YOTHU YINDI
FOUNDATION

Garma
31 July – 3 August, 2026

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27 February 2026

Ms Danielle Wood
Chair, Productivity Commission
Locked Bag 2, Collins St
East Melbourne Vic 8003

Dear Madam,

GST distribution reforms

The Yothu Yindi Foundation (YYF) represents Yolŋu people from East Arnhem Land. Our vision is for Yolŋu and other Indigenous Australians to have the same level of wellbeing and life opportunities as non-Indigenous Australians, and to thrive in their own country.

The enclosed submission entitled 'The Ones who Walk Away' is a response to the Productivity Commission's GST Distribution Reforms Issues Paper of November 2025.

The submission argues that the Commonwealth Grants Commission's (CGC) designed principle of Horizontal Fiscal Equalisation (HFE) has failed the Northern Territory as a whole and is consigning Aboriginal people in the Northern Territory to generational disadvantage.

The submission urges urgent structural reform to Australia's system of federal financial relations based upon the principle of HFE.

The failure of HFE as a model for the Northern Territory

HFE seeks to equalise the capacity of the States and Territories to provide public services at a broadly comparable standard to one another, assuming that each made the same effort to raise revenue from its own sources and operates at the same level of efficiency. The notion that Aboriginal people in remote or regional Northern Territory are receiving public services at a comparable standard to other jurisdictions is a cruel fiction; one with a terrible human cost.

It is YYF's contention that the method of federal financial relations and its central principle of HFE is today the primary contributor to the disadvantage experienced by remote Aboriginal people in the Northern Territory. It is YYF's contention that:

- The system of federal financial relations, and the GST Distribution Model in particular, are not fit for purpose, and maintain a status quo of disadvantage in the Northern Territory.

- Given the Northern Territory's history, geography and socio-economic conditions, the GST Distribution Model does not allow the Territory, to ever deliver an equivalent standard of services and infrastructure to its citizens, despite its obligation to do so under the Self-Government (Northern Territory) Act 1978 (Cth).

- The Commonwealth Grants Commission, the Productivity Commission and the Australian Government are aware that the system of federal financial relations and the GST Distribution model is failing Aboriginal people in the Northern Territory, and the Northern Territory generally.

As a self-governing Territory with just two House of Representative members and two Senators, that is reliant upon the Commonwealth for over 70% of its revenue, the Northern Territory cannot change the system, even if it sought to do so.

Further aspects of the GST Distribution Model highlight how broken the system is:

- The GST Distribution Model has had the perverse effect of commodifying Aboriginal disadvantage, by inflating revenue payments based on disadvantage, but not to a level that will ever address the disadvantage. The revenue paid is, by definition, only sufficient to keep the Territory's socio-economic profile as it is. The system does not address the chronic disadvantage contained within it, nor empower the Territory to generate own-source revenue that can address that disadvantage.

- Special purpose payments made to the Northern Territory by the Commonwealth for identified need, or where there is a historical deficit, such as road or civic infrastructure in remote areas, are exempted from the GST calculations, meaning these payments reduce general revenue transfers.

- In calculating revenue transfers to the States and Territories, an Aboriginal person living in Parramatta (NSW) is treated the same as an Aboriginal person in Papunya (NT), despite the enormous disparity in socio-economic outcomes between the two locales.

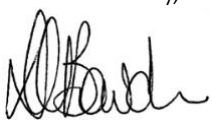
- GST distributions made to the Northern Territory by the Commonwealth for identified need (over 70% of Territory revenue) are untied despite concerns raised over decades concerning this practice.

In relation to this last point, the workings of the CGC in relation to revenue transfers are often hidden from view. This is particularly so in relation to the way in which Aboriginality, or Aboriginal disadvantage, is treated in calculating revenue transfers from the Commonwealth to the States and Territories.

YYF seeks findings and recommendations by the Productivity Commission that reforms the GST Distribution Model as it applies to the Northern Territory.

The enclosed submission should be read with our submission of 12 October 2023.

Yours faithfully,



Denise Bowden
Chief Executive Officer

YOTHU YINDI FOUNDATION

SUBMISSION TO THE PRODUCTIVITY COMMISSION
27 February, 2026

"The Ones Who Walk Away"

Aboriginal people suffer because of the structural failures of an inequitable system that is imposed upon us. This system operates at every level. It is a system that seems designed to defeat our best efforts, and keep us locked in cycles of poverty and disadvantage.

Australia's system of federal financial relation and the mechanisms used by the Commonwealth to transfer revenue collected by the Commonwealth to the States and the Northern Territory is the principal actor in this system.

It should be no surprise that each Closing the Gap report is worse than the last.

The system condemns Aboriginal and Islander people to appalling economic and social conditions that have no place in a modern western society. The system needs to be reformed, starting with the way revenue is transferred from the Commonwealth for the identified need that exists within the federation. The Commonwealth Grants Commission, the Productivity Commission, the Treasury and the Australian Government are aware of these issues and have been for many years.

The human suffering caused by the way the current system works is confronting and provides a compelling case for structural reform. Yet for many years there has been a turning-away from principled decision-making. The Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018 reflects a high point in this turning-away, with Western Australia gifted billions of dollars in extra untied revenue in 2018.

In many ways we are living with a national moral failure best encapsulated by the author Ursula Le Guin, in her short story 'The Ones Who Walk Away".

Le Guin writes of a place that enjoys all the goodness and prosperity that life has to offer; a place of happiness and wealth, much like modern Australia. It is perfect, except for one cruel bargain that has been struck.

> In a basement under one of the beautiful public buildings of [Australia], or perhaps in the cellar of one of its spacious private homes, there is a room. It has one locked door, and no window. The floor is dirt, a little damp to the touch. The room is about three paces long and two wide: a mere broom closet or disused tool room. In the room a child is sitting.
>
> It could be a boy or a girl. It looks about six but actually is nearly ten. It is feeble-minded. Perhaps it was born defective or perhaps it has become imbecile through fear, malnutrition, and neglect….
>
> [We] all know it is there, all the people of [Australia]. Some of [us] have come to see it, others are content merely to know it is there. They all know that it has to

> be there. Some of them understand why, and some do not, but they all understand that their happiness, the beauty of their city, the tenderness of their friendships, the health of their children, the wisdom of their scholars, the skill of their makers, even the abundance of their harvest and the kindly weathers of their skies, depend wholly on this child's abominable misery.

In the context of the Productivity Commission's work, the child represents the sustained poverty and suffering of Aboriginal people throughout Australia. The locked basement represents the structural system that has been designed to maintain the status quo, to forever lock Aboriginal people out of the wealth of the nation; to foredoom our children to a cycle of poverty; to a life of welfare, ill-health, poor education, continued state control and incarceration.

This reality must be front-of-mind for the Productivity Commission, the Commonwealth Grants Commission, and the Australian Government in considering reform of GST distribution methods and the way HFE works within the Australian federal system. All of us who enjoy the benefits and wealth of Australian citizenship share responsibility for setting the situation right.

The founding Chair of the Yothu Yindi Foundation, Dr Galarrwuy Yunupingu AC, understood that there was a system at work that trapped his people and refused to let them be 'economic beings' and equal citizens

as he envisaged. He began the work that the Yothu Yindi Foundation continues today, seeking to find the balance in the system, and to ensure it is fair and equal for his people.

For Dr Yunupingu, it was always the time to address the inequality of the past and make life better – to look to the future. To quote him in his final years:

> The task remains: to reconcile with the truth, to find the unity and achieve the settlement.

Australia's Prime Minister said upon Dr Yunupingu's passing: "Yunupingu now walks in another place, but he had left such great footsteps for us to follow in this one".

YYF urges the Productivity Commission, and the Australian Government, to follow these footsteps that have left their imprint over many years. The necessary reform mechanisms are known to the Productivity Commission, including through its work in assessing Closing the Gap measures. There are practical recommendations made in this submission - they should be adopted with priority.

Principally, if HFE is to remain in its current form, then there must be a major package of Commonwealth investment that addresses the permanent structural disadvantage that exists in the Northern Territory. There must be a Northern Territory Development Fund established that channels the necessary federal revenue to the identified structural or needs-based disadvantage - be that in infrastructure, education, health, or economic relations. The Fund should not just tackle remote deficits, but the deficits that exist in the Territory's urban centres – for example, when the roof of the Darwin Hospital falls in it falls in on Aboriginal people, who make up the majority of patients in that hospital. When the Stuart Highway is washed away, it is washed away for all Territorians, including the many Aboriginal people, and Aboriginal-owned businesses, who use the Stuart Highway as their transport route.

SOME CURRENT BASELINE DATA

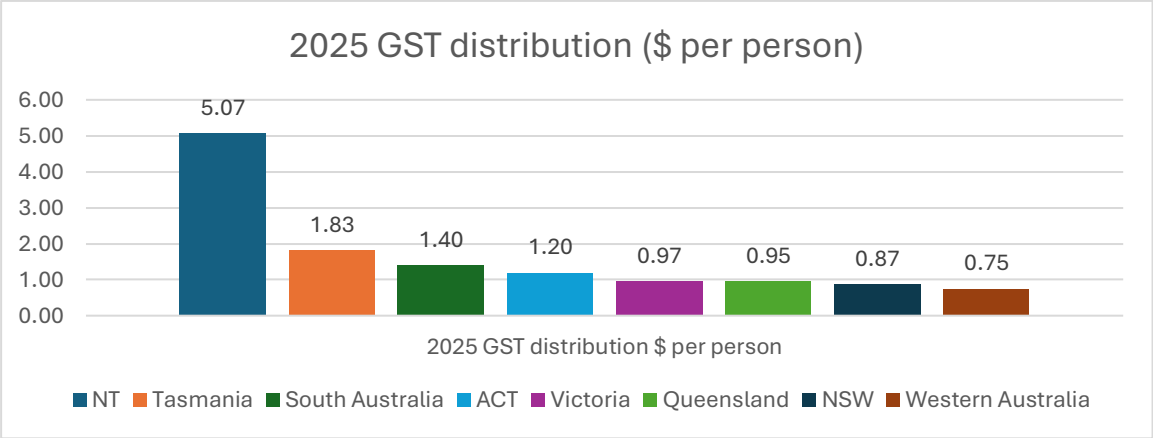
The baseline data is well known to the Productivity Commission and government. In this section we produce data that reflects the basic structure of the GST Distribution, and the current state of the Northern Territory's financial position.

The data extracted reveals that the Northern Territory is in a serious financial situation and is heavily reliant upon GST transfers. The situation is unrecoverable without major Commonwealth assistance.

This financial situation affects every Northern Territory citizen, though has a disproportionate impact upon Aboriginal Territorians.

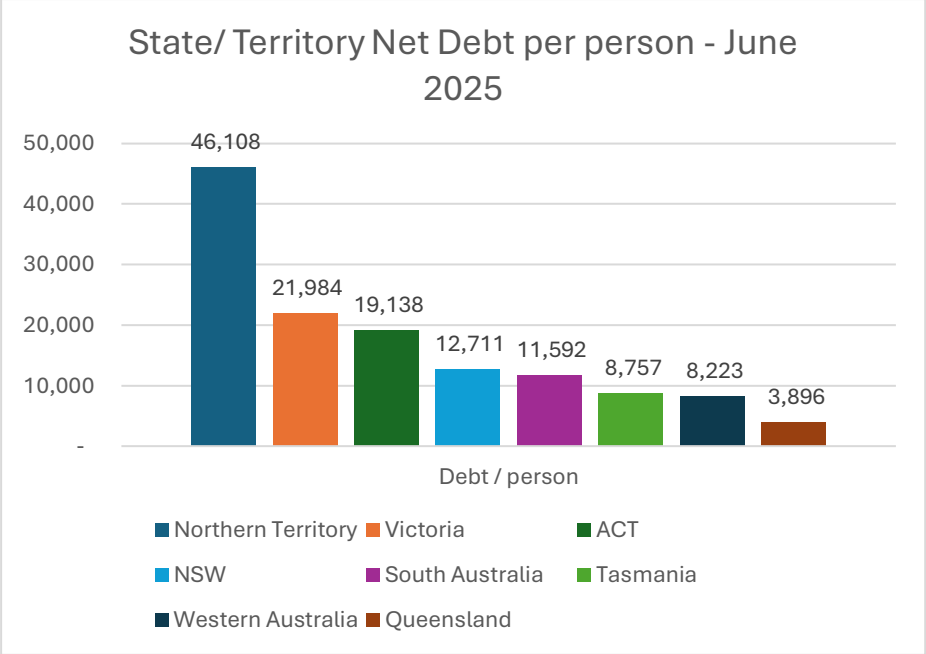
The failure of the HFE system of GST distribution in relation to the Northern Territory, is highlighted by this data.

- The per person payment of GST revenue to the Northern Territory is inflated to $5.07 per person due to assessments of need based on economic and socio-economic circumstances, but even then, it is not maintaining the status quo, and socio-economic conditions in many parts of the Northern Territory have worsened.

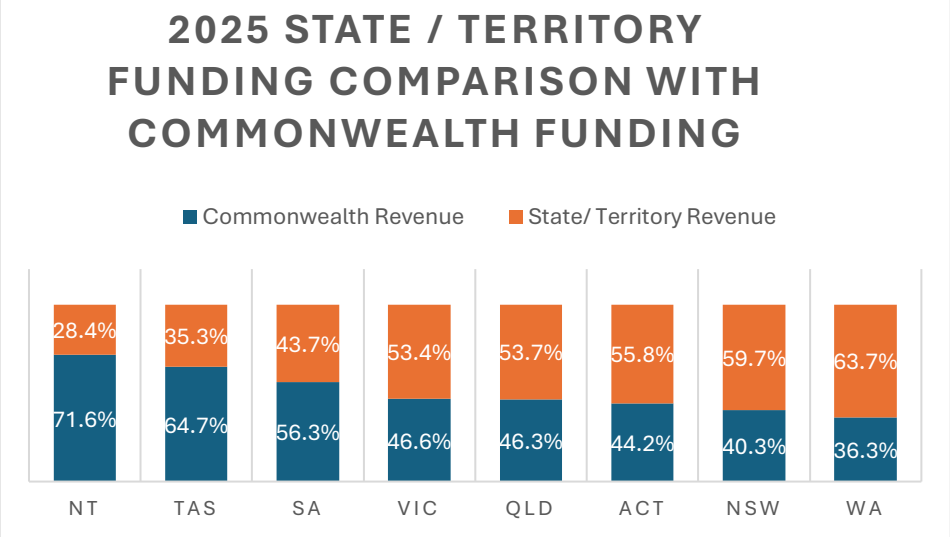


- The transfer of untied GST revenue is sustaining a public service class that is resident principally in Darwin and is disconnected from the socio-economic conditions of remote and regional Northern Territory.

- Northern Territory debt per person is more than double Victoria's and more than ten times Queensland's.



- The Northern Territory's division of Commonwealth and own-source revenue is the worst in the nation at 71.6% / 28.4%. This ratio is likely to worsen as legacy mines such as Rio Tinto's Gove Bauxite Mine and South 32's Manganese Mine close over the next 3 – 8 years.



STRUCTURAL DISADVANTAGE IN THE NORTHERN TERRITORY

The structural deficits that exist in the Northern Territory, and the inability of the Northern Territory to address the disadvantage associated with these deficits, is reflected in the socio-economic data that has accumulated in government departments, universities, and research centres over decades.

The social and economic indicators for the region, including health outcomes and average life expectancy of the population are often compared to data seen in Third World countries. That is because they reflect data seen in Third World countries.

The actual disadvantage is in the lived experience and life-expectancies of Aboriginal Territorians.

This submission highlights two indicators:

- Rheumatic Heart Disease or RHD is an entirely preventable disease that is caused by poverty and overcrowding. It burdens the person who carries it and burdens their family beyond belief. Rheumatic Heart Disease presents at alarming rates in Arnhem Land.

  In a study of 613 children at Maningrida in 2018, 5.2% of children had RHD, and an additional 2.8% had borderline RHD. From this data the Medical Journal of Australia estimates that one in 10 young people at Maningrida has RHD.

  That is the **highest ever recorded rate in the world** for RHD. Not even in sub-Saharan Africa is there a higher rate of RHD.

- The Incarceration Rate in the Northern Territory is 1,238 per 100,000 people. Worldwide the Northern Territory is second only to El Salvador, where the rate is 1659.

  The NT's incarceration rate is three times greater than the next worst Australian jurisdiction, Western Australia.

These two statistics highlight a crisis that was decades in the making, one that is getting worse not better. Historic neglect and failed government policy have played their part in creating the conditions for such statistics to exist in modern Australia, but current federal financial arrangements are continuing the situation in perpetuity.

We highlight in this submission the structural straight jacket (described above) that has been created by the Commonwealth Grants Commission's HFE formula and the Australian federal system's endorsement of current federal financial relations and revenue transfers.

We repeat that in the Northern Territory we are a far cry from the objectives cited by the Commonwealth Grants Commission and endorsed by successive Australian Governments:

> to equalise the fiscal capacity of the states to allow them to provide public services at a broadly comparable standard to one another, assuming that each made the same effort to raise revenue from its own-sources and operates at the same level of efficiency

As the Closing the Gap reports show, the current system is not facilitating that outcome. In fact, in remote areas we argue that outcome is getting worse, and that these outcomes are masked by the fact that Aboriginal people who experience higher averages of income, and opportunity, are included in the averages published.

As the financial situation in the Northern Territory reveals, there is little prospect of additional revenue from own-sources; rather there is a likelihood that own-source revenue will fall over the next 3 – 8 years as two more major mines close. Population stagnation and a fall in interstate migration to the Northern Territory exacerbate the situation. In another perverse reality, if the Northern Territory government were to reduce the Northern Territory public service to a national average it is likely that Darwin's economy would collapse.

RECOMMENDATIONS:

A. Reform The GST Distribution Methodology

Within the federal financial system, the Northern Territory should be subject to a new methodology that governs Commonwealth revenue transfers. This methodology should be agreed between the Commonwealth, the Northern Territory and leading Aboriginal bodies achieving effective change in remote locations.

The new methodology must address the known deficits and disadvantage in the Northern Territory, and be aimed at providing each Northern Territory citizen with similar levels of public service and amenity.

B. Establish A 'Northern Territory Development Agency'

The Commonwealth and Northern Territory governments should establish a Territory Development Agency that is mandated to bring Northern Territory's infrastructure to national standards. The Agency's objective should be to overcome the Territory's infrastructure deficits and create the conditions for civic and economic growth.

The Agency should have a Board of six Governors, of which two are appointed by the Commonwealth, two by the Northern Territory and two Independent.

Its first mandate should be to complete within 12 months a full Northern Territory-wide audit and review against national standards of civic infrastructure, including:

- The arterial road network;
- The municipal road network;
- Port and barge infrastructure;
- Airports;
- Power, water and sewerage infrastructure;
- Hospital and health infrastructure;
- Education, school, TAFE and university infrastructure; and
- Housing and hostel infrastructure.

The audit and review would include identifying any barriers to infrastructure development.

The Commonwealth Government would commit to providing the Agency with the necessary revenue to bring the infrastructure of the Northern Territory to a national standard equivalent.

C. Productivity Commission Data Room

Governments, their departments and public servants are practiced at obscuring data and data related to the socio-economic or demographic conditions experienced by Aboriginal people is often difficult to access.

The Commonwealth should mandate that the Productivity Commission establish a data room where all data held by Commonwealth, States and Territories in relation to the GST Distribution Model and all specific purpose payments made in relation to Commonwealth, States and Territories spending on Aboriginal disadvantage is available in a centralised data room.

The Productivity Commission should have the powers to compel the data from Commonwealth, States and Territory agencies, and the data room should be accessible, under appropriate conditions, to all Australians.

RESPONSES TO TERMS OF REFERENCE

YYF responses to the terms of reference are included as answers to the key questions outlined in the scope of inquiry terms:

1. Are the current arrangements delivering a reasonable level of horizontal fiscal equalisation
   In the Northern Territory, and for Aboriginal people in particular, the current arrangements are not delivering a reasonable level of equalisation.

   HFE has failed to equalise the fiscal capacity of the Territory to enable it to provide public services at a broadly comparable standard to other States. Given the depth of the Northern Territory's structural problems, and the reliance that has developed on GST revenue, a reasonable level of equalisation cannot be achieved without significant structural reform and a major investment in bringing Northern Territory infrastructure up to national standard.

   The current HFE system is now perpetuating the Northen Territory's disadvantage.

2. Are the current arrangements appropriately balancing the objective of responsiveness to changing circumstances with the objectives of reducing volatility and improving the certainty of GST revenue streams to support state fiscal planning
   No. The current HFE system is unable to respond to the circumstances of the Northern Territory, and, in its current form, will remain unable to respond, further entrenching Aboriginal disadvantage. The most recent response, by way of the Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018, made things worse for the Northern Territory, whilst providing a windfall to Australia's richest State, Western Australia.

3. Are the current arrangements supporting states and territories to pursue reforms, including to the efficiency of service delivery and state and territory revenue bases and ensuring fiscal sustainability.
   In the case of the Northern Territory, no.

   The Northern Territory is now at a breaking point. Without major remedial support from Commonwealth revenue that aims to bring the Northern Territory's infrastructure, public amenities and services up to national standard, and to create an effective economic environment, the Northern Territory will continue on the current trajectory.

4. Are the current arrangements fiscally sustainable for the Commonwealth and states and territories.
   In the case of the Northern Territory, no. In the case of the Commonwealth and other States such as Queensland, Western Australia, NSW and Victoria, there would be barely any impact at all in the revenue or arrangements for those jurisdictions if the reforms proposed in this submission were adopted.

   Australia is one of the wealthiest countries in the world, and our standard of living is one of the highest in the world.

   The reforms sought to the HFE structure, and the creation of a mechanism to address historical deficits that have become structural realities, is fiscally sustainable within the federation. In the context of the Northern Territory, the status quo is fiscally unsustainable. The status quo will lead to continued poverty, suffering and disadvantage for Aboriginal people, and continuing difficulties for the Northern Territory as a whole.

5. In relation to whether alternative arrangements would better achieve some or all of these outcomes.

   An alternative arrangement must be found for the Northern Territory within the current framework of federal financial relations with the States and Territories.

6. In relation to the interaction between GST payments and other Commonwealth payments to states, including the principles for exempting payments from the Commonwealth Grants Commission's assessments.

   There should be no exemptions applied to the GST distribution formula on account of any Commonwealth payments to the Northern Territory that address identified need in both infrastructure and in service delivery.

Yothu Yindi Foundation
27 February, 2026