

Productivity Commission inquiry into the 2018 GST distribution reforms

Submission to Commonwealth Productivity
Commission

30 September 2026

We are city-shapers.

Urban Development
Institute of Australia
NSW



About UDIA NSW

Urban Development Institute of Australia NSW (UDIA NSW) is the state's leading development industry body. We represent the leading participants in the industry and have more than 500 members across the entire spectrum of the industry including developers, financiers, builders, suppliers, architects, contractors, engineers, consultants, academics and state and local government bodies.

Summary

UDIA NSW welcomes the opportunity to contribute to the Productivity Commission's inquiry into the 2018 GST distribution reforms.

Our interest in this inquiry is grounded in housing delivery. Governments need the financial capacity to provide the infrastructure that supports new homes and growing communities. The distribution of GST revenue, and the certainty with which states can plan around that revenue, is critical to housing supply, affordability and productivity.

UDIA NSW supports a more balanced and predictable GST distribution that strengthens NSW's capacity to invest in infrastructure while maintaining appropriate support for fiscally weaker states and territories.

The sequence of reform is critical. The immediate priority must be to extend the No Worse Off Guarantee beyond 2029–30. This should protect NSW's fiscal capacity while governments develop and implement longer-term reform. The next step should be a transition to NSW's preferred model: an equal per capita distribution of GST, supported by Commonwealth-funded top-ups outside the GST pool for fiscally weaker jurisdictions.

Alongside these changes, the NSW Government should commit a defined share of any additional revenue arising from GST reform to housing-enabling infrastructure and direct infrastructure investment. This should include seed and forward funding to help bridge identified funding shortfalls in NSW's local and state infrastructure contributions regimes. Connecting improved funding arrangements with a practical response to infrastructure constraints would help bring forward housing delivery.

The opportunity is substantial. UDIA NSW's 2026–27 pre-budget submission¹ identified a package of infrastructure investment and targeted reforms with the potential to facilitate more than 70,000 additional homes. Within that package, our *Building Blocks* research identified enabling infrastructure investment capable of unlocking over 58,000 homes across Western Sydney and the combined Central Coast, Hunter and Illawarra–Shoalhaven regions. A stronger and more

¹ UDIA NSW, 2026–27 pre-budget submission, pp. 3–7. <https://www.udiansw.com.au/submission/2026-27-pre-budget-submission-housing-kickstart-a-plan-for-70000-additional-homes/>

predictable revenue base would give NSW greater capacity to invest in these identified opportunities and address funding gaps that currently delay infrastructure delivery.

Recommendations Summary

UDIA NSW Recommends:

1

That the Commonwealth permanently extend the No Worse Off Guarantee beyond 2029–30, maintaining protection against the adverse fiscal effects of the 2018 reforms until an agreed replacement system is implemented.

2

That the States and Commonwealth transition to an equal per capita distribution of GST, with Commonwealth-funded top-ups outside the GST pool to support fiscally weaker states and territories.

3

That the Commonwealth require NSW to direct a defined share of additional revenue arising from GST reform into housing-enabling infrastructure, including direct investment, seed funding and forward funding to help bridge identified shortfalls in NSW's local and state infrastructure contributions regimes. This should be delivered through a transparent, multi-year investment program with clear priorities, additionality requirements and public reporting.

Housing delivery requires investment in enabling infrastructure

Housing targets and planning reforms must be supported by investment in the infrastructure that makes development possible. Land cannot become a residential community without water, wastewater, roads, drainage and other essential services. The timing and capacity of this infrastructure can determine whether housing proceeds, how much can be delivered and when homes become available.

UDIA NSW's 2026–27 pre-budget submission, *Housing Kickstart: A plan for 70,000 additional homes*, demonstrates the scale of the opportunity. It identified a package of investment and reforms with the potential to facilitate more than 70,000 additional homes, combining enabling infrastructure projects with changes to works-in-kind arrangements and biodiversity assessment.

The infrastructure component is supported by detailed regional research. The submission identified the following opportunities through UDIA NSW's *Building Blocks* reports:

Region	Identified investment	Potential housing enabled
Western Sydney	\$868 million in priority infrastructure works	Almost 33,000 homes
Combined Central Coast, Hunter and Illawarra–Shoalhaven	\$514 million in enabling infrastructure and targeted road upgrades	25,115 homes, alongside 130 hectares of employment land

Together, the Western Sydney, Central Coast, Hunter and Illawarra–Shoalhaven opportunities underpin UDIA NSW's recommendation for \$357 million annually over the forward estimates to deliver priority enabling infrastructure capable of unlocking over 58,000 homes.

The broader pre-budget package also drew on member surveys identifying at least 12,000 dwellings that could be unlocked in the near term through an uncapped works-in-kind framework and targeted improvements to biodiversity assessment. These complementary reforms contributed to the submission's overall opportunity of more than 70,000 additional homes.

These figures describe identified development opportunities supported by infrastructure investment and reform. They are not an estimate of homes that GST reform alone would deliver. They nevertheless demonstrate that NSW has a substantial pipeline of housing opportunities to which additional fiscal capacity could be directed.

The timing of investment is critical. Infrastructure is often required before development can proceed, while the contributions intended to help fund it arrive later. To address this mismatch, UDIA NSW's pre-budget submission also recommended \$1.4 billion over two years to forward fund the Housing and Productivity Contribution fund, allowing essential works to proceed earlier and contributions to replenish the fund as development occurs.

This type of seed and forward funding is also relevant to broader shortfalls in NSW's local infrastructure contributions regimes. Contributions may not be sufficient to fund the full cost of infrastructure, may be collected over an extended development period, or may not be available when infrastructure is required. Direct government investment can help bridge these gaps, particularly where infrastructure has a clear relationship to housing capacity but cannot be delivered solely through developer contributions.

Additional infrastructure funding must be accompanied by action on feasibility, approvals, financing and construction capacity. However, where infrastructure is the binding constraint, other reforms cannot substitute for the physical works needed to service homes.

A more balanced GST distribution would give NSW greater capacity to address these constraints. An explicit commitment to invest part of the additional revenue in enabling infrastructure, including seed and forward funding, would connect GST reform with a practical, evidence-based program to increase housing supply.

Recommendation 1: Extend the No Worse Off Guarantee

The No Worse Off Guarantee is an essential protection within the current arrangements. It compensates states for adverse impacts of the 2018 changes relative to the previous distribution system. These payments are funded by the Commonwealth outside the GST pool and will continue until 2029–30 under the agreement between the Commonwealth and the states.

UDIA NSW supports extending this protection beyond 2029–30. NSW should not face the withdrawal of compensating payments while the underlying arrangements that create them remain in place. Without a continuation of the Guarantee, a central imbalance will remain in the current system: the benefits provided to Western Australia under the changed arrangements are enduring, while the protection provided to other jurisdictions through the Guarantee is temporary. Allowing that protection to expire would create fiscal consequences for each of the affected states and territories and limit their capacity to fund essential services and infrastructure for their citizens.

Resolving this issue also matters for investment decisions being made today. Infrastructure planning, procurement and construction frequently span several budget years. A government's ability to commit to a sustained program depends on its confidence in the revenue available to fund it. Uncertainty about future fiscal capacity can affect the scale and timing of those commitments.

An early decision to extend the Guarantee will provide a more dependable basis for state budget planning. It would also reduce the risk that the transition to a new GST model disrupts infrastructure programs or creates additional pressure on the funding available to support housing growth. Extending the Guarantee preserves fiscal capacity; it does not, by itself, establish a new stream of housing investment. It should simply be treated as the immediate protection needed while a more durable distribution model is developed.

Recommendation 2: Move towards a more balanced per capita model

The Commission's interim assessment provides a strong basis for reform. It finds that the 2018 changes have achieved almost none of their objectives and have made GST distribution less equitable and more complex, while imposing substantial additional costs on the Commonwealth.

UDIA NSW supports the NSW Government's proposed equal per capita model, under which each state and territory would receive its population share of the GST pool, with Commonwealth-funded top-ups outside that pool to support fiscally weaker jurisdictions.

This approach would provide a clear population-based foundation for distributing GST revenue. It would also make the Commonwealth's contribution to equalisation more explicit. Support for jurisdictions with lower revenue-raising capacity or higher service delivery costs remains important and should be designed alongside the per capita allocation.

For UDIA NSW, the practical objective is a system that provides governments with a dependable basis for funding services and infrastructure, including the investment required to accommodate housing growth.

A population-based distribution would not remove all revenue uncertainty: the size of the GST pool and each jurisdiction's population share would still change. However, a clearer allocation basis would assist governments and the community to understand the resources available to support services, infrastructure and growth.

The fiscal implications must be assessed transparently. Commonwealth-funded equalisation payments carry a cost, and moving those payments outside the GST pool does not remove that cost from public finances. The Commission should assess the NSW proposal against the current system and its other reform options, including the total Commonwealth funding required, outcomes for each jurisdiction and practical transition arrangements.

Housing delivery should form part of that assessment. Infrastructure constraints can prevent planned housing from proceeding and delay the economic activity associated with development. A

sustainable federal funding system should support governments to address these constraints and provide the infrastructure needed for additional homes.

Extending the No Worse Off Guarantee would provide the protection needed to pursue this reform in an orderly way. It should be the first step towards a lasting settlement that balances predictable state revenues, appropriate equalisation and fiscal sustainability.

Recommendation 3: Translate additional revenue into housing delivery

A stronger revenue position creates an opportunity to address infrastructure constraints. Realising that opportunity requires an explicit investment decision.

UDIA NSW proposes that the NSW Government (and all states) direct a defined share of any additional revenue arising from GST reform into direct investment in housing-enabling infrastructure. This should include seed and forward funding to help bridge identified shortfalls in NSW's local and state infrastructure contributions regimes, including where contributions are insufficient, delayed or unable to fund infrastructure at the time it is required.

The commitment should be established as a state budget measure and delivered through a multi-year program. It should include:

- direct government investment in priority enabling infrastructure;
- seed funding to initiate projects that have a clear relationship to housing capacity;
- forward funding where infrastructure must be delivered before contributions are collected;
- funding to bridge demonstrated gaps between infrastructure costs and the revenue available through local and state contributions regimes; and
- mechanisms for contributions to replenish or repay the relevant funding pool as development proceeds, where appropriate.

UDIA NSW's *Building Blocks* research provides a practical starting point for identifying investment priorities. The combined Central Coast, Hunter and Illawarra–Shoalhaven opportunity, together with the Western Sydney pipeline, demonstrates that a program could begin with an established evidence base of projects, costs and housing potential. Project scope, cost and delivery readiness should be updated before funding decisions, with investment directed to works that can bring forward the greatest housing benefit.

The purpose should be to deliver infrastructure that unlocks additional housing or accelerates delivery. Funding should be additional to existing commitments, with a published baseline that allows the community to distinguish new investment from the relabelling of previously announced expenditure.

Project selection should focus on:

- **A demonstrated infrastructure constraint:** a clear explanation of the works required, the funding shortfall and the housing they would enable.
- **Delivery readiness:** realistic approvals, servicing, procurement and construction pathways.
- **Value for money:** consideration of cost, housing capacity, timing and community benefits.
- **Additionality:** evidence that the investment would not proceed at the required scale or timing without the proposed funding.
- **Coordinated delivery:** clear responsibilities across state agencies, utilities, councils and development proponents.
- **Reinvestment and repayment arrangements:** where appropriate, clear mechanisms for contributions or other project revenues to replenish forward funding over time.

Investment should support both new communities and additional housing within existing urban areas, according to evidence of need and delivery potential. Where appropriate, forward funding and works-in-kind arrangements should be used to accelerate infrastructure provision.

Accountability should focus on both expenditure and outcomes. Public reporting should identify projects funded, the infrastructure funding gap addressed, delivery milestones, infrastructure completed and housing capacity enabled. It should separately track subsequent housing commencements and completions, recognising that servicing land does not guarantee that every potential home will immediately be built.

This commitment would give the community a clear connection between GST reform and improvements in housing supply. It would also establish an enduring basis for allocating part of the benefit of reform to the infrastructure required for growth, while addressing the timing and funding gaps that limit the effectiveness of existing contributions regimes.

Conclusion

GST reform should be judged not only by its effect on the distribution of revenue, but also by whether it strengthens governments' capacity to deliver the infrastructure and services needed for growing communities.

NSW already has a substantial pipeline of identified opportunities. UDIA NSW's research has demonstrated the potential to unlock more than 58,000 homes through enabling infrastructure investment across Western Sydney and the combined Central Coast, Hunter and Illawarra–Shoalhaven regions.

A more balanced GST system, combined with a clear commitment to housing-enabling infrastructure, would give NSW greater capacity to act on these opportunities and strengthen the connection between national fiscal reform and housing delivery.

If you require further information on our submission, please contact UDIA NSW Executive Director Policy and Strategy,

Kind regards,

Hon Stuart Ayres
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We are city-shapers.

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