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26 February 2026

Hon Eric Abetz MP
Treasurer
Tasmanian Government

Dear Treasurer,

Thank you for your correspondence of 30 January 2026 regarding the Productivity Commission's review of the 2018 GST distribution reforms.

The importance of GST revenue to Tasmania's fiscal sustainability is well understood. As you note, GST represents a significant proportion of the State's revenue base and underpins the delivery of essential services and infrastructure across our communities.

From a Local Government perspective, the fiscal capacity of the State directly influences regional infrastructure investment, service delivery partnerships, emergency management capability and the sustainability of small and rural councils. A fair and sustainable approach to Horizontal Fiscal Equalisation is therefore of material interest to our sector.

Break O'Day Council supports arrangements that ensure Tasmania is able to maintain service standards and infrastructure comparable to those available in other jurisdictions, particularly given our regional dispersion and demographic profile.

We will consider engagement with the Productivity Commission Inquiry and will also liaise with the Local Government Association of Tasmania to ensure the local government perspective is appropriately reflected.

Thank you for raising this important matter.

Yours sincerely,

Mick Tucker
MAYOR



Break O'Day
COUNCIL

Productivity Commission Inquiry Review of 2018 GST Distribution



Version: 1 – Date: February 2026

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Executive Summary

Break O'Day Council is a small regional Tasmanian municipality servicing approximately 6,770 residents across 5,975 rated properties. Council manages a geographically dispersed infrastructure network with limited revenue flexibility and a heavy reliance on rate income, which represents approximately 66% of recurrent revenue. Depreciation accounts for approximately 26% of total annual expenses, reflecting significant ongoing asset renewal obligations.

Although GST revenue is distributed to states rather than local government, Tasmania's fiscal capacity directly affects regional councils through infrastructure co-funding, disaster resilience programs and service partnerships. Any structural reduction in Tasmania's GST relativity increases downstream pressure on small regional municipalities that have limited capacity to absorb cost shifts or infrastructure funding reductions.

Break O'Day Council supports a GST distribution framework that preserves fiscal neutrality between states, recognises structural cost disadvantages in smaller jurisdictions, and maintains comparable service standards across the Federation. A stable and equitable Horizontal Fiscal Equalisation framework is essential to ensuring long-term infrastructure sustainability and rate stability for regional communities.

1. Introduction

Break O'Day Council is a regional municipality in north-east Tasmania servicing a population of approximately 6,770 residents across 5,975 rated properties.

Council manages a geographically dispersed network of infrastructure and community assets across multiple small townships and rural settlements. Rates are Council's primary source of own-source revenue, with limited capacity to diversify income.

While GST revenue is distributed to states rather than directly to local government, Tasmania's fiscal capacity materially affects regional councils through infrastructure co-funding, disaster resilience programs, and service partnerships.

2. Structural Cost Drivers in Regional Tasmania

Regional councils operate under structural conditions that increase per capita service and infrastructure costs:

- Large geographic footprint relative to population
- Dispersed settlement patterns limiting economies of scale
- Ageing demographic profile constraining revenue growth capacity
- Seasonal tourism population placing additional load on infrastructure
- Natural hazard exposure requiring resilience and mitigation investment

These factors reduce financial resilience and increase reliance on State partnership funding.

3. Fiscal Interdependence Between State and Regional Local Government

Tasmania's GST allocation underpins the State's ability to:

- Co-invest in regional road reconstruction
- Fund disaster mitigation and climate resilience programs
- Partner with councils on community infrastructure
- Maintain regional service standards

Where State fiscal capacity is constrained, downstream impacts typically include reduced co-funding envelopes, delayed investment, and increased pressure on rate revenue.

Small regional councils have limited capacity to absorb these pressures without increasing rate burden or deferring asset renewal.

4. Observations on Horizontal Fiscal Equalisation

Break O'Day Council does not seek to comment on individual state outcomes. However, from a regional Tasmanian perspective, the GST distribution framework should:

- Maintain fiscal neutrality between states
- Recognise structural cost disadvantages of smaller jurisdictions
- Support comparable service standards across the Federation
- Provide predictability for long-term infrastructure planning

Full Horizontal Fiscal Equalisation has historically ensured that Australians, regardless of geography, can access comparable public services.

5. Implications for Regional Infrastructure Sustainability

Local government infrastructure is long-lived and capital intensive. For small regional councils, constrained revenue bases and higher per-capita asset burdens mean that reductions in State co-investment capacity compound over time and increase:

- Asset renewal backlogs
- Whole-of-life costs
- Long-term rate pressure
- Service inequity between regions and metropolitan areas

This creates measurable downstream consequences for regional communities.

5A. Financial Context – Break O’Day Council (audited 2024–25)

5A. Fiscal Context – State and Local Government Interface

Break O’Day Council operates within a structurally constrained revenue environment typical of small regional municipalities. Own-source revenue is dominated by property-based rates, with limited capacity to diversify income streams or absorb cost escalation without direct impact on ratepayers.

At the same time, the Tasmanian Government’s fiscal position is under significant pressure, with forward estimates reflecting sustained deficits and growing net debt. This constrains the State’s ability to increase discretionary infrastructure co-funding or absorb additional service delivery responsibilities without Commonwealth support.

In this context, the integrity and equity of the GST distribution model is critical. Any erosion of Tasmania’s relative share has a compounding effect — reducing State fiscal flexibility and, in turn, increasing financial pressure on regional councils tasked with delivering infrastructure and services across dispersed, ageing and low-growth communities.

For small municipalities such as Break O’Day, even marginal shifts in State capacity translate directly into rate pressure, deferred asset renewal, or reduced service levels.

The State’s own budget outlook shows net debt expanding markedly over the forward estimates, with projections indicating it will reach around \$10.4 billion by 2028-29, despite intentions to stabilise and then reduce debt later in the decade. This trajectory reflects ongoing budget deficits and significant cost pressures, limiting the State’s fiscal flexibility to support co-funding or absorb additional expenditure pressures without Commonwealth support.

6. Conclusion

Break O’Day Council supports a GST distribution framework that preserves fiscal sustainability and equity across the Federation.

For small regional municipalities, State fiscal capacity directly influences local infrastructure resilience, service standards and rate stability. A stable and equitable HFE framework is fundamental to maintaining long-term infrastructure sustainability and comparable living standards for regional Australians.