McKinnon
PUBLIC SECTOR

Treasurers' Fiscal Statements

Better communicating government fiscal strategies

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Overview: We need a more long-term view to put public finances back on a sustainable trajectory

Currently there is a bias towards the short term in government spending decisions which has contributed to consolidated government debt levels rising over time. To enable governments to engage better with their citizens on the medium-term pressures and trade-offs in government spending we recommend the adoption of Treasurers' Fiscal Statements. This new mechanism has the potential to create greater public awareness of and engagement with government spending to ensure Australia's fiscal sustainability.

Current Australian federal and state government spending is manageable by international standards but is rising rapidly to historically high levels.

While we compare favourably with other nations, we are nonetheless depleting the fiscal headroom we once enjoyed. We've been conditioned by previous decades' windfalls and strong tax revenues to expect spending from governments that exceeds our capacity to pay into the future. Between 2007 and 2023 Australia recorded the fastest growth in government debt as a share of GDP in the OECD, with states accounting for around half of that total.

We need to face these new and increasing pressures from a position of strength, but we're already struggling to keep up with current demands for services, subsidies and support. Since 2011, GDP growth has slowed to around 2.5 per cent while spending has continued to rise by 3.0 per cent per year. This growth is resulting in more debt and a rising interest burden.

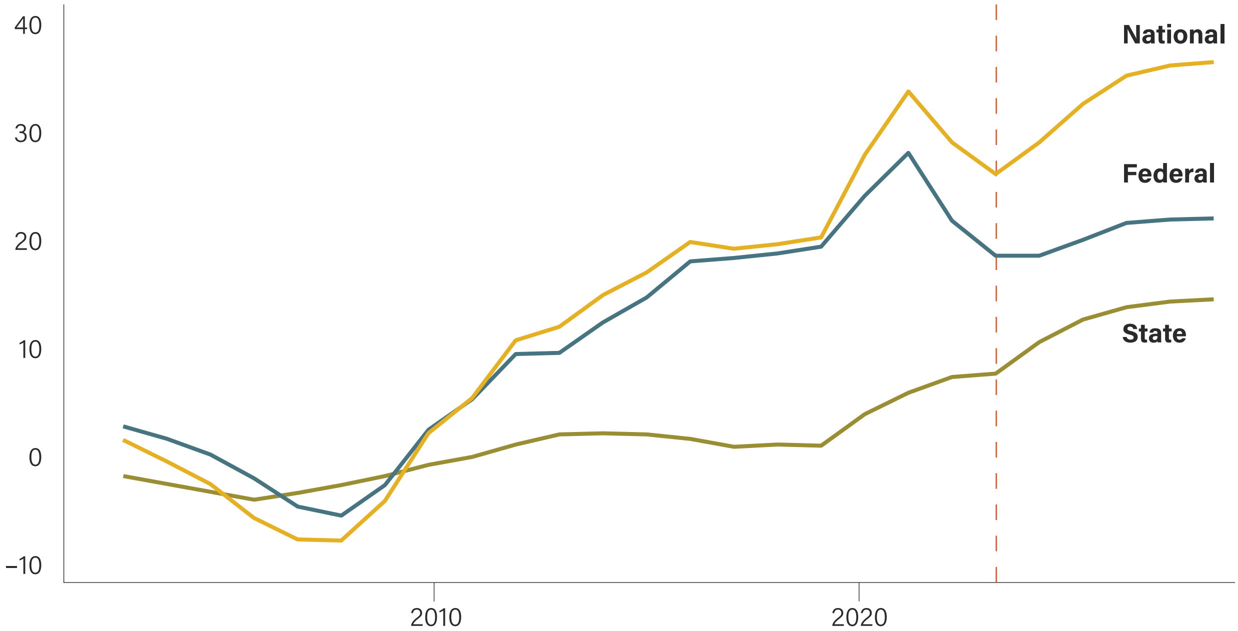
We now spend around $48.1 billion on interest costs annually on both state and federal debt – the equivalent to about two and a half times what we allocate to policing nationwide.

Across the board governments aren't sufficiently engaging with the public to set out the path towards a better, more sustainable fiscal position that can safely and securely fund the services that Australians need and respond to the current and future pressures we face.

Meanwhile, recent research from JWS suggests that support for fiscal sustainability is widespread, with majority support from voters of all parties, all age groups and across education levels[1].

Net debt projected to keep rising

% GDP



*Actuals and projections come from the 2024/25 National Fiscal Outlook

Sources: e61 Institute, PBO

[1] *The Vital Role of Community Facing Research in Managing the Budget, JWS Research, November 2025.*

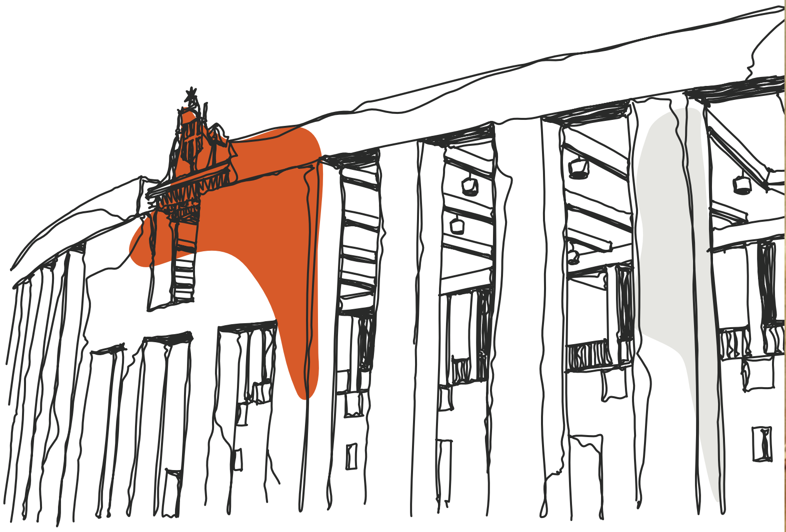
One of the key challenges in delivering better fiscal sustainability is the low levels of understanding, engagement with and scrutiny of government fiscal strategies. This gap leaves the door open for unsustainable choices and investments.

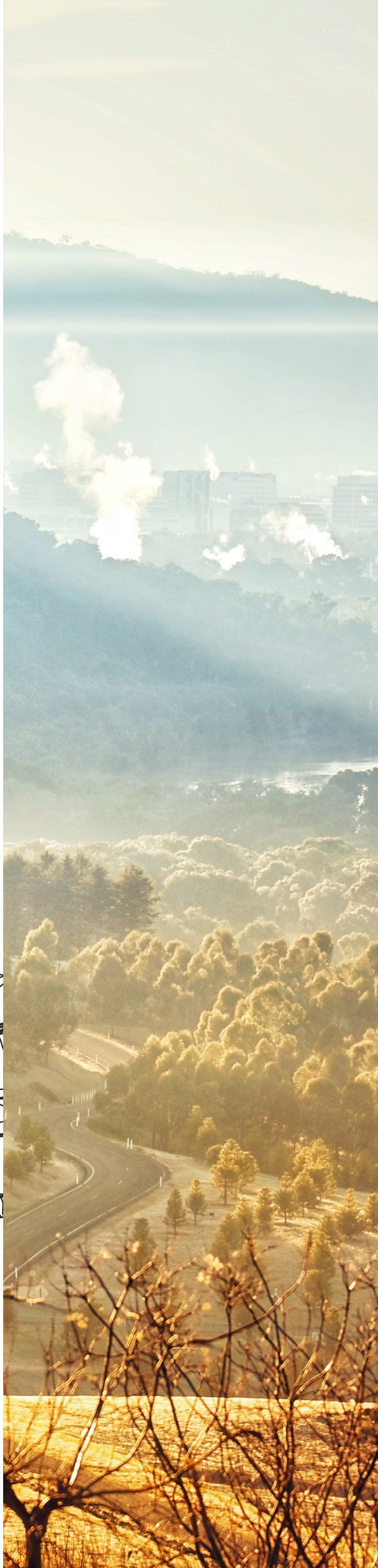
Engagement with government fiscal strategy is often surface-level and limited to fiscal elites.

Fiscal strategies are overshadowed by the "winners and losers" of Budget Day, which reinforces short-termism. Limited engagement beyond the small group of "fiscal elites" means the political benefits of maintaining fiscal sustainability are low and the political costs of making excessively short-term investments are low.

Where fiscal strategies exist, they are unengaging and focused on a narrow set of indicators.

Aggregate fiscal targets are important but do not resonate with large groups, and have an unclear link to the services and programmes that matter to people. An exclusive focus on overall fiscal balance can often obscure discussions about spending composition, spending quality and service delivery.





Good government fiscal strategies display four key characteristics

1. **Constraining without being a straitjacket.** Governments should feel pressure to stick to the strategy but be able to make the public case for departure in crises.

2. **Engaging and approachable.** Strategies need to be laid out in terms that reach and resonate with a wide range of groups and audiences, including some expressed in portfolio and non-financial terms to maximise understanding and engagement.

3. **Actionable and accountable.** Each element of the strategy should materially impact spending decisions, and there needs to be clear understanding of the targets and their rationale.

4. **Consistent and trackable.** Strategies need to be stable over time to enable tracking of the link between decisions and current results, the trajectory towards targets and whether they've ultimately been achieved.

Governments should adopt Treasurers' Fiscal Statements

As a first step towards improved financial sustainability, governments should adopt Treasurers' Fiscal Statements (TFS) using a "Balanced Scorecard" approach.

Fiscal Statements improve on current practice in four ways:

- TFS are announced via a speech to the public or tabled in Parliament **separately to the annual Budget**. This gives more room to explain medium-term matters and improves visibility and accountability for progress and ensures that fiscal strategies are set prior to the annual budget process – rather than retrofitting the fiscal strategy to match the spending decisions that have been made.
- TFS adopt a **mix of indicators** including a) traditional fiscal indicators and targets (such as debt to GDP ratio, fiscal gap), portfolio-specific indicators (such as limiting spending growth in the NDIS to max 8% per annum), b) leading indicators of future performance (such as human, economic and environmental capital stocks) and c) performance indicators in portfolio areas (such as delivery in hospitals, transport, defence, infrastructure and housing). This improves understanding and engagement, as well as accountability.
- TFS adopt a **medium-term outlook**, adding a medium-term focus (e.g. 10-year horizon) to complement the existing 4-year forward estimate outlook. This reduces the pressure for short-termism and unsustainable choices, and opens the space for cost-avoidance, prevention and invest-to-save approaches.
- TFS targets and indicators remain b**ased on political choices** and have foundations in existing data available to the public service. This means governments remain fully responsible for strategy choices (and therefore accountable for success), compatibility with each jurisdiction's existing legislative requirements for fiscal strategies is maintained and the process does not place an undue burden on Treasuries to administer and report on.

The TFS Balanced Scorecard approach

Under the TFS approach, government's fiscal strategies would be chosen with reference to a range of indicators across the four domains: near and medium-term fiscal targets, leading indicators and portfolio-specific targets. This approach maintains the benefits of existing fiscal strategies while expanding public and stakeholder engagement in a way that increased understanding, engagement and accountability.

1. Traditional near-term fiscal targets

Fiscal and debt metrics: Debt to GSP/GDP ratio, debt per capita, gross and net debt levels, debt servicing costs, 4-year budget surplus/deficit, underlying cash balance, spending growth relative to revenue and national savings rate

Economic indicators: Inflation rate, wage growth and real income

Labour market metrics: Employment levels, unemployment

External sector metrics: Trade balance, currency performance and current account balance

2. Medium-term fiscal targets

Macroeconomic indicators: Economic growth and productivity

Fiscal and financial metrics: Sovereign credit ratings, fiscal gap analysis and debt and revenue targets

Infrastructure and investment: Infrastructure investment target, infrastructure pipeline and delivery outlook

Superannuation liabilities: Ability to service long-term superannuation entitlements of public sector employees

3. Leading indicators of future fiscal outcomes

Human capital and demographics: Human Capital Index, educational attainment and completions, population growth, migration trends including skilled migration and ageing population dynamics

Economic and business indicators: Business confidence, private investment levels and property market performance

Environmental and climate metrics: Environmental sustainability indicators, natural disaster impact and climate risk and resilience index

4. Portfolio-specific performance and outcome targets

Selected reforms and portfolio spending: Overview of key reforms and expenditure trends across major portfolios (e.g. growth in disability services, defence, health, education etc) and 10-year forward projections of portfolio-level spending

Activities and outcomes-based targets: Portfolio-specific activity metrics and performance targets aligned with government priority areas (e.g. health, housing, industry and innovation)

There are good recent examples of fiscal strategy engagement

Spending targets work best when they are publicly committed and widely engaged with by the media and public. And they are even more effective when there is a strong resonance and a clear rationale for the target linked to systems and services that the public engages with. Recent examples such as the NDIS growth target (initially 8% p.a.) show that it is possible to adopt strong public message around a fiscally denominated target. When surveyed by JWS, most Australians (58%) supported scaling down the NDIS to meet improved fiscal targets.

There are several features of the NDIS growth target that could be replicated in other fiscal targets: a continued public commitment to the target; clarity and specificity of the target; clear narrative and rationale for the targets; and regularly reporting back to the media and public on progress towards the target.

NDIS – 8% growth target

Cost growth in the NDIS has been a major cut-through element of public policy discussion beyond elite media.

The Commonwealth has publicly discussed the higher-than-envisaged initial growth rates (~12% p.a.) and their target to reduce this to 8% p.a. in the near term, and lower (~5%) in the longer term.

These growth rates and targets were set out in the 2024–25 Budget and NDIA's Financial Sustainability Report—shaping national debate on equity, efficiency, and long-term viability.

The public commitment to spending targets effectiveness sets a cap on growth and has crowded in policy proposals from the system, policy practitioners, stakeholders and think tanks on the best ways to meet the cost targets.

WORKING WITH MCKINNON

McKinnon wants to partner with governments and work with public services, independent fiscal and policy organisations and other stakeholders to accelerate the adoption of Treasurers' Fiscal Statements. TFS fall under McKinnon's Fiscal Sustainability programme, which has the aim of ensuring greater consideration of the long-term impacts on people and public finances in the selection of current policies and programmes.

For more information on how we can work together, visit mckinnon.co.

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