



# HUON VALLEY COUNCIL

## HUON VALLEY COUNCIL SUBMISSION

### Productivity Commission's review into GST Distribution Reforms

Thank you for the opportunity to provide a submission into the Commission's review into the 2018 GST Distribution Reforms.

#### 1. INTRODUCTION

Huon Valley Council serves approximately 20,000 residents across 5,700 square kilometres of southern Tasmania. We are a regional council with a dispersed population, multiple small townships, and significant infrastructure responsibilities across a large geographic area.

While GST distribution is primarily a state government matter, it has direct and significant implications for local government. When state governments face revenue pressure, local governments experience cost-shifting, reduced grants, and pressure to fill service gaps. Unlike states, councils within Tasmania don't benefit from formal equalisation mechanisms to address cost inequities, and we have limited revenue-raising capacity to respond to these pressures.

GST represents approximately 40% of Tasmania's state government revenue. Changes to GST distribution fundamentally affect the state's capacity to fund services and support local government. When the state is squeezed, councils and ratepayers wear the cost.

**Huon Valley Council supports the Tasmanian Government's submission calling for a return to full horizontal fiscal equalisation.**

This submission explains why this matters from a local government perspective and provides practical examples of how weakened equalisation affects service delivery in regional Tasmania.

#### 2. WHY FULL EQUALISATION MATTERS TO LOCAL GOVERNMENT

The principle of horizontal fiscal equalisation recognises that different states face different costs and revenue-raising capacities. Tasmania has 2.2% of Australia's population but receives approximately 4% of GST revenue under full equalisation. This reflects genuine cost inequities including dispersed population, smaller economies of scale, aging demographics, and a lower income base.

As a regional council, we understand these pressures because we live them. Infrastructure costs per capita are higher due to dispersion, our revenue base is smaller, our population is aging, and distance from major centres increases costs. The state faces the same factors at a larger scale.

Local governments in Tasmania rely significantly on the state for financial assistance, regulatory frameworks, shared service responsibilities, and grant programs. The state-local government relationship means that state fiscal capacity directly affects council sustainability. When state revenues are constrained, we see direct funding cuts, cost-shifting of responsibilities without adequate

funding, service gaps that councils face community pressure to fill, increased regulatory burdens without resources.

The 2018 GST reforms weakened equalisation by changing the relativity benchmark from the strongest state to an average of NSW and Victoria. Tasmania would have lost \$318.6 million without guarantee payments between 2018 and 2025, and has relied on \$14.6 billion in guarantee payments since the reforms. These guarantees are temporary and create ongoing fiscal uncertainty that makes long-term planning difficult for both state and local government.

### **3. THE REAL IMPACT: COST-SHIFTING**

Perhaps the starkest example of how inadequate state fiscal capacity affects Huon Valley Council is in health services. Council has been forced to step in to provide medical services in two of its townships.

This situation reflects both private market failure and policy failure. The private market for GP services and medical centres has failed in regional areas - doctors and medical businesses cannot operate viably in smaller townships under current Commonwealth Medicare funding settings and workforce distribution policies. At the same time, state capacity to intervene and support regional health infrastructure is constrained by inadequate fiscal resources. The result is that neither private providers nor state government fill the gap, leaving communities without essential health services.

When both the market and higher levels of government fail to provide health services, communities turn to their council as the last resort. This represents a fundamental breakdown in fiscal federalism. Health is a Commonwealth and state responsibility under the Constitution, yet local ratepayers end up funding services through rates that should be funded through income tax and GST. Council diverts resources from core local government functions like roads, waste, planning and community facilities to operate medical services with no sustainable funding model.

If Tasmania's GST revenue is inadequate to support regional health service interventions where the private market has failed, the gap doesn't disappear - it falls to councils and ratepayers. This is a direct result of inadequate state fiscal capacity combined with Commonwealth policy settings that don't support viable private practice in regional areas. It sets a dangerous precedent for further cost-shifting.

### **4. WHAT'S AT STAKE**

Drawing on the Productivity Commission's data, Tasmania's GST share under full equalisation (equal fiscal capacity) is approximately 4% of the GST pool compared to our 2.2% population share. This gap reflects genuine cost inequities in revenue raising capacity and service delivery costs.

Since the 2018 reforms weakened equalisation, Western Australia has gained \$2.4 billion more than under full equalisation, while Tasmania has required \$14.6 billion in guarantee payments to avoid losing \$318.6 million. The NSW/Victoria benchmark creates a perverse incentive that rewards larger states and weakens the equalisation principle.

The temporary nature of guarantee payments creates fiscal uncertainty. Tasmania's budget planning faces ongoing uncertainty, limiting capacity for long-term commitments and creating pressure to cut services or shift costs to councils. When guarantee payment arrangements end, Tasmania faces either significant revenue loss if reforms continue, continued uncertainty if guarantees are extended but reforms unchanged, or fiscal sustainability if full equalisation is restored.

From a local government perspective, any scenario except return to full equalisation creates increased pressure for cost-shifting to councils, reduced state grant funding to local government, greater risk of service gaps councils will be expected to fill, and higher burden on local ratepayers.

## 5. RECOMMENDATIONS

Huon Valley Council recommends the Productivity Commission advise the Australian Government to:

- **Return to full horizontal fiscal equalisation** by restoring the relativity benchmark to the strongest state (fiscal capacity standard). This reflects the original principle that all states should have equal capacity to provide services and provides fiscal certainty for smaller states like Tasmania.
- **Recognise the local government impact of state GST distribution.** Weakened state fiscal capacity leads directly to cost-shifting and service gaps that local governments lack the revenue-raising capacity to fill sustainably. Regional communities bear a disproportionate burden when equalisation is weakened.
- **Consider the equity implications of the 2018 reforms.** Larger states have gained at the expense of smaller states, increasing inequality between Australian regions and contradicting the fundamental principle that all Australians should have access to comparable services regardless of where they live.
- **Ensure fiscal sustainability for all states.** Temporary guarantee payments create uncertainty and undermine budget planning. Full equalisation provides predictable, principle-based distribution that is essential for both state and local government sustainability.

## CONCLUSION

From Huon Valley Council's perspective, this review is about the sustainability of service delivery in regional Tasmania. When state fiscal capacity is weakened, councils wear the cost. We're already providing medical services that should be Commonwealth and state responsibility, and our ratepayers are funding gaps that inadequate GST distribution creates. This is not sustainable.

Horizontal fiscal equalisation exists because Australia is a federation of diverse states with different capacities and costs. The principle is that all Australians should have access to comparable services regardless of which state they live in. The 2018 reforms weakened this principle, resulting in increased inequality and cost-shifting that ultimately falls on local communities.

We strongly support a return to full horizontal fiscal equalisation. This isn't just about state budgets - it's about whether regional communities in smaller states can maintain essential services without placing unsustainable burdens on local ratepayers. We urge the Productivity Commission to recommend restoring full equalisation as the fair, sustainable and principled approach to GST distribution.