



Our ref: GST Distribution Submission
Enquiries Tracey Ehrlich, Director Community and Corporate Services

26th February 2026

The Productivity Commission

Dear Productivity Commission Members

**Re: Submission to the Productivity Commission
Inquiry into GST Distribution Reforms**

Executive Summary

Tasmania's fiscal position has deteriorated materially over recent years and is forecast to remain under significant strain in the absence of structural adjustments to revenue and expenditure settings. The State's 2025-26 Budget projects persistent deficits in both the Net Operating Balance and Fiscal Balance, with net debt rising sharply and key fiscal targets at risk of ongoing breach. These challenges are compounded by Tasmania's structural disadvantages, including a small and dispersed population, elevated service delivery costs due to remoteness and demographics, and limited own source revenue capacity.

At the same time, the 2018 reforms to the Goods and Services Tax (GST) distribution particularly the introduction of a relativity floor of 0.75, the shift in the equalisation benchmark to the fiscally stronger of New South Wales or Victoria, and the move away from full Horizontal Fiscal Equalisation (HFE) have reduced the overall degree of needs based equalisation. These changes have entrenched advantages for Western Australia during periods of high commodity revenues, while increasing Tasmania's exposure to potential revenue shortfalls once transitional "No Worse Off" guarantees expire in 2029-30.

The arrangements have also imposed very large and growing costs on the Commonwealth through permanent pool top-ups and ad-hoc transitional payments, far exceeding original expectations and raising serious questions about long term fiscal sustainability.

Key Recommendations

Reinstate full Horizontal Fiscal Equalisation based on the pre-2018 standard (equalising to the strongest state’s fiscal capacity), and abolish the 0.75 relativity floor to realign distributions with genuine needs based principles, while preserving the independence of the Commonwealth Grants Commission (CGC).

Replace permanent pool “boosts” and ad-hoc top-ups with rules based mechanisms to manage volatility, such as multiyear averaging of relativities and caps on annual changes, applied neutrally within the HFE framework. If transitional or transitional assistance is deemed necessary during any adjustment period, make it temporary, declining over time, and funded from within the existing GST pool rather than through open ended Commonwealth contributions.

Codify clear, principles based guidelines for the treatment of other Commonwealth payments (such as specific purpose payments) in CGC assessments, emphasising materiality, policy neutrality, transparency, and consistency across cycles.

Require the publication of an annual GST Distribution and Volatility Statement, detailing key drivers of changes in relativities and payments, including sensitivities to commodity prices, population shifts, and economic variables, to improve transparency and planning certainty for all states.

Context and Alignment with the Terms of Reference

The Commission has been tasked with assessing whether the 2018 legislative changes are operating efficiently, effectively, and as intended; whether they deliver a reasonable level of HFE; appropriately balance responsiveness to changing circumstances with reduced volatility and greater certainty; support states in pursuing reforms to service delivery and revenue bases; and remain fiscally sustainable for both the Commonwealth and the states and territories. The inquiry must also consider interactions with other Commonwealth payments and potential alternative arrangements.

The Commonwealth’s escalating fiscal costs arising from permanent indexed top-ups to the GST pool and substantial “No Worse Off” payments highlight pressing sustainability concerns. These elements, combined with the dilution of full equalisation, have shifted burdens and risks in ways that disadvantage high needs jurisdictions like Tasmania.

Tasmania’s Fiscal Position and the Critical Role of HFE

Tasmania’s 2025-26 Budget and forward estimates paint a picture of ongoing fiscal pressure. The Net Operating Balance is projected to record a deficit of \$1.008 billion in 2025-26, gradually improving to a modest surplus of \$5.6 million by 2028-29 (with the surplus target potentially delayed to 2029-30). Underlying deficits, excluding one off items, remain larger. The Fiscal Balance shows a deficit of approximately \$1.352 billion in 2025-26, narrowing to around \$152 million by 2028-29, though the target surplus is not anticipated until 2032-33, with rolling four year averages remaining deeply negative. Net debt (General Government Sector, including leases) is forecast to rise

sharply to approximately \$7.08 billion by June 2026 and reach around \$10.4 billion by 2028-29. Additional pressures include superannuation liabilities of \$7.08 billion, provisions for child sexual abuse claims, negative contributions from government business enterprises, and interest plus superannuation costs exceeding fiscal targets.

These challenges are exacerbated by Tasmania's structural characteristics: a small population with significant outer regional and remote components, higher proportions of First Nations residents, elevated costs for health, education, and transport services due to isolation and demographic factors, and constrained own source revenue bases (with limited mining royalties and reliance on property related duties).

GST revenue remains a vital component, representing around 40 per cent of General Government Sector revenue, with total Commonwealth grants comprising about 67 per cent. More adequate and stable GST distribution under a restored HFE framework would provide essential support to Tasmania's economy, enabling better service delivery and infrastructure investment without disproportionate reliance on borrowing.

Reasonableness of Equalisation under Current Arrangements

The 2018 reforms departed from the pre-existing objective of full HFE equalising fiscal capacity to enable comparable service standards assuming equivalent revenue effort and efficiency by benchmarking to the stronger of New South Wales or Victoria and introducing a floor. This approach provides preferential protection during commodity booms (particularly benefiting Western Australia) and reduces the extent to which distributions reflect uncontrollable structural disadvantages.

A reasonable level of HFE should approximate the pre-2018 standard, ensuring high needs states receive funding commensurate with assessed expenditure needs and revenue raising capacity. Restoring full equalisation and removing the floor would better align outcomes with the core purpose of the system.

Balancing Responsiveness, Volatility, and Certainty

While the reforms sought to reduce volatility from commodity cycles, they have achieved this at the cost of diminished responsiveness to genuine structural changes (such as demographic shifts, natural disasters, or economic disruptions disproportionately affecting smaller states).

Volatility in GST shares for Tasmania arises from fluctuations in the pool size, relativities, and population; even modest changes (e.g., 1 per cent in the pool or relativity) can impact revenue by tens of millions annually.

Better management of volatility should rely on neutral, rules based tools such as multi-year averaging of relativities and limits on annual percentage changes rather than floors or open ended Commonwealth top-ups that transfer volatility to the federal level and risk politicising distributions. These mechanisms would enhance planning certainty for states while preserving equity and responsiveness.

Reform Incentives and Efficient Service Delivery

The CGC's policy neutral methodology should be maintained to ensure no state's GST share is directly influenced by discretionary choices in revenue raising or service provision. Stable, principle based HFE provides a predictable foundation for smaller states to pursue efficiency improvements and revenue base enhancements, supporting long term productivity and service reform.

Fiscal Sustainability for the Commonwealth and States

The pool top-ups and "No Worse Off" payments have significantly exceeded 2018 projections and continue to grow, placing unsustainable pressure on Commonwealth finances. Ending open ended top-ups in favour of temporary, declining, in pool transitional arrangements would restore integrity and sustainability without abrupt shocks to recipient states.

A Case for Local Government

Although the GST is primarily a tool between the Federal and State Governments, there is a case to be made for consideration of Local Government either through grants or a provision out of the GST revenue being distributed.

Over the last 20 years Councils have shifted from a narrow "services to property" role to a broader "services to people" role, now dealing with health and wellbeing, climate change, jobs hubs and more, often as "provider of last resort" where markets or higher tiers of government fail. Key structural pressures undermining local government sustainability remain as cost-shifting, ad-hoc and declining grants, asset depreciation burdens, skills shortages, and lack of coordinated strategic planning between State and Local Government. A review considering the delivery of services at the local community level would be welcome.

Conclusion

Implementing these recommendations would promote nation wide fiscal sustainability, restore equity in horizontal fiscal equalisation, and deliver better outcomes for all Australians particularly those in high needs jurisdictions such as Tasmania.

Thank you for the opportunity to contribute to this important inquiry.

References to supporting sources including publications and submissions are available upon request.

Yours sincerely

Tracey Ehrlich
Director Community and Corporate Services