BRIEFING NOTE:
ACT's Fiscal Sustainability Review

ACT Shelter

ACT Shelter analysis of the implications of the Eslake Report on Fiscal Sustainability of the ACT | June 2026

In December 2025, the ACT Legislative Assembly established a Select Committee on the Fiscal Sustainability of the ACT, following a joint motion by the Canberra Liberals and the ACT Greens. The inquiry was formed in response to growing concern about the Territory's deteriorating budget position, including the compounding deficits and rapidly rising public debt that have accumulated despite the ACT's strong underlying economic performance. The Committee's final report is due by 28 August 2026.

As part of the inquiry, the Committee appointed prominent independent economist Saul Eslake as a Special Adviser. He delivered an Interim Report in February 2026, followed by his *Final Report on the Fiscal Sustainability of the ACT* in May 2026 (the Eslake Report). This report provides a comprehensive assessment of the Territory's public finances, examining the causes of fiscal deterioration, the ACT's comparative performance against other jurisdictions, medium-term projections, and options for returning to a sustainable footing. In a blunt central conclusion, Eslake found that the deterioration of the ACT's fiscal position was *"entirely attributable to conscious policy decisions."*

The outcomes of this Inquiry may have implications for the broader public debate about how fiscal priorities are framed in the ACT, including investments relating to housing and homelessness. This briefing summarises what the Eslake Report finds, potential implications for housing and homelessness in the ACT, where its analysis is incomplete or requires challenge, and the broader need to reconceive how governments budget for, cost and invest in housing to better support long-term social and economic sustainability and resilience.

1. Key Findings of the Report

The report's central conclusion is that the ACT's fiscal position has deteriorated significantly over the past decade, and that this is the result of deliberate policy choices, not economic misfortune. The ACT economy has in fact outperformed the rest of Australia on nearly every measure over this period. Four findings stand out.

1.1. A decade of persistent deficits and rapidly rising debt

The ACT general government has spent more than it has earned every year since 2012–13. Operating deficits have totalled $6.4 billion over the past decade, with more than half incurred in the last three years alone. Total Territory net debt has grown from around $2.8 billion in 2019 to $11.2 billion today, and is projected to reach $16.8 billion by 2029 – a near-500% increase over eleven years. Annual interest repayments are forecast to exceed $1 billion (almost 10% of revenue) by 2028–29.

1.2. Spending growth has far outpaced revenue growth

Policy decisions to increase spending have worsened the operating balance by at least $7 billion over the past decade. By contrast, decisions to raise revenue have offset only around 12% of that impact. The growth in expenditure has been broad-based. Employee expenses increased by around 10 per cent per year between 2022–23 and 2024–25 – significantly above wage growth – while capital expenditure approximately doubled. Eslake concludes that successive governments have expanded the range and scale of services delivered without requiring Canberrans to contribute through additional revenue to the same extent. The resulting fiscal challenge is therefore not primarily one of short-term budget management, but of achieving a more sustainable alignment between the services government provides and the revenue available to fund them.

Eslake's concern is not that government should not provide services or invest in public infrastructure. Rather, his analysis highlights the need for a more sustainable relationship between service commitments, expenditure growth and revenue capacity.

1.3. Health expenditure is the primary source of spending pressure

Using Commonwealth Grants Commission benchmarks, Eslake identifies the ACT as spending approximately **$778 million above benchmark in 2024–25**. The Commonwealth Grants Commission framework estimates the expenditure required for jurisdictions to provide comparable services at average efficiency, adjusted for differences in population characteristics and service delivery costs. Health accounts for more than three-quarters of that gap, around $610 million, driven substantially by the cross-border costs of treating NSW patients (at prices that recover only around 77% of actual ACT costs) and by the structural disadvantage of running a small-jurisdiction hospital system.

1.4. The Forward Estimates face serious credibility questions

Eslake identifies significant risks in the ACT Government's Forward Estimates and questions whether the projected fiscal improvement is achievable without substantial changes to spending trajectories. The Government's recovery plan – outlined in the 2025–26 Budget and February Budget Review – assumes operating expenditure growth will slow from approximately 8 per cent per year to just 1.3 per cent per year. Employee expenses are projected to grow at only 1.2 per cent per year, against a forecast wage price index of 3.25%. Achieving this would require an active reduction in workforce size, not merely slower hiring.

The ACT Auditor-General has similarly identified concerns about sustained expenditure pressures, noting that *"sustained pressure from higher expenses highlights structural pressures and reinforces the need for tighter cost controls."* Eslake also highlights the historical tendency for Forward Estimates to underestimate spending and overestimate revenue, creating uncertainty about whether projected improvements will be achieved.

2. Implications for Housing and Homelessness

2.1. Housing and homelessness are not drivers of the ACT's fiscal challenge

The Eslake Report's benchmarking analysis provides context for understanding where fiscal pressures arise. Housing and community services expenditure sits only modestly above the Commonwealth Grants Commission benchmark, while welfare expenditure is below benchmark. By contrast, health accounts for the overwhelming majority of the ACT's assessed expenditure above benchmark.

We have reservations about the use of Grants Commissioning benchmarking as a means of determining the adequacy and appropriateness of government funding for different subsectors. Nonetheless, on Eslake's own analysis, housing, homelessness and community services are not the programs driving the Territory's fiscal deterioration. That is, the evidence presented in the Eslake Report does not support an argument that reducing investment in housing, homelessness services or community programs would materially address the ACT's structural fiscal challenge.

2.2. Housing and health should not be framed as competing priorities

ACT Shelter are cautious in how we read the health expenditure findings. It is important not to frame this as a competition for resources between the health sector and the housing sector, which would be misleading and counterproductive. The health system provides essential care, and the communities ACT Shelter serves depend heavily on it. The question is not whether health spending is too high, but what is driving it and whether some of those costs are, in part, avoidable through better upstream investment.

2.3. CGC benchmarks do not measure housing adequacy

There is, however, a deeper problem with how the Eslake report's benchmarking data is likely to be read in public policy discussion and debate. The fact that ACT housing and homelessness spending sits near the Grants Commission benchmark does ***not*** mean current investment levels are sufficient. That conclusion does not follow. What it does mean is that the ACT is performing similarly to other Australian jurisdictions. And those other jurisdictions are themselves profoundly and demonstrably under-investing in housing.

The CGC framework is designed to support horizontal fiscal equalisation. It estimates the relative expenditure needs of jurisdictions to provide comparable services at average efficiency. The national average used in this framework is not a measure of *adequacy*. It is a measure of *commonality*. These are very different things.

ACT Shelter's view is clear: current investment in housing and homelessness prevention falls well short of what is needed. The benchmarking framework Eslake deploys, while useful for some purposes, is not designed to answer the question of whether government is meeting housing need – and using it as if it does produces a misleading and incomplete picture.

Across Australia, social housing waitlists are at record or near-record lengths, homelessness rates have worsened in most jurisdictions over the past decade, and rental stress is affecting an increasing proportion of low-income households. The ACT is no exception, and being near average on housing expenditure in this context is not reassuring. It simply means the ACT is under-investing at roughly the same rate as everyone else.

The limitations of Commonwealth Grants Commission Benchmarking

The Grants Commission's own methodology documents acknowledge several of the limitations that make its housing benchmarks a poor proxy for adequacy.

The framework was designed for fiscal equalisation, not housing adequacy. The CGC's core purpose is horizontal fiscal equalisation – i.e. calculating how much each state needs to provide *average* services at average efficiency.

It does *not* ask whether average services are adequate. If housing investment across Australia has been chronically insufficient – and the evidence is that it has – the CGC benchmark simply replicates that underinvestment and calls it a standard. The floor becomes the ceiling.

It focuses on recurrent costs, not the capital investment housing actually needs. Building new social housing requires large, upfront capital. The CGC methodology is primarily designed around recurrent management and maintenance costs, and treats capital expenditure unevenly. This can generate year-to-year volatility that obscures rather than illuminates the scale of the supply shortfall. Comparing ACT housing expenditure against a benchmark designed around recurrent costs tells us very little about whether the Territory is investing enough to house the people who need it most.

It cannot adequately capture homelessness, overcrowding or private rental stress. The CGC relies on broad Census and AIHW data measured at the household level, a methodology that systematically underestimates the impact of overcrowding and hidden homelessness. The Commission has acknowledged the difficulty of capturing these dimensions reliably, and has noted that consistent data linking private rental affordability stress to state housing service need is not available within its framework. This means the benchmark cannot account for the private rental crisis, which is where many of the Canberrans seeking out support for housing and homelessness are experiencing the most acute housing insecurity.

Revenue distortions further muddy the picture. The CGC offsets state housing costs against rental income from tenants. But public housing tenants, unlike those in community housing, are not eligible for Commonwealth Rent Assistance. This structural difference distorts the apparent cost comparison between public and community housing models, making the true funding gap harder to read and potentially understating the cost of adequately running a public housing system.

2.4. A legacy housing debt the Commonwealth should forgive

Eslake makes one explicit housing-related recommendation directed at the Commonwealth. He argues the ACT has a strong and justified case for forgiveness of the approximately $83 million debt it continues to repay to the Federal Government for public housing assets transferred at the time of self-government in 1989. Principal and interest payments on this debt totalled $11.6 million in 2024–25 alone.

As Senator David Pocock has noted, a significant portion of the ACT's National Housing and Homelessness Agreement funding is effectively returned to Canberra as debt repayments. The Federal Government has already forgiven equivalent debts for South Australia and Tasmania. ACT Shelter calls on the Federal Government to extend the same treatment to the ACT, and on the ACT Government to escalate this through National Cabinet and the Housing Ministers' forum, with National Shelter's support.

2.5. The capital squeeze and the housing pipeline

The Government's own Forward Estimates require capital expenditure to fall from around $1.2 billion per year to under $800 million by 2027–28 and 2028–29. That represents a significant reduction, and choices will have to be made about which programs are protected and which are deferred or cancelled. ACT Shelter notes that Eslake's own report articulates clear principles for legitimate debt-funded capital investment: assets that are long-lived, that benefit future generations, and whose costs can appropriately be shared over time. Social and public housing meets every one of those criteria. The report's own fiscal logic does not require housing capital programs to bear disproportionate cuts, but rather suggest it requires disciplined prioritisation of investment with durable returns.

3. Housing investment is key to fiscal and social sustainability

3.1. The housing–health connection: upstream investment reduces future fiscal pressures

A central limitation of traditional budgeting is that it tends to treat expenditure within individual portfolios rather than considering interactions across government. And, if the objective is fiscal sustainability, decisions must distinguish between expenditure that creates future value and expenditure that simply responds to avoidable costs.

Housing provides a clear example. There is a well-established evidence base showing that housing insecurity and homelessness generate significant demand for acute health, mental health, emergency department, justice and child protection services. The relationship runs in the other direction too: inadequate community mental health services – a recognised area of underinvestment in the ACT – can contribute to housing instability and homelessness. These are not separate problems. They are interconnected.

Eslake himself briefly acknowledges that above-average ACT health spending may partly reflect under-investment in preventive measures. This is an important concession, but the report does not pursue it. A more complete analysis would recognise that some of the ACT's elevated health expenditure is not simply a health system problem – it is the downstream cost of inadequate investment in housing, mental health support and early intervention services. A fiscal framework that ignores these interactions risks making decisions that appear efficient in one portfolio while increasing costs elsewhere.

Victoria's *Early Intervention Investment Framework* is instructive here. It was developed explicitly to address escalating health and social service costs, and it does so in part by directing investment upstream – into community services, mental health support, and stable housing – that reduces pressure on acute and crisis systems. The Centre for Policy Development's work on avoidable costs makes a complementary case: that significant portions of government expenditure on acute services can be reduced through better preventive investment. These are the kinds of cross-portfolio, long-term investment logics that are largely absent from the Eslake report, and that ACT Shelter believes should inform the ACT's fiscal and strategy and budgeting framework.

3.2. Budget processes need to recognise long-term value and avoided costs

The Eslake report rightly identifies the need for stronger fiscal discipline in the ACT. But ACT Shelter believes the debate about fiscal sustainability must go beyond questions of how much government spends or what taxes it raises. It must also confront whether the ACT's budget processes are actually capable of making the kinds of decisions that lead to long-term fiscal and social sustainability.

As noted above, a central challenge is distinguishing between expenditure that represents consumption and expenditure that creates future social and economic value. Housing investment illustrates this challenge. While social housing appears in government accounts as expenditure, it also creates durable public assets, reduces demand for crisis responses, supports workforce participation and improves community wellbeing. Treating all expenditure as equivalent risks undermining the very investments that support long-term sustainability.

Current ACT budget frameworks are built primarily around annual funding cycles and near-term fiscal outcomes. This promotes expenditure control, which matters. But it can actively discourage investment in the preventive and enabling measures that generate the largest long-term economic and budgetary returns – because those returns accrue in future years, across multiple portfolios, and often outside the direct line of sight of any single agency.

Housing is the clearest example. Investment in social and genuinely affordable housing is consistently assessed in budget processes as a fiscal cost, despite strong evidence that stable, secure housing reduces demand for health, mental health, homelessness, child protection, justice and crisis services, while supporting workforce participation, educational attainment and community resilience. Deferring or underinvesting in housing may improve short-term budget settings. Yet it ultimately increases long-term expenditure elsewhere across government.

A more sophisticated approach to investment decision-making in the ACT would incorporate several elements currently missing or underdeveloped:

- **Cross-portfolio impact assessment.** Before any significant change to housing, homelessness, mental health or community services funding, Government should be required to model the downstream fiscal impact across portfolios, including on health, justice and child protection demand. Victoria's Early Intervention Investment Framework provides a practical model for this approach.
- **Long-term return on investment analysis.** Budget frameworks should be capable of recognising and valuing cost avoidance, not just direct expenditure. The Centre for Policy Development's research on avoidable costs demonstrates that significant portions of acute service expenditure are reducible through upstream investment – but only if budget processes are designed to recognise that connection.
- **Wellbeing and social return metrics.** The ACT already has a Wellbeing Framework. Budget decision-making should be explicitly linked to it, so that the Territory's fiscal strategy is tested not only against debt and deficit targets but against outcomes for the people it serves.
- **Investment timeframes that match the problem.** The ACT faces structural long-term challenges – population ageing, housing affordability, climate adaptation, and growing demand for public services. Addressing these requires investment decisions that extend well beyond annual budget cycles and electoral timeframes. Budget processes should be reformed to accommodate this.

Budget process reform is a means of supporting better decision making and fiscal sustainability. Without the capacity to identify and invest in measures that reduce future expenditure, governments will always be managing demand for expensive crisis services rather than preventing them. As Eslake's own report notes, interest expense is projected to account for 55% of the entire increase in ACT operating costs over the next four years. That is the cost of decisions already made. The question is whether the ACT's decision-making processes are good enough to avoid repeating the pattern.

4. Additional issues requiring consideration

ACT Shelter respects the rigour of Eslake's analysis, however we believe there are several gaps and areas given insufficient weight in his final report.

4.1 Vertical fiscal imbalance and the Commonwealth's role in addressing structural housing need

A significant feature of Australia's federation is the vertical fiscal imbalance between levels of government. The Commonwealth has access to the broadest and most productive revenue sources, while states and territories retain primary responsibility for many of the services and infrastructure that directly affect community wellbeing, including housing, homelessness, health and community services.

Eslake's report acknowledges some of the revenue-raising constraints faced by the ACT, including the inability to levy payroll tax on Commonwealth employees, exemptions affecting Commonwealth land, and planning constraints that limit some opportunities for land value capture. However, ACT Shelter considers that the implications of vertical fiscal imbalance – particularly for social housing investment – warrant greater emphasis.

Housing is an area where the mismatch between responsibility and revenue capacity is particularly acute. State and territory governments have historically carried significant responsibility for public housing provision and homelessness responses, yet the scale of investment required to address housing need exceeds the fiscal capacity of individual jurisdictions acting alone.

This challenge is compounded by decades of declining social housing investment nationally. Historically, Commonwealth investment was a much more significant contributor to housing supply. Commonwealth programs supported a substantial share of new social housing construction in earlier decades, including approximately 22 per cent of new housing supply in the 1950s. Over time, direct Commonwealth investment has declined, contributing to the accumulated shortfall in social housing supply nationally. Social housing has fallen significantly as a proportion of Australia's overall housing system, and supply has failed to keep pace with population growth and changing patterns of need. Reversing this trajectory is not simply a matter of increasing annual expenditure at the margins; it requires sustained, long-term investment to rebuild the social housing system as essential social infrastructure.

There are also structural inefficiencies arising from the fragmented division of responsibilities between governments. Community housing providers, which largely operate with Commonwealth funding streams, can access tax concessions and other arrangements that are not available to state-run public housing providers. This can create cost disparities between different parts of the social housing system and contribute to an uneven policy environment.

ACT Shelter's view is that these are not simply issues for individual jurisdictions to manage; they are structural features of the federation that have contributed to long-term underinvestment in areas such as social housing. Reversing this trajectory requires sustained, large-scale investment to rebuild social housing as essential infrastructure. This is beyond the capacity of any state or territory government acting alone within the current fiscal framework.

The Eslake Report appropriately focuses on the choices available to the ACT Government, but fiscal sustainability also requires consideration of the broader Commonwealth–state funding architecture. A sustainable housing system will require greater Commonwealth participation through increased and more predictable housing investment, expanded social housing supply programs, and reforms that better align revenue capacity with service responsibilities.

The legacy public housing debt identified by Eslake illustrates this broader issue. Continued repayment of historic housing debt reduces the capacity of the ACT to invest in current housing needs, while the potential expiry of the No-Worse-Off Guarantee in 2029–30 presents further fiscal uncertainty. These issues demonstrate why vertical fiscal imbalance must be treated as a central component of the fiscal sustainability debate, not a peripheral consideration.

4.2. The community sector is invisible as an economic contributor

The report frames public sector spending growth as a problem to be controlled, without acknowledging that the community services and housing sector is itself an economically significant contributor – employment-intensive, locally-spending, and counter-cyclical. It is not simply a cost line.

5. ACT Shelter's priorities

- **Pursue Commonwealth public housing debt forgiveness.** The ACT has a clear, evidence-backed case for forgiveness of the $83 million legacy public housing debt, consistent with what the Commonwealth has already done for South Australia and Tasmania. The ACT Government should escalate this through National Cabinet and the Federal Housing Minister as a priority.
- **Protect investment in public and social housing as essential long-term infrastructure.** The ACT's fiscal principles support debt-funded investment in long-lived social assets.
- **Reform budget processes to recognise prevention, factor in avoided costs, long-term returns and long-term cross-government impacts.** The ACT should adopt cross-portfolio impact assessment, long-term return on investment analysis, and wellbeing-linked decision-making frameworks as part of its approach to fiscal sustainability.
- **Publish distributional analyses of tax reforms (including renters).**
- **Advocate for a federal funding compact on housing that addresses vertical fiscal imbalance.** State and territory governments should make an explicit case through National Cabinet and housing ministerial forums that reversing decades of social housing decline requires sustained Commonwealth investment at a scale no individual jurisdiction can provide. This includes maintaining and expanding NHHA funding, exploring new federal financing instruments for social housing supply, and pursuing reform of the vertical fiscal architecture to better align revenue capacity with housing service responsibility.

Note that this briefing is intended to support discussion and consideration of the implications of the current focus on fiscal sustainability for housing and homelessness policy in the ACT. It is not intended as a comprehensive analysis or policy position statement. We welcome member and other stakeholder feedback and will continue to develop ACT Shelter's response as this discussion continues to unfold.