Submission Cover Sheet

Inquiry into the Fiscal Sustainability of the ACT

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Submitter: Productivity Commission

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Australian Government
Productivity Commission

Inquiry into the fiscal sustainability of the Australian Capital Territory (ACT)

Productivity Commission submission

The Productivity Commission welcomes the opportunity to make a submission to the inquiry into the fiscal sustainability of the ACT. This submission draws on the PC's role in reporting on the equity, efficiency and effectiveness of government services across Australia. The PC has also been asked by the Australian Government to undertake an inquiry into the 2018 Goods and Services Tax (GST) distribution reforms.

PC inquiry into the 2018 GST distribution reforms

The PC's current inquiry into the 2018 GST distribution reforms may be of interest to the Select Committee. Commissioned by the Australian Government, this inquiry requests the PC to examine the extent to which the 2018 changes to the GST distribution system are operating efficiently, effectively and as intended and the fiscal implications of the reforms for all Australian governments. As part of this, the PC will examine the extent that current GST distribution arrangements are fiscally sustainable for the Commonwealth and for all states and territories. As part of this examination, the PC will consider revenue, expenditure and debt, along with demographic change and drivers of future revenue and expenditure.

The inquiry has also been asked to examine ways in which the federal financial relations system can best promote fiscal sustainability across the states and territories and the Commonwealth while delivering the best outcomes for the Australian community.

The PC will release an interim report in August 2026 and provide its final inquiry report to the Australian Government by 31 December 2026. In undertaking this work, the PC is engaging widely, including by accepting submissions and consulting with relevant stakeholders. The PC has already engaged with the ACT Government and will continue to do so throughout the inquiry.

The PC's role in reporting on the performance of government services

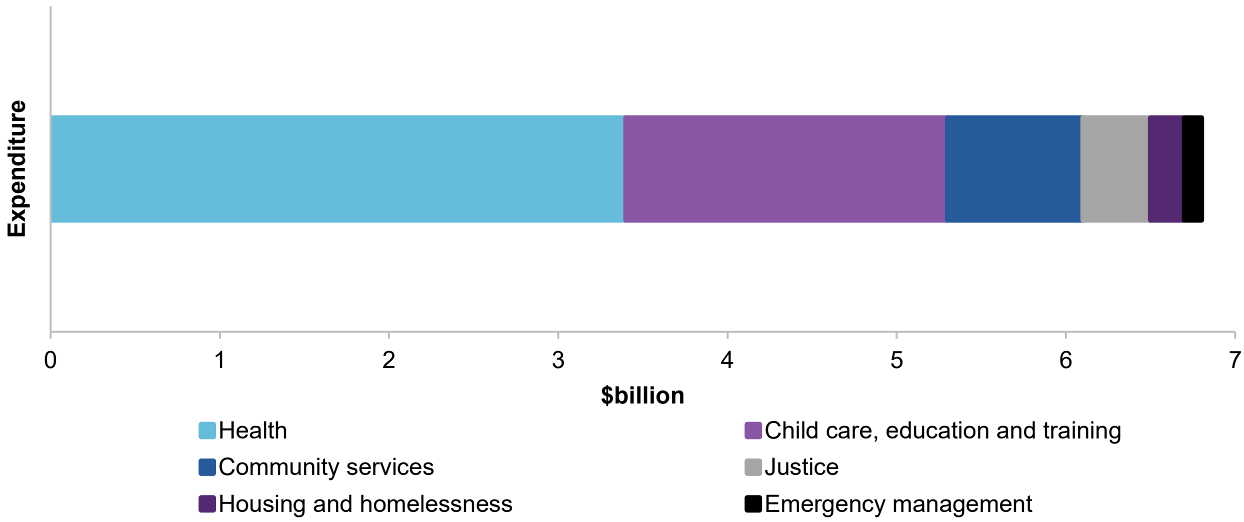
The PC provides secretariat support to the Steering Committee for the Review of Government Service Provision and produces the Report on Government Services (RoGS). The RoGS reports on the performance of government services across Australia using a program logic model and a performance indicator framework (PIF). The PIF comprises output indicators (grouped according to equity, effectiveness and efficiency domains) and outcome indicators. Efficiency indicators assess technical (or productive) efficiency – that is, how effectively Australian, state and territory governments use funds to deliver key services. This information supports the wellbeing of all Australians by promoting transparency, strengthening accountability and encouraging improvement.

This submission draws on RoGS expenditure data for the four-year period from 2020-21 to 2023-24, the most complete period currently available. The RoGS does not monitor the revenues received by states and territories whether from own-source revenue such as levies, from the Commonwealth or through borrowing.

The ACT’s recurrent government expenditure has grown more slowly than the national average

According to the 2026 RoGS, the ACT's recurrent government spending on select services[1] was an estimated $7 billion in 2023-24, or 1.7% of Australia's total recurrent government expenditure of $412 billion. This represents 12.3% of the ACT’s gross state product (GSP), lower than the national share of 15.4% of gross domestic product (GDP) (ABS 2024-25).

Figure – ACT recurrent government expenditure by sector, 2023-24



Health services accounted for around 49.1% of the ACT’s government spending in 2023-24. A further 27.7% was directed to child care, education and training services, followed by community services (12.0%), justice (6.2%), housing and homelessness (3.1%), and emergency management (1.8%).

Between 2020-21 and 2023-24, the ACT's expenditure on selected services increased by 8.3%, an average annual growth rate of 2.7% – below the ACT’s GSP average 3.8% per annum. In comparison, Australia's total spending increased by 16.0% over the same period, with an average annual growth rate of 5.1% – higher than the GDP average 2.8% per annum.

Over the four-year period, the ACT recorded its largest expenditure growth in housing and homelessness services (13.9%), followed by health (11.9%). Nationally, spending on community services had the largest increase in spending, rising 40.7%, driven primarily by a 52.7% increase in disability services and a 33.7% increase in aged care services.

[1] Selected services included are early childhood education and care, school education, vocational education and training, police services, courts, corrective services, emergency management, primary and community health (AIHW 2025), ambulance service, public hospitals, aged care services, services for people with disability, child protection services, youth justice services, housing and homelessness services.

The ACT's per-capita expenditure is increasing at a slower rate than GSP per-capita

The ACT's real per-capita expenditure grew an average annual rate of 1.0% between 2020-21 and 2023-24. This rate is lower than both GSP per-capita growth (an average 1.9% per annum) and population growth (1.8%), indicating that economic capacity to fund government services is growing faster than per-capita expenditure. Nationally, real per-capita expenditure increased at an average annual rate of 3.3% – exceeding both GDP growth (1.4%) and population growth (1.7%) over the same period.

Over the four-year period, the ACT's per-capita spending increase was highest for housing and homelessness services (8.4%), followed by health (6.5%). Nationally, the largest increase in per-capita expenditure was for community services (33.8%), followed by child care, education and training (8.2%).

Productivity and outcomes

Observed aggregate expenditure trends show the ACT's expenditure growth remained both below economic and population growth. However, expenditure growth also depends on whether services continue to meet community needs and deliver effective outcomes. Even if expenditure appears sustainable in dollar terms, services may not be sustainable in practice if outcomes deteriorate or if unmet need increases. Recent performance results show a mixed picture across sectors. Some services have reported improvements, for example, higher completion rates for community correction orders (an 11.2 percentage point rise in the ACT, compared with 0.8 points nationally). Other areas highlight opportunities to strengthen service delivery, such as shortening the duration between commencing and completing a child protection investigation.

In addition to expenditure trends, the ACT's fiscal sustainability also depends on its revenue capacity and debt position, which affect its ability to maintain services and manage future financial challenges. The PC has consistently noted that long-term productivity growth is essential for fiscal sustainability, and governments' expenditure can play a significant role in areas such as:

- **Boosting service-level productivity –** prioritising productivity and cost-effectiveness improvements in major service areas would help manage real per-capita expenditure growth while maintaining or improving outcomes.
- **Embedding long-term affordability in budget and service planning –** integrating forward-looking affordability analysis, such as linking service expenditure trends relative to projected GSP growth and demographic trends, into budget decision-making and strategic planning would strengthen the ACT's ability to sustain service delivery over time.

References

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