

Submission to the Productivity Commission Inquiry into GST Distribution

Submitted by: City of Melbourne

The City of Melbourne welcomes the opportunity to provide a submission to the Productivity Commission's inquiry into the 2018 Goods and Services Tax (GST) distribution reforms.

This submission represents an important opportunity for the City of Melbourne to place a capital-city local government perspective on the record in relation to GST distribution reforms, reflecting the unique role and responsibilities borne by Melbourne on behalf of the state.

The City of Melbourne echoes the Victorian Government's call for:

1. **Reversal of the 2018 GST distribution reforms**, restoring a system grounded in fairness, certainty and genuine equalisation; or
2. **If reversal is not pursued, the permanent adoption of the No Worse Off Guarantee**, to ensure Victoria and other states are not structurally disadvantaged in the long term.

Either outcome would provide greater fiscal stability, support service delivery across all levels of government, and better align GST distribution with the principles that have historically served Australia well.

Capital city context

As Victoria's capital city municipality and the fastest growing capital city in Australia, the City of Melbourne has a unique role in supporting not only its residential population, but the economic, social and cultural life of greater Melbourne, and Victoria. We are currently home to 44,700 business and 652,000 jobs and we estimate a million people are in the city on any given day.

The current GST distribution arrangements place growing pressure on that role at a time when councils, particularly in Victoria, are already operating under severe fiscal constraints.

Victoria was the most locked-down state during the COVID-19 pandemic, and Melbourne was the most locked-down city in the world. The economic and social impacts of this period were profound and enduring. While recovery is underway, it remains delicate and uneven.

Melbourne must be supported in rebuilding its prosperity, competitiveness and liveability. Continued disadvantage through an inequitable GST distribution framework risks slowing recovery, discouraging investment, and undermining confidence at a critical time.

Rather than compounding the challenges faced by Victorian communities, federal settings should enable Melbourne and Victoria to continue driving national growth, innovation and opportunity.

Impacts of state budget erosion

Further erosion of state government budgets as a result of unfair GST distribution will inevitably flow through to local government.

As the economic engine room of Victoria, generating \$127 billion in gross local product, any reduction in Melbourne's capacity to function effectively has consequences well beyond municipal boundaries.

Erosion of state government budgets will exacerbate cost shifting, constrain service delivery, and place additional pressure on councils already stretched to their limits. Victorian local governments are operating in an environment of compounding financial stress. State government rate capping limits councils' ability to respond to rising costs, while cost shifting from other levels of government continues to transfer responsibility for service delivery to councils without commensurate funding.

These pressures are felt most acutely by the City of Melbourne. As a capital city council, Melbourne is required to fund and maintain services, infrastructure and public spaces that support millions of daily users—workers, students, visitors and tourists—far beyond its resident population. Where state and federal funding falls short, the City is often required to step in to fill very real gaps in service provision, despite having no additional revenue base to do so.

If Victoria's fiscal position is weakened further by the continuation of the current GST reforms—particularly once the No Worse Off Guarantee expires—there will be a direct and significant cost to the City of Melbourne community.

Reduced state capacity to fund essential services and infrastructure will have tangible impacts on:

- transport and mobility systems relied upon by residents, commuters and businesses;
- community safety, public health and emergency management;
- cultural, sporting and civic infrastructure that underpins Melbourne's liveability and global reputation; and
- economic development initiatives critical to supporting jobs and investment.

Support for fiscal equalisation

The City of Melbourne strongly supports the long-standing principle of fiscal equalisation that has underpinned Australia's federal financial relations. This principle ensures that all Australians, regardless of where they live, can access a comparable standard of services.

The 2018 GST distribution reforms represent a departure from this principle. They have disproportionately benefited Western Australia at the expense of other states. The introduction of the No Worse Off Guarantee acknowledged the fundamental flaws in the reforms, but it defers rather than resolves the problem.

Victoria already receives the lowest total revenue per capita of any state, with comparatively low mining royalties and grant funding. A permanent reduction in Victoria's GST share would further embed this disadvantage and place ongoing pressure on state and local government services.

This submission aligns with the endorsed City of Melbourne Council Plan 2025–2029 by supporting the conditions necessary to deliver the Plan’s objectives for economic prosperity, equity, service sustainability and Melbourne’s capital-city role.

Fair and predictable GST distribution underpins the State’s capacity to invest in infrastructure, services and economic recovery that directly affect Melbourne’s community and Council’s ability to deliver its strategic priorities. Advocacy for an equitable GST framework is consistent with Council’s commitment to economic resilience, community wellbeing and proactive engagement with other levels of government to achieve positive outcomes for the city and its people.

The City of Melbourne urges the Productivity Commission to give full consideration to the downstream impacts of GST distribution reforms on local government, particularly capital city councils. Councils are critical partners in delivering services, supporting communities and sustaining economic activity.

An equitable GST system is essential to ensuring that Victoria—and Melbourne in particular—can continue to meet these responsibilities, recover from unprecedented disruption, and contribute fully to Australia’s future prosperity.