

Submission 80 - Northern Territory – Department of Treasury and Finance - GST distribution reforms - Public inquiry

Interim report response submission – Northern Territory
Government

Acronyms	Full form
2018 reforms	Reforms under the <i>Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018</i> (Cth)
GST	Goods and Services Tax
HFE	Horizontal fiscal equalisation
NoWO	No Worse-Off Guarantee

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1. Executive summary

The Northern Territory strongly supports the Productivity Commission's interim report and agrees with the finding that the 2018 reforms are not operating efficiently, effectively or as intended.

The Territory also strongly supports the interim report's explanation of why horizontal fiscal equalisation (HFE) is important to the Australian federation, particularly its role in supporting equality of fiscal opportunity, social cohesion, and national unity. Equity must remain the overriding consideration in any GST distribution.

The Territory acknowledges the challenges to HFE arrangements that precipitated the 2018 reforms, namely large mining-related own-source revenue increases accruing overwhelmingly to Western Australia that resulted in significant declines in Western Australia's share of the GST pool. While a key feature of Australian HFE is that a state with a higher revenue raising capacity requires a relatively smaller share of GST revenue to enable delivery of services to the national average standard, the magnitude of Western Australia's GST share reduction was unusually large by historical standards.

Nonetheless, it is not equitable that the 2018 reforms have embedded the ability of an individual state to deliver better services than its peers. The Territory notes the Productivity Commission's interim report analysis that shows the net result of the 2018 reforms is that Western Australia has been funded at 113% of its assessed needs, creating a postcode lottery for Australians.

The Territory considers that appropriately addressing deficiencies in the assessment of mining revenues for HFE purposes would significantly diminish the issues underlying the 2018 reforms. As such, the Territory strongly supports Option 1 in the interim report (i.e. reverting to the pre-2018 distribution arrangements with a mining methodology adjustment). Specifically, the Territory supports a 25% across-the-board discount being applied to the assessment of mining revenues. Importantly, an across-the-board discount is required to address current methodology shortcomings related to both dominant state issues as well as the imperfect and non-policy-neutral measure of states' mining revenue capacities.

The Territory also supports Option 2 and Option 3 (in order of preference), noting these options would require the Commonwealth Government (and hence Australian taxpayers) to continue to support Western Australia's special treatment either directly (Option 2) or indirectly (Option 3).

The Territory notes Option 3 requires an indefinite No Worse-Off Guarantee (NoWO) to ensure fiscal sustainability for states and territories other than Western Australia. Option 3 would also replace the ongoing GST pool boost with an expanded indefinite NoWO. For the Territory, this would result in much greater reliance on NoWO funding, which is more precarious and entails higher sovereign risk.

The Territory appreciates the Productivity Commission's independent and evidence-based statements on correcting the record about HFE. In particular, that Australian HFE does not reward states for poor fiscal or economic management and that the GST distribution method is largely policy neutral and not designed to equalise outcomes (for example, it does not fund states and territories to close the gap on Aboriginal disadvantage).

Finally, the Territory notes the 2018 reforms have been supported by some stakeholders on the basis of promoting economic growth. While the Territory considers equity must remain the overriding consideration in any GST distribution, it is also important to note the current arrangements only benefit mining activity in Western Australia, to the detriment of mineral and energy investment and activity in other states and territories, thus failing to promote either equity or broader economic growth.

This submission complements, and should be read in conjunction with, the Territory's initial submission in February 2026. This submission's main response is on the mining discount discussion.

For consistency of referencing, this submission adopts the chapter structure of the interim report.

2. Interim report key recommendations

The interim report makes three key recommendations, essentially to either:

1. revert to the pre-2018 distribution with a mining methodology adjustment; or
2. revert to the pre-2018 distribution with Commonwealth Government payments to Western Australia outside the GST system; or
3. maintain the 2018 reforms, but with a 0.75 relativity floor and replace the GST pool boost with an expanded and indefinite NoWO.

The Territory strongly supports Option 1, backed by the interim report's findings that the discounting approach has the benefit of directly addressing mining revenue assessment issues for all states affected and generally improves equity relative to the current system.

The Territory also supports Option 2 and Option 3 (in order of preference), noting these options would require the Commonwealth Government (and hence Australian taxpayers) to continue to support Western Australia's special treatment either directly (Option 2) or indirectly (Option 3).

The Territory's specific commentary is that:

- Under Option 1, an across-the-board discount is required because mining issues arise due to both dominant state and broader underlying assessment issues that are not limited to the Western Australian mining context. The Territory suggests a 25% discount.
- Option 2 is reasonable as it allows the Commonwealth Government to maintain any policy commitments to Western Australia as it deems fit but requires the Commonwealth Government bear this cost. Currently the Commonwealth Government incurs this cost until the NoWO expires in 2030, with states and territories, other than Western Australia, facing a fiscal cliff afterwards.
- Option 3 is less desirable than Option 2 as it is significantly more complex¹ and increases state and territory exposure to future NoWO policy changes by removing the GST pool boost. However, the Territory prefers Option 3 to the status quo due to reduced NoWO expiry risk.

3. Horizontal Fiscal Equalisation in Australia

The Territory agrees with the interim report's context statements on Australia's fiscal system, and particularly on the strengths of HFE, including that it promotes equality of fiscal opportunity and supports national unity and social cohesion.

The Territory reaffirms its view that equity must remain the overriding consideration in GST distribution. Other factors, such as economic efficiency, while important, are secondary to the goal of ensuring Australians can expect a reasonable opportunity to receive similar services in similar regions, rather than being subject to a postcode lottery of service provision due to state boundaries.

¹ NoWO complexity will also increase over time due to the historic 2018 reference point, as noted in section 4.

The Territory strongly supports the interim report's statements on correcting the record about the HFE system, and finding 1.1, that a lack of understanding has undermined the quality of public debate. The Territory supports the Productivity Commission making public comment on these matters, as having an independent, evidence-based voice will facilitate improved public debate.

It is important there is a clear public understanding that HFE does not reward or punish a state or territory's economic or fiscal performance but simply provides each with the capacity to deliver a similar standard of public services, assuming each makes a similar effort to raise revenue.

As such, the Territory receiving a larger share of the GST pool should not be characterised as a fiscal win or reward for positive or negative performance but simply reflects that the Territory has a need for relatively more support to be able to deliver a similar standard of services to other states. Further, need is assessed based on national averages, with policies and outcomes in smaller jurisdictions such as the Territory having limited influence on GST outcomes.

The Territory also notes the commentary that while HFE is designed to support additional costs faced by states and territories delivering services to groups with higher needs, including those in regional and remote areas and lower socio-economic groups, it does not address structural disadvantage. The Territory considers that addressing structural disadvantage, such as closing the gap in Aboriginal outcomes, should continue to be progressed through specific purpose payments outside HFE².

4. Impacts of the 2018 reforms

The Territory supports the analysis and analytical approach on the impact of the 2018 reforms, including findings 2.1 and 2.2, that the reforms are not operating efficiently, effectively or as intended.

The Territory agrees that:

- The intent of the reforms was not explicitly defined, but it was nonetheless always clear that the intent was for all states to be better-off and share the GST pool boost.

Contrary to this intent, Western Australia has been the sole beneficiary.

- The reforms have mainly delivered negative impacts including a lower degree of HFE, with Western Australia now funded to 113% of the average fiscal capacity of other states, and creating divergent fiscal outcomes (interim report figure 3.6), which will worsen when the NoWO expires.
- The reforms created perverse outcomes.

This is demonstrated by actual outcomes (i.e. not hypothetical or edge case scenarios). In the 2025 GST methodology review, the assessment of coal royalties was amended to split coal into higher-value and lower-value bands to better reflect the distribution of metallurgical and thermal coal. The GST impact should have been limited to coal-producing states, mainly New South Wales and Queensland. However, as New South Wales is now a benchmark state, the change also perpetually benefits Western Australia, which is not a major coal producer.

² Funding based on equalising outcomes has been considered in previous GST reviews but is impractical, complex and highly subjective in a fixed pool distribution context due to the need to prioritise and trade-off between outcomes, challenges associated with estimating the costs of achieving specified outcomes within fixed funding periods, and potential perverse incentives for not achieving outcomes.

The Territory notes the commentary on the cost to the Commonwealth, the advantages to Western Australia, and mixed impact on volatility and fiscal uncertainty. The comments are supported. The Territory also refers to its initial submission in respect of volatility and potential solutions.

The Territory agrees the 2018 reforms are complex. As an additional example, Commonwealth Government budget forecasts are now more complex and unstable, and include assumptions that the NoWO will discount over time. Notably, the rate of that discount has differed in nearly every publication since the reforms commenced.

Furthermore, the NoWO adds a second balancing adjustment annually, which creates payment reconciliation complexity and is calculated cumulatively from commencement, requiring a perpetual rolling and increasingly complex historical assessment.

5. The Productivity Commission's assessment of the current system

The Territory supports the analysis and approach of the Productivity Commission in assessing the current HFE arrangements. In particular, the interim report's framework (figure 3.1), which places primacy on equity. The Territory agrees that HFE can support equality of opportunity in Australia, but this has been reduced by the 2018 reforms and notes that equity would be further eroded without the NoWO. The Territory's initial submission provided information on the magnitude of the NoWO fiscal cliff.

The Territory welcomes the public commentary that HFE is not designed to address structural disadvantage and that these matters can be addressed outside HFE through specific purpose payments as well as Australia's tax and transfer system.

The Territory disagrees with finding 3.1, that the GST pool boost has contributed to a divergence of fiscal capacities. While Western Australia is the only jurisdiction not worse-off under the 2018 reforms, the GST pool boost is largely not the source of this inequity, which instead arises due to the relativity floor and adoption of benchmarking. The GST pool boost partly mitigates the inequity of the floor and benchmarking and reduces NoWO requirements. Without the GST pool boost, the Territory's NoWO requirement would about double, the largest per capita increase of all jurisdictions. This is a material consideration in any option that involves removing the GST pool boost, as higher reliance on NoWO payments increases sovereign risk for affected states and territories.

The Territory agrees the Commonwealth Grants Commission's assessments of expenditure needs and revenue raising capacities are broadly policy neutral. The Territory notes its GST funding is almost entirely dictated by policies, spending and circumstances in other states due to the Territory representing a small fraction of the national population, expenses and own-source revenues.

While the Territory also agrees the mining revenue assessment is the least policy neutral, this is not only due to dominant state issues but also because the assessment is linked to actual production rather than

underlying mineral endowments and therefore materially influenced by extraction policies and regulatory settings³. That is, policy neutrality in the mining assessment is impacted by:

- the potential and incentive for a state with a dominant share of production to adjust royalty rates to game GST outcomes
- use of production as a proxy for underlying mineral wealth and unavoidable differences in extraction costs, which disincentivises increased production and contrasts with other revenue assessments. For example, while the Territory has made a policy choice not to levy a land tax, its share of GST is reduced by what the Commonwealth Grants Commission assesses the Territory could raise if it applied national average land tax policy. In contrast, states that restrict mineral production do not incur adverse GST adjustments, creating policy-neutrality concerns and blunting economic incentives. This issue arises in all states for all minerals.

The assessment of mining revenue capacity is also complicated by a small number of high-value, long-term mines, which can be the focus of targeted policy responses. These issues are distinct from other own-source revenues that are generally dispersed across wider economic bases such as property markets, motor vehicle transactions and private wages, where there is less opportunity for discrete policy influence.

Notwithstanding, the Territory considers a production-based approach to be the most reasonable method of assessing mining revenue capacity as there is no feasible or superior measure of natural endowments upon which to base a purely policy neutral assessment. The Territory also notes that it is important that any assessment is based on 'what states actually do', which aligns with a production-based approach.

The Territory supports the commentary and findings on fiscal sustainability, which is covered in our initial submission. The divergent net debt to revenue ratios between states in the interim report is an important consideration and shows that the expiry of the NoWO under the current arrangements would be unsustainable for states and territories other than Western Australia and must be addressed in any reform option.

We note there is a fiscal impact on the Commonwealth Government from a NoWO continuation or equivalent. This is a matter for the Commonwealth, noting their different fiscal position to states and territories, with a generally greater fiscal capacity and wider tax bases, including a more direct ability to raise additional revenue as commodity prices increase.

As a technical observation, the Territory notes the Commonwealth Grants Commission's methods currently include an assessment of net borrowing needs, premised on states having the same per capita borrowing capacity and requirements, subject to differences in population growth rates. If Western Australia is persistently provided with above-average fiscal strength, this net borrowing assessment assumption becomes questionable.

While the Territory agrees the 2018 reforms had limited impact on revenue certainty, we note that the Territory's GST volatility is plainly well-above the national average, illustrated at figure 2.7 and table 3.5 of the interim report and refer to our initial submission in this regard.

³ As the assessment of mining revenue capacity is measured on production, the assessment reduces a state's GST revenue when new mining commences (including expansions). Conversely, states that ban, restrict or reduce investment generate less mining revenue and receive a higher GST share. This is the case in all states, not just dominant states. A production-based method also increases GST volatility as it is contingent on the volume, not just value, of commodities produced, creating a pro-cyclical interaction as production tends to reflect prices movements.

6. Assessing alternative GST distribution arrangements

The Territory supports the analysis on alternative GST distributions. The Territory particularly supports the finding that higher relativity floors, and equal-per-capita approaches, reduce equity. This is an important consideration as equity must remain the primary consideration in any GST distribution.

This submission makes specific comment on the mining discount options (interim report box 4.1), but otherwise generally supports the findings and the methodology used in the interim report.

The interim report recommends a mining adjustment and discusses seven potential options at box 4.1. Several further options were discussed at public hearings, including discounting the impacts of policy changes. The Territory supports an across-the-board discount and does not support the remaining options.

The Territory considers the justification for a mining discount principally arises due to the challenges of measuring mining capacity, and the use of production as a practical proxy in the absence of robust data on natural endowments and unavoidable differences in extraction costs. This is broader than the dominant state issue.

The lack of a mining discount means that states that ban, restrict or discourage mining are assessed as having less capacity to raise revenue, resulting in a higher GST share. This incentivises policy inertia and blunts economic incentives. Such issues do not arise for other GST assessment methods, which more directly measure the underlying revenue bases.

The Territory notes some submissions have asserted the assessment of gambling revenue capacity has similar shortcomings. However, gambling tax capacity is conceptually linked to population, meaning a per capita starting point is appropriate, with any differences in propensity to gamble needing to be measurable and materially different between states. This differs significantly from mining, where revenue is not related to population shares and there are clear differences in mineral endowments between states.

When considering mining assessment options, it would be reasonable to ask:

- Does the response address dominance and production issues in the mining method, without interfering with other GST assessments?
- Will the approach maintain a significant majority of mining revenue being subject to equalisation?
- Is the approach available for all states, and all minerals, where issues arise?
- Does the approach minimise judgement and the number of times the mining method is re-visited?
- Is the approach agnostic to the choice of mining method?
- Is the approach simple and implementable without excessive administrative or information burden?
- Is the approach consistent over time, including in times of volatility and in the context of existing and future policy settings?
- Is the approach consistent with the Commonwealth Grants Commission's existing framework of "what states do", policy neutrality, practicality and contemporaneity?

Across-the-board mining assessment discount

An across-the-board mining assessment discount is the Territory's preferred solution. This type of discounting is already used in Commonwealth Grants Commission assessments and is simple, clear, and

methodologically sound. It minimises or avoids practicality and judgment issues associated with the other options, while still achieving a conceptually defensible result⁴.

By allowing states to retain a portion of mineral production without impacting its GST share, the issues around both dominance and production policy neutrality are reduced. In essence, a discount recognises the imperfections in the current mining assessment method arising from undeveloped minerals being excluded.

While the Territory acknowledges the size of any discount is somewhat subjective, this can still be approached in a principled manner. The Territory supports a 25% discount, which would meaningfully address the policy neutrality challenges without being so large as to unreasonably undermine equity. This aligns with the Commonwealth Grants Commission's mid-range discount which is currently applied to the geography assessment as there are similar concerns about the reliability of the assessment due to it being used where the underlying drivers of need cannot be directly assessed⁵.

Dominant state discount

The dominant state issue is a unique case, whereby a state's production of a particular commodity is so large that its chosen royalty rate will effectively determine the national average policy rate. This creates an incentive for the dominant state to reduce royalties to improve GST outcomes⁶. A dominant state discount would disregard a portion of relevant royalties to reduce this incentive.

The Territory submits that mining assessment issues mainly arise due to mining revenue capacity being based on production, which occurs in all states. As such, an across-the-board discount is more conceptually appropriate than a dominant state discount. The Territory also notes that an across-the-board discount would also substantively address any dominant state issues. Other challenges associated with a dominant state discount include:

- There is no clear distinction between a state that is simply large compared to dominant. This is further complicated as states have different population shares and the same level of production can have highly different per capita thresholds in each jurisdiction.
- There is no definition on the size of the discount that would be applied to a dominant state. If a discount is applied until the state ceases being dominant, this risks being excessively large. For example, if dominance is defined as meaning a state with more than 50% of production, then Western Australia would require a discount of around half its iron ore production (due to being around 99% of national production). This would disregard most of its royalty revenue, which is inconsistent with equalisation principles and is unsustainably large, being comparable in magnitude to the 2018 reforms.
- Dominance is also highly influenced by the choice of assessment method, which introduces perverse review considerations. It is well-known that granular methods are more prone to

⁴ For example, an across-the-board discount is not subject to questions about how commodities are bundled, is unaffected by changing degrees of mineral dominance, and does not require additional information to implement.

⁵ The Commonwealth Grants Commission uses a low (12%), medium (25%), high (50%) and "no assessment" (100%) discount to address concerns with data or methods, with 12.5% applied for land tax, health (community health and non-state sector), roads, and wages. 25% is applied for geography gradients. Other method "blending" applies in select assessments, such as part of the urban transport method.

⁶ The Territory notes there is no evidence this has occurred in Western Australia.

dominance (interim report box 3.1). Directly linking granularity to discounting increases sensitivity on decisions about how or whether to bundle commodities⁷.

An example arose in the Commonwealth Grants Commission's 2025 Review where a decision was made to split the coal assessment into thermal and metallurgical coal. This increased the accuracy of the coal assessment but also increased Queensland's potential dominance. It would be perverse if this method decision was the sole trigger for higher discounting. A further example is lithium, which is likely dominated by Western Australia, but fluctuates between being grouped in "other minerals" or assessed separately based on materiality.

- A dominance-discount adds unnecessarily large discounts in response to temporary volatility. For example, coal prices rapidly but temporarily increased in 2022-23 following the Russia-Ukraine conflict. This increased Queensland's royalty value share and its potential dominance. However, this type of temporary price movement is generally less of a policy neutrality concern because there is not sufficient time to make a policy response. There is also a timing issue, as royalty data would not have been measured in GST methods until several years after the price increase due to lags and averaging, meaning the dominance discount would have been triggered well after royalties had actually been collected. Dominance-discounts risk being excessively responsive to specific price or volume movements.

If dominance-discounting was introduced, the mining assessment method would likely need to be reviewed in its entirety, as past materiality decisions would no longer be conceptually valid.

Hotelling-rule-based discount

A Hotelling-rule-based discount is not preferred as it does not reflect "what states do" and is complex. No states use this approach to impose royalties.

It is not clear how a state's net drawdown would be calculated in a way that is immune to policy influence and continues to reflect state actual revenues. To the extent that this approach requires knowledge of natural endowments, it is problematic due to a lack of neutral information (including what happens when states' resources increase as exploration and substantiation occurs). To the extent this approach discounts all royalties, it is more complex than an across-the-board discount for a similar result.

Sustainable income approaches

Similar to Hotelling-rule-based discounts, this approach is not supported as it does not reflect "what states do". States do not maintain wealth funds, and royalties are not annuitised. This approach also risks GST methods greatly diverging from actual state budgets including potentially departing from state expense profiles.

Bundle of commodity approaches

Bundling essentially treats all commodities in the bundle as being the same for royalty purposes. This can be appropriate if the commodities are genuinely similar, if differences are not material to GST outcomes, or there are other data quality or practical limitations that necessitate the approach. These are normal

⁷ Currently, the primary consideration when deciding to bundle a commodity is materiality (i.e. does it reach a per capita GST threshold). This tests whether the split assessment is a materially more accurate measure of HFE than the simpler bundled approach. This test is less valid if dominance discounting is applied because a split that creates dominance will introduce a discount and depart from, instead of enhance, HFE.

revenue capacity methodology considerations and are adequately dealt with in routine method reviews and current arrangements⁸.

Bundling for other reasons has potential to mis-attribute mineral wealth in a way that distorts the capacities of the states in the bundle. This exposes select states to judgement decisions on the choice of bundle. For example, any mineral that is bundled with coal or iron ore will be disproportionately affected due to the large value share of those minerals. It is also unclear whether bundling would resolve mining assessment issues in practice. For example, bundling coal and iron ore may further increase Western Australia's mineral capacity.

Endowment-based approach

The Territory considers endowment-based approaches to be conceptually sound but impractical. The Territory is not aware of any robust and neutral way to comprehensively measure a states' total potential in-the-ground mineral wealth and unavoidable differences in extraction costs. A states' proven, probable or other mineral reserves are not exclusively a measure of endowments, but rather a measure of historical exploration effort.

Profitability-based approach

Profit-based measures are unnecessarily complex. Individual mines have different profitability profiles, which fluctuate over time. A mine-by-mine assessment would be complex and information-intensive, or introduce significant judgement requirements as a proxy. It is also unclear whether profit-based measures would resolve existing mining assessment issues, as results may be similar to value-based measures.

Discounting in response to royalty rate policy changes

A further option discussed at public hearings, partly based on prior Commonwealth Grants Commission method discussions, is to only discount the part of the assessment impacted by royalty rate policy changes. New South Wales proposed a version of this approach in their initial submissions.

This approach would not address policies that impact production volumes. A further weakness is that it assumes the status quo is equitable, and that issues only arise where future changes occur. However, the status quo is not equitable as actual policies already materially differ. Importantly, this approach also provides no change to GST outcomes for a state while it maintains bans on production, as would occur with an across-the-board discount.

There are also significant practical difficulties. For example, rate reductions, changes to non-rate factors (such as deductions or adjustments to valuation provisions), or changes that impact production volumes, would likely require highly complex judgements on the marginal amount of royalty change from the "new" policy compared to other factors, and would compound over time or if more than one reform occurred.

Across-the-board discounts are agnostic to these issues.

Floors, benchmarking or different equalisation standards

For completeness, the Territory does not support floors or benchmarking. The issues are well-discussed in the interim report. However, floors and benchmarking are particularly inequitable between states because they conflate revenue-based assessment issues with unrelated expense assessments.

⁸ Bundling is currently used for immaterial "other" minerals.

The Territory also notes that some public hearing submissions discussed equalisation to the average, which was previously recommended by the Productivity Commission prior to the 2018 reforms. This option was expressly rejected by the Commonwealth at the time, commenting that equalisation to the average was not in the national interest due to having too great of a negative impact on the fiscally weakest states, and was too significant of a departure from HFE. This remains the case and the approach is not supported.

7. Governance arrangements for an effective Federal Financial Relations system

The Territory generally supports the Productivity Commission's findings and strongly agrees that an independent Commonwealth Grants Commission is a valuable and highly desirable feature of HFE. While the Territory also supports the commentary on continuous improvement at finding 5.1, the Territory considers this reflects the status quo and that the Commonwealth Grants Commission is highly transparent and consultative.

The Territory cautions that some calls for additional transparency may be attempts to re-dispute judgements that are unfavourable to those stakeholders, rather than reflecting a genuine lack of clarity. The Territory does not agree with any suggestion that the Commonwealth Grants Commission should weigh secondary objectives against HFE.

The Territory notes that assessing expenditure needs and revenue raising capacities is highly technical and requires an understanding of the broader HFE architecture, including various Commonwealth payments. As such, wider public consultation in reviews would need to be appropriately managed to support relevant and informed input, including clear distinction on matters subject to consultation. The Productivity Commission's findings on common misconceptions in the public debate are also helpful in this regard.

The Territory agrees that if HFE structures allow one or a small number of states to have consistently greater fiscal capacity than others, as is currently the case, formalised periodic reviews are appropriate.

The Territory notes recommendation 5.2 for publishing requests and decisions on tied funding GST exclusions, however, some correspondence between Treasurers may require a level of privity.

The Territory supports the intent of the finding that Federation Funding Agreements should have proportionate cost controls. As the least-populous jurisdiction, the Territory has an outsized number of low-value agreements and is particularly sensitive to administrative overhead costs⁹. However, ceasing geographically concentrated and low value agreements may harm services in small and remote areas and would need to be supported through other more proportionate funding arrangements.

The Territory considers it would be useful to have regular and independent assessment of federation funding agreements to support more consistent and proportionate governance and reporting arrangements, noting this should not extend to the merits of the funding, which is a matter for the Commonwealth.

For completeness, the Territory also notes that some small-scale agreements are passed "through" states and territories to local government to avoid ambiguity on Commonwealth Government constitutional authority. These agreements are a particularly poor fit for Federation Funding Agreement structures, as

⁹ In 2025-26, the Territory had around 91 active agreements, with 36 having payments of less than \$1 million in that year, and 61 with less than \$5 million.

funding frameworks contemplate delivery exclusively by states and territories. This area is also ripe for reform.

The Territory agrees with further modernisation of the federal relations architecture, noting it would require Commonwealth legislative change. It would be important to manage any practical transitional issues to not disrupt continuity of reporting or accounting.

The Territory notes the recommendations regarding the Council on Federal Financial Relations' role in federal financial relations, which largely relate to the Commonwealth Treasurer and Treasury. The Territory strongly supports ensuring sufficient agenda space is provided for discussion on state-led items at Treasurers' and senior officials' forums.

The Territory notes the discussion and recommendations in respect of the Government Finance Statistics. The main sources of variance between the Territory's financial data and the Government Finance Statistics are typically structural differences in reporting basis and timing.

In respect of the discussion on intergenerational reporting, the Territory currently maintains unpublished medium-term budget projections to inform fiscal sustainability planning. However, development of more formal intergenerational reporting is highly complex and costly compared to the relative benefit for a small jurisdiction with volatile economic patterns. If progressed, consideration is warranted as to how such reporting could be implemented in a cost-effective manner. For example, including disaggregated reporting in existing Commonwealth intergenerational reports.