D. State fiscal sustainability

D.1 What does fiscal sustainability mean for states?

A government's fiscal sustainability can be defined as its ability to maintain its current spending, tax and other related policies into the long term, without a threat to its solvency or the need for large and sudden adjustments to policy settings (Commonwealth of Australia 2023, p. 224; European Commission 2017, p. 1). Fiscal sustainability is important because it facilitates the ongoing delivery of essential services and infrastructure, promotes intergenerational equity by preventing the accumulation of unsustainable debt burdens, minimises the risk that debt-servicing expenses 'crowd out' other spending priorities and gives governments the capacity to manage unforeseen fiscal shocks (Government of Tasmania 2026, p. 9).

Understanding state and territory (hereafter 'state') fiscal sustainability is important when comparing different GST distribution systems, because GST revenue accounts for a significant proportion of total state revenue – 23% in 2024–25 (PC estimates using ABS 2025a, unpublished data; Commonwealth of Australia 2025, p. 86). Therefore, changes to how GST revenue is distributed can have material impacts on state governments' fiscal positions and can strengthen or put pressure on their fiscal sustainability.

It is not the goal of this inquiry to determine the fiscal sustainability of each individual state. Rather, the Productivity Commission aims to understand trends in state's current fiscal positions to contextualise its assessment of different GST distribution systems, including the current system.[1]

There is no single measure that captures whether a government is fiscally sustainable. However, different quantitative indicators can capture different aspects of a government's fiscal position at a point in time, including its fiscal pressure, capacity and flexibility, operating performance and debt burden (table D.1).

These quantitative indicators also should not be interpreted in isolation – a government's fiscal sustainability will also be affected by factors such as their state's broader economic situation, the strength and stability of its institutions, and its exposure to environmental and social risks.

Over the longer term, the trajectory of the ratio of debt-to-GDP (or GSP) is often used as a simple measure of fiscal sustainability, capturing the government's expected debt burden. A government's fiscal position is generally considered more sustainable if, on average, this ratio is expected to remain stable or trend downwards over the medium and long term (PBO 2025a, p. 11). The trajectory of the debt ratio is often characterised by 'r–g' – that is, the differential between a government's nominal interest rate on debt (r) and the nominal growth rate of the economy (g). If r > g, the trajectory of debt to GDP will be positive (that is, there will be upward pressure on the debt ratio), unless sufficiently

[1] While a variety of fiscal sustainability indicators will be used as part of the PC's quantitative analysis, this does not constitute a comprehensive assessment of each state's fiscal sustainability.

offset by budget surpluses. Similarly, if r < g, the trajectory of debt to GDP will be downward, unless offset by budget deficits. For state governments, total revenue is used instead of GDP or GSP because state revenue streams are not as directly linked to states' economic outcomes as they are for the Australian Government (Government of Tasmania 2021, p. 40).

Table D.1 – Quantitative indicators for state government fiscal sustainability analysis

Dimension	Indicator
Fiscal pressure, capacity and flexibility	Expenditure per capita
	Total revenue per capita
	Own-source revenue / total revenue
Operating performance	Net operating balance / total revenue
	Fiscal balance / total revenue
Debt burden	Net debt / total revenue
	Interest expense / total revenue

This is a non-exhaustive set of quantitative fiscal sustainability indicators that are commonly used across Australia's state governments in their fiscal strategies, by international institutions and credit ratings agencies, while having regard to the data consistently available across state governments.

Source: Saxena (2022, p. 21), Moody's Ratings (2026a), S&P Global (2019); VAGO (2025, pp. 21–22), NSW Government (2024); Queensland Government (2025, pp. 3–4); WA Government (2025, p. 20); SA Government (2025, pp. 36–45).

D.2 What parts of government should be considered when looking at sustainability?

Government entities can be classified into 3 categories, depending on their characteristics:

- general government (GG) – institutions (such as government departments) that provide non-market goods and services (for example, hospitals, schools, or police services) that are primarily funded by taxes, and transfers from other levels of government
- public non-financial corporations (PNFCs) – government-controlled entities that provide goods and services in competitive markets (such as water utilities, electricity providers and railway authorities) which are primarily funded through the sale of goods and services (Vic. PBO 2026)
- public financial corporations – entities that perform purely financial functions, such as state Treasury corporations. Conceptually, this sector is operated at arm's length from the executive.

Commentary and analysis of state governments' financial positions, particularly in state government budgets, often focuses on the 'general government'. However, when considering a state's overall fiscal sustainability, a broader scope may be necessary. In particular, it is often useful to combine GG and PNFC budget aggregates – this combined view is referred to as the total non-financial public sector (TNFPS).[2]

There are significant financial interrelationships between the GG and PNFC sectors. Funding can flow from the GG sector to PNFCs in a variety of ways – for example, by a government acquiring additional

[2] GG and PNFC aggregates may not sum exactly to the TNFPS as consolidation eliminates transactions and lending/borrowing relationships between units to avoid double counting (ABS 2026).

equity in PNFCs or providing them grants. PNFCs, in turn, can provide returns to the GG sector through payments such as dividends. States also vary in terms of what services are provided through their GG sector or through PNFCs, and this can change over time. For example, in 2022-23 Tasmania abolished the Department of Communities Tasmania (which was categorised as GG) and moved the portion of activities related to housing to Homes Tasmania, a PNFC (Tasmanian Government 2023, p. 6).

The PNFC sector is particularly relevant when analysing state capital investment and debt. PNFCs manage and operate large-scale, asset-heavy public enterprises such as utilities and transport, meaning they account for a significant proportion of state capital investment. In 2024–25, 37% of total state TNFPS capital investment was in the PNFC sector.[3] State PNFCs can raise significant debt. In 2024–25, 28% of total state TNFPS net debt was held in the PNFC sector, with this proportion highest for Queensland (75% of the state's TNFPS net debt) and Tasmania (52% of the state's TNFPS net debt). Like the GG sector, PNFCs can borrow through central state borrowing authorities – with borrowings through these authorities generally underpinned by guarantees from the relevant state government (NSW Government Sector Finance Act (2018), No 55, Div. 6.5; NT Government 2026c; QTC 2026a; SA Government Financing Authority Act (1982), Part 3; TASCORP nd; TCV 2026b; WATC 2026a).

Given GST payments are a GG revenue item, the PC's analysis has focused most on this aspect of state governments, where changes to the GST distribution would have the most direct effects. However, the TNFPS is included where a more comprehensive view of state finances is informative.[4] Relatedly, the PC's framework for analysing and comparing the impact of different GST distribution systems assesses fiscal sustainability implications for the TNFPS (chapter 3, chapter 4).

D.3 All states except Western Australia are facing deteriorating fiscal positions

Since the early 2000s, states' net operating balances have deteriorated on average, compounded by the added fiscal pressure states have faced due to the COVID-19 pandemic (PBO 2025b, p. 4). Expenditure is growing rapidly for all states, with some of the fastest growing areas of overall state expenditure per capita being health, capital investment, and debt servicing costs (interest expenses). Growth in these expenditure lines has not been uniform across all states, reflecting a combination of states' policy choices and their exposure to structural factors such as population ageing, which increase demand for, and the cost of, service delivery.

For states other than Western Australia, expenditure has outpaced revenue growth, resulting in deteriorating net operating and fiscal balances and repeated budget deficits for most states. By contrast, Western Australia experienced operating surpluses from 2018-19 to 2024–25 and fiscal surpluses (including acquisition of non-financial assets) from 2020–21 to 2024–25 (PC estimates using ABS 2025a, unpublished data). This reflects strong own-source revenues, along with additional GST revenues due to the 2018 reforms which have enabled Western Australia to improve its relative fiscal capacity (chapter 2).

Only a handful of states have published medium- or long-term fiscal sustainability assessments in recent years: New South Wales through an intergenerational report in 2021; Tasmania through a fiscal sustainability report in 2026; and the Australian Capital Territory through a recent (2026) parliamentary

[3] Capital investment refers to gross fixed capital formation.

[4] Where the TNFPS and/or PNFCs are being referred to analysis, this is explicitly stated.

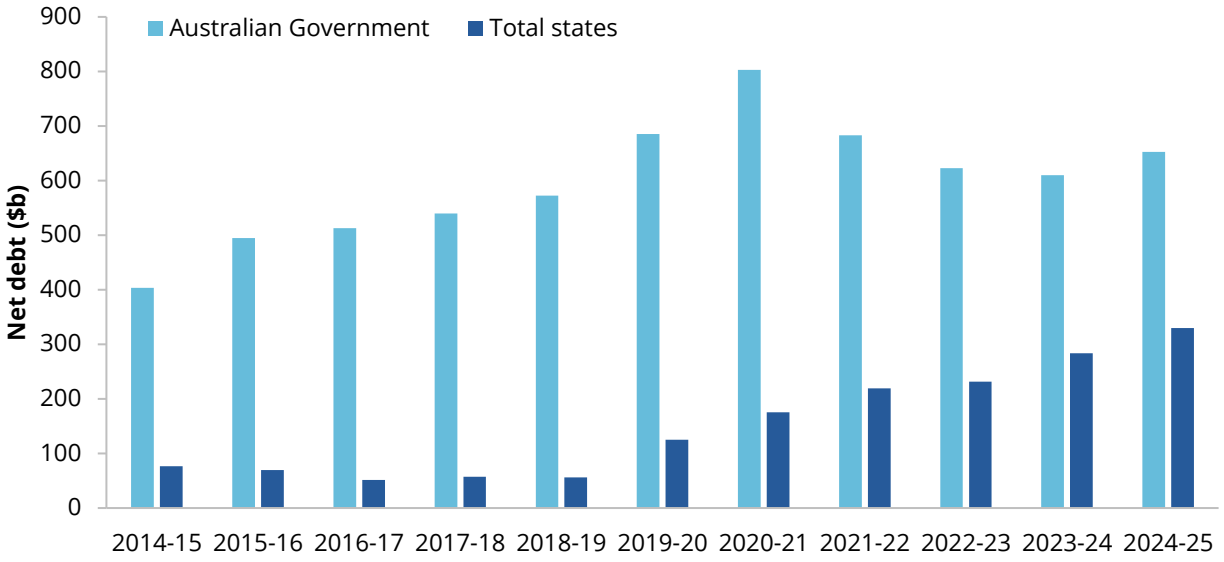
inquiry into fiscal sustainability. These assessments often frame sustainability more in terms of flexibility and resilience than short-term solvency, but all indicate that their states' fiscal positions are weakening in this respect. They highlight that spending pressures, higher debt-servicing costs and growing interest payments will reduce governments' capacity to absorb fiscal shocks, respond to future priorities and maintain service delivery over the long term (Eslake 2026, p. 5; Government of Tasmania 2026, pp. 12–13; NSW Government 2021, p. 7).

Deterioration in states' fiscal positions is also reflected in declining state credit quality, which according to S&P Global is the worst it has been since 2000 (S&P Global 2026c). During and post the COVID-19 pandemic, negative rating decisions outnumbered positive decisions by almost 5-to-1, with Tasmania, the Australian Capital Territory, New South Wales and Victoria all receiving credit downgrades (S&P Global 2026c). By contrast, Western Australia's credit rating was upgraded during and just after the pandemic, with it receiving a AAA credit rating by S&P (June 2022) and a Aaa credit rating by Moody's (July 2023) (Moody's Ratings 2026b; S&P Global 2026c).

The trend in states' fiscal positions is reflected in the substantial growth in state government net debt in the past decade, including relative to Australian Government debt (figure D.1).

Figure D.1 – Total state government debt is growing relative to Australian Government debt

GG, net debt (L2) $b, constant prices, 2024–25 basis



Constant prices calculated using implicit price deflator of GDP.

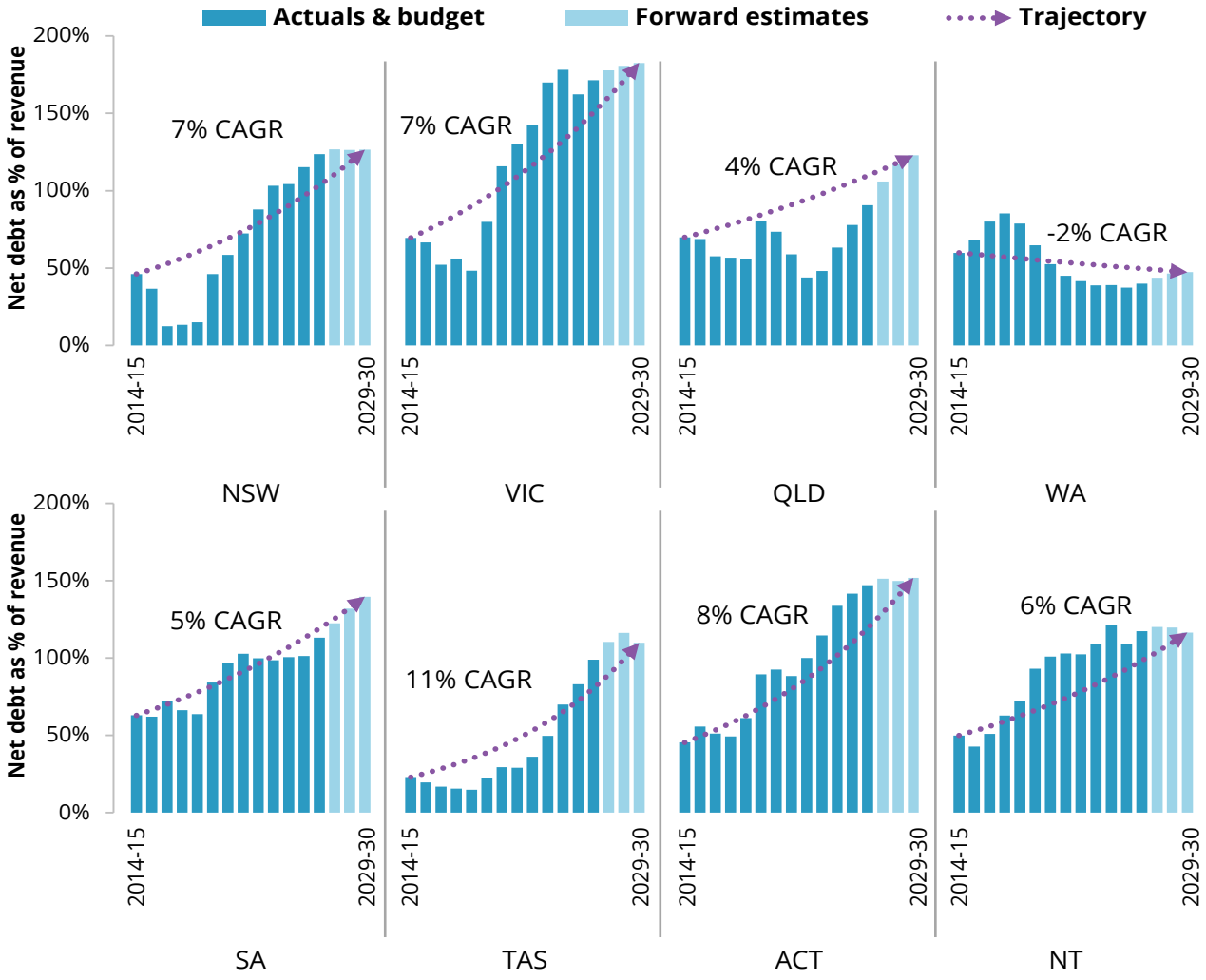
Source: PC estimates using ABS (2025a, unpublished data).

This was also reflected in the Parliamentary Budget Office's commentary in its most recent medium-term budget outlook, stating *'recent growth in total state net debt presents an additional and emerging fiscal risk, with state debt trajectories increasing at a faster rate than Commonwealth debt.*' (PBO 2026, p. 7) For general government net debt, the ratio of total state to Australian Government was 1:5 in 2014–15, and by 2024–25 the ratio was 1:2 (PC estimates using ABS 2025a, unpublished data). The increase in total state net debt is most pronounced from 2019-20 onwards. The Reserve Bank of Australia's (RBA's) quantitative easing measures during the COVID-19 pandemic supported this borrowing by lowering financing costs. From the end of February 2020 to the end of February 2022, RBA holdings of state government bonds increased from $2.2b to $67.7b (nominal) (Aziz and Jackman 2022, p. 52; RBA 2026).

Growing net debt-to-revenue ratios for the TNFPS are another indicator of states' weakening fiscal sustainability (figure D.2). Most states have growing net debt to revenue trajectories over the forward estimates, with rapid growth concentrated in the post-pandemic period.

Figure D.2 – Net debt to revenue ratios are increasing for all states except Western Australia

TNFPS net debt to revenue ratios, 2014–15 to 2029–30



The figure uses the most recent ten years of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) observations (2014–15 to 2024–25, constant prices calculated using implicit price deflator of GDP), state budget records for 2025-26 (revised) and 2026-27 (budget) and state budget forward estimates from 2027-28 to 2029–30. **a**. For the Australian Capital Territory, net debt as recorded in the GFS does not align with the net debt reported in state budget statements. Therefore, data from Consolidated Annual Financial Statements have been used for 2014–15 to 2024–25 (inclusive) instead of GFS data, these figures should be interpreted with caution.

Source: PC estimates using: ABS (2025a, unpublished data); ACT Government (2016, 2017, 2019, 2021, 2023, 2025, 2026a); NSW Government (2026b, pp. 105–107); NT Government (2026a, pp. 96–97); Queensland Government (2026, pp. 105–106); SA Government (2026, p. 156,158); Tasmanian Government (2026, pp. 227, 230); Victorian Government (2026, pp. 67–69); WA Government (2026, pp. 253–254).

Western Australia diverges from the other states with a declining net debt to revenue ratio from 2014–15 to 2029–30 and distinctly lower TNFPS net debt to revenue than other states towards the end of the period. By contrast, Tasmania's TNFPS net debt to revenue grew with a compound annual growth rate (CAGR)[5] of 11% (2014–15 to 2029–30), although its level of net debt-to-revenue is lower than that of the Australian Capital Territory and the Northern Territory, for the majority of the period.[6] This aligns with *Tasmania's Fiscal Sustainability Report*, which found that *'Tasmania's finances are projected to rapidly deteriorate without a significant correction'* (Government of Tasmania 2026, p. 9). In terms of the trajectory of net debt to revenue, the Australian Capital Territory has the largest CAGR after Tasmania, at 8%. As a percentage, Victoria has the highest net-debt-to revenue ratio of any state in each year from 2020–21 until the end of the forward estimates period in 2029–30.

The existence of debt is not necessarily an issue – indeed it is often necessary and even economically desirable for a government or government businesses to take on debt to, for example, improve infrastructure or provide temporary support during economic downturns. However, the compounding nature of debt servicing costs also creates the risk that it will become unmanageable as it accumulates. As indicated in *Tasmania's Fiscal Sustainability Report*:

> … incurring debt to fund recurrent expenditure is not beneficial or sustainable in the long term. Servicing this type of debt negatively impacts the broader economy as it diverts revenue from other uses that could otherwise be used to maintain government service levels. (Government of Tasmania 2026, p. 10)

Growth in net debt is driven by shortfalls in states' revenue relative to expenditures. Overall, expenditure growth has outpaced revenue growth, which has resulted in many states being in persistent deficit. As a share of GDP, total state expenses have grown from 13.6% in 2000–01 to 14.7% in 2024–25, and this increases to 14.0% in 2000–01 to 16.1% in 2024–25 when total expenditure is considered (PC estimates using ABS 2025b, 2025a, unpublished data).[7] By contrast, revenue growth has been significantly more limited, moving from 13.8% of GDP in 2000–01 to 14.4% in 2024–25 (PC estimates using ABS 2025b, 2025a, unpublished data). While population growth is one driver of increased state expenses, per capita expenses have also been increasing faster than revenue per capita. Total state expenditure per capita grew at an average of 1.8% each year (CAGR) between 2000–01 to 2024–25, compared with only 1.3% per annum for total state revenue per capita over the same period (constant prices, 2024–25 basis) (PC estimates using ABS 2025a, 2025c, unpublished data).

The higher relative growth of state expenditures against revenue can be seen when examining states' net operating and fiscal balances (figure D.3). A state's net operating balance reflects its capacity to finance the current level of services, absent any changes to capital investment, each year. A positive operating balance (surplus) indicates that revenue exceeds the cost of providing services, whereas a negative operating balance (deficit) indicates that recurring operating costs exceed revenue and must

[5] The CAGR is the rate of annual growth necessary for a value at the start of a period to become the value at the end of the period, it differs from a simple average growth rate in that it considers the effect of compounding.

[6] The PC has used the ABS GFS as its primary data source for fiscal sustainability analysis, given it represents a consistent source of data between states. However, the most recent year of data available in the GFS is for 2024–25, so budget consolidated financial statements are sometimes included alongside the most recent ten years of GFS data (2014–15 to 2024–25) to capture the current and forward estimates period. These data sources do not reconcile perfectly, so caution is advised when interpreting figures that combine both sources.

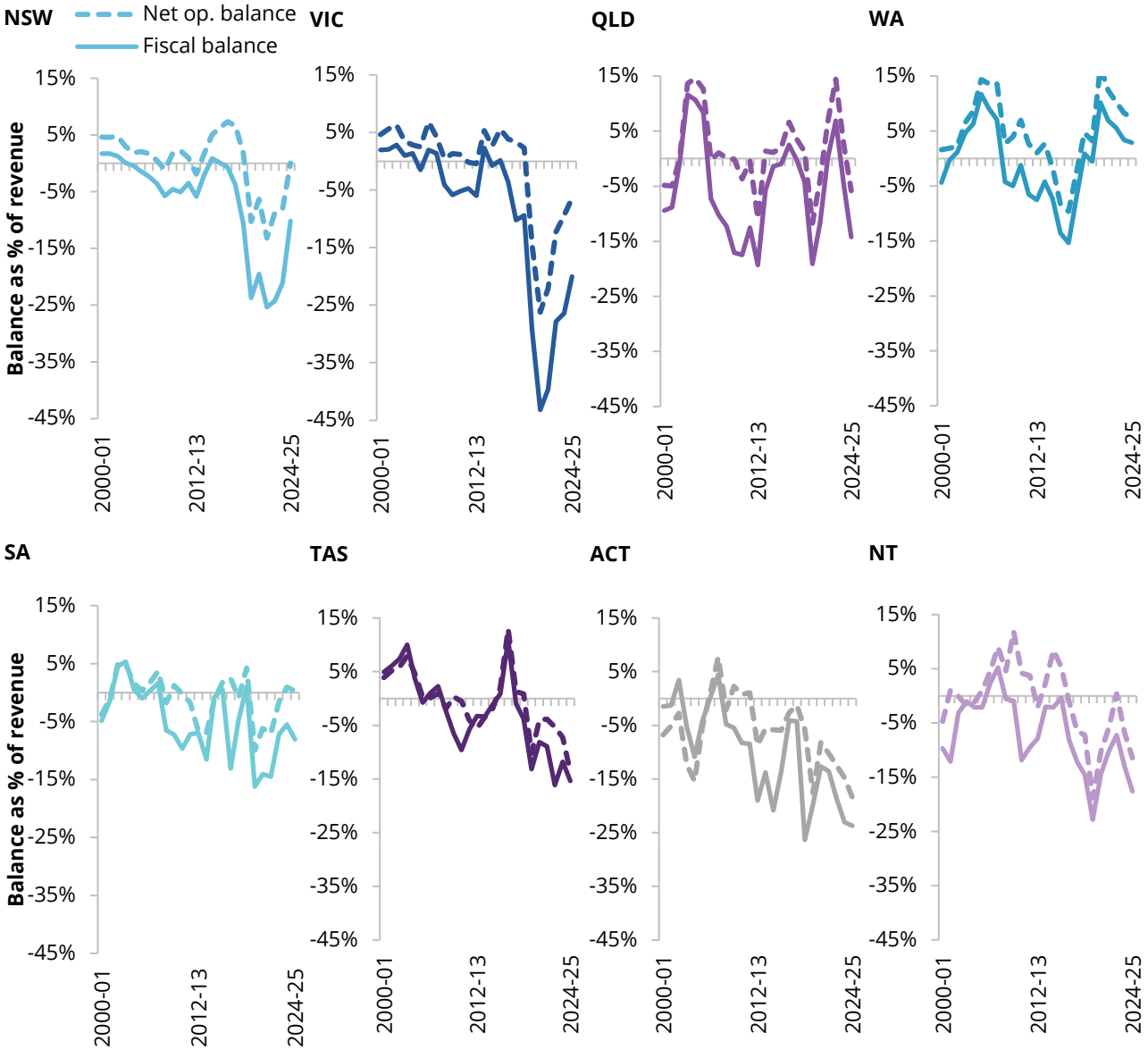
[7] Total expenditure is expenses plus the acquisition of non-financial assets.

be financed through borrowing, existing cash reserves or other funding sources. The fiscal balance adds the net acquisition of non-financial assets (NAoNFA) to operating expenses, reflecting the amount government would need to fund all its activities.

Operating deficits may be of more concern than fiscal deficits, because they indicate that revenue is not sufficient to meet recurring expenses. Fiscal deficits may reflect investments in non-financial assets (such as infrastructure investments) that are expected to yield economic or social benefits into the future.

Figure D.3 – With the exception of Western Australia, all states' fiscal balances have deteriorated from 2000–01, as have most states' net operating balances

GG, net operating and fiscal balance as a % of total revenue, constant prices (2024–25 basis)



Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, unpublished data).

As the fiscal balance includes all state expenditure, a negative fiscal balance in a given year indicates the amount a state would have to borrow to make up the shortfall. Therefore, states' fiscal balances over time provide context for their growing net debt (figure D.2). Assessing states' operating and fiscal balances as a proportion of revenue indicates the scale of deficits or surpluses, given states' available revenue bases. All states apart from Western Australia have larger fiscal deficits as a proportion of revenue in 2024–25 than they did in 2000–01 (figure D.3).

Comparing net operating balance and fiscal balance reflects the impact of the NAoNFA on states' spending positions. From 2000–01 to 2024–25, for most states, the inclusion of NAoNFA increases their deficits, as asset acquisitions are greater than asset disposals. This is particularly significant for states that engaged in large capital investments throughout the period, such as Victoria, where the fiscal balance (as a % of revenue) was 14 percentage points lower than the net operating balance (as a % of revenue) in 2024–25. In 2024–25, both New South Wales and South Australia had a net operating balance-to-revenue of approximately zero, which would be considered a 'balanced' operating budget. However, once NAoNFA is considered, both states are in deficit (PC estimates using ABS 2025a, unpublished data).

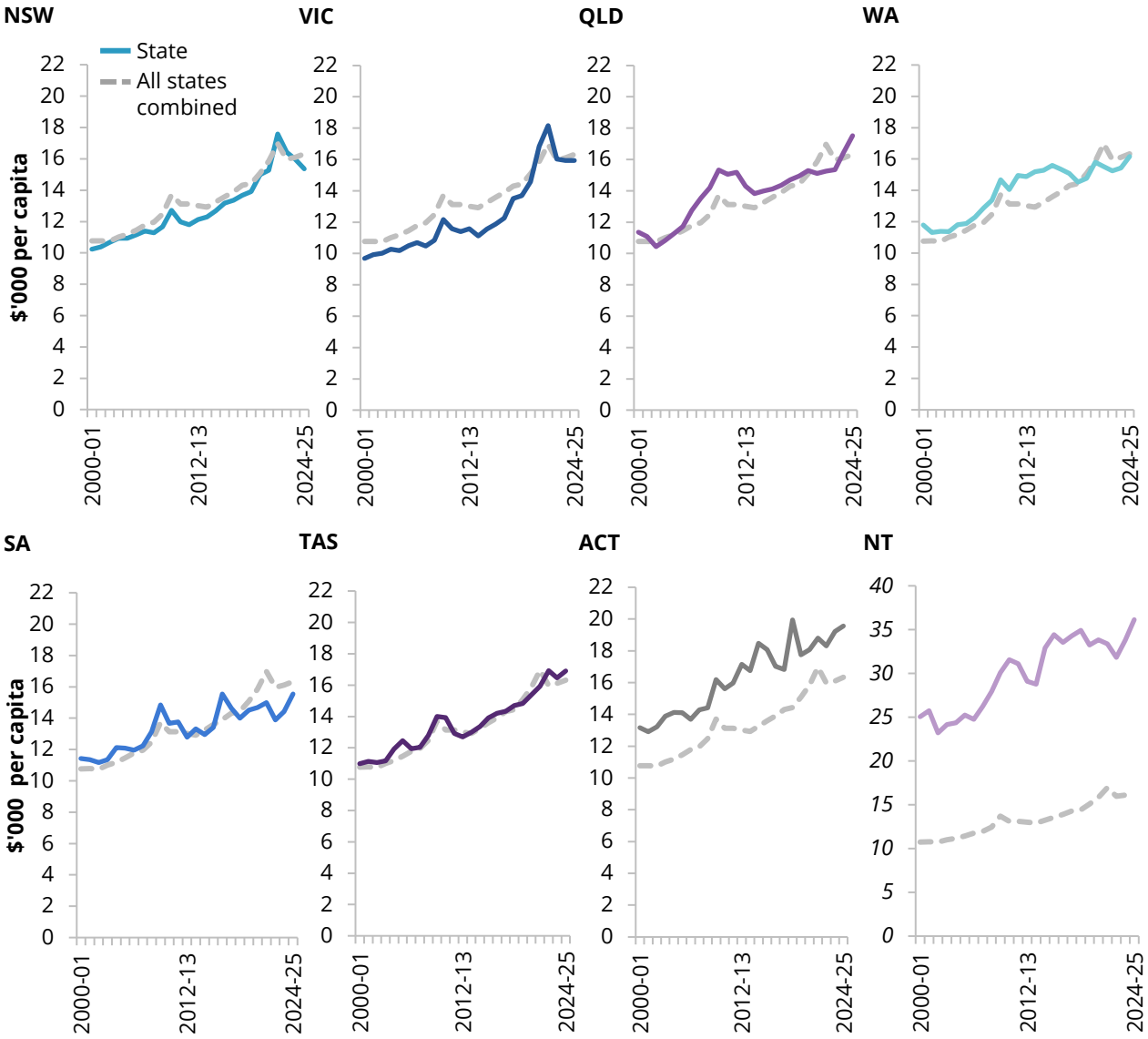
State expenses are growing rapidly, putting pressure on most states' fiscal positions

From 2000–01 to 2024–25, total state expenditure grew faster than total revenue (PC estimates using ABS 2025a, unpublished data). The resulting deterioration in most states' net operating balances has been driven largely by steady growth in expenses (PBO 2025b, p. 4). Total expenditure per capita has generally trended upward for all states, but growth has been uneven, with notable spikes in spending in response to the Global Financial Crisis around 2009-10 and the COVID-19 pandemic during 2020–21 and 2021–22 (figure D.4).

The Australian Capital Territory and the Northern Territory have consistently above-average expenditure profiles (figure D.4). Both are small jurisdictions which may not benefit from economies of scale. The ACT government is also unique in that it performs the functions of a local government, limiting direct comparisons to other state governments. The variation in the Northern Territory's expenditure is linked to its structural characteristics, such as a high proportion of remote residents, which significantly increase the costs of service delivery. It is accepted that states with widely dispersed populations or higher proportions of vulnerable groups, such as older Australians or those in remote communities, face significantly elevated per-capita costs to provide critical services like healthcare (Qld sub., p. 44; NSW sub, p. 21).

Figure D.4 – Per capita expenditure has grown for all states since 2000–01

GG, total expenditure $'000 per capita, constant prices, 2024–25 basis



The Northern Territory has a different vertical axis to the other states for presentation purposes. All states combined refers to total state GG expenditure divided by the combined state populations. Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, 2025c, unpublished data).

Drivers of expenditure growth

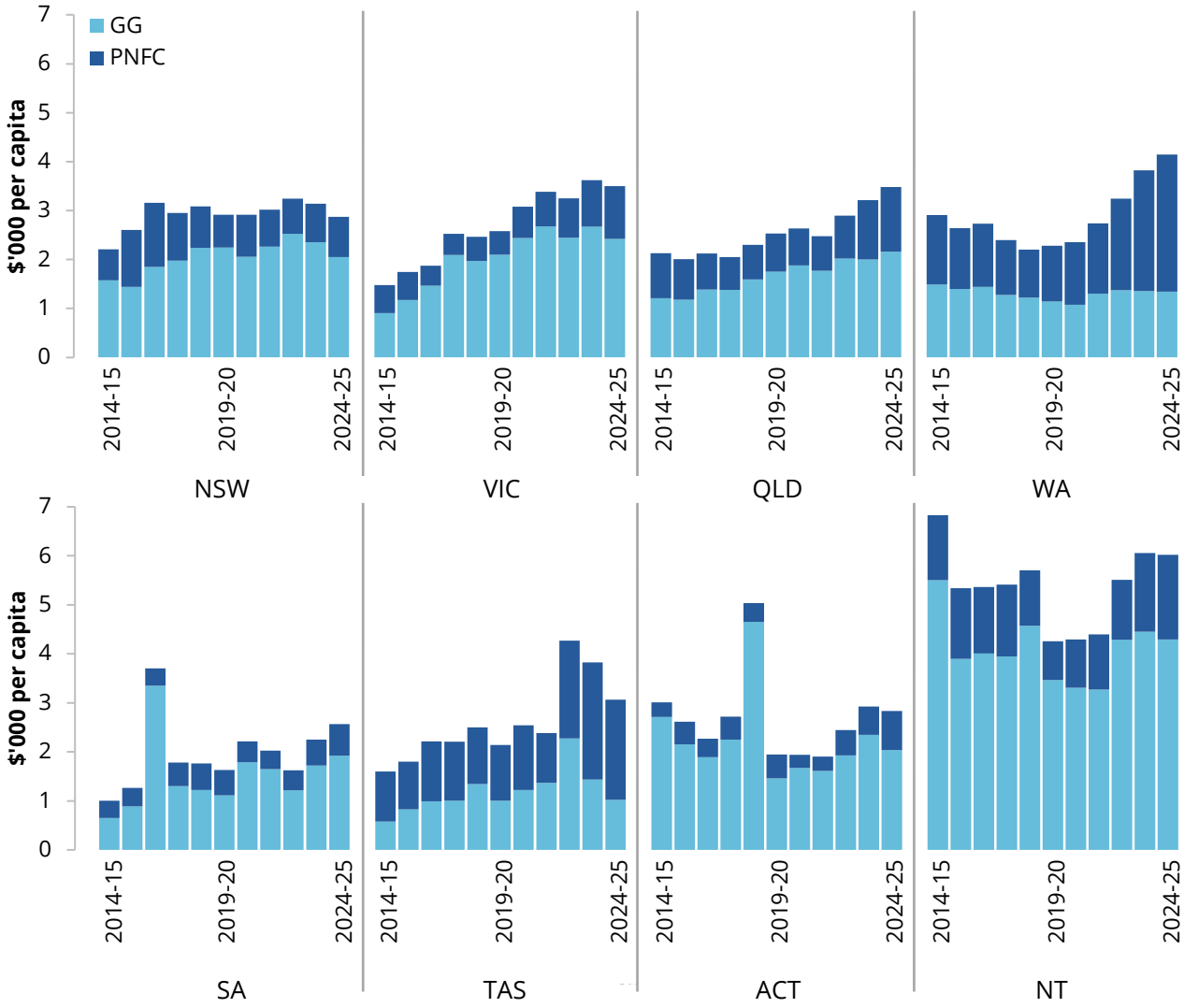
Between 2000–01 and 2024–25, some of the fastest-growing areas of per capita state expenditure were capital investment (with a CAGR of 3.8%), interest repayments (with a CAGR of 3.5%) and health (with a CAGR of 2.7%) (PC based on ABS 2026).

Increased **capital investment** is a major and growing source of state government spending, but state spending profiles have differed over time (figure D.5). New South Wales and Victoria – which dominated infrastructure spending from the mid-2010s through the early 2020s – are expecting a plateau and a

decline in spend over the forward estimates period (Government of Victoria 2026; NSW Government 2026a, p. 19). However, other states – such as Queensland and South Australia – are planning expansions in their capital investment programs (Crisafulli et al. 2027; Infrastructure Partnerships Australia 2025). Per capita infrastructure spending, however, puts New South Wales and Victoria's infrastructure spending in context, with smaller states such as the Northern Territory spending significantly more per capita over the 2014–15 to 2024–25 period (figure D.5). States vary in the extent to which their TNFPS capital investment is undertaken by the GG rather than by PNFCs. In 2024–25, Western Australia and Tasmania had the highest PNFC shares of TNFPS capital investment, at 68% and 67% respectively. In Western Australia, most of the growth in per capita TNFPS capital investment from 2020–21 to 2024–25 occurred through PNFCs.

Figure D.5 – States vary regarding how capital investment is split between GG and PNFCs

TNFPS, capital investment, $'000 per capita, constant prices, 2024–25 basis



Capital investment refers to gross fixed capital formation (GFCF). Constant prices calculated using implicit price deflator of GDP.

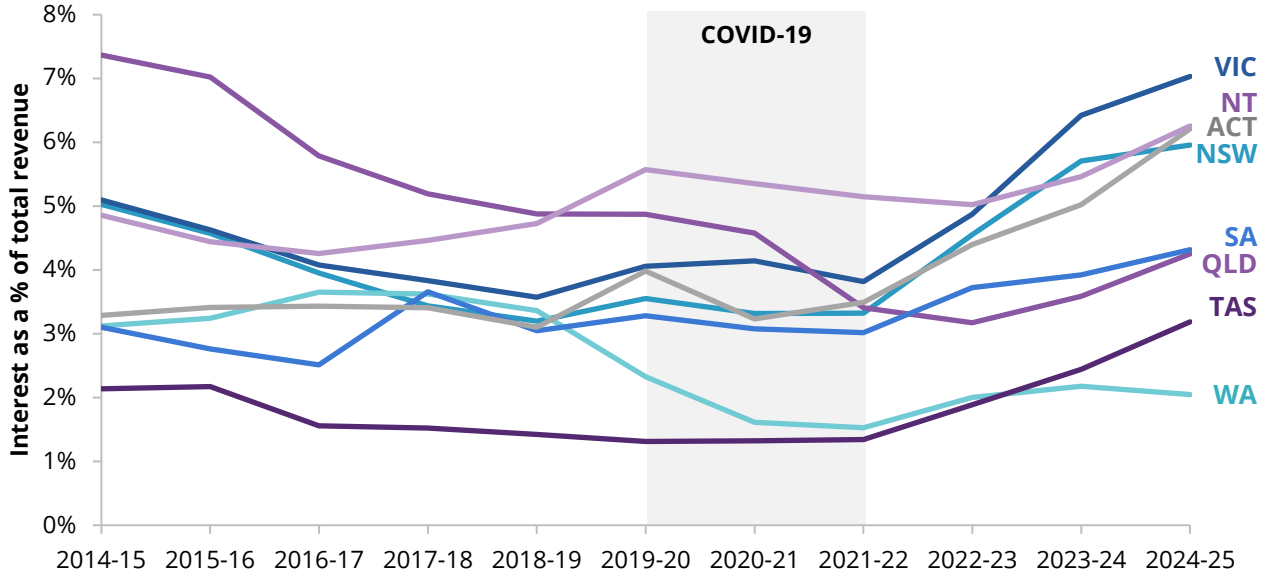
Source: PC estimates using ABS (2025a, 2025c, unpublished data).

Health is the largest area of expense pressure on state budgets (in terms of functions of government) and has increased as a proportion of overall state expenditure from 22% in 2000–01 to 28% in 2024–25 (PC estimates using ABS 2025a, unpublished data). Growth in health expenses is – in part – driven by population ageing, which increases demand for urgent, complex and costly health services. While this is one factor, state governments have also faced broader cost increases and higher community expectations about the standard of health care provided (Government of Western Australia, sub. 37, p. 110; NSW Government 2021, pp. 74, 111; Queensland Government, sub. 62, p. 28; Smith 2020, p. 32). Health costs are not felt equally across states, and are particularly significant in South Australia and Tasmania – the states most affected by population ageing – where they account for 32% and 35% of expenditure respectively (PC estimates using ABS 2025a, unpublished data; CGC 2026b). Population ageing is one of the key forces shaping the Australian economy, which will continue to drive health-related expenditure pressures for all Australian governments in the medium to long term (Commonwealth of Australia 2023, p. 9).

Total state **interest expenses** have also grown rapidly since 2000–01 (PC estimates using ABS 2025a, unpublished data). From 2014–15 to 2024–25, all states except Western Australia and Queensland, had an increase in their interest-to-revenue ratios. Growth accelerated post the COVID-19 pandemic, reflecting both debt accumulation and exposure to higher interest rates on debt (figure D.6). Considering the share of revenue used for interest repayments is important for understanding state fiscal sustainability. Higher debt-servicing costs can crowd out other spending and, where other obligations cannot be reduced, increase the need for further borrowing. The affordability of debt also depends on interest rates: high debt can remain manageable when rates are low, while lower debt can create pressure when rates rise, with some lag as existing fixed-rate debt is refinanced. States' interest expenses broadly reflect their relative debt accumulation – with Victoria having the highest interest expenses to revenue and Western Australia having the lowest in 2024–25. Tasmania has experienced the fastest growth in interest expenses post since the COVID-19 pandemic, followed by the Australian Capital Territory and New South Wales.

Figure D.6 – Post-pandemic interest-to-revenue ratios have grown rapidly for most states

TNFPS, interest as a % of total revenue, constant prices (2024–25 basis)



Interest expenses refer to 'Interest n.e.c.' in the GFS framework. Excludes interest on superannuation. Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, unpublished data).

Interest expenses are expected to grow further, not only due to the accumulation of debt but because of increasing interest rates. Most state debt is issued as fixed-rate semi-government bonds (semis) with maturities of 5 years or more (Batchelor and Roberts 2024, p. 53). Higher interest rates flow through gradually as older bonds mature and are refinanced. States issued significantly more semis during the COVID-19 pandemic, when market interest rates were historically low (Batchelor and Roberts 2024, p. 52). Prevailing interest rates have since grown significantly.

States also pay different interest rates depending on the liquidity of their bond offerings (including the size and trading activity of their bond lines) and any differences in investors' perceptions of their credit risk. During periods of market stress, there is often a widening in the 'spread' of yields on semis relative to Australian Government Securities, which are typically considered a lower-risk option. During the pandemic, the RBA counteracted this effect by purchasing semis from state treasury authorities, which lowered long-term interest rates, but the spread of semis has since rebounded (Batchelor and Roberts 2024; RBA 2020, p. 56).

As a capture of states' credit quality, credit ratings influence the cost of borrowing, as states with lower credit ratings typically need to issue bonds with higher yields to attract investors (Government of Tasmania 2026, p. 11). While overall, states have high credit ratings, there is variation – with Western Australia having a stronger rating and outlook, and the smallest states and Victoria having weaker ratings and outlooks (table D.2). According to S&P, states' credit quality has fallen post the COVID-19 pandemic to its lowest point since 2000 (S&P Global 2026c).

Table D.2 – State government credit ratings are high overall, with Western Australia having the highest

State treasury corporations long-term credit rating and issuer outlook (last review date)

	NSW	VIC	QLD	WA	SA	TAS	ACT[a]	NT
S&P	AA+ / Negative (2025)	AA / Stable (2026)	AA+ / Negative (2026)	AAA / Stable (2026)	AA+ / Stable (2026)	AA / Stable (2025)	AA / Stable (2025)	-
Moody's	Aaa / Stable (2023)	Aa2 / Stable (2024)	Aa1 / Stable (2024)	Aaa / Stable (2026)	Aa1 / Stable (2024)	Aa3 / Stable (2025)	-	Aa3 / Stable (2025)

Blanks indicate where the credit rating agency has not provided a recent rating. **a.** The Australian Capital Territory does not have a separate treasury corporation, accordingly the credit rating is of the state.

Source: S&P Global (2025a, 2025b, 2025c, 2026c, 2026d, 2026a, 2026e, 2026b), Moody's Ratings (2023, 2024c, 2024a, 2024b, 2025a, 2025b, 2026b).

The effect of increased interest rates on state budgets will flow through gradually because much state debt is fixed-rate and long-dated. Around one third of state government bonds (at face value) on issue will mature between 2026–27 and 2029–30 (PC estimates using ACT Government 2026b; NT Government 2026b; QTC 2026b; SAFA 2026; TASCORP 2026; TCorp 2026; TCV 2026a; WATC 2026b). Given the expectation of ongoing deficits and states' current debt position, these bonds will likely need to be refinanced at prevailing market rates putting upward pressure on state interest expenses. This is consistent with the Parliamentary Budget Office's *National Fiscal Outlook*, which has forecast overall public debt interest payments will increase due to higher debt levels, tight monetary policy settings and global market conditions (PBO 2025b, p. 1).

For most states, neither own-source revenue nor Commonwealth payments have kept pace with growth in expenditures

State governments collect their own-source revenue through taxation and other mechanisms, including interest income and the sale of goods and services. However, consistent with vertical fiscal imbalance, a substantial portion of state revenue comes from grants and subsidies provided by the Australian Government. The most significant transfer between the Australian Government and the states is GST revenue. For context, the importance of Commonwealth payments is evident when comparing revenue from this source to total own-source revenue across the states (figure D.7).

Between 2000–01 and 2024–25, growth in total per capita expenditure has outpaced growth in per capita revenue for every state except Western Australia (table D.3). If state government revenue is split into Commonwealth payments and state own-source revenue, neither source of revenue is growing as fast as expenditure for most states.[8,9] The most clear exceptions are for own-source revenue growth for Western Australia and the Northern Territory, with a CAGR of 2.2% and 2.3% respectively.

Table D.3 – For most states, per capita revenues have not grown as fast as expenditures

Per capita CAGR 2000–01 to 2024–25, constant prices (2024–25 basis)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	All states
Own-source revenue	1.2%	1.2%	1.8%	2.2%	0.9%	0.7%	0.6%	2.3%	**1.4%**
Commonwealth payments	1.2%	1.3%	1.5%	0.8%	1.5%	1.2%	1.2%	0.9%	**1.2%**
Total revenue	1.2%	1.2%	1.6%	1.6%	1.2%	1.0%	0.8%	1.2%	**1.3%**
Total expenditure	1.7%	2.1%	1.8%	1.3%	1.3%	1.8%	1.7%	1.5%	**1.8%**

Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, 2025c, unpublished data).

Due to states' unique characteristics, the proportions of state revenue derived from different sources varies significantly. For example, mining revenue can be a driver for states having an above-average capacity to raise own-source revenues, as is the case for Western Australia and to a lesser extent Queensland (CGC 2026a). At its peak in 2020–21, royalty revenue comprised 41% of Western Australia's own-source revenue (25% on average 2000–01 to 2024–25). Similarly, Queensland saw royalty revenue contribute 35% of its own-source revenue at its peak in 2022-23 (12% on average 2000–01 to 2024–25) (PC estimates using ABS 2025a, unpublished data). These figures illustrate how states with significant natural resources can generate higher own-source revenue, which in turn affects their capacity to fund services. The Australian Capital Territory also generates above-average own-source revenue per capita, which partly reflects its ability to raise municipal rates (the Australian Capital Territory is not directly comparable to other states as it carries out functions that in other states are the responsibility of local governments). [10]

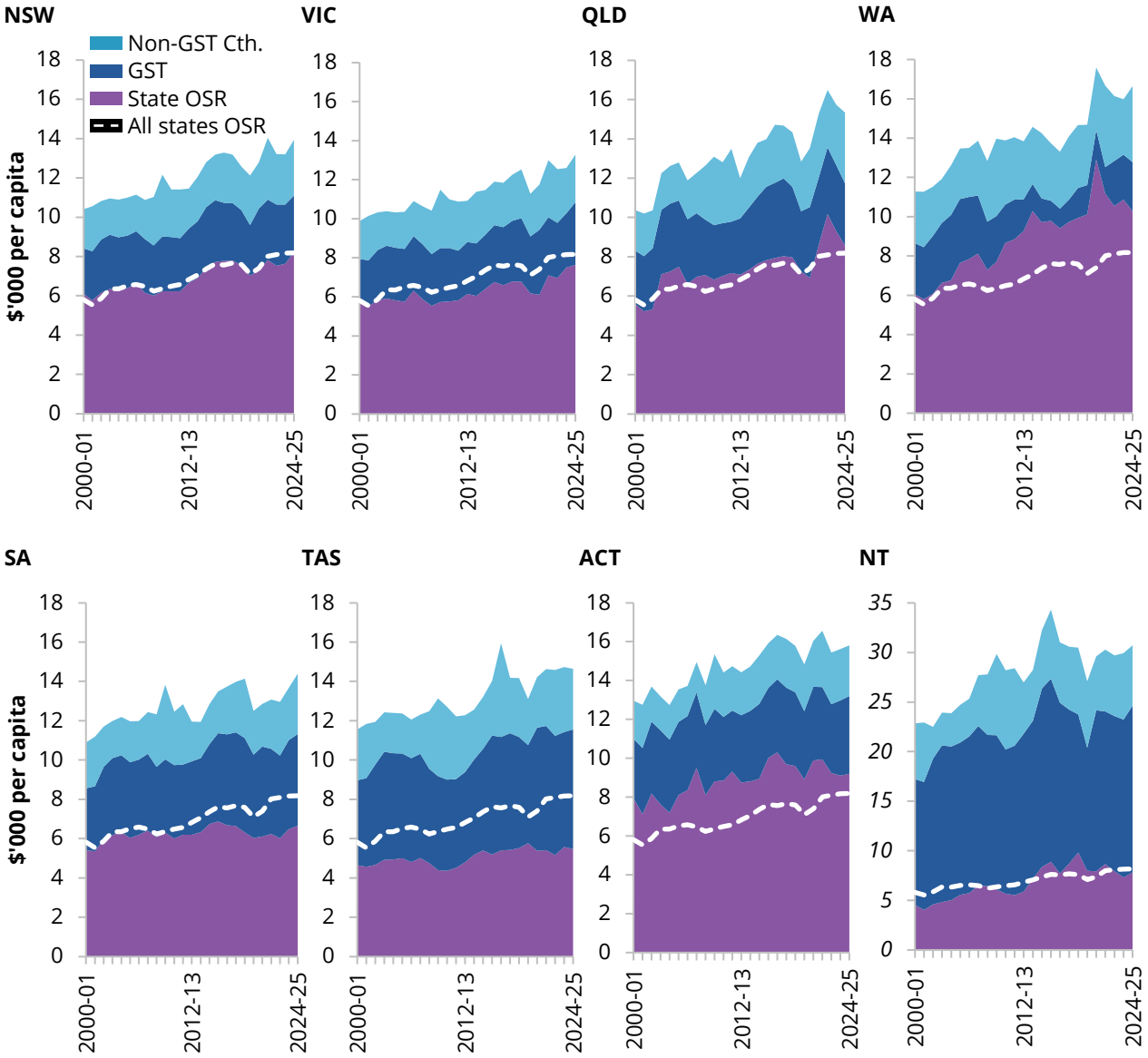
[8] Own source revenue is calculated as total revenue minus grants and subsidies from the Australian Government.

[9] Grants and subsidies from the Australian Government to the states as recorded in the GFS may not align with Commonwealth payments as reported in state or Australian Government budget papers.

[10] Average own source revenue per capita refers to total state revenue minus total state Australian Government grants and subsidies (GFS), divided by the combined state populations.

Figure D.7 – Total revenue per capita is growing for all states, but Commonwealth payments as a proportion of revenue varies significantly between them

GG, total revenue $'000 per capita, constant prices (2024–25 basis)



The Northern Territory has a different vertical axis to the other states, for presentation purposes. 'Non-GST Cth.' refers to Commonwealth payments (grants and subsidies in the GFS) to the state, excluding GST payments as per Final Budget Outcomes. State own-source revenue (OSR) refers to a state's total revenue minus Commonwealth payments (grants and subsidies in the GFS). 'All states OSR' refers to total state own source revenue divided by the combined state populations. Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, 2025c, unpublished data) and the Commonwealth of Australia (ABS 2025c; 2025, p. 86 and various other years).

By contrast, the Northern Territory and Tasmania rely more heavily on Commonwealth payments, with 75% and 63% of total revenue respectively coming from this source in 2024–25 (PC estimates using ABS 2025a, unpublished data). Despite both states' reliance on federal funding, their ability to raise own-source revenue differs: the Northern Territory has consistently maintained near-average own-source revenue, while Tasmania has persistently generated below-average own-source revenue. In the CGC's assessments, the ratio of actual to assessed revenue per capita can provide an indication of revenue-raising 'effort' (a ratio above 100 indicates a state is generating more revenue than expected given its economic base and average policy). On this metric, the Northern Territory has demonstrated greater-than-average revenue effort in recent years (2021–22 to 2024–25), whereas Tasmania has demonstrated slightly below-average revenue effort (CGC 2026c).

Higher reliance on Commonwealth payments exposes states to fiscal pressures and risks outside of their control. For example, changes to the GST distribution methodology or pool could have significant impacts on a state's fiscal position (Government of Tasmania 2026, p. 34). In addition, a high proportion of tied payments from the Australian Government can limit a states' fiscal flexibility, as many payments for specific purposes are provisional on the state also contributing funding.

The 2018 reforms have created uncertainty for states other than Western Australia

An intent of the 2018 reforms was that all states would be made better off by increasing the GST pool available to the states via 'pool boost' payments. However, the pool boost has been lower than the additional GST payments made to Western Australia, and other states have required payments under the No Worse-Off (NoWO) guarantee to ensure their GST revenue remained cumulatively equivalent to what they would have received under the pre-2018 distribution system (chapter 2).[11]

Many inquiry participants noted that the lack of a permanent NoWO guarantee has created significant fiscal uncertainty for states, with some states likening the end of the guarantee to a 'fiscal cliff'.[12] However, as the NoWO guarantee has been extended to 2029–30 (Australian Government Department of the Treasury 2024), the effect of its removal on states' operating balances has not been captured in states' 2026-27 budget forward estimates.

NoWO payments are material for several states. In 2024–25, they were equivalent to 3% of own-source revenue on average, for states other than Western Australia (PC estimates using ABS 2025a, unpublished data; Commonwealth of Australia 2025, p. 86). While a small proportion in an absolute sense, it is significant in the context of specific own-source revenue lines. For example, for states receiving NoWO payments in 2024–25, they were equivalent to 16% of payroll tax revenue or 70% of motor vehicle tax revenue on average (PC estimates using ABS 2025a, unpublished data; Commonwealth of Australia 2025, p. 86). Offsetting the budgetary impact of the NoWO guarantee lapsing would therefore require relatively large increases to states' own-source revenue lines. As highlighted by the Northern Territory Government in their submission to the inquiry '*such changes [to*

[11] Although NoWO payments are made to states each year, the NoWO guarantee is ultimately cumulative. States are guaranteed to receive at least as much GST under the current distribution system as they would have under the pre-2018 system not in each year, but across the period the NoWO guarantee is in effect (CGC 2021, p. 3).

[12] Dean Winter, sub. 14, p. 2; Government of South Australia, sub. 13, pp. 4, 15; Huon Valley Council, sub. 19, p. 2; Northern Territory – Department of Treasury and Finance, sub. 39, p. 31; Victorian Government, sub. 59, p. 32; Rob Fairs, sub. 15, p. 2; Rosalie Woodruff, sub. 26, p. 2; Tasmanian Government, sub. 48, p. 39; Victorian Government, sub. 59, p. 32.

own-source revenue] would have major policy, economic, practical and political implications.' (Northern Territory – Department of Treasury and Finance, sub. 39, p.9).

The size of NoWO payments are also significant when measured in terms of the services they could fund (NSW Government, sub. 61, p. 35; Queensland Government, sub. 62, p. 14; Government of SA, sub. 13, p. 9). For example, the New South Wales Government indicated that the cessation of the NoWO guarantee is equivalent to a reduction in around 13,000 nurses in the public hospital system and a reduction of over 14,000 New South Wales public school teachers (NSW Government, sub. 61, p. 35). The cost of the termination of the NoWO guarantee could also compound over time through higher debt and interest expenses.

The 2018 reforms have supported Western Australia's relative fiscal strength

The 2018 reforms materially increased Western Australia's fiscal capacity compared to the previous system.[13] States other than Western Australia indicated that the current system gives Western Australia greater relative capacity to fund services, reduce taxes or debt and support stronger growth (Government of South Australia, sub. 13, p. 9; Northern Territory – Department of Treasury and Finance , sub. 39, pp. 8-9; Tasmanian Government, sub. 48, pp. 7, 10). These states argued that this will create an economic gap between Western Australia and other states that represents an '*eros[ion]*' or '*weaken[ing]*' of the level of equalisation achieved in Australia.[14] By contrast, the Government of Western Australia submitted that additional funding has supported infrastructure investment that benefits the national economy through supply chains, labour mobility and higher Australian Government tax receipts (sub. 37, p. 73).

Additional state revenue can be spent in several ways, such as through reducing debt, increasing infrastructure investment, higher spending on service delivery, or funding a reduction in state tax rates. The PC cannot determine whether particular spending or tax decisions would have occurred without the reforms, because government revenue is generally fungible and the reforms are relatively recent. However, observing aggregate changes to Western Australia's spending decisions relative to other jurisdictions since 2018-19, and their own spending patterns prior to 2018-19, can illustrate where Western Australia's improved fiscal position is most visible (figure D.8).

From 2018-19 to 2024–25, Western Australia's clearest divergence from other jurisdictions has been a significant reduction in net debt and moderate growth in capital investment. By contrast, higher revenues in Western Australia have not coincided with significant growth in recurrent service delivery spending, or significantly slower growth in tax revenue relative to other jurisdictions (figure D.8).[15] This is aligned with Western Australia establishing a Debt Reduction Account in 2017-18, to apply windfall receipts to reducing

[13] ACT Government, sub. 38, p. 4; Government of South Australia, sub. 13, p. 9; Northern Territory – Department of Treasury and Finance, sub. 39, p. 31; Queensland Government, sub. 62, p. 11; Tasmanian Government, sub. 48, p. 7; Victorian Government, sub. 59, p. 3.

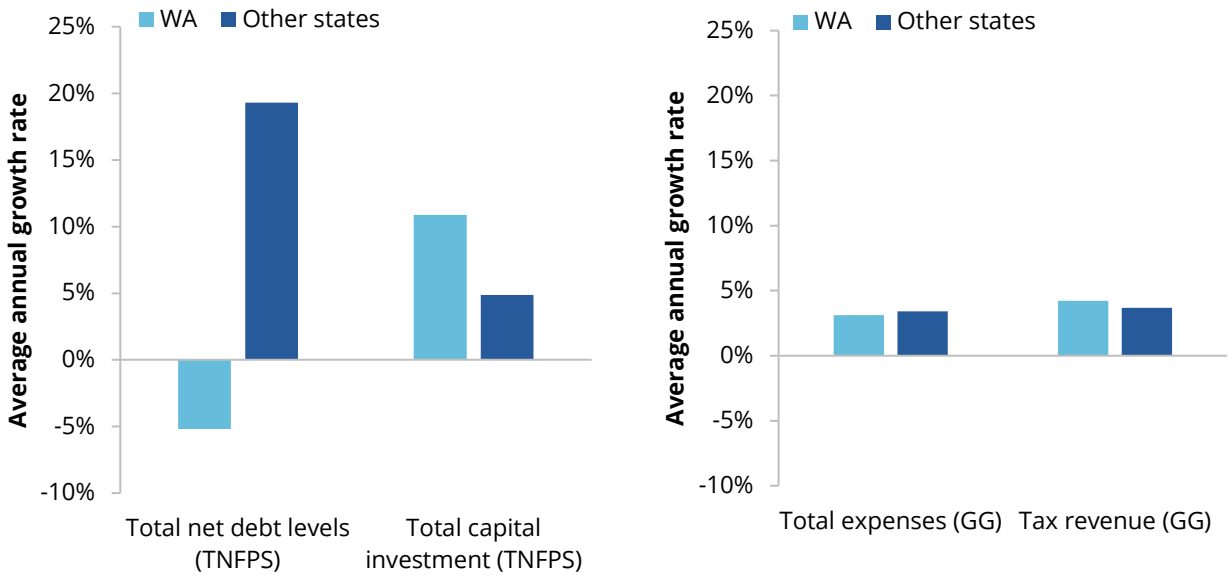
[14] Government of South Australia, sub. 13, p. 9; NSW Government, sub. 61, p. 14; Queensland Government, sub. 62, p. 3; Tasmanian Government, sub. 48, p. 24.

[15] Capital investment and net debt levels includes both GG and PNFC data, as PNFCs are a significant source of public sector capital investment and net debt, and Western Australia has the largest proportion of TNFPS capital investment attributed to PNFCs out of all states. The figure for tax revenue only include GG data, as PNFCs cannot collect taxation revenue. The figure for total expenses is also GG, to limit the scope of analysis to core government service delivery.

borrowings. The 2026-27 Western Australian Budget indicates that $8.2b has flowed through the account from 2017-18 to 2026-27. However, in its 2026-27 Budget, the Western Australian Government indicated it would be allocating future operating surpluses to infrastructure investment, reducing the need to fund this program via debt (Government of Western Australia 2026, p. 300).

Figure D.8 – Changes to Western Australia's fiscal position are most evident in net debt levels and capital investment

Average annual growth rates from 2018-2019 to 2024-2025, constant prices 2024–25 basis



Capital investment refers to gross fixed capital formation**.** Values for 'Other states' represent average annual growth rates in combined spending across all states other than Western Australia. Constant prices calculated using implicit price deflator of GDP.

Source: PC estimates using ABS (2025a, unpublished data).

References

ABS (Australian Bureau of Statistics) 2025a, *Australian National Accounts: National Income, Expenditure and Product*, Expenditure on Gross Domestic Product (GDP), Chain volume measures and current prices, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release (accessed 18 November 2025).

—— 2025b, *Australian National Accounts: State Accounts, 2024–25 financial year*, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release (accessed 10 February 2026).

—— 2025c, *National, state and territory population, June 2025*, https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release (accessed 10 February 2026).

—— 2026, *Government Finance Statistics, Annual methodology, 2024–25 financial year*, https://www.abs.gov.au/methodologies/government-finance-statistics-annual-methodology/2024–25 (accessed 3 August 2026).

ACT Government (Australian Capital Territory Government) 2016, *Australian Capital Territory Government Consolidated Annual Financial Statements 2015-16 Financial Year*.

—— 2017, *Australian Capital Territory Government Consolidated Annual Financial Statements 2016-17 Financial Year*.

—— 2019, *Australian Capital Territory Government Consolidated Annual Financial Statements 2018-19 Financial Year*.

—— 2021, *Australian Capital Territory Government Consolidated Annual Financial Statements 2020–21 Financial Year*.

—— 2023, *Australian Capital Territory Government Consolidated Annual Financial Statements 2022-23 Financial Year*.

—— 2025, *Australian Capital Territory Government Consolidated Annual Financial Statements 2024–25 Financial Year*.

—— 2026a, *Australian Capital Territory Budget 2026-27. Budget Outlook.*

—— 2026b, *Australian Capital Territory debt issuance programme – issued notes outstanding as at 31 May 2026*, June.

Australian Government Department of the Treasury 2024, *Extension of the GST No Worse Off Guarantee – Funding Agreement*, 29 November.

Aziz, A and Jackman, B 2022, *The RBA and AOFM Securities Lending Facilities*, December.

Batchelor, S and Roberts, M 2024, *Recent Developments in the Semi government Bond Market*, RBA Bulletin, 25 January, Reserve Bank of Australia.

CGC (Commonwealth Grants Commission) 2021, *Occasional paper no. 4: New arrangements for distributing GST*, 1 September, Canberra.

—— 2026a, *2026 State Snapshots*, https://www.cgc.gov.au/publications/state-snapshots/2026-state-snapshots (accessed 30 July 2026).

—— 2026b, *2026 Update: GST Relativities 2026-27 - Population*, Canberra.

—— 2026c, *2026 Update: GST Relativities 2026-27 - Revenue and expense ratios*.

Commonwealth of Australia 2023, *Intergenerational report 2023*, Canberra.

—— 2025, *Budget 2024–25 - final budget outcome 2024–25*, Canberra.

Crisafulli, D, Janteski, D and Bates, R 2027, *Lower debt, no new or increased taxes, and relief you can rely on*, Ministerial media statements, https://statements.qld.gov.au/statements/105359 (accessed 24 June 2026).

Eslake, S 2026, *The fiscal sustainability of the ACT: final report to the ACT Legislative Assembly Select Committee on the Fiscal Sustainability of the ACT*, 4 May, https://www.parliament.act.gov.au/__data/assets/pdf_file/0010/3068515/824c6bd9606c9e3ca7d692f1b8ae6018309986f3.pdf (accessed 20 July 2026).

European Commission 2017, *European semester thematic factsheet: Sustainability of public finances*, 22 November.

Government of Tasmania 2021, *Tasmanian Government fiscal sustainability report 2021*, June, Hobart.

—— 2026, *Tasmanian fiscal sustainability report 2026*, February.

Government of Victoria 2026, *Government infrastructure investment*, https://www.budget.vic.gov.au/government-infrastructure-investment (accessed 24 June 2026).

Government of Western Australia 2026, *WA State Budget: Budget paper no. 3*, 7 May.

—— 2025, *Annual Report on State Finances 2024–25*, September.

Infrastructure Partnerships Australia 2025, *Australian infrastructure budget monitor 2025-26*, https://infrastructure.org.au/policy-research/major-reports/australian-infrastructure-budget-monitor-2025-26/ (accessed 24 June 2026).

Moody's Ratings 2023, *New South Wales Treasury Corporation*, https://www.moodys.com/entity/548193/overview (accessed 15 July 2026).

—— 2024a, *Queensland Treasury Corporation*, https://www.moodys.com/entity/633255/overview (accessed 15 July 2026).

—— 2024b, *South Australian Government Financing Authority*, https://www.moodys.com/entity/686860/overview (accessed 15 July 2026).

—— 2024c, *Treasury Corporation of Victoria*, https://www.moodys.com/entity/800934/overview (accessed 15 July 2026).

—— 2025a, *Northern Territory Treasury Corporation*, https://www.moodys.com/entity/600021066/overview (accessed 15 July 2026).

—— 2025b, *Tasmanian Public Finance Corporation*, https://www.moodys.com/entity/3041/overview (accessed 15 July 2026).

—— 2026a, *Rating methodology: regional and local governments*, https://www.moodys.com/research/Rating-Methodology-Regional-and-Local-Governments-Rating-Methodology--PBC_1471270#5d113f2038d289f391614c39043629e8 (accessed 23 June 2026).

—— 2026b, *Western Australian Treasury Corporation - Ratings & Assessments*, https://www.moodys.com/entity/3061/ratings/view-by-class (accessed 15 July 2026).

NSW Government 2021, *2021–22 NSW Intergenerational Report*, 7 June.

—— 2026a, *NSW Budget 2026-27 - budget paper no. 3 - infrastructure statement*, 23 June.

—— 2024, *Consolidated Budget Management Guidance*, Standard Page, NSW Government, https://www.nsw.gov.au/business-and-economy/budget-and-financial-management/consolidated-budget-management-guidance/budget-management-and-governance (accessed 4 August 2026).

—— 2026b, *2026-27 Budget Paper No. 1 - Budget Statement*, May.

NT Government (Government of the Northern Territory) 2026a, *2026-27 Budget. Budget Paper No. 2 Budget Strategy and Outlook.*, 30 April.

—— 2026b, *Borrowing and financing strategies*, https://treasury.nt.gov.au/dtf/nttc/borrowing-and-financing-strategies (accessed 1 July 2026).

—— 2026c, *NTTC: Borrowing and financing strategies*, https://treasury.nt.gov.au/dtf/nttc/borrowing-and-financing-strategies (accessed 21 July 2026).

PBO (Parliamentary Budget Office) 2025a, *2025-26 medium-term budget outlook: beyond the budget*, September.

—— 2025b, *2025-26 National Fiscal Outlook*.

—— 2026, *2026-27 medium-term budget outlook*, July.

QTC (Queensland Treasury Corporation) 2026a, *About Us*, QTC Clients, https://clients.qtc.com.au/about/ (accessed 21 July 2026).

—— 2026b, *QTC AUD Bond Outstandings*, 30 June.

Queensland Government 2025, *2024–25 Report on State Finances of the Queensland Government*, 29 October.

—— 2026, *Budget Paper 2 - Budget Strategy and Outlook*, https://budget.qld.gov.au/files/2026-27-budget-bp2-budget-strategy-outlook.pdf (accessed 29 July 2026).

RBA (Reserve Bank of Australia) 2020, *Statement by Philip Lowe, Governor: Monetary Policy Decision*, Reserve Bank of Australia, https://www.rba.gov.au/media-releases/2020/mr-20-28.html (accessed 15 July 2026).

—— 2026, *Statistical Tables - Table A3.1*, https://www.rba.gov.au/statistics/tables/index.html (accessed 6 August 2026).

SA Government 2025, *State finances – insights on the 2025-26 Budget*, 11 November.

—— 2026, *State budget 2026-27. Budget Paper 3*, 4 June.

SAFA (South Australian Financing Authority) 2026, *SAFA's weekly funding update week ending 26 June 2026*, 26 June.

Saxena, S 2022, *How to manage fiscal risks from subnational governments*, September, International Monetary Fund.

Smith, G 2020, 'GST as a secure source of revenue for the States and Territories', *eJournal of Tax Research*, vol. 18, no. 1, pp. 27–44.

S&P Global 2019, *Criteria, Governments, International public finance: methodology for rating local and regional governments outside of the U.S.*, S&P Global.

—— 2025a, *Australian Capital Territory (Government of)*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/128306 (accessed 10 August 2026).

—— 2025b, *New South Wales Treasury Corporation*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/110741 (accessed 10 August 2026).

—— 2025c, *Tasmanian Public Finance Corporation*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/118645 (accessed 10 August 2026).

—— 2026a, *Queensland Treasury Corporation*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/112138 (accessed 10 August 2026).

—— 2026b, *South Australian Government Financing Authority*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/112682 (accessed 10 August 2026).

—— 2026c, *Subnational Government Outlook 2026: Smaller Australian States Catch the Borrowing Bug*, https://www.spglobal.com/ratings/en/regulatory/article/subnational-government-outlook-2026-smaller-australian-states-catch-the-borrowing-bug-s101662272 (accessed 10 February 2026).

—— 2026d, *Victoria (Treasury Corporation)*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/107692 (accessed 10 August 2026).

—— 2026e, *Western Australian Treasury Corporation*, https://www.spglobal.com/ratings/en/regulatory/org-details/sectorCode/GOVS/entityId/109978 (accessed 10 August 2026).

TASCORP (Tasmanian Treasury Corporation) 2026, *Financial Markets*, https://www.tascorp.com.au/financial-markets (accessed 1 July 2026).

—— nd, *TASCORP Government Guarantee*, https://www.tascorp.com.au/government-guarantee (accessed 21 July 2026).

Tasmanian Government (Government of Tasmania) 2023, *2023-24 Budget paper no. 2*, May.

—— 2026, *Budget Strategy and Estimates. Budget Paper No. 1*.

TCorp (New South Wales Treasury Corporation) 2026, *TCorp weekly bonds outstanding 26 June 2026*, June.

TCV (Treasury Corporation of Victoria) 2026a, *Amount on Issue (face value)*, https://www.tcv.vic.gov.au/tcv-bonds/outstanding-borrowing/amount-on-issue (accessed 26 June 2026).

—— 2026b, *Government Guarantee*, https://www.tcv.vic.gov.au/about-tcv/corporate-overview/government-guarantee (accessed 21 July 2026).

VAGO (Victorian Auditor-General's Office) 2025, *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25*, November.

Vic. PBO (Victorian Parliamentary Budget Office) 2026, *Glossary*, https://pbo.vic.gov.au/glossary (accessed 8 May 2026).

Victorian Government (Government of Victoria) 2026, *2026-27 Statement of Finances*.

WA Government (Government of Western Australia) 2026, *2026-27 Budget. Economic and Fiscal Outlook. Budget Paper No. 3*, May, https://parlwa.public.parliament.io/WebCMS/webcms.nsf/resources/file-2026-27-state-budget-paper-no3/%24file/2026-27-wa-state-budget-paper-no3.pdf (accessed 29 July 2026).

WATC (Western Australian Treasury Corporation) 2026a, *Corporate Governance*, https://www.watc.wa.gov.au/about-us/corporate-governance/ (accessed 21 July 2026).

—— 2026b, *Weekly issuance update - 22 June 2026 to 26 June 2026*, 26 June.