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### **GST Productivity Commission Review Submission**

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I welcome the opportunity to provide this submission to the Productivity Commission's review of the 2018 GST distribution reforms.

GST distribution has always been, and remains, a critical issue for the Northern Territory (NT). It is not simply a budget line item; it underpins the Territory's capacity to deliver essential services – including to some of the nation's most disadvantaged and remote Australians – build infrastructure and invest in long-term economic growth.

GST revenue is the NT's most significant source of untied funding, accounting for approximately 48 per cent of total revenue in 2024/25. The method of distribution, and the predictability of that funding, directly affect both the NT's economy and the lives of Territorians.

The NT Opposition strongly supports a review of this nature. Current GST distribution settings are failing to adequately account for unmet need and rising structural costs in the Territory. Without a structural reset to ensure a more sustainable, predictable, and transparent framework, these pressures are likely to intensify.

#### **The Northern Territory's Unique Challenges**

The NT operates in a uniquely challenging environment that constrains its capacity to raise own-source revenue while significantly increasing the cost-of-service delivery and infrastructure provision.

Key structural characteristics include:

- A small population dispersed across a vast land mass, with a high proportion living in remote and very remote communities
- A relatively narrow economy subject to pronounced boom–bust cycles
- High infrastructure development and service delivery costs driven by geographic scale and remoteness
- Persistent challenges in attracting and retaining skilled labour

These are not cyclical or temporary issues. They are enduring structural realities.

As a result, providing access to quality services – including health care, education, aged care, policing, and justice – comes at a substantially higher cost than in other jurisdictions. Territorians are no less deserving of these services than other Australians; however, delivering them equitably will always require additional Commonwealth support.

Horizontal Fiscal Equalisation (HFE) has been the principal mechanism for ensuring fairness in GST distribution for over 26 years. It remains fundamental to the principle that access to public services should not depend on a person's state or territory of residence.

However, fairness is not determined solely by the quantum of funding. It also depends on stability and predictability.

### **Why the NT Needs a More Sustainable GST Share**

The NT's capacity to raise revenue from its own taxes is significantly below the national average.

According to the Commonwealth Grants Commission (March 2025), the NT raises:

- \$689 per person from taxes on property sales, compared to a national average of \$1,322 per person
- \$276 per person from land tax, compared to a national average of \$636 per person

The Territory's special circumstances are longstanding and well understood. However, fiscal pressures have intensified due to a range of factors including:

- Rising material and logistics costs, disproportionately affecting remote jurisdictions
- Growing demand on the health system
- An ageing population, including within the Aboriginal population
- The increasing frequency and severity of extreme weather events
- Escalating costs to maintain and upgrade an extensive road network
- Significant unmet housing need

Transparency and certainty in Commonwealth funding are critical to addressing these challenges and ensuring Territorians enjoy a comparable quality of life to other Australians.

### **GST Relativities – Shortcomings of the 2018 Reforms**

The 2018 GST relativity reforms have proven challenging for the NT. The Territory's GST relativity fell from 5.28 in 2016–17 to 4.26 in 2018–19. In real terms, this resulted in a \$317 million reduction in GST revenue compared to 2017–18 estimates, and a cumulative \$1.4 billion reduction over the forward estimates.

The ongoing fiscal impacts have been substantial, contributing to a deterioration in the NT's budget position.

While one-off GST top-ups have partially offset revenue losses, the current approach requires the Territory to re-argue its case annually. This creates uncertainty and undermines forward planning.

Funding arrangements that lack transparency and predictability constrain the NT's ability to make long-term investments and implement strategic reform.

### **Why Predictability Matters**

For the NT, certainty in GST revenue is essential.

Governments cannot make responsible long-term decisions when major revenue streams are volatile. Infrastructure investment, service reform, and economic development require planning horizons that extend well beyond annual budget cycles –particularly in jurisdictions facing structural challenges.

Given the NT's reliance on GST distributions, revenue fluctuations have a disproportionately large impact compared to larger states. They directly affect service delivery capacity and infrastructure investment.

Future reform should therefore focus not only on equity, but also on:

- Stability
- Predictability
- Transparency
- Sustainable funding flows

Without greater certainty, the NT's capacity to invest in productivity-enhancing initiatives and pursue structural reform is constrained.

### **Infrastructure Deficit and Economic Development**

Significant infrastructure deficits persist across many parts of the NT.

Shortfalls in transport, digital connectivity, housing, energy, and essential services infrastructure limit economic growth and reduce opportunities for communities, businesses, and workers. GST funding plays a central role in addressing these structural gaps.

Commonwealth tied funding programs – such as the Better, Fairer Schools deal and the Remote Housing Program – are valuable and contribute meaningfully to reducing disadvantage. However, tied funding is often structured around national frameworks and priorities, limiting flexibility and, at times, reducing responsiveness to local conditions.

Untied funding, including GST revenue, enables NT governments to:

- Set local priorities
- Coordinate investments across policy areas
- Respond to place-based needs

Strengthening the NT's fiscal capacity through GST revenue supports more effective, locally informed decision-making.

### **Long-Term Fiscal Capacity and Greater Autonomy**

The NT has a longstanding objective of building a stronger and more self-sustaining economy.

Achieving this goal requires stable fiscal foundations and the flexibility to allocate resources according to local priorities. Over-reliance on tied funding risks constraining policy

innovation and reinforcing dependency rather than promoting long-term economic resilience.

Consistent with the intent of HFE, funding arrangements should support fiscally weaker jurisdictions in ways that enhance long-term economic capacity and resilience.

### **Equity and Confidence in the System**

Recent experience has exposed tensions within the GST framework.

The substantial shifts associated with Western Australia's GST relativity during the resources boom, and subsequent policy responses, have raised broader concerns about perceived equity across jurisdictions.

While differences in fiscal capacity are inherent in HFE, outcomes that appear to disproportionately benefit already strong jurisdictions risk undermining confidence in the system — particularly among smaller states and territories.

For the GST system to remain effective, it must be both technically sound and widely regarded as fair.

### **Certainty, Transparency and Institutional Integrity**

Trust in federal financial arrangements depends on GST distribution remaining clearly rules-based, transparent, and independent of political discretion.

Confidence in the system requires stability, clarity, and institutional integrity.

### **Principles for Future Reform**

Future GST reform should be guided by the following principles:

1. Equity across jurisdictions
2. Predictability, stability, and transparency
3. Long-term fiscal sustainability
4. Recognition of structural cost differences
5. Preservation of untied funding flexibility

For the NT, GST funding is central to economic stability, service delivery, and long-term development.

A fair and effective system must recognise differences in fiscal capacity while also providing the certainty and stability necessary for smaller jurisdictions to plan, invest, and pursue productivity-enhancing reform.

I thank the Productivity Commission for the opportunity to contribute to this important review.

Your sincerely

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