination of Indirect Taxes in the ASEAN Free Trade Area, 2013). A number of requirements must be met if relatively higher excise duties imposed upon luxury goods are to be worthwhile:

- Luxuries should be defined as products for which expenditures rise faster than income rises, that is, their income elasticity of demand should exceed unity (meaning such purchases are generally the preserve of the rich rather than the poor) and consumption patterns for luxury cars within this high-income group are relatively inelastic (meaning that consumption occurs irrespective of price, including tax and thus the opportunity for substitution towards cheaper goods is low) (Cnossen, 2013; James, 2022).
- For progressivity to be appreciably increased, consumption by higher-income classes should be significant (Cnossen, 2013).

[3] Category C are motor vehicle models with average environmental performance that have carbon dioxide emissions of between 176 to 220 grams per 100 km.

- It should be possible to break taxable goods down into subgroups, permitting the application of graduated rates that differ on the basis of the nature, quality, or price of taxable products, on the assumption that consumption patterns vary between rich and poor according to these properties.
- Administrative feasibility requires precise definitions of taxable products in order to minimize the number of disputes and arbitrary assessments and to facilitate compliance.
- Finally, to increase the acceptability of the luxury excise duties, a requirement might be that consumption of the more highly taxed products is widely viewed as a sign of affluence.

On the other hand, it is widely agreed the case for the use of differential excise duties to enhance progressivity in taxation is weak if a government's administrative capacity is strong. In the event, other instruments, such as the income tax and the benefit system would be better targeted to achieve distributional objectives (Cnossen, 2009, p. 239).

For this reason, the Henry Tax Review was of the view that Australia's comprehensive tax system coupled with a sophisticated transfer system was a far superior instrument for the redistribution of income than the Commonwealth Government's LCT (Henry, Harmer, Piggott, Ridout, & Smith, 2009b, p. 475).

5.7 Lease Variation Charge

Lease Variation Charge (LVC) revenue is estimated to be $20.6 million in 2024-25. Over the four-year period to 2027-28, the LVC is forecast to be $65.5 million lower than for the same years in the 2024-25 Budget estimate. The LVC is payable on the change of a crown lease to build or add a development. (ACT Government Planning, 2025). The LVC comes into play when:

- Specifying the number of dwellings on the land
- Increasing the maximum gross floor area (GFA) for commercial or industrial buildings (O'Connor & Jobling, 2024).

On 1 July 2024, the LVC for varying a crown lease to "specify the number of dwellings" was amended to $43,000 per dwelling – a $3,000 increase to the LVC applicable for specifying the number of dwellings in a Crown lease to permit unit titling, where the Crown lease does not already (O'Connor & Jobling, 2024). Codified LVC fees were also updated for variations to increase the number of residential dwellings permitted in the Crown lease and variations to increase the maximum gross floor area (GFA) of building on the land under a commercial or industrial zone.

Whilst the LVC has increased a little in some areas of the ACT, in other parts of Canberra, it has increased substantially (O'Connor & Jobling, 2024). It will cost a developer $43,000 per dwelling to limit the maximum number of dwellings permitted on a block under a Crown lease variation (where the quantity is not already stated). Where the quantity is already stated, then the LVC payable – should someone wish to develop a second dwelling on a block in Yarralumla for instance – this has increased by $25,000. Those with land large enough to accommodate (and seek to develop) between 5 and 10 dwellings will be charged an additional $27,500 per additional dwelling (an increase from $160,000 to $187,500). On the other hand, if a developer possessed sufficient land to develop over 101 dwellings then the charge was reduced by $8,750 per additional dwelling (a decrease from $57,500 to $48,750).

Joshua O'Connor and Halimah Jobling (2024), Senior Town Planners with Frank Knight, stated in August 2024 in relation to the changes to the LVC that:

> *Whilst developers with the resources to develop 100+ dwellings will experience cost-effectiveness in the LVC, development sites large enough to accommodate*

these densities within the ACT may be hard to come by. Conversely, smaller developers – even if looking to fill smaller dwelling supply voids, will be more heavily penalised by the change in LVC.

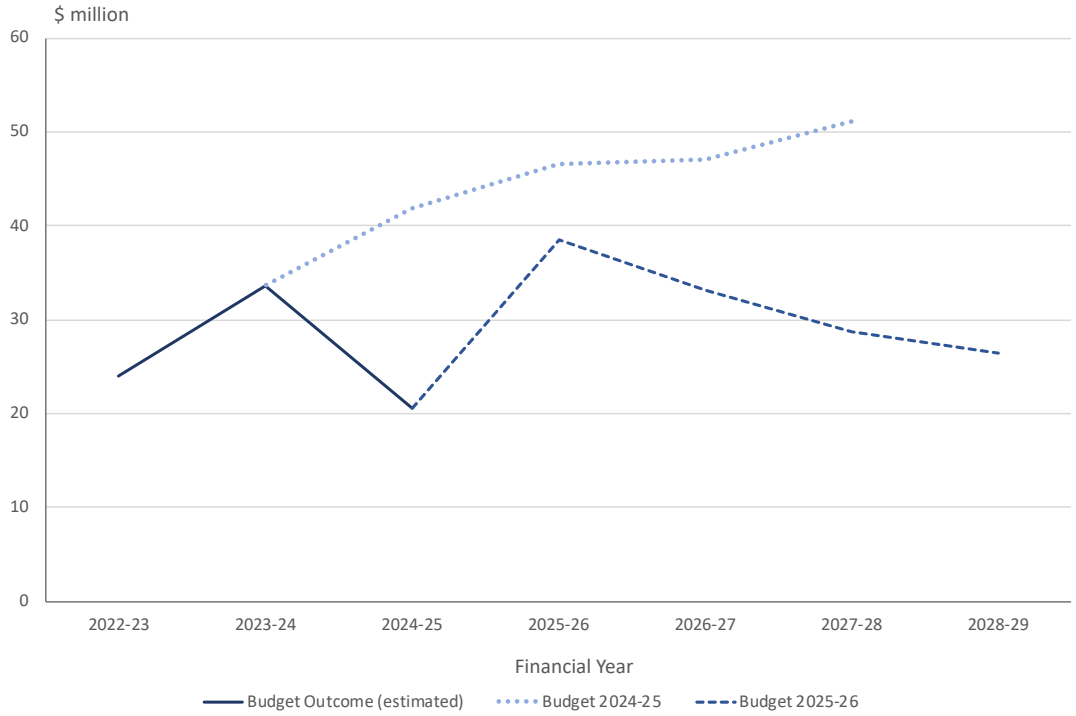
If the intent is to address the dwelling supply shortage, in reality it appears sites suitable for large developments (100+ dwellings) are scarce, with some areas years away from being close to shovel ready.

O'Connor and Jobling (2024) warned that these changes "may tip location build decisions outside of the ACT."

The revenue estimate for the LVC in 2024-25 has declined from $41.8 million forecast in the 2024-25 Budget to an estimated outcome of $20.6 million in the 2025-26 Budget (ACT Government, 2025, p. 170). But the expected profile for revenue over the Budget and forward years is very different from the profile forecast in the 2024-25 Budget.

Differences between the budget forecasts for this item from the two most recent Budgets are shown in Figure 18 below.

Figure 18: Forecast Revenue from the Lease Variation Charge – 2022-23 to 2028-29



In commenting on these trends, the Treasury has indicated that Lease Variation Charge (LVC) revenue is a volatile series, reflecting large and small development activity in the property market.

Since 2018-19, LVC revenue has lifted to an average of around $25 million per year. Treasury has indicated that the lift in the average LVC revenue reflects broader values in the ACT property market.

In relation to the dip in revenue in 2024-25 against the 2023-24 outcome and the 2024-25 Budget, Treasury has advised that activity in the property market over 2024-25 saw weaker revenue collected than expected at the 2024-25 Budgets.

Treasury has indicated that activity in 2025-26 is expected to pick up on the back of commercial and residential activity, before returning to around trend levels in the outyears.

Expectations of future revenue from the LVC are more muted than forecast in previous Budgets.

5.8 Dividends and income tax equivalents

Total dividend revenue in 2025-26 is expected to be $178.9 million, an increase of $94.9 million from the 2024-25 Budget Estimated Outcome. Dividends are expected to increase in 2026-27 to $272.1 million, increasing across the out years to $253.8 million in 2028-29.

Tax equivalent revenue is forecast in 2025-26 to be $84.9 million, an increase of $56.2 million compared to the updated forecast for 2024-25.

Details of these transactions are provided in Table 6 below.

Table 6: Dividends and Tax Equivalents

	2024-25 Est. Outcome $'000	2025-26 Budget $'000	2026-27 Estimate $'000	2027-28 Estimate $000	2028-29 Estimate $'000
Dividends					
Dividends – Icon Water	29,360	49,995	88,956	91,038	76,950
Dividends – CIT Solutions	0	0	0	0	0
Dividends – Suburban Land Agency and City Renewal Authority	54,595	128,874	183,132	80,885	176,855
Total Dividends	**83,955**	**178,869**	**272,088**	**171,923**	**253,805**
Total Income Tax Equivalents	**28,704**	**84,925**	**106,533**	**56,440**	**123,479**
Total Dividends and Tax Equivalents	**112,659**	**263,794**	**378,621**	**228,363**	**377,284**

The table shows growth in forecast dividends across the out-years for ICON Water and the Suburban Land Agency (SLA) and City Renewal Authority (CRA), albeit with a dip in 2027-28 for the SLA.

The forecast profile for Icon Water is similar to the forecasts in the 2024-25 Budget, although the estimate for 2025-26 is lower than forecast in last year's Budget.

Dividends from the Suburban Land Agency and City Renewal Authority are forecast to vary over the Budget and forward years. The forecasts are much lower and more volatile than forecast in 2024-25.

Little explanation is provided in the Budget Outlook for the forecast dividend flows. Pegasus provided detailed comment on the Icon Water forecasts in the report on the 2024-25 Budget. It was noted in that report that the relatively low estimates reflect a number of one-off factors related to in-sourcing some functions and the impact on operating results of customer subsidies to compensate for previous over-charging. The expectation at that time was that normal returns would be expected from 2025-26.

It is not clear why the results for the SLA and CRA have been combined. The SLA and CRA are separate bodies and their accounts are reported separately in Budget Statement E. The dividend forecasts for the Suburban Land Agency/City Renewal Authority are well below the levels forecast for each year in last year's Budget. However, the CRA is a much smaller entity than the SLA and the dividend flows forecast in the Budget appear to mostly reflect the operation of the SLA.

ACT Treasury has indicated that dividend payments from the SLA fluctuate year on year depending on SLA's available cash which is influenced by the life cycle of projects and investment in a large

portfolio of projects, and that changes in the estimated dividend reflect the most up to date view of the timing of projects.

It is difficult for a reader of the Budget to reconcile the forecast dividends with information available on operating results and land sales reported in the Financial Statements at Budget Statement B. While the Budget papers indicate that the Government's dividend policy requires businesses to return 100 percent of net profit after tax to the General Government sector, it is clear from the Financial Statements that the dividend forecasts, at least for the SLA and CRA, also reflect other adjustments that are not itemised.

There are no direct dividend flows from ACTEW (ACTEW/AGL). ACTEW/AGL is a joint venture structure whereby each partner takes its share of any net profits and net assets. Those profits flowing to ACTEW are consolidated into ICON and are therefore included in ICON's dividend flows.

We understand that the zero dividends from CIT Solutions reflects a decision to transition CIT Solutions into CIT and then to wind up the entity.

Given the size and volatility of revenue flows from dividends, the Budget contains surprisingly little information to assist a reader understand the underlying changes in the operations of the businesses that have generated the profits on which the dividends have been paid. More information on the components of dividend flows and the underlying reasons for change would aid budget transparency.

5.9 Contributed assets

The Budget forecasts revenue of $137.5 million from contributed assets in 2025-26, an increase of $15.1 million from the 2024-25 Estimated Outcome.

Revenue from gains from contributed assets is now expected to be lower in 2025-26 and 2026-27 than forecast in last year's Budget, but much higher in 2027-28 than previously forecast. Contributed assets largely comprise assets transferred from the Public Trading Enterprises sector and external developers that relate to land release development. No explanation is provided in the Budget Outlook for the large variations from the estimates included in the 2024-25 Budget.

We understand from ACT Treasury that contributed assets for the Suburban Land Agency are forecast to increase substantially over the forward estimates, from an estimated outcome of around $20.7 million in 2024-25 to $154.1 million in 2027-28 and $146.5 million in 2028-29. These assets include land infrastructure such as storm water, streets, energy connections and street lighting passed back to the Agency from developers. Growth in contributed assets in these years reflects increased land sales to support demand for housing.

As with dividends, budget transparency would be enhanced if additional explanation were provided in the Budget Outlook for the considerable changes in forecasts of gains from contributed assets.

6 Expenses

Forecast expenses for 2025-26 of $9.6 billion are $353.8 million or 3.8 percent higher than the expected 2024-25 outcome and 5.1 percent higher than forecast for 2025-26 in last year's budget.

Expenses are forecast to grow over the Budget and forward estimates period by 10.9 percent on the estimated outcome for 2024-25, an annual growth rate of 2.6 percent.

Growth in expenses has been driven by a significant increase in expenditure on health and growth in interest expenses. Despite the uplift in health spending, there is some risk of further increases beyond these levels in future Budgets.

Interest expenses are now forecast to reach $629million in 2025-26 and $974 million in 2028-29. The interest bill almost doubles between the 2024-25 outcome and the 2028-29 estimate. This represents annual average growth over the Budget and forward years of 23.5 percent.

High interest payments divert resources that could otherwise be directed to improved services and will constrain future budget flexibility.

6.1 Overview

Forecast expenses for 2025-26 of $9.6 billion are $353.8 million or 3.8 percent higher than the expected 2024-25 outcome and $471 million or 5.1 percent higher than forecast for 2025-26 in last year's budget.

Table 7 sets out the forecasts for aggregate expenses for the budget and forward years.

Table 7: Budget and forecast expenses

	2024-25 Est. outcome $m	2025-26 Budget $m	2026-27 Estimate $m	2027-28 Estimate $m	2028-29 Estimate $m
Expenses	9,255.10	9,608.90	9,813.20	10,034.70	10,260.80

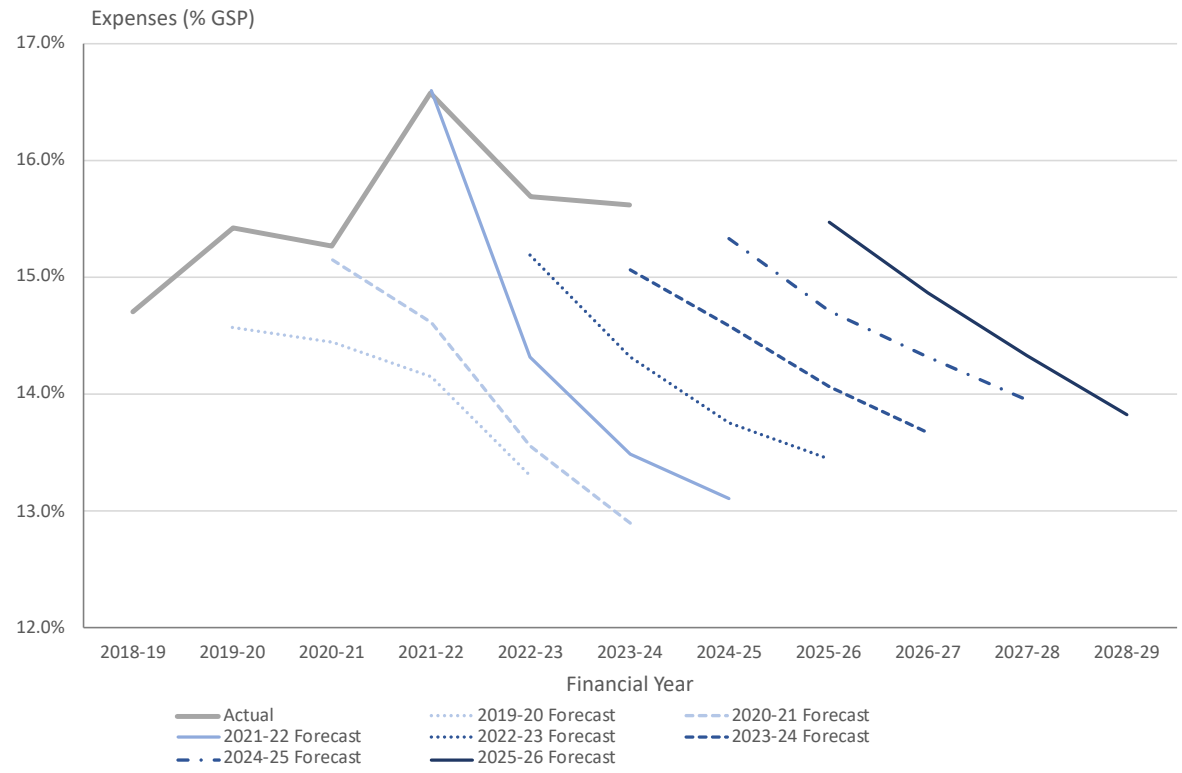
The forecasts show growth over the period on the estimated outcome for 2024-25 of 10.9 percent, or an annual growth rate of 2.6 percent. This is lower than the rate of growth forecast in last year's Budget but this partly reflects a higher than anticipated outcome for 2024-25.

However, as the following more detailed discussion shows, there is significant upside risk against these forecasts. Health, Education and General public services are the three largest areas of Government spending, and each is vulnerable to demand and cost increases that are not fully provided for in the estimates. The Government has acknowledged that the provision for health expenses may not be sufficient to meet rising cost and demand pressures, and the education estimates do not appear to provide for growth in the student population.

The ACT has a poor record in forecasting and managing its expenditure.

Figure 19 shows expense forecasts as a proportion of GSP. The chart shows that expenses are forecast to decline over the Budget and forward years as a proportion of GSP. However, the chart also shows that in recent years forecasts of reductions in expenditure as a proportion of GSP have not been achieved.

Figure 19: Expense forecasts as a proportion of GSP – 2019-20 to 2025-26 Budgets



In each year, the ACT Budget has presented relatively modest forecasts for expenses that have been revised upwards in each successive set of Budget forecasts. In practice, expenses have generally grown faster than GSP and faster than forecast.

The Territory has a poor record in restraining growth in expenses

While forecasts of GSP can be influenced by many factors that might influence these ratios, forward estimates for expenses show a similar pattern when expressed in simple dollar terms.

Based on this experience, and the discussion in following sections of this report, estimates for expenses in the forward years might be expected to be higher in future years than forecast in the current Budget, both in absolute terms and as a proportion of GSP, unless the Government has more success than it has achieved in the past, in restraining expenditure growth.

6.2 Reasons for growth

Growth in forecast expenses since the last Budget and the 2024-25 Budget Review is primarily the result of new spending announced in this Budget, and associated additional interest expenses, off-set to a small extent by some technical adjustments.

The major contributions to the growth in expenses across the forward estimates period are in health and education. Additional comment on growth in expenses by function is provided in section 6.3 below.

Significant new expense initiatives in 2025-26 and beyond include:

- $717.7 million over four years responding to health care demand and cost pressures
- $102.5 million over four years to expand elective surgery and deliver 70,000 elective surgeries over four years
- $80 million over four years to provide better support for long-stay patients.

Other expense initiatives are relatively small compared with previous years and are spread across a number of functions. They include:

- $19.6 million over four years for homelessness service and supports;
- $13.4 million over four years to continue the Free Meals in School program, though almost $1m of this amount is offset against other expenses;
- $13.2 million in 2025-26 for out of home care services for vulnerable children and young people; and
- An additional $10 million over two years for community sector organisations.

Many of the new initiatives have capital components. In addition, some housing initiatives announced in the Budget are outside the General Government sector. New capital investments in the Budget are discussed in section 7 of this report.

The new policy announced in this Budget has been partly offset. Expense offsets and savings in the Wellbeing statement total around $1.1 billion over four years, though these figures include already provisioned funding, which would not normally be considered a saving against the budget balance. As noted elsewhere in this report, very little information is provided on how these savings will be made or their effect on service delivery.

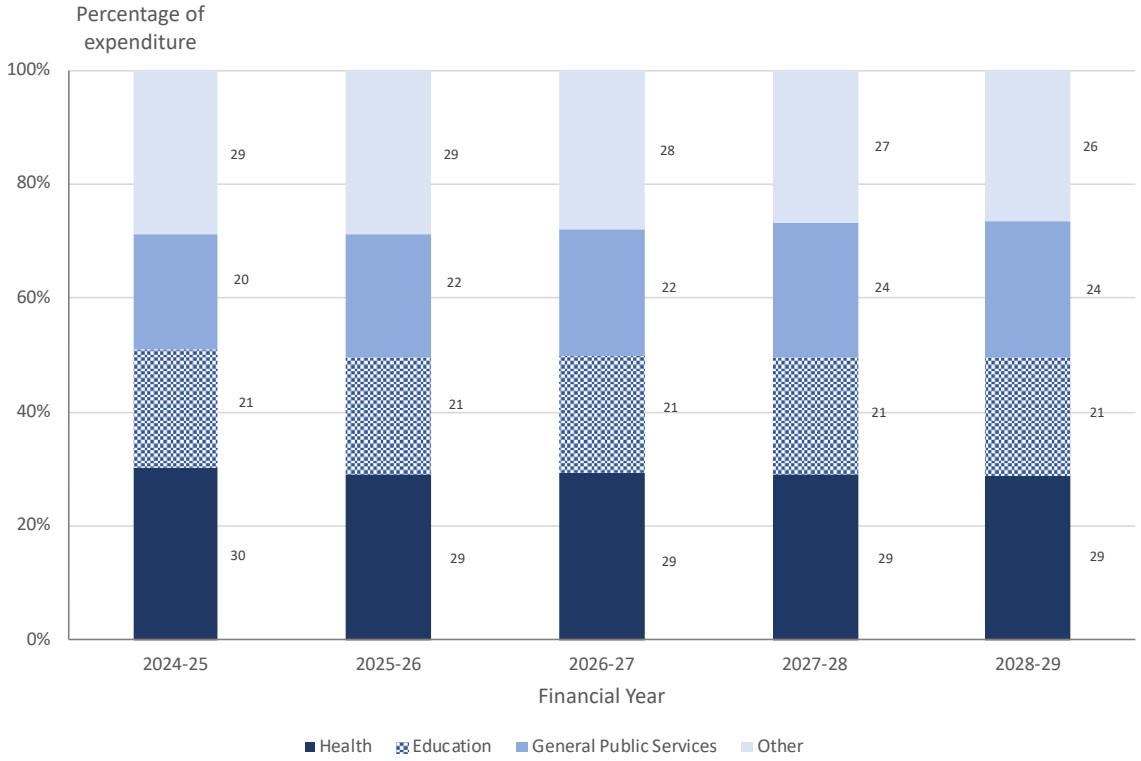
Further comment on new policy and savings is provided in section 4 of this report.

6.3 Expenses by function

The Budget Papers include a presentation of expenses by the functions through which governments seek to achieve their objectives. This classification is widely employed in international financial reporting systems and allows trends in government outlays on functions or purposes to be compared between jurisdictions and over time.

In the ACT, General Government expenses are dominated by spending on health, education and general public services. Together, these functions account for around 70 percent of all government expenses as outlined in Figure 20 below.

Figure 20: Expenses by function – 2024-25 (est.) to 2028-29

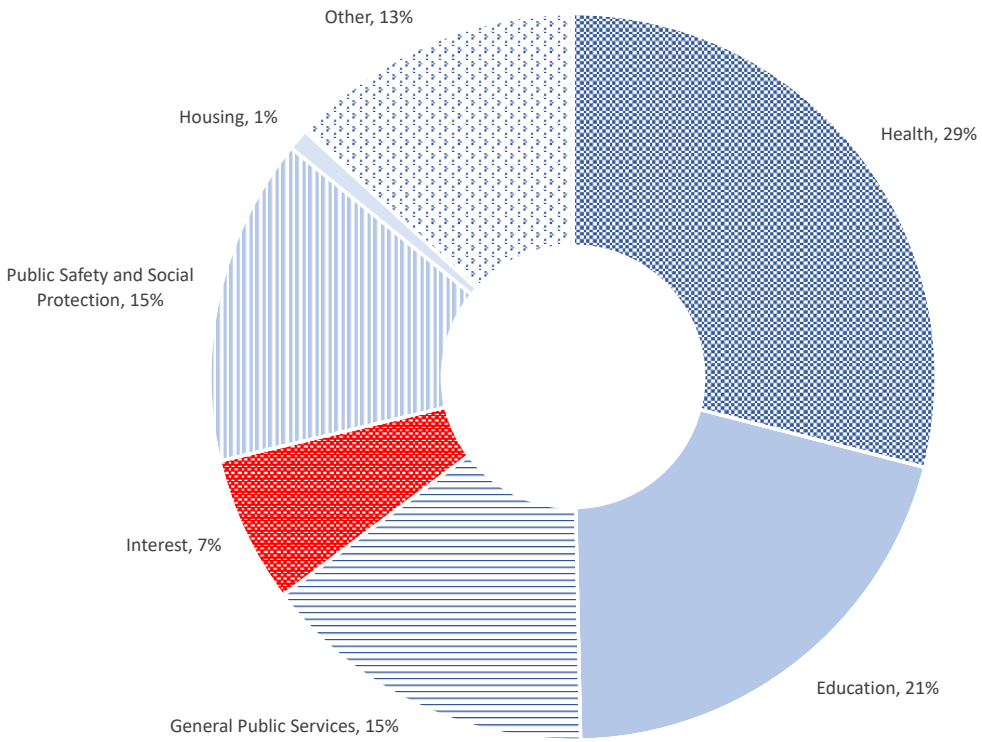


The highest areas of growth across the Budget and forward estimates period include interest payments and education.

Interest expenses now represent a large and growing share of the ACT Government's expenditure. A way to look at this is to consider interest payments in comparison with other areas of Government expenditure.

The House of Assembly Committee on Estimates suggested the production of a chart showing the composition of ACT Government expenditure, including interest. This is shown in Figure 21, in which, for the purpose of this chart, interest has been separated from the General Public Services function. The chart shows that in 2025-26 Budget interest payments are expected to represent 7 percent of all expenses; about a third of the Education budget and almost a quarter of the Health budget. By 2028-29, interest expenses are forecast to represent 9.5 per cent of all expenditure.

Figure 21: Composition of expenses by function, including interest, 2025-26 Budget



Further comment on the growth in interest expenses is provided in section 6.4 of this report.

Education is growing at an average annual rate of 2.9 percent, which is at about the level to be expected from growth in wages and prices. This leaves no provision for growth in demand as the ACT population increases.

The Government has drawn attention in the 2024-25 Mid-Year Review and the 2025-26 Budget to a significant uplift in health spending in response to what it describes as "an ongoing increase in demand" that has "been building for some years". The Budget provides no specific information that would allow measurement of the nature or magnitude of these pressures.

In response to enquiries, Treasury has advised that in the 2023-24 financial year, Canberra Health Services (CHS) saw an increase of 107,000 patient encounters compared to the previous year.

- In the first six months of the last financial year (July – December 2024), CHS saw 85,000 more patient encounters compared to the same period the year before (from 528,152 to 612,719, a 16 per cent increase) – more than 460 additional encounters each day.
- These encounters include almost 6,000 more emergency department presentations (from 76,585 to 82,439, a 7.6 per cent increase), 6,600 overnight hospital admissions (from 75,002 to 81,645, 8.8 per cent), and more surgeries and procedures, specialist appointments, and Walk-in Centre presentations.

Additionally, in the second half of 2024, there were almost 67,000 walk-in centre presentations (5,800 more than the same period last year).

Treasury also indicated that, like other jurisdictions, CHS is seeing a growing number of 'maintenance care' type patients – those who are medically well and ready for discharge from hospital but are unable to be discharged, due to appropriate aged care or disability services.

The increase in health spending has been provided in the form of an increase of about 10 percent in funding across every year compared with forecasts in the 2024-25 Budget. After this provision has been taken into account, health function expenses are forecast to be relatively stable through the budget and forward estimates, with a forecast nominal growth of 1-2 percent per year. This is not enough to keep up with price inflation, let alone further increases in demand.

There is a risk of further increases in health expenses

If health costs are indeed subject to longer term structural and demand pressures, there is a risk that the health forecasts will face further pressure in coming years. The Government acknowledged in the Mid-Year Review that there are risks of ongoing higher net costs in the health function in the out-years (2024-25 Mid-Year review, p.89). The Government indicated at that time that the uncertainties and potential estimates to be investigated further through the 2025-26 Budget process. The outcome of those investigation is at this point unclear. The Government has again acknowledged in the 2025 Budget Outlook that there is a risk of further cost increases beyond the levels provided in the forecasts.

Housing has been identified in the Budget as a priority area for investment. The Wellbeing Statement claims that the Budget includes $145 million in funding over four years for housing initiatives. While expenses on housing and community amenities reported in the Budget Outlook are forecast to remain at around $90 million over the Budget and forward years, some of the Government's additional investments in public housing are being made through the Public Trading Enterprises sector, which is not included in General Government sector expense data, and some of the housing assistance announced in the Budget is reported in the social protection sub-function at p.251 of the Budget Outlook. Housing funding in that category is forecast to increase by about $55 million in 2025-26 over the estimated outcome for 2024-25 and remain higher than the 2024-25 outcome through the Budget and forward years.

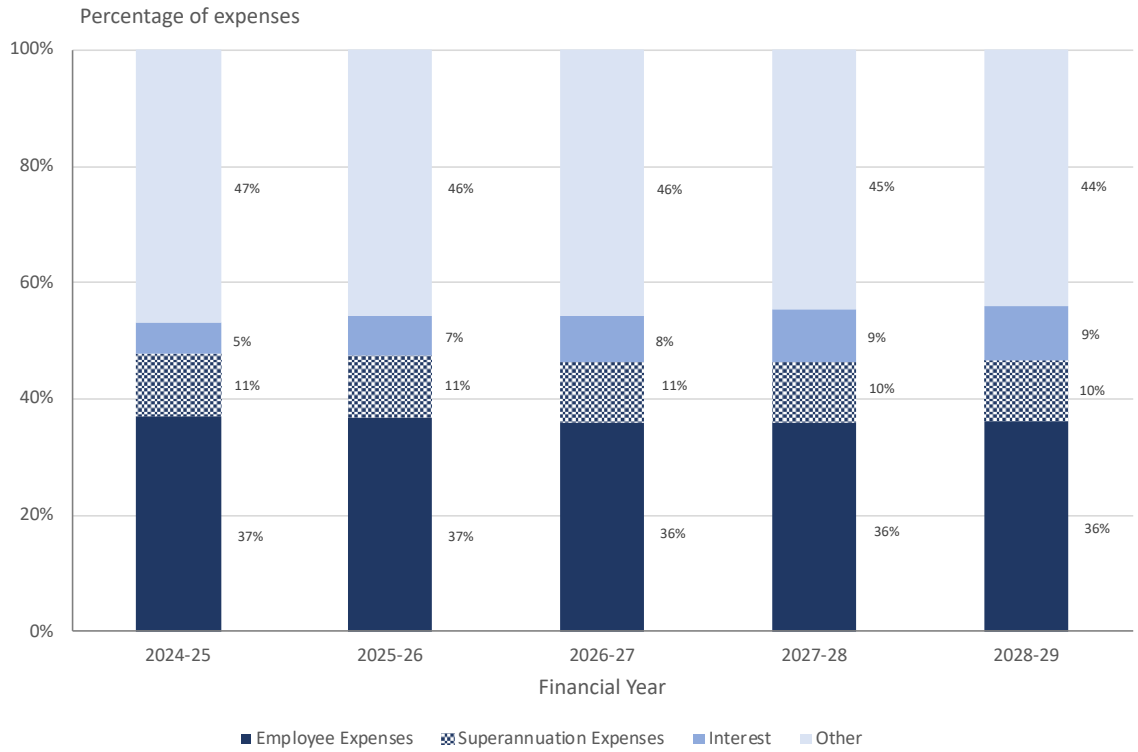
Further comment on housing assistance in the Budget is provided in section 11 of this report.

6.4 Expenses by economic type

Expenses can also be described in terms of the type or nature of the payment.

Expenses by type for the ACT Government are dominated by salaries, superannuation and other employee related expenses, representing almost half of total expenses, as shown in Figure 22 below.

Figure 22: Expenses by economic type – 2024-25 (est.) to 2028-29



Employee expenses are forecast to grow by 8.9 percent in 2025-26 over the expected outcome for 2024-25, an average annual growth rate of 2.2 percent a year over the Budget and forward years. The Budget Outlook says that this largely reflects government policy decisions, including spending in health. In fact, the 2.2 percent average annual growth rate represents a real reduction in spending, even after taking account of growth in health services and education.

Employee expenses may be impacted slightly by the whole of government expenditure reform identified on page 89 of the Budget Outlook. That measure indicates that non-employee expenses will grow at 1.25 percent while employee expenses outside of the Canberra Health Service and school-based staff will grow over the forward estimates on average by 0.86 percent. The overall budgeted savings of less than $30 million a year, if achieved, represent about 1 percent of total spending on employee expenses.

Interest expenses show significant growth over the Budget and forward years. The Budget forecast for interest expenses is $127.4 million higher than the estimated 2024-25 outcome and is forecast to increase by a further $345.0 million over the Budget and forward years. The interest bill almost doubles between the 2024-25 outcome and the 2028-29 estimate. This represents annual average growth over the Budget and forward years of 18.0 percent.

Interest costs are the fastest growing area of Government expenditure

Interest expenses include the cost of borrowings to service debt incurred to finance ongoing deficits and investments, interest on Commonwealth and other loans, and the interest costs associated with public private partnerships and service concessions. But the largest, and the fastest growing component, relates to the cost of servicing the public debt.

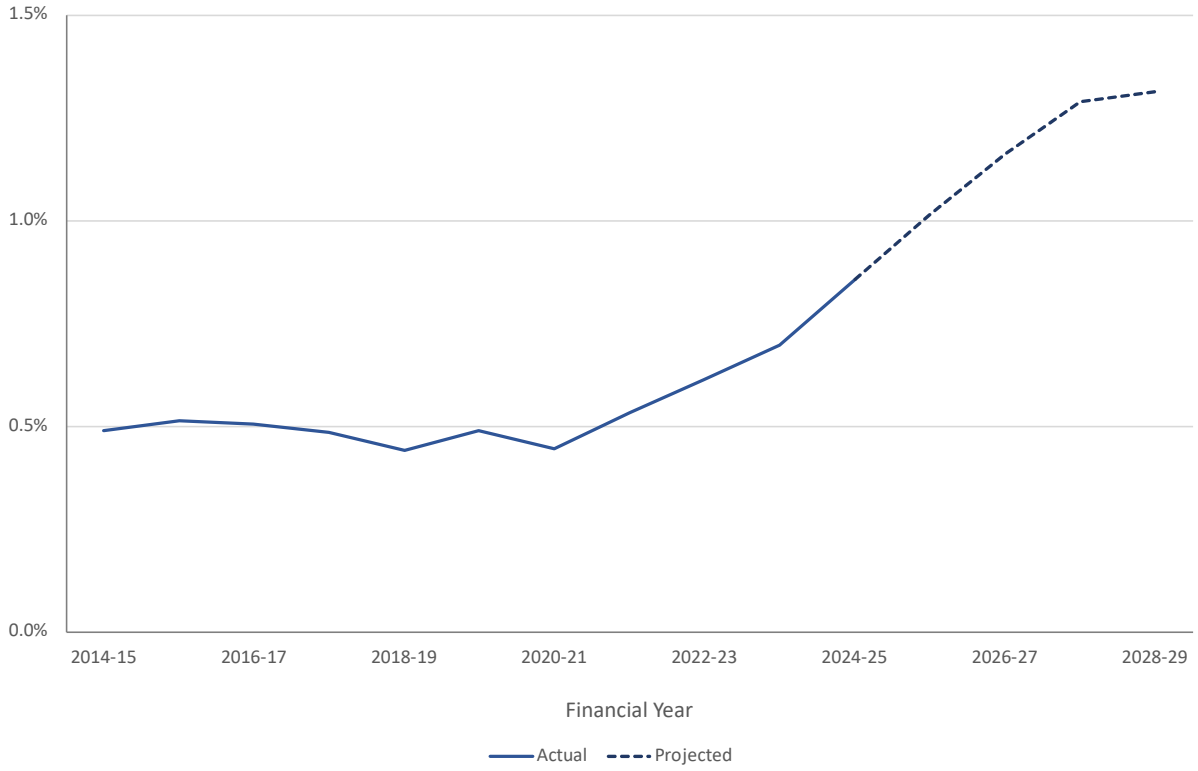
The Territory's interest expense has grown as a share of GSP over the past decade, in line with growth in the Territory's debt and other liabilities. Figure 23 below shows that interest expenses are

forecast to more than double as a share of GSP over this period, with much of this growth occurring since 2020-21.

By 2028-29, interest payments are forecast to total reach $974.4 million, or 9.5 percent of total expenses, and more than 1.25 percent of GSP. Interest payments are representing a measurable and growing burden on the ACT taxpayer.

High interest obligations divert funds that might otherwise be spent on health, education and other services. The interest bill also limits future budget flexibility. A large outstanding debt burden leaves the ACT vulnerable to any future shocks in the form of pandemics, natural disasters or global uncertainty. The billion dollars, or roughly a tenth of total expenses, that are being paid to banks and financial institutions might have otherwise been available to buffer the economy against future shocks or to spend on health, education and other services to benefit the community.

Figure 23: Interest expenses as a proportion of Gross State Product, 2014-15 (actual) to 2028-29 (forecast)



The presentation of expenses by economic type illustrates the extent of the challenges in shifting the budget aggregates. Many of the ACT Government's expenses are "locked in" to the extent that they are made up of payments which are not discretionary. Employee related expenses represent approximately half of total expenses. These costs are difficult to move downwards in the short to medium-term.

Depreciation and amortisation expenses related to capital investment decisions represent another 6.2 percent of the total. Interest expenses on the Territory's borrowings are expected to rise to almost ten percent of expenses by 2028-29. These payments are an unavoidable first call for government spending.

Other categories of expenditure are discretionary in a technical sense but as they are more directly related to the level of services provided to the community, there are practical constraints on the extent to which payments can be reduced in the short to medium term.

7 Infrastructure and capital

The Budget includes funding for an ambitious program of substantial major projects, infrastructure and capital works across the Budget and forward years. The ACT government intends to invest $1.8 billion in 2025-26 and approximately $8.1 billion out to 2029-30.

Key new investments include health, public housing, education, urban renewal, transport and roads, city and community and services, climate action and entertainment, arts and sport.

While capital expenditure is forecast to reduce over the forward years, the experience of previous years has been that forecast spending in later years is revised upwards in the future.

7.1 Overview

The ACT Government intends to invest $8.1 billion in infrastructure in the ACT over the next five years to 2029-30 (2025 p. 203). The program is split between the General Government Sector (GGS) and the Public Trading Enterprise Sector (PTE).

Table 8 below summarises the infrastructure, capital works and investment program.

Table 8: Summary of Infrastructure Investment Program – 2025-26 to 2029-30

	2025-26 Allocation $'000	2026-27 Allocation $'000	2027-28 Allocation $'000	2028-29 Allocation $'000	2029-30 Allocation $'000
New Capital Works	161,140	166,565	34,592	6,461	26,000
Asset Renewal Program	124,493	119,300	123,971	128,927	134,082
Works-in-progress	1,057,013	895,058	934,492	97,646	228,747
Central Capital Provisions	44,420	338,933	376,678	453,749	396,937
Total GGS Capital Works Program (including provisions)	**1,387,066**	**1,519,856**	**1,469,733**	**686,783**	**785,766**
Capital Delivery Provision	-100,000	-150,000	-150,000	200,000	150,000
Total Capital Program Forecasts (including provisions)	**1,287,066**	**1,369,856**	**1,319,733**	**886,783**	**935,766**
Public Trading Enterprises	466,143	511,817	531,533	494,879	342,150
Total GGS and PTE Capital Program Forecasts (including provisions)	**1,753,209**	**1,881,673**	**1,851,266**	**1,381,662**	**1,277,916**

Under the Infrastructure Investment Program, the Government has committed to over:

- $830 million on health
- $790 million on education and skills
- $2.0 billion on transport, roads and active travel
- $710 million for entertainment, arts and sport
- $400 million for city services, recreational and community facilities
- $620 million for housing infrastructure, and
- $210 million for climate action and environment infrastructure.

7.2 Infrastructure Investment Program (IIP) – Key Elements

Key elements of the IIP are (ACT Budget 2025, pp. 205 – 209):

Health Infrastructure:

- Planning and design for the Casey health centre;
- Enhance infrastructure at the North Canberra Hospital campus;
- Construction of an inner south health centre; and
- Continue the redevelopment of the Canberra hospital.

Housing, land release and city planning:

- Release of sites across Gungahlin for residential, mixed use and community housing, including Build – to – Rent;
- More sites for community housing in the Belconnen Town Centre and Macnamara;
- Homeless sector funding and releasing mixed use sites with more community and affordable housing across Central Canberra;
- Social and community housing for Curtin; and
- Planning for housing in shopping centres and transport corridors across Tuggeranong.

Entertainment, arts and sports:

- Planning and design for new playing fields in Taylor;
- Upgrade to suburban sports facilities across Belconnen;
- Upgrades to sports facilities and EPIC in Central Canberra;
- Continue construction of Stromlo playing fields;
- Upgrades to sporting facilities and the Lakeside Leisure Centre in Tuggeranong; and
- Redevelopment of the Canberra Theatre Centre, and in partnership with the Commonwealth, deliver a new Convention and Entertainment Centre, the Canberra Aquatic Centre and progressing the development of the Bruce sports, health and education precinct.

Education:

- Planning for a second college in Gungahlin;
- Construction of the Strathnairn primary school including early childhood services, and upgrades to other school infrastructure across Belconnen;
- Upgrades to school and TAFE and CIT infrastructure across Central Canberra;
- Complete the CIT campus in Woden; and
- Upgrades to school infrastructure across Tuggeranong including outdoor learning spaces.

City services, recreation and community infrastructure:

- Construction of a Gungahlin Community Centre adjoining the light rail and bus interchange;
- New and upgraded playgrounds across Belconnen and completing design work for improvements to the Winchester police station;
- Continue construction of the new Acton Waterfront Park, and upgrades to Garema Place and the City Police Station;
- Construction of a new Emergency Services Centre for Molonglo, and planning for police accommodation for Molonglo and Woden; and
- Upgrading public spaces and playgrounds across Tuggeranong.

Transport:

- Priority roadworks across Gungahlin;
- Improvements and upgrades to footpaths across Belconnen;
- Progressing Light Rail Stage 2A;
- Progressing the Garden City cycleway connecting north Canberra to Civic;
- Advancing approvals, planning and design for Light Rail stage 2B; and
- Road improvements for Athllon drive and Monaro highway.

Climate action, energy and environment:

- New electric buses;
- Electrification of gas assets in Government buildings;
- Electrification of public housing stock; and
- Updating walking tracks across nature parks and new mountain bike tracks

7.3 Capital Works Program – General Government

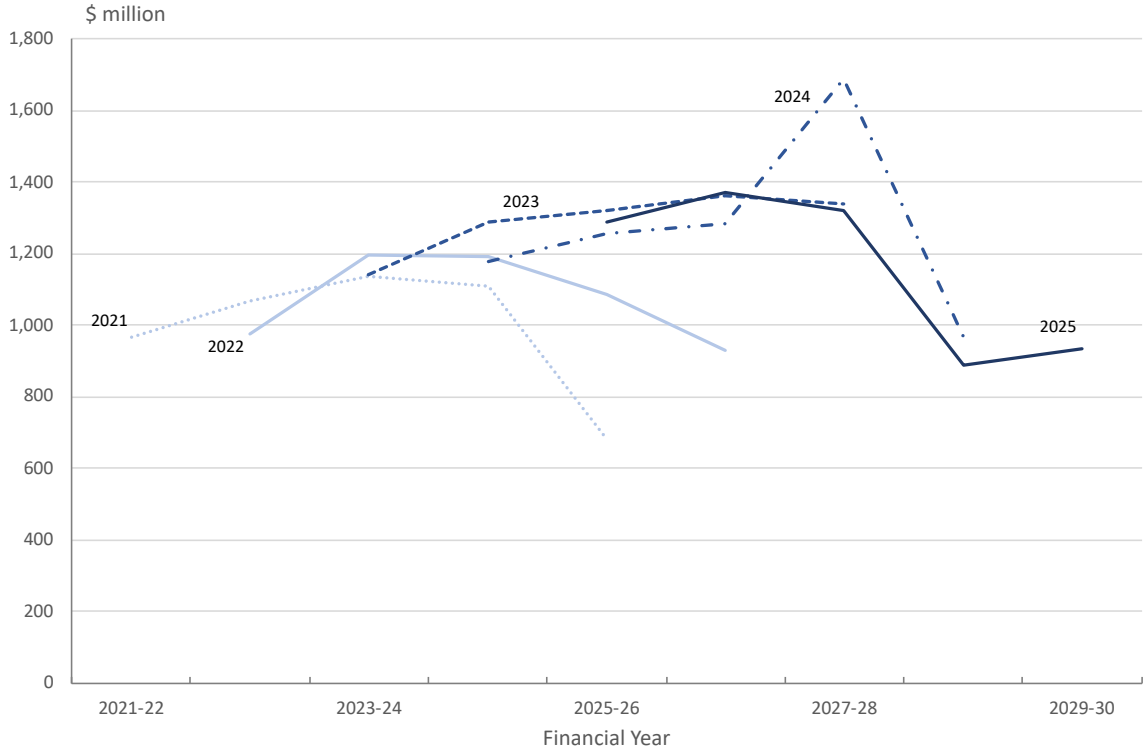
The Capital Works Program forms the largest component of the Infrastructure Investment Program, with funding of $1.4 billion in 2025-26 and $5.8 billion over the five years to 2029-30. This includes:

- $161.1 million in 2025-26 and $394.8 million over five years for new capital works
- $1.0 billion in 2025-26 and $3.2 billion over five years for works-in-progress
- $124.5 million in 2025-26 and $630.8 million over five years for the Asset Renewal Program, and
- $1.61 billion over five years for Central Capital Provisions.

This Budget reflects a total funding envelope of $5.8 billion over the five years, a reduction from the $6.4 billion forecast in 2024-25. The forecast capital spend increases over the Budget and forward years and then drops significantly in 2028-29, with a slight increase in 2029-30. On the experience of previous years, the forecast spending in 2029-30 could be expected to be revised upwards in the future.

Trends in capital works program forecasts in the last five ACT Budgets are outlined in Figure 24 below.

Figure 24: Capital Works Program Forecasts



Infrastructure Provisions increase substantially across the four forward years with a total funding envelope of $1.6 billion (Central Capital Provisions). The Central Capital Provisions sets aside funding for significant capital works projects for which budgets are yet to be settled, or which are commercially sensitive, including unallocated funding for the General Works Provision.

The Capital Delivery Provision is applied to the total GGS Capital Works Program and re-profiles approximately seven percent of the 2025-26, approximately 10 percent of the 2026-27 and approximately 10 percent of the 2027-28 of the investment program into the subsequent three years to 2030-31. The Capital Delivery Provision has a net zero impact over the six years to 2030-31.

7.4 Works-In-Progress

A total of $1.1 billion is allocated for 2025-26 and a total of $3.2 billion across the five years. In summary, key components for 2025-26 include (ACT Government, 2025, Appendix C, pp. 265 - 274):

- Canberra Health services, $47.6 million;
- Chief Minister, Treasury and Economic Development, $28 million;
- City, Environment and Renewal, $155 million;
- Digital Canberra, $29.4 million;
- Education, $38.9 million;
- Health and Community Services, $15.6 million;
- Housing ACT, $127.2 million;
- Infrastructure Canberra, $581.6 million; and
- Justice, $25.5 million.

Major projects include Light Rail phases 2A and 2B, CIT Woden Campus and Interchange, Canberra Hospital expansion, Northside hospital development, Healthcare services, Monaro highway upgrade, school upgrades, public/social housing and the Canberra Theatre Centre redevelopment.

7.5 Asset Renewal Program

The Asset Renewal Program provides Government agencies with an annual funding pool for works that extend the useful life or improve service delivery capacity of infrastructure assets. For 2025-26, the Budget provides $124.5 million for projects, an increase of $13 million since 2024-25. In summary, key allocations include (ACT Government, 2025, Appendix B, pp 259-263):

- Canberra Health Services, $14.5 million;
- Chief Minister, Treasury and Economic Development, $4.2 million;
- CIT, $3.7 million;
- City and Environment, $43.9 million
- Cultural, $2.9 million;
- Education, $27.9 million;
- Health and Community Services, $1.2 million;
- Infrastructure Canberra, $8.6 million;
- Justice and Community Safety, $5.2 million; and
- Office of the Legislative Assembly, $3.1 million.

The Budget allocation of $124.5 million includes approximately $5 million of roll-overs from prior years, which is not reflected in Appendix B of the Budget Outlook.

7.6 Infrastructure Canberra (iCBR)

iCBR was established in 2024 and supersedes Major Projects Canberra. iCBR is responsible for delivering the Government's infrastructure program including Tier1 and Tier 2 health, civil, transport and education capital projects and the Housing ACT capital works program. It is also responsible for the management and maintenance of most of the Government's property portfolio.

For 2025-26 key capital program components are:

- New Works, $21.6 million;
- Asset Renewal Program, $11.4 million; and
- Works in progress, $579.2 million.

Major projects include: upgrades to public buildings, Canberra Theatre expansion, managing construction of Light Rail Stage 2A, progressing Light Rail Stage 2B to Woden, CIT Woden Campus, Canberra hospital expansion and planning for the new Northside Hospital, Athllon drive duplication, new and upgrades to ACT schools, public housing and electrification of Government gas assets.

It appears that many of these projects are re-phased from previous Budgets.

7.7 Capital Works Reserve

In 2019 the ACT Government amended the *Financial Management Act 1996* to introduce a new mechanism, the Capital Works Reserve, to allow agencies with multi-year allocations to manage their capital program by advancing funds during the financial year should their capital appropriation be exceeded. Essentially a capital works advance, Funds drawn from the Reserve are deducted from the forward estimates for the project(s) concerned in later years. The 202-26 Budget has allocated $265 million to the Reserve, with unused funds lapsing at the end of the financial year.

Directorates wishing to drawdown on the Reserve must seek the Treasurer's approval, with ACT Treasury centrally controlling applications. The Treasurer is required to provide the Legislative Assembly with a reconciliation of any amounts approved for payment from the Reserve (under section 26 of the *Financial Management Act 1996*).

ACT Treasury has confirmed the Reserve is rarely accessed.

7.8 Capital Works Program – Public Trading Enterprises

The Public Trading Enterprises (PTEs) capital works program is outside the Budget as each entity funds their projects from own-sourced revenue and borrowings. Both the City Renewal Authority and Housing ACT will also receive additional amounts from the Budget.

New works are projected in 2025-26 totalling $466 million and a total of $2.3 billion across the five years to 2029-30. The programs include:

- Cemeteries and Crematoria Authority, $4 million in 2025-26 and $7.2 million over five years;
- City Renewal Authority, $5.5 million in 2025-26 and $10.3 million over five years;
- Housing ACT, $98.7 million in 2025-26;
- Icon Water, $194.9 million in 2025-26 and $1.5 billion over five years; and
- Suburban Land Agency, $163.1 million in 2025-26 and $756.3 million over five years.

7.9 Concluding Analysis

As indicated above the funding envelope for the Budget and forward years is the same as outlined in the 2024-25 Budget. Pegasus notes there are projects from a number of past Budgets that did not commence but have reappeared in this Budget, for example, social housing for Jacka, duplication of William Hovell drive and school upgrades. Pegasus also notes there are projects from past Budgets which are still in progress, for example, Canberra hospital, Monaro highway and Athlon drive. Further, it is noted that Northside hospital is still in planning phase, it took approximately three years to duplicate William Slim drive, some 1.5 kilometers of roadway, and the duplication of Gundaroo drive to Horse Park drive appears to have been pushed to the out years.

The pattern of spending suggests either there have been cost and time overruns on announced projects or the ACT is adding new projects that had not been previously foreshadowed. This raises questions about the ACT's capacity to manage its ambitious infrastructure and capital program and the quality of its budgeting and reporting.

8 Assets and Liabilities

Net debt and net financial liabilities are increasing across the Budget and forward years in absolute terms. As a proportion of GSP, net debt and net financial liabilities continue to grow through the Budget year and in 2026-27 and reduces slightly in 2027-28 and 2028-29. Net worth is falling in absolute terms, with a marked decline across the forward years when measured as a proportion of GSP.

The ACT has moved from the position of being a net creditor at the beginning of the last decade to having a substantial and increasing debt and interest burden in the Budget and forward years.

The Government continues to make progress in building a pool of assets to cover its superannuation liability and on present trends could be expected to have fully funded the liability by the mid-2030s.

8.1 Overview

Net debt and net financial liabilities are forecast to rise over the Budget and forward estimates. Net debt and net financial liabilities have been increasing over the past two decades. Net worth had grown until 2023-24 but is now forecast to decline over the Budget and forward estimates.

Together, these key balance sheet measures show a continued deterioration in the Territory's fiscal position.

8.2 Net debt

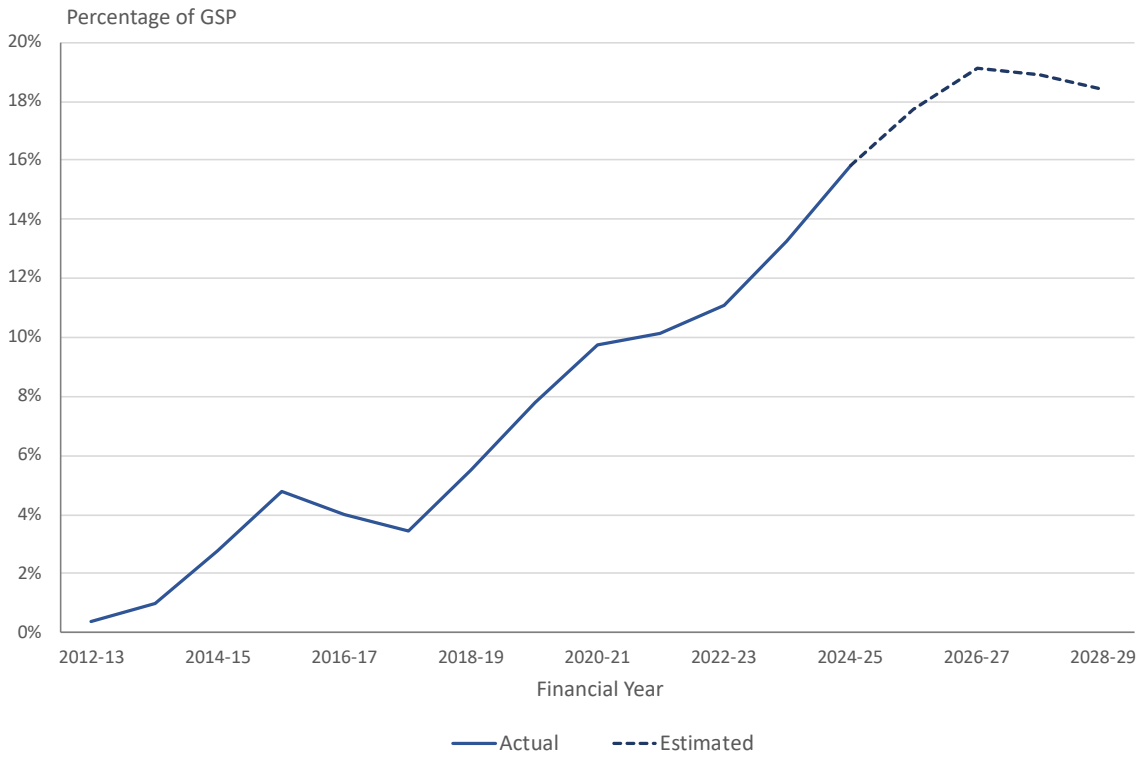
Net debt represents the sum of deposits held, advances received and borrowings less the sum of cash and deposits, advances paid, investments, loans and placements but excludes super liabilities.

The ACT's net debt in 2025-26 is higher in both absolute terms and relative to GSP than had been forecast in previous Budgets, and there is an upward trend over the forward estimates. In absolute terms, net debt in 2028-29 is forecast to be almost 50 percent higher than the estimated debt in 2025-26 and eight times higher than in 2015-16. The ACT had no public debt as recently as 2011-12.

The ratio of net debt to GSP is a broad indicator of a jurisdiction's ability to meet its debt obligations and its medium-term financial sustainability. The Budget Papers forecast continued growth in this indicator, in line with the trend over the past decade, from an estimated 15.8 percent at the end of June 2025 to 18.4 percent by 30 June 2029.

Figure 25 illustrates the growth in net debt since 2012-13 as a percentage of Gross State Product (GSP).

Figure 25: Net debt as a proportion of Gross State Product



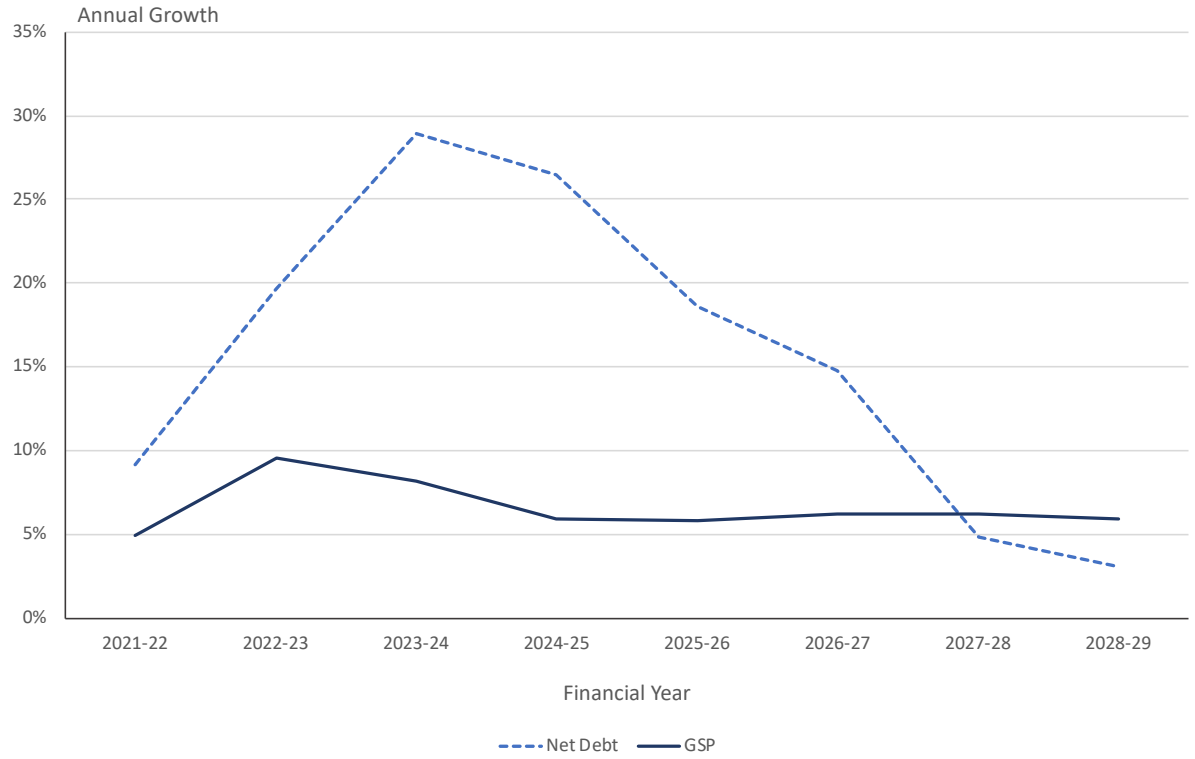
Note: From 2019-20, net debt includes the impact of accounting changes in relation to the treatment of leases. The ACT Government has indicated that for this reason net debt from 2019-20 is not directly comparable to prior years.

While there have been some technical adjustments and other transactions related to the Asbestos Eradication Scheme in 2015-16, and the treatment of leases in 2015-16 and 2019-20, growth in debt over the period has been driven by persistent Government deficits and a large infrastructure program.

The ACT has gone from being a net creditor at the beginning of the last decade to having a substantial and growing debt.

Growth in public debt as a proportion of GSP is forecast to moderate in the later out-years. This is the result of forecast growth in GSP in those years being higher than forecast growth in public debt. Figure 26 below shows the annual growth in net debt compared with growth in GSP.

Figure 26: Annual growth in net debt and GSP, 2021-22(actual) to 2028-29 (forecast)



The chart shows that actual annual growth in net debt has been much higher than growth in GSP over recent years, and is forecast to remain higher until 2026-27. Beyond 2026-27, net debt is still expected to grow year on year, but at a slightly lower rate than GSP.

A short-term increase in net debt can be a sensible response to adverse economic shocks, such as the COVID19 pandemic, and can be justified when investing in future wealth generating assets. However, continuing high levels of debt impose costs on the Budget that constrain choices to invest in other areas and can reduce future budget flexibility.

8.3 Net financial liabilities

Net financial liabilities is a broader measure than net debt as it includes liabilities other than borrowings, such as unfunded superannuation and long service leave entitlements, but excludes the value of equity held by the General Government sector in public corporations. Changes in net financial liabilities are therefore influenced by variations in the net debt figures discussed above.

The Territory's net financial liabilities are projected to continue to grow into the out-years.

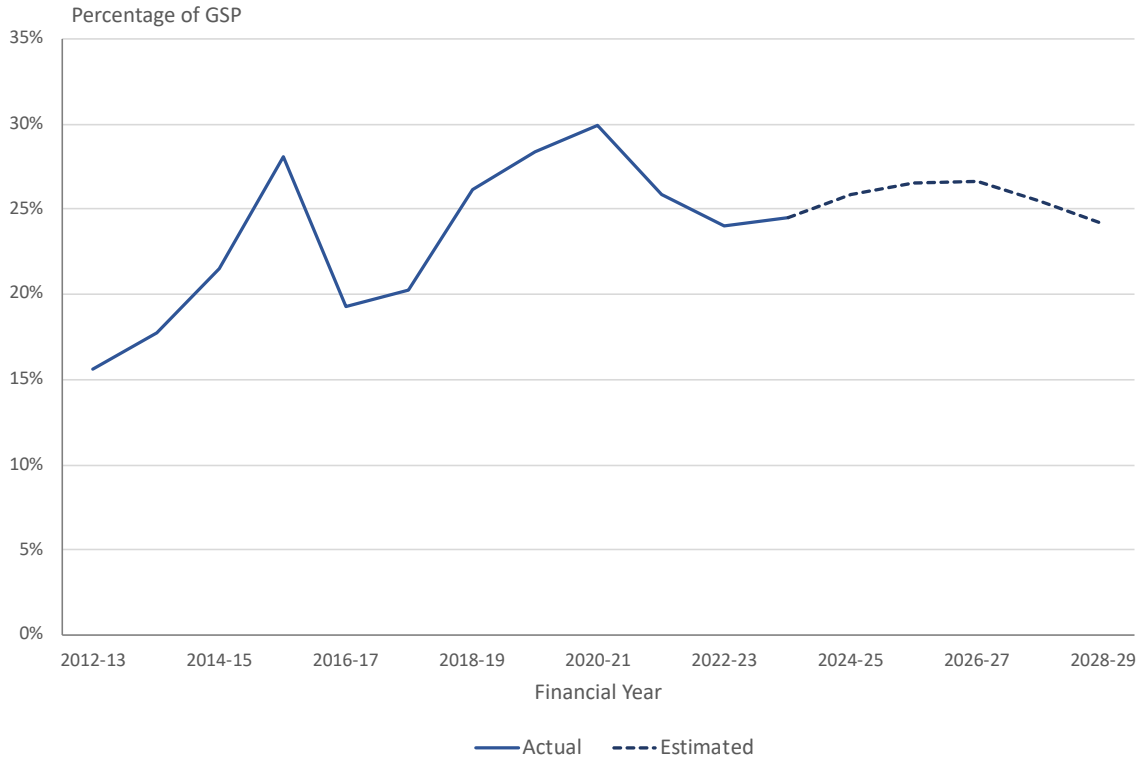
Net financial liabilities are forecast to increase from an estimated $15.2 billion in 2024-25 to $16.5 billion over the 2023-24 financial year, or more than $700 million over the Mid-year Review estimate, primarily due to an increase in the superannuation liability following the most recent defined benefit superannuation liability review, lower investment returns attributed to a decrease in the value of investments and lower cash holdings.

Net financial liabilities are expected to reach $17.9 billion by 2028-29.

The growth in net financial liabilities over the period is mainly due to increasing levels of net debt and an increase in the superannuation liability. Changes in the level of net debt are discussed in the previous section and changes in the superannuation liability are discussed further in the section below dealing with superannuation.

Figure 27 below illustrates the growth in net financial liabilities as a proportion of GSP since 2011-12.

Figure 27: Net financial liabilities as a proportion of Gross State Product



While there has been some fluctuation in the ratio of net financial liabilities to GSP over time, the overall trend over the last decade has been upwards. Relative to GSP, net financial liabilities are forecast to rise gradually over the period to 2026-27 and then decline slightly across 2027-28 and 2028-29. Continued growth in the ratio of net financial liabilities to GSP is not desirable in terms of the sustainability of the ACT Government's fiscal position.

8.4 Net worth

Net worth is an economic measure of wealth that reflects the value of all financial and non-financial assets (such as land, plant and equipment) less liabilities, including superannuation liabilities.

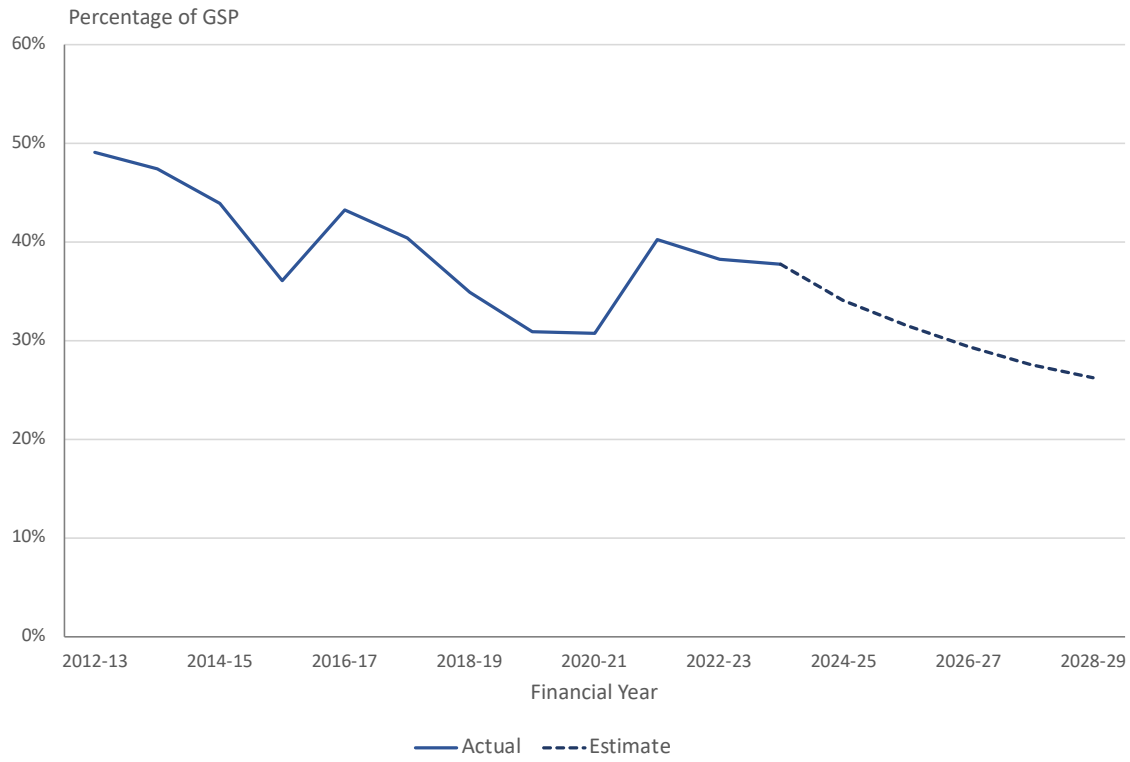
This indicator is often regarded as the best measure of the sustainability and inter-generational equity of a jurisdiction's fiscal position.

The ACT Government's net worth is positive but is declining.

Changes in net worth since 2011-12 mirror the experience for net financial liabilities. That is, when liabilities decrease, as occurred in 2021-22, net worth increases and vice versa. In nominal dollar terms net worth has increased from $13.8 billion as at 30 June 2012 to an estimated 20.0 billion as at 30 June 2025.

Relative to GSP, however, there has been a downward trend, as shown in Figure 28 below.

Figure 28: Net worth as a proportion of Gross State Product



Sources: Budget Outlook, Table F.9, ABS (2024).

The ratio of net worth to GSP has been falling for over a decade, from around 50 percent of GSP in 2012-13 to about a third in 2024-25 and is forecast to be a quarter of GSP in 2028-29.

In the absence of corrective measures to improve the value of the Territory's assets, or reduce liabilities, that trend could be expected to continue.

8.5 Superannuation

For new employees since 2005, the Government has made fortnightly payments to each employee's designated superannuation fund under a defined contribution arrangement. There are no associated unfunded liabilities for these employees. However, the ACT continues to carry a significant liability associated with the superannuation entitlements of past and present employees who are members of the Commonwealth's now closed defined benefit superannuation schemes, the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS was closed to new members in 1990 and the PSS scheme in 2005.

Approximately 4,700 employees as at 30 June 2024 were members of these schemes, a reduction of around 600 over 2023-24. In addition, the ACT has liabilities in the two schemes in relation to a further 29,900 former ACT Government employees, including around 17,500 pensioners. Total membership has fallen by only around 200 over 2023-24, reflecting the long-tailed nature of defined benefit pension schemes.

The Territory's estimated defined benefit superannuation liability depends critically upon the discount rate used to calculate the present value of superannuation payments in future years and its relativity to the other financial assumptions regarding future salary growth, pension indexation and crediting rates. Demographic assumptions regarding exit rates and mortality will also impact on the estimated liability. For financial statement reporting, the discount rate is prescribed under the

accounting standards (AASB 119) to be the market yield on Government bonds on the reporting date. This changes from year to year and leads to volatility in the estimated liability.

For the Budget, however, consistent financial assumptions have been adopted since the 2023-24 Budget, which means that changes in the liability reflect deviations in actual experience from the assumptions previously adopted as well as changes in assumptions regarding future outcomes that take account of those changes in experience.

Around 95 percent of the estimated CSS liability of $2.8 billion relates to pensions in payment. This component of the liability is very sensitive to pension indexation rates, which in turn rely on growth in the CPI. Over the past three years, the CPI has grown faster than the long-term assumption of 2.5 percent per annum adopted in projecting the liability, and this has led to an increase in the estimated liability. The PSS is similarly exposed to risks from higher inflation in respect of the roughly one third of members currently in receipt of a pension. The investment earnings rate achieved on the funded component of PSS benefits and salary growth for those currently employed also affect the liability. but these are typically second order effects relative to the sensitivity to pension indexation rates.

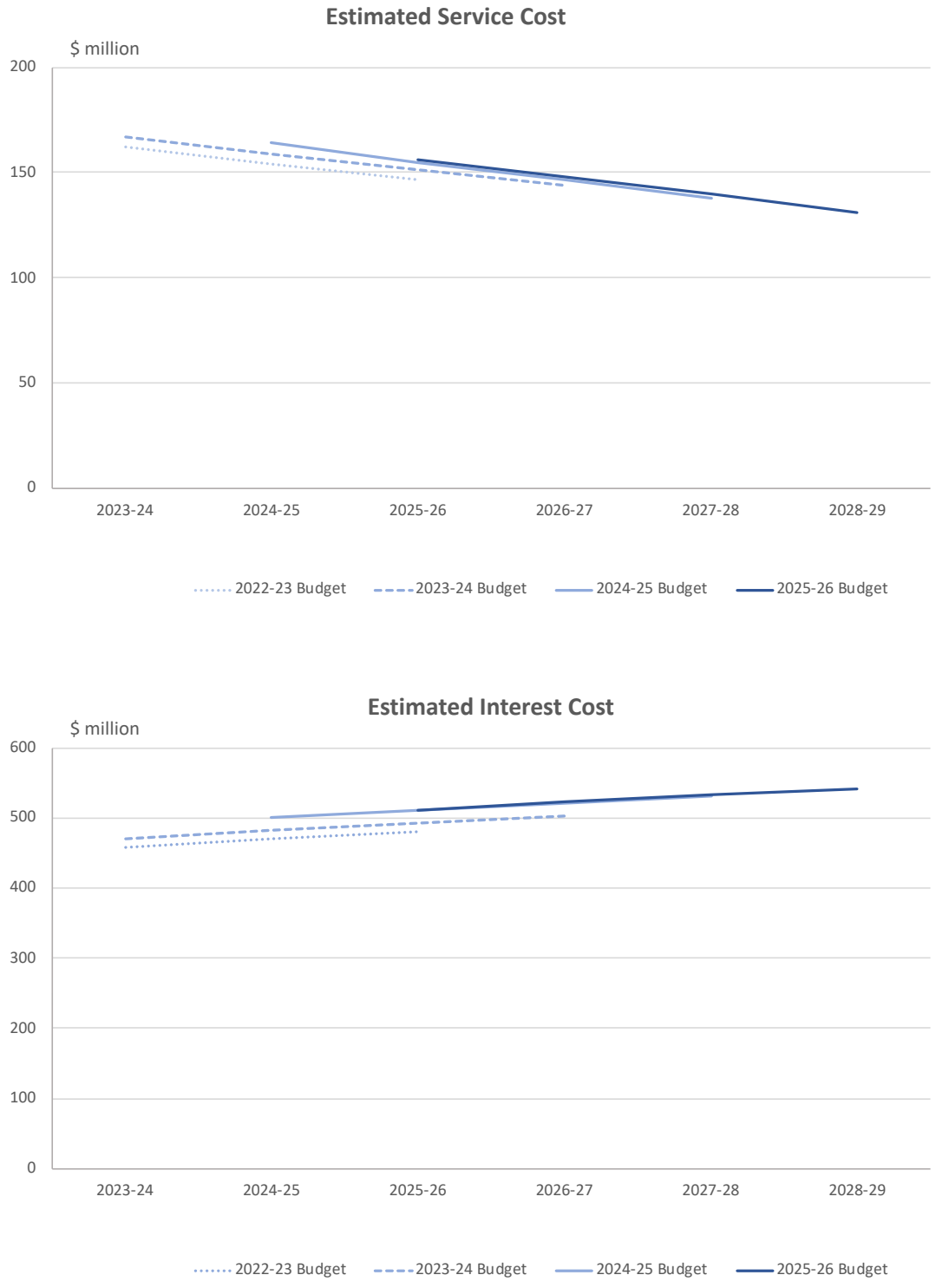
Figure 29 shows the estimated superannuation liability for the Budget year and out-years from each of the last four Budgets. The liability increased by around 10 percent between the 2023-34 and 2024-25 Budgets, primarily as a result of the spike in inflation over 2022 and 2023. The increase reported in the 2025-26 Budget is considerably smaller at 1.6 percent, reflecting the return to inflation rates broadly in line with the long-term assumption of 2.5 percent annual growth in the CPI. The single biggest item leading to a deviation from the previous projections of the liability was the adoption of new actuarial valuation software, which added around $90m to the estimated liability as at 30 June 2024 (the most recent actuarial valuation).

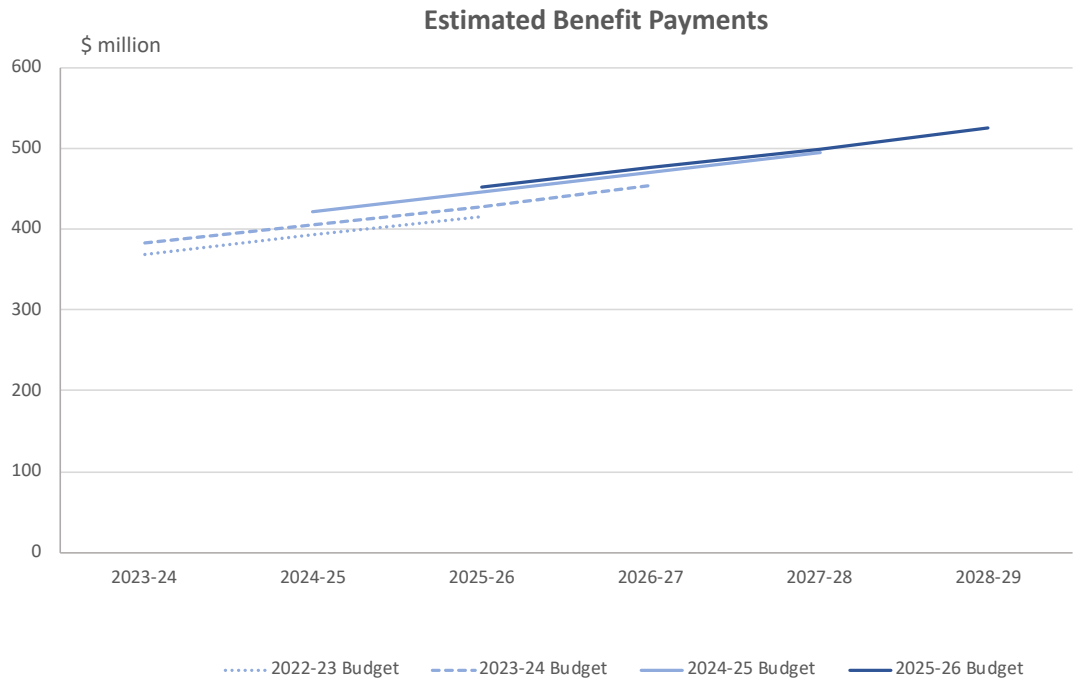
Figure 29: Estimated Defined Benefit Superannuation Liabilities

There are three flows associated with the superannuation liability. The projected service cost represents the additional liability arising from employee service during the year. The interest cost takes account of the fact that the accrued benefits that make up the liability are now one year closer

to payment, and also leads to an increase in the liability. Benefit payments cover the cost of paying beneficiaries and reduce the total liability. The projections of these three flows are shown in Figure 30.

Figure 30: Estimated Defined Benefit Superannuation Flows

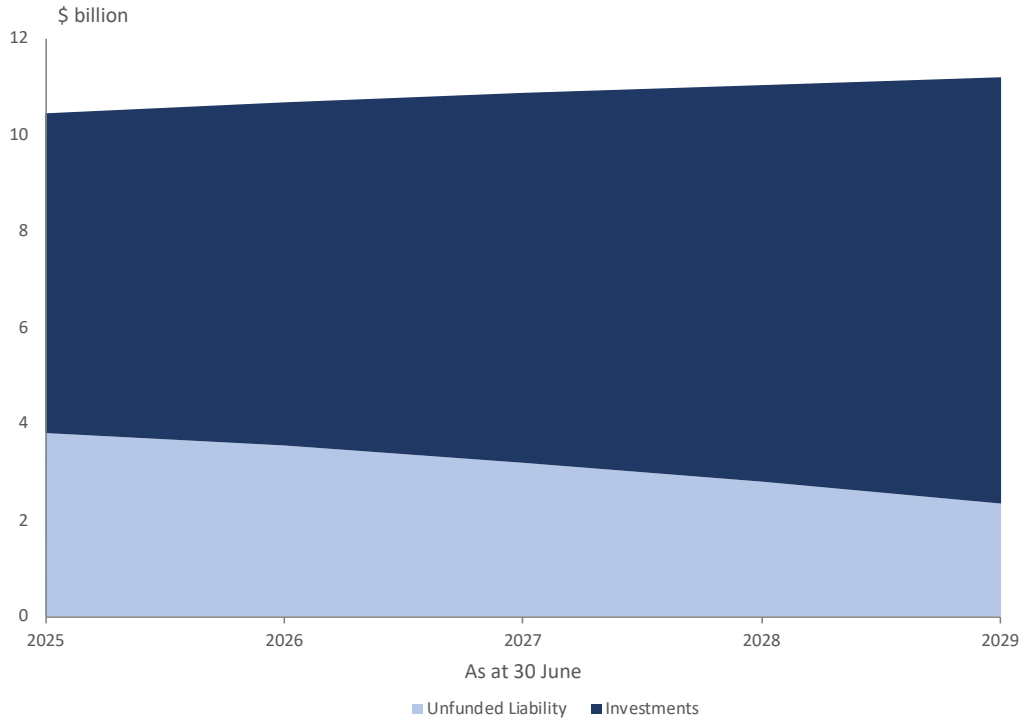




It can be seen that all three of these measures have been stable over successive Budgets. The impact of the higher than anticipated inflation is visible in the increase in projected benefit payments between the 2023-24 and 2024-25 Budgets but is minor in the context of overall expenditure.

The ACT Government established a Superannuation Provision Account in 1991 as a vehicle for accumulating funds to meet the Territory's unfunded defined benefit superannuation liability. As at 30 June 2025, the assets in the Account are estimated to cover 63% of the total superannuation liability and this proportion is expected to increase over the forward years as shown in Figure 31.

Figure 31: Defined Benefit Superannuation Unfunded Liability and Investment Assets



The stated intention of successive Governments had been to achieve full coverage of liabilities by 2030, but it has become increasingly apparent that this goal is unlikely to be met and recent Budgets have not addressed the issue of when the liability will be extinguished.

Based on the existing trends in the funding percentage, we estimate that it will take around eight years before assets will be sufficient to cover the unfunded liability (estimated using the long-term financial assumptions and assuming that benefit payments continue to be funded from the Budget rather than the Account). Alternatively, based on the estimates of defined benefit liabilities and the assets in the Superannuation Provision Account as at 30 June 2025 together with projected benefit payments and accrued service costs over the next five years, the Account would need to achieve total investment returns of CPI plus 6.7 percentage points until 2030 to meet the goal of full funding. This compares with the target rate of return of CPI plus 4.75 percentage points and an achieved return of CPI plus 5.1 percentage points over the past 28 financial years. Thus, the prospect of extinguishing the unfunded liability by 2030 appears remote.

At the same time, there is no indication that the ACT will have any difficulties in meeting its unfunded superannuation obligations, which will emerge as a requirement to meet benefit payments over a period of more than 50 years.

9 Budget accounting, classification and valuation issues

Valuation effects, accounting treatments and timing issues continue to have large impacts on the budget aggregates and on the reported Budget balance.

9.1 Overview

The 2025-26 Budget reflects decisions on a number of accounting, classification and valuation issues.

The following sections provide comment on the budget accounting and classification issues that have material impacts on the Budget aggregates and how they are presented.

9.2 Disclosure of financial statements and key accounting policies

The Budget financial statements, including the budget deficit, and associated tables, are presented in Chapter 4 of the principal Budget Paper (ACT Government, 2025, pp. 233-254). Section 4.1 relates to the General Government Sector (GGS) and Appendix D includes the financial statements for the ACT's Public Trading Enterprises. Appendix E includes the Total Territory Consolidated Financial Statements which provides an accounting consolidation of the GGS and the Public Trading Enterprises.

Notes to the GGS Financial Statements –"Basis of preparation" ACT Government, 2025, pp. 239-246. The GGS statements have been prepared on an accrual accounting basis and accord with the Australian Accounting Standards Board accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. AASB 1049, which forms the basis for the Australian Heads of Treasuries Uniform Presentation Framework (UPF), requires compliance with all other applicable accounting standards in the preparation of the statements.

In accordance with generally accepted budget reporting principles, the notes set out disaggregated financial details of key expenses, assets and liabilities. Disaggregated key revenue items is disclosed in Chapter 3.5 Revenue. This level of disclosure represents an improvement in transparency compared to prior year Budgets.

The Committee should note the Headline Net Operating Balance diverges from the UPF Net Operating Balance as it includes long-term superannuation investment earnings.

Section 4.2 – "OTHER GENERAL GOVERNMENT SECTOR STATEMENTS" provides details and a further level of granularity of the GGS's revenue from taxes, grant and dividend and tax equivalent streams and expenses across the ACT's key directorate functions. The total numbers can be reconciled with the estimates and forecasts set out in the revenue and expense section of the Budget (see particularly Tables 3.4.1, 3.4.2 and Tables 3.5.1 and 3.5.2).

Appendix G – "Basis of financial statement preparation" ACT Government, 2025, pp. 289-293) sets out the key accounting bases adopted in the preparation of the Budget financial statements. This section confirms that the financial statements have been prepared in accordance with AASB 1049, the UPF, which is based on AASB 1049, the basis of accounting consolidation and where applicable, the ABS Government Finance Statistics framework.

Appendix G also discloses several accounting policies and assumptions that relate to Service Concessions and Concessional Loans. The Service Concession disclosures (ACT Housing Asset Assistance Program and Light Rail – Stages 1 and 2A), relating to Light Rail Stage 2A, in particular, have been further enhanced for 2025-26. However, there is no disclosure of the accounting policies adopted in respect of other key assets such as investments and loans, investments in other public

sector entities, and produced and non-produced property plant and equipment, nor key liabilities such as advances received, borrowings, superannuation and employee compensation.

9.3 Superannuation return adjustment

As has been the case since 2006-07, the presentation of the headline net operating balance for 2025-26 includes an adjustment for long-term expected superannuation investment earnings.

The Government has argued that a superannuation return adjustment (SRA) is necessary in order to provide a fair measure of its fiscal position. While the Government Finance Statistics (GFS) reporting framework requires the inclusion of superannuation interest costs and other superannuation expenses in the operating balance, it only allows for interest income and dividends to be included as a transactional revenue item in the net operating balance, ignoring the capital growth on the assets in the Superannuation Provision Account (ACT Government, 2016, p 42). The ACT Treasury has indicated to us that inclusion of the SRA provides a better indication of the sustainability of the headline net operating balance.

We have noted in previous reports that there is an argument for allowing an offset to the reported interest cost to recognise the fact that the Government is holding assets in the Superannuation Provision Account to meet superannuation liabilities. In particular, calculating such an offset using the discount rate that has been used to estimate the liability would replicate the treatment of the interest cost in a partially funded superannuation scheme, to which the Territory arrangement is analogous. However, the Government has calculated the offset by assuming a return on the assets that exceeds the discount rate adopted in valuing the superannuation liabilities. Given that the SRA is included in the net operating balance, it effectively biases this key Budget indicator towards a more favourable outcome.

We remain of the view that if the SRA is to be included in the headline net operating balance, it should not lead to a bias in outcomes. This would mean calculating the SRA on an assumption that the total return on the assets of the Superannuation Provision Account is identical to the long-term discount rate used in valuing the liability. In the Budget year, this would imply an SRA of $91 million. Thus, using the projected long-term investment return rather than the long-term valuation discount rate of 5% per annum reduces the reported deficit by around $165 million.

9.4 Superannuation liability valuation and service costs

The discount rate used to calculate the present value of the Territory's superannuation liability has a significant impact on the estimated value of the superannuation liability and related superannuation expenses.

It is also important to note that the Budget forecasts for the superannuation liability and associated expenses are calculated using a different discount rate from that used in reporting for the Territory's financial statements. The Budget forecasts use a long-term discount rate while for financial reporting the prevailing Government bond rate is used.

The long-term discount rate utilised in the 2025-26 Budget is 5 per cent per annum. This is consistent with the rates used by the Commonwealth Government in the two most recent triennial actuarial reviews (as at 30 June 2020 and 30 June 2023) of the defined benefit schemes giving rise to the Territory's liability. The inflation assumption is also consistent with that used for the triennial actuarial reviews.

Reporting at the end of the financial year in the financial statements is required under the Australian Accounting Standards (AASB 119) to be prepared on the basis of the yield on a suitable Commonwealth Government bond. The liability valuation as at 30 June 2024 utilised a discount rate

assumption of 4.72 percent (ACT Government, 2025, p. 226). The Budget documents were prepared prior to 30 June 2025 and rather than using an estimate of the likely bond yields at that date, the liability and associated service costs have been estimated using the long-term discount rate of 5 percent.

Bond rates for 10-year Australian Government bonds have remained between 4 percent and 4.5 percent per annum over the 2024-25 financial year and the rate used to calculate the liability as at 30 June 2025 for financial statement purposes would be expected to fall within this range. As a result, the closing liability reporting in the financial statements for 2024-25 will be higher than that included in the Budget documents.

Table J.6 in the Appendices to the Budget Outlook indicates that a 1 per cent decrease in the discount rate from the long-term budget assumption of 5 per cent would increase the estimated liability by $1.7 billion.

Table 9: Impact of a 1 percentage point decrease in the discount rate on superannuation liability

	2025-26 $'000	2026-27 $'000	2027-28 $'000	2028-29 $'000
Superannuation Liability	+1,741,000	+1,742,000	+1,739,000	+1,731,000

The lower discount rate will also have an impact on the service cost, which would be expected to be somewhat higher, with an offsetting reduction in the interest cost. Based on the figures reported in the Budget Outlook (ACT Government, 2023, p. 381), the net effect of these adjustments to the service and interest costs is a negligible increase in the superannuation expense in the first two years and a similarly immaterial decrease in the latter two years as shown in Table 10 below.

Table 10: Impact of a 1 percentage point decrease in the discount rate on superannuation expense

	2025-26 $'000	2026-27 $'000	2027-28 $'000	2028-29 $'000
Superannuation Expense	+6,000	+1,000	-3,000	-8,000

In an environment where the long-term discount rate is higher than the prevailing interest rates, the use of the higher discount rate for the Budget estimate of the Territory's superannuation liabilities will generally have the effect of decreasing the estimate of the liability. In reconciling the liability reported in the financial statements for the previous year, this decrease is reported as an actuarial gain. We endorse this approach as it ensures that the opening liability reported for the Budget year is calculated on a consistent basis with that used for subsequent years. This avoids genuine changes in experience being swamped by the effect of different discount rate assumptions.

9.5 Service Concession Arrangements

The ACT Government is currently engaged in several Public Private Partnerships (PPP-Service Concession) projects: Light Rail Stages 1 and 2A, and the ACT Housing Asset Assistance Program (HAAP).

Since the 2020-21 Budget, the ACT Government has adopted the applicable accounting standard, AASB 1059 *Service Concession Arrangements: Grantors*.

AASB 1059 does not treat service concession arrangements as leases, but instead, requires the assets and liabilities to be recognized in the balance sheet and valued at current replacement cost,

when the government gains control of these assets and liabilities, generally taken to be when the project becomes operational. Any intangible assets such as intellectual property rights, must be included in the aggregate of project assets. At the end of the construction contracts, the infrastructure will become ACT assets. This is taken to mean that once the projects are operational, the infrastructure is owned by the Territory. It is noted that Light Rail – Stage 1 became operational in April 2019. In December 2023 the ACT Government entered a service concession arrangement for Light Rail – Stage 2A.

Appendix G indicates in respect to Light Rail Stages 1 and 2A, the infrastructure will only become ACT assets at the end of these contracts (ACT Government, 2025, p.291), although the Government will make service payments over the life of the long-term contracts with the consortia. The term of these contracts and the schedule for taking these assets and liabilities on to the Territory's balance sheets is not clear from the Budget documentation, although Appendix G suggests Stage 2A is out to 2038-39.

The ACT Treasury has confirmed that in respect to Light Rail Stage 2B, to Woden, the project is in planning status, with a financial contribution from the Commonwealth.

9.6 Acquisition of Calvary Public Hospital and Clare Holland House

The ACT Government publicly announced it was acquiring the Calvary Public Hospital (Calvary) for nil consideration in the lead up to the 2023-24 Budget. The Government subsequently announced the acquisition of Clare Holland House through mutual agreement. The effective date of acquisition of Calvary was 3 July 2023.

Pursuant to the Australian Accounting Standards, where an asset is acquired for nil consideration, no revenue is brought to account on initial recognition, but instead, the transaction is treated as a balance sheet only event and, as such, an asset is recognized together with a corresponding adjustment to equity. We understand that the acquisition was recognized in the General Government Sector balance sheet and statement of changes in equity with a date of effect 3 July 2023.

Apart from the asset, the transaction also includes the transfer of some staff to the ACT public sector. Relevant employee costs including salary and wages, leave entitlements and post-employment compensation (superannuation), and offsetting reductions in the purchase of services, were expensed in the 2023-24 Budget statements, with corresponding liabilities recognized in the General Government Sector financial statements.

In respect to the 2025-26 Budget, ACT Treasury indicated to us that negotiations regarding compensation/settlement are ongoing. Conclusion of negotiations will impact the out years, as appropriately described in the Statement of Risks (ACT Government, 2025, p. 308).

Accordingly, a central provision is included in the 2025-26 Budget consolidated financial statements. There are no significant additional impacts on the Budget and forward estimates.

9.7 Technical adjustments

The Budget Papers include technical adjustments that appear to indicate changes to previous decisions relating to the funding of programs and projects. The adjustments appear to move funding across years as well as changes to appropriations across years.

Whilst examples of this practice are not unusual in other jurisdictions; for instance, the re-phasing of appropriations and the movement of previous decisions to out years, the level of adjustments appears substantial.

9.8 Concessional loans

Concessional loans are arrangements where a lender, typically a government, provides a loan facility on terms and conditions more favorable than the prevailing market. Concessions can include lower or zero interest rates, interest free periods, and/or an extended maturity term. Appendix G indicates the ACT Government (ACT Government 2025, pp, 252-253) is providing concessional loans pursuant to its Sustainable Household Scheme.

The arrangement provides lower interest loans to assist households with the upfront costs of installing equipment to enable emissions reductions. The accounting treatment outlined accords with the applicable accounting standard *AASB 9 Financial Instruments*.[4]

[4] See Australian Accounting Standards Board (2010).

10 Women's Budget Statement

This year's Women's Budget Statement continues the practice of reporting on new initiatives and providing case studies to illustrate impacts of past initiatives. It does not provide estimates of unmet need or establish performance indicators that would allow judgements to be made about the appropriateness of the interventions or their relative effectiveness to be assessed. It is also difficult to discern how the initiatives in this year's Budget can be related to previous Budget announcements.

10.1 Introduction

The ACT Government produced a Women's Action Plan in 2016 setting out priorities for the Government over the decade from 2016 to 2026. Subsequent Budgets have included a Budget Statement specifically addressing the measures taken to address these priorities. Heading into the final year of this plan, it is worth reviewing the broad approach to reporting and considering the extent to which it provides a basis for assessing progress.

10.2 The original Women's Action Plan

The ACT Women's Action Plan 2016-26 identified five priority areas for government action:

- Health and Wellbeing;
- Housing and Homelessness;
- Safety;
- Economic Security; and
- Leadership

It envisaged the first of these priorities being addressed by the First Action Plan, the second and third priorities covered by a Second Action Plan and the final two priorities by a Third Action Plan. It set out areas of concern and aspirations but did not attempt to quantify need or establish metrics by which success could be measured.

It is possible to compare some of the statistics that were included in the original document with those in the latest Women's Budget Statement or alternative sources of information, where the comparable metrics were not included. These are shown in Table 11 below.

Table 11: Change in metrics quoted in the 2016 Women's Action Plan

	2016 Women's Action Plan	**2025-26 Women's Budget Statement**
Number of women living in the ACT	204,000	240,500
Percentage of population	50.2%	50.7%
Number of ATSI women	3,400	4,400
Percentage of population	1.7%	1.9%
Percentage of women born overseas	12%	29%
Percentage speaking a language other than English at home	9%	25%
Number of women aged 50 or more	60,800	73,500
Percentage of population	15%	15%

	2016 Women's Action Plan	2025-26 Women's Budget Statement
Number of women aged 85 or more	3,500	4,600
Percentage of population 85+ who are women	Almost two thirds	60%*
Employed women	105,000	135,200*
Percentage of female population	51%	56%*
Percentage of total labour force	49%	49%*
Percentage of part-time labour force	66%	63%*
Percentage of single-parent families headed by women	84.9%	77.7%
Number of women assisted by homeless agencies	2,701	4,000*
Percentage who were single-parent families	43%	31%*
Wage gap for full-time average weekly earnings	11.5%	6.9%

* Derived from sources other than the 2025-26 Women's Budget Statement

There are a couple of features which stand out in this data, most notably the dramatic increase in the percentage of overseas-born women and, relatedly, the percentage who do not speak English at home. There has also been a significant narrowing of the wage gap, though, as these figures deal with averages rather than median wages, it is hard to know whether this is the result of more women in senior positions rather than a general uplift in women's wages. While women still make up the majority of single parents, the proportion has dropped somewhat, as has the percentage of those assisted by homeless agencies who are single parent families.

10.3 Subsequent Action

The First Action Plan was launched in 2017 with a slightly different articulation of priorities from those originally envisaged. The two priorities included in this plan were 'Equity and Wellbeing' and 'Physical and Mental Health'. A detailed report on implementation was produced in 2019. This 125 page document included comments on the status of 100 action items. Of these 100 items, 86 were shown as completed, 10 were underway, 3 were on hold and 1 had been found to be not feasible. The majority of completed items involved processes, such as research, surveys, forums, promoting training, etc rather than direct services to women. The preponderance of process or activity items meant that actions could be treated as completed, when the underlying problems remained outstanding. For example, item 2.9 required "the incorporation of the findings of the Housing Summit as they relate to women" and was marked as completed on the basis that a number of services were being funded although no specific outcomes from these services had been identified. The extent to which these services were expected to mitigate homelessness or the extent of the existing homelessness problem was not addressed.

The Second Act Plan, covering the period from 2020 to 2022, set out five objectives, which overlapped considerably, but did not map directly, with the original five priority areas:

- improving the health and well-being of women and girls in the ACT;

- fostering gender equity in Canberra workplaces, including through improved gender equality in leadership and workplace participation;
- building a community where women and girls are safe and supported to participate;
- improving housing support and sustainability and reducing homelessness for women; and
- developing appropriate and accessible services, programs and policies for women and girls, ensuring consideration of those from diverse backgrounds.

Twenty-nine subsidiary outcomes and actions were specified under these five objectives. In contrast to the two earlier documents, a range of metrics were specified to assess progress in meeting these objectives. However, many of these metrics were again focussed on internal activities such as establishing committees, revising guidelines and developing strategies. A minority of metrics directly addressed the underlying issues of concern. For example, an obvious metric under the fourth objective would be the number of homeless women, broken down by age. This was not included as a metric under any of the four action areas and the subsequent status reports provided details of grants provided and women accommodated but no indication of the level of unmet need. The latter figure would seem to be critical in determining budget priorities.

The Third Action Plan retained the objectives from the second plan and set out thirty outcomes and associated actions and metrics. More of the metrics in this plan were objectively measurable and related to factors that could be expected to directly impact on women's wellbeing, such as improved perinatal mental health screening rates or percentage of sportsground amenities that meet the guidelines established for female friendly facility amenities. What was missing was the target for these measures and how it had been determined.

Looking over the three action plans and subsequent reporting, it is apparent that the initial intention to have sequential processes addressing the different priority areas has been abandoned and the five objectives from the second plan now provide the structure for considering policy initiatives and monitoring performance. The work that flowed from the First Action Plan was very exploratory and focussed primarily on inputs rather than outcomes, but the two later plans appear to give greater priority to assessing the effectiveness of interventions. However, there is still a significant gap in terms of identifying the level of unmet need and setting concrete targets rather than achieving an unspecified increase. One consequence of this gap is the impossibility of making a comparative assessment of the effectiveness of the various program initiatives in meeting the higher-level goals.

10.4 The 2025-26 Budget

The Women's Budget Statement for 2025-26 places the reporting on initiatives and case studies in the context of the five objectives set out in the later Action Plans. A range of measures are mentioned, some of which are specifically for women, including the expansion of funding for perinatal mental health and continuing support for the Women's Legal Centre, and others, which are not restricted to women, but are expected to predominately benefit women, such as the $60 million allocated to improvements in public housing.

The Statement is primarily a political statement highlighting how various Budget decisions can be seen through a lens of improving services for women. Accountability and transparency would be improved if the document provided a comprehensive list of relevant funding, broken down by the identified priority areas. The absence of this information means that the Statement is not amenable to quantitative analysis such as that provided in the rest of our report.

11 Housing

Overall housing affordability has improved in light of recent falls in ACT house prices. While overall housing affordability in Canberra has improved, there is also evidence to suggest that lower income households are still struggling.

The stock of public housing in the ACT has not kept pace with ACT population growth, and has remained stagnant since 2018 while the ACT resident population has grown by over 29 percent between 2011 and 2024. Even if the ACT Government is successful in adding another 400 public homes, it will still not keep pace with population growth.

11.1 Housing Approvals, Affordability and Public Housing

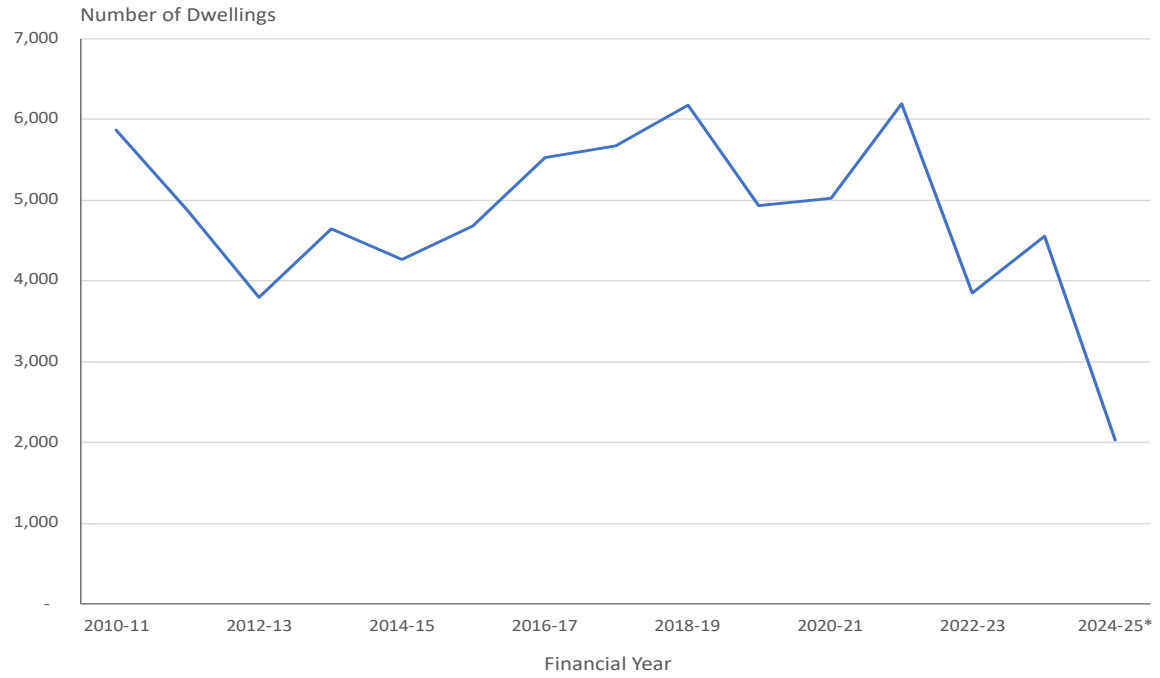
According to the ACT Government (2025, p. 161):

> *Affordable and secure housing is a key priority of the Government and further investment is provided in the Budget to support more affordable housing projects … As part of the Government's plans for 30,000 homes by 2030, further investment is made to support planning reform, land release, and skills and training.*

To meet the ACT Government's target of 30,000 new homes per year by 2030, on average 5,000 new dwellings need to be constructed each year for the next six years up until 2030. If one also considers knockdown rebuilds of existing dwellings, then this would mean that even more than 5,000 new dwellings need to constructed per annum up until 2030.

Since 2010-11 around 5,000 new dwelling approvals per year have been approved for construction in the ACT (Australian Bureau of Statistics, 2025b). Furthermore, in the year to the end of March 2025, around 250 dwellings were approved for demolition. The number of dwellings approved on a financial year basis is outlined in Figure 32 below.

Figure 32: Total Number of Dwellings Approved in the ACT – 2010-11 to 2024-25*



Source: ABS (2025b).
* 2024-25 only includes approvals from July 2024 until May 2025.

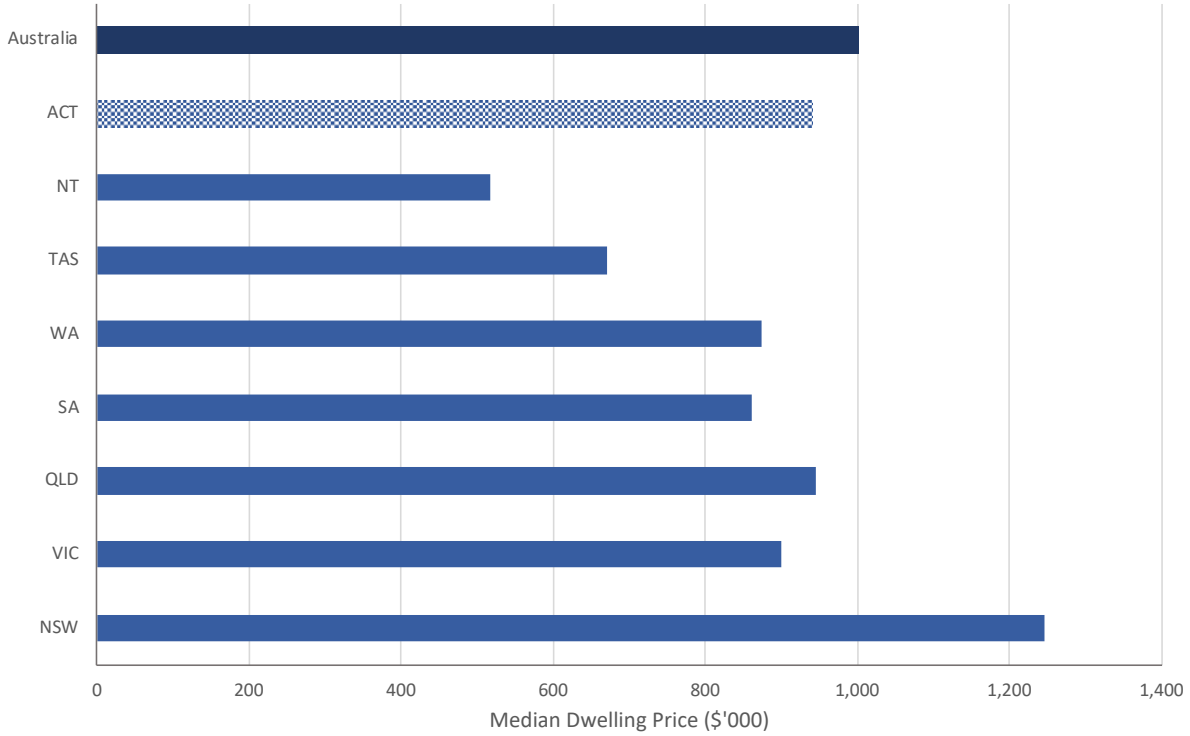
While the total number of dwelling approvals have averaged around 5,000 since 2010-11, approvals have been well under 5,000 since 2021-22 and the final outcome for 2024-25 is likely to be well under 3,000. While the ACT Government's target of 30,000 new homes by 2030 is probably achievable based on recent history, one potential obstacle that could emerge if residential building construction picks-up is emergence of labour shortages.

30,000 new homes by 2030 is achievable based on recent history

According to the ACT Government (2025, p. 152), housing remains affordable in the ACT relative to average income levels, despite having the third highest median property price and third highest median weekly rental price of all Australian capital cities in the March 2025 quarter. The available evidence would appear to lend support to these claims.

In the March quarter 2025, the mean price of residential dwellings was the highest in New South Wales ($1,245,900), followed by Queensland ($944,700) and the ACT ($941,300) (Australian Bureau of Statistics, 2025f). This can be seen in Figure 33 below.

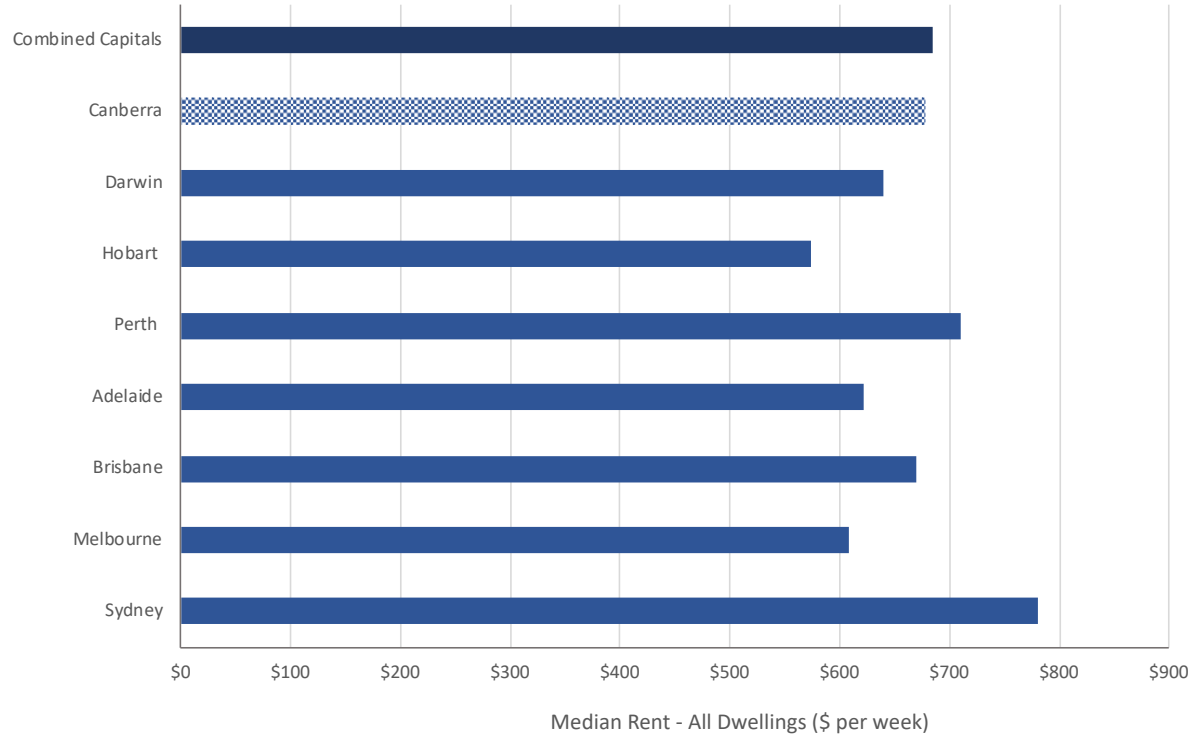
Figure 33: Mean Dwelling Price, States and Territories – September Quarter 2024 to March Quarter 2025 ($'000)



Source: ABS (2025f).

In the March quarter 2025, the median weekly rent for all dwellings was the highest in Sydney ($789 per week), followed by Perth ($710 per week) and Canberra ($677 per week) (CoreLogic, 2025a). This can be seen in Figure 34 below.

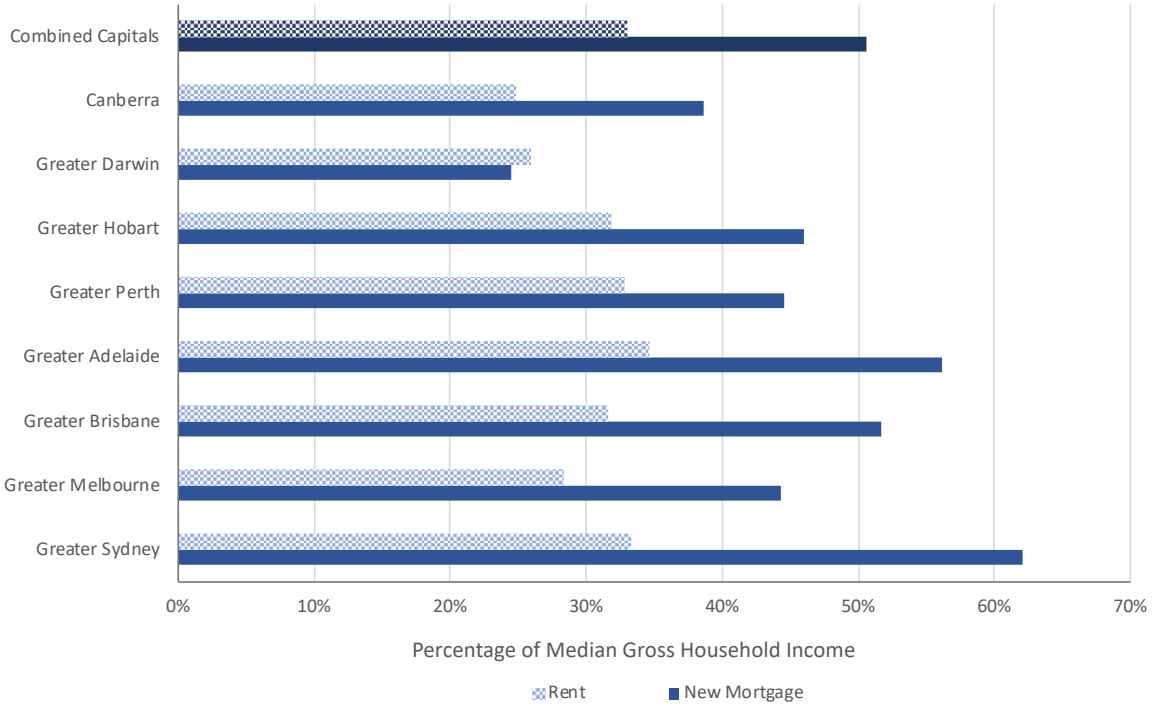
Figure 34: Median Rent per Week in Australian Capital Cities – March Quarter 2025



Source: CoreLogic (2025a).

The most recent ANZ Bank and CoreLogic (2024, p. 17) Housing Affordability Report released found that in the September quarter of 2024 the portion of income required to service a new mortgage for a dwelling in Canberra was the second lowest amongst the capital cities, and the portion of income required to service rent for a dwelling was the lowest amongst the capital cities. This is outlined in Figure 35 below.

Figure 35: Portion of Income Required to Service a New Mortgage and Rent for a Dwelling in Australian Capital Cities



Source: ANU POLIS Centre for Social Policy Research and CoreLogic from ANZ Bank and CoreLogic (2024, p. 8).

There are two factors that contribute to improved housing affordability. First, ACT residents enjoy the highest relative incomes across all States and Territories, with average ordinary time weekly earnings for full-time adults in the ACT being $2,178.40 in November 2024, being 10 percent higher than the national average (Australian Bureau of Statistics, 2025a). This has been an ongoing feature in the ACT. Second, dwelling prices have been in decline for the past year or so. According to the ABS (2025f) median dwelling prices fell by 1.1 percent through the year to the end of March. Similarly, according to CoreLogic (2025, p. 17) Canberra dwelling values fell by 0.7 percent through the year to the end of May 2025 and -6.4 percent below the record high that was reached in May 2022.

Housing affordability in Canberra has improved

While overall housing affordability in Canberra has improved, there is also evidence to suggest that lower income households are still struggling. According to the 2024 Rental Affordability Index:

> *For low income earners and students, the ACT is one of the most unaffordable rental markets.*
>
> *…*
>
> *While the ACT remains on the border of Acceptable affordability, low-income households face particularly unaffordable rents (such as the student sharehouse and pensioner household profiles) pushed up by the overall high-income earning workforce. Every suburb in the ACT is Unaffordable to Severely Unaffordable for the student sharehouse household type. For pensioners, both singles and couples, the entire territory is Severely to Extremely Unaffordable, despite the*

improvement in rental affordability seen over the last year. (SGS Economics and Planning Pty Ltd, 2024, p. 90).[5]

The ACT Government (2025, p. 152) has also recognised that lower income residents struggle with housing affordability :

… many lower income households struggle to secure housing that is affordable, underlining the importance of continuing to increase housing supply, choice and access.

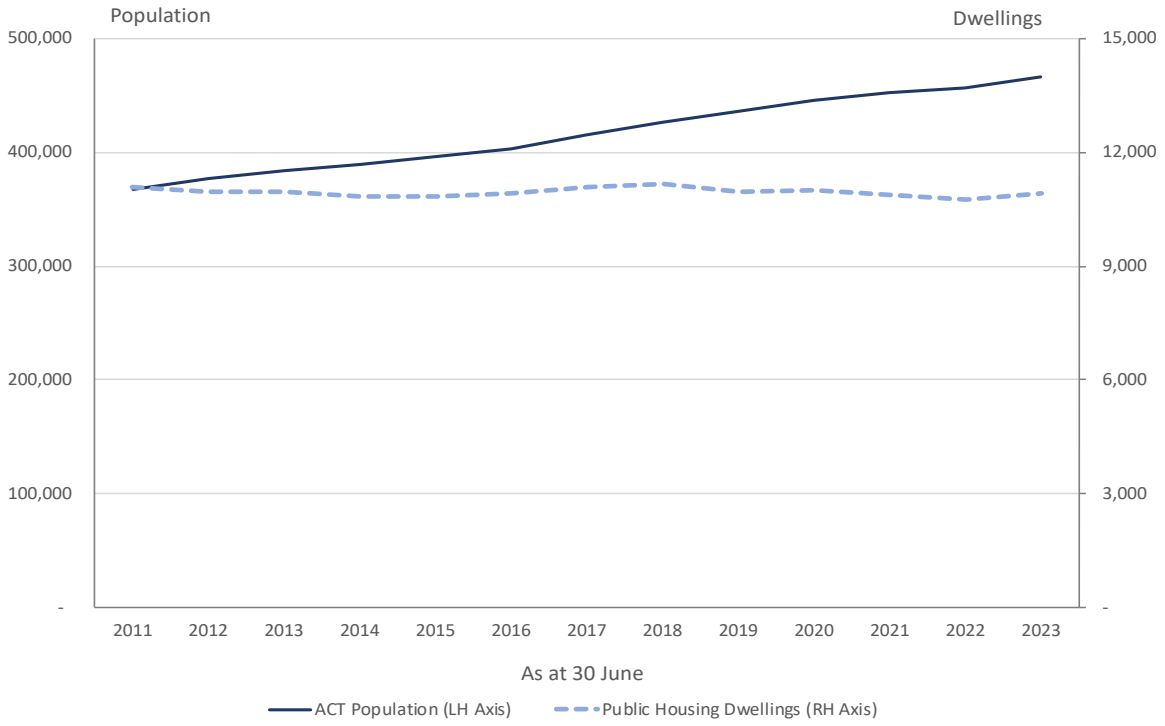
In order to address the plight of lower income residents in relation housing affordability, the ACT Government (2025, p. 206) has committed to grow the public housing portfolio by over 1,000 homes to 13,200.

But people on lower incomes are being left behind

The ACT Audit Office (2024, p. 15) has observed that Canberra's relatively high rent and property prices compared to other Australian capital cities means that Canberrans living on low incomes can be significantly disadvantaged in accessing housing, and that consequently demand for public housing in the ACT is high and increasing

The available evidence suggests the stock of public housing in the ACT has not kept pace with ACT population growth and has remained largely stagnant since 2018 while the ACT resident population has grown by over 29 percent between 2011 and 2024. Figure 36 shows that while the ACT population continues to increase, the public housing stock has been relatively flat.

Figure 36: ACT Population and the Provision of ACT Public Housing Dwellings



Sources: ABS (2025e) and Productivity Commission (2025).

[5] Unaffordable is where between 30 percent to 38 percent of income is spent on rent, Severely Unaffordable is where between 38 percent to 60 percent of income is spent on rent, and Extremely Unaffordable is where 60 percent or more of income is spent on rent (SGS Economics and Planning Pty Ltd, 2024, p. 8).

In 2019 the ACT Government embarked on an eight-year, $860 million *Growing and Renewing Public Housing Program* that is intended to deliver 1,400 new public housing homes in the ACT (ACT Audit Office, 2024a). To allow the construction of 1,000 new public housing homes to be built, Housing ACT is selling and redeveloping older, not fit-for-purpose public housing homes. Housing ACT will sell approximately 700 homes to raise revenue and demolish approximately 300 homes to allow for redevelopment of the land sites. The Growing and Renewing Public Housing Program will result in a net increase of 400 public housing homes by 2027, compared to the number existing in 2019. According to the ACT Government (2025, p. 217), achievements since the Growing and Renewing Public Housing Program was established up to 31 March 2025 include**:**

- the construction of 764 dwellings completed; and
- the purchase of 208 dwellings.

And the supply of public housing is not keeping pace with population growth

While the ACT Government's *Growing and Renewing Public Housing Program* is likely to increase the overall stock of public housing available in the ACT by the end of 2027, the supply of public housing is still unlikely to keep pace with the ACT population as observed recently by the ACT Audit Office (2024, p. 1):

> *Although there will be more public housing homes in the ACT by the end of the Program in 2027, the supply of public housing homes relative to the number of people living in the Territory will decrease, because the ACT's population is increasing.*

According to the ACT Audit Office (2024, p. 3), the number of homes per estimated resident population is expected to decrease: from 28 public housing homes for every 1,000 people living in the ACT in 2018 to approximately 24 public housing homes per 1,000 people in 2027.

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