



***GST
Distribution
Reforms
Issues
Paper***

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RESPONSE

GST Distribution Reforms Issues Paper

Introduction

The Country Mayors Association of NSW (“**CMA**”) represents 89 General Purpose councils located in remote, rural and regional NSW. The CMA’s goal is to promote and advocate for our Member Councils and the communities they represent across a broad range of matters as well as for the Local Government sector as a whole.

In operation for over 45 years, the CMA looks to create genuine, respectful and productive relationships with the State Government to empower, engage, promote and deliver positive outcomes for remote, rural and regional NSW.

The CMA welcomes this opportunity to provide a response to the Productivity Commission’s (**the Commission**) GST Distribution Reforms Issues Paper (**the Paper**). The CMA’s advocacy goal for our Member Councils and the communities they represent is to secure nothing more than our fair share, whether that be for services, facilities or funding. It is, therefore, appropriate that the CMA should provide a response to the Paper as it addresses the clear goal of how best to distribute GST revenue fairly across all Australian States.

Response

The CMA strongly agrees with the principle of Horizontal Fiscal Equalisation (**HFE**) and accepts the policy position that “*Commonwealth GST grants should aim to compensate for or narrow the gap between fiscally stronger and weaker states and territories.*” It is hardly surprising that the CMA strongly agrees the HFE policy position of ensuring that every Australian regardless of their location can access services and facilities of the same standard. The CMA represents some of the most remote and isolated Local Government Areas (**LGAs**) in NSW, and therefore we are more than aware of the problems that can occur when the weak are left behind.

The 2018 Reforms flew in the face of the key principle of the HFE by effectively discarding a state’s capacity to generate own-source revenue in favour of a more politically palatable “every child wins a prize”. The problem with this is obvious, either the other children go without, or mum and dad dip into their own pockets in an attempt to keep things equal.

This is the pathway the Federal Government took with the No Worse Off Guarantee. A clearly unsustainable approach where in order to keep the peace the Federal Government dipped into consolidated revenue to make up for the revenue shortfalls created through accommodating WA's demand for a larger share of the GST. While the CMA is of course grateful that the Federal Government took the step to ensure that no state was worse off because of the 2018 Reforms, we note that between 2021-22 and 2024-25 the payments made by the Commonwealth totalled \$14.9 billion.

While NSW has been relying on No Worse Off payments, WA has been receiving both mining royalties and more than their fair share of the GST. The Association of Mining and Exploration Companies (**AMEC**) advised in a media release in June 2025¹ that the WA Government had in the previous financial year earned \$739 million in royalties from gold mining, which was forecast to grow to \$918 million in 2025/26. It had also earned \$8.58 billion in royalties from iron ore. AMEC's CEO Warren Pearce is quoted as saying

"...a total of \$9.94 billion for all WA commodities underscore the value West Australians derive from our mineral wealth."

The CMA strongly agrees with Mr Pearce's assessment, WA is certainly deriving great value from its mineral wealth.

WA has a population of just over 3 million with 80% of them living in Perth, that's 2,384,371 people living in an area that is 6,420 sq kms in size.² This is the same sized population that is currently living and working in remote, rural and regional NSW an area that covers approximately 761,092 sq kms or about 95% of the State. This is the area of the State that is serviced by the CMA's 89 member councils.

We struggle to understand why the current GST distribution methodology is not factoring the enormous revenue that WA is generating through mining royalties particularly when 80% of its population is clustered in and around Perth. Surely, the clustering of the population within a small geographic area generates enormous efficiencies for the WA Government, allowing it centralise services and facilities.

Meanwhile, the NSW Government is servicing three times the population of WA, spread across a geographic area which is just shy of the half the size of WA, receiving only \$2.9 billion in mining royalties for the 2023-24 year.³ We fail to see how the 2018 Reforms are providing a fair and equitable outcome for the residents of NSW, without the No Worse Off payments, NSW would indeed be considerably worse off.

¹ <https://amec.org.au/wp-content/uploads/2025/06/32.-Western-Australia-State-Budget-2025-%E2%80%93-Go-for-Gold.pdf> accessed 3 March 2026

² <https://profile.id.com.au/perth/about?WebID=230> accessed 3 March 2026

³ AMEC, NSW Budget Submission 2026, https://amec.org.au/wp-content/uploads/2025/12/1204-NSW-Budget-Submission-2026_2027.pdf pg. 2

NSW has the largest remote, rural and regional population in Australia. The CMA believes that it is imperative that NSW receives its fair share of the GST so that the almost 3 million people who live in remote, rural and regional NSW receive the services and facilities they need.

The distribution methodology adopted in 2018, where WA's ability to raise its own-source revenue through mining resources was "discounted" allowing the CGC to allocate a higher share of the GST, does not meet the goals of the HFE.

In addition, we believe that the current arrangement puts WA at a competitive advantage against other states. WA is generating almost \$10 billion in mining royalties plus it is receiving more than its fair share of GST revenue consequently it has the capacity to commit to expenditures and incentives that are beyond the reach of other states and territories.

In NSW, the CMA is concerned to ensure that any new GST distribution methodology that is adopted keeps pace with the demand for services and facilities across NSW. From a Local Government perspective where funding does not keep pace with demand for services this ultimately results in a growing Vertical Fiscal Imbalance (**VFI**) for councils. This is because lack of sufficient funding creates an imperative for the State to shift more responsibilities to Local Government without an appropriate source of revenue to cover the costs. Financial sustainability is the biggest factor facing our Members, and this is in part due to the growing VFI.

In NSW shifting state responsibilities downstream to Local Government is known as cost-shifting. The LGNSW 2025 Cost-shifting Survey found that the total cost of the practice, whereby the State Government shifts the cost of providing a service or infrastructure to Local Government to be \$1.5 billion per annum, with the costs falling hardest on rural and remote ratepayers.⁴

We agree that the only way to stem cost-shifting and the growing concerns about the long-term financial sustainability of councils is to ensure that NSW receives its fair share of the GST; if NSW does not receive its fair share, how can it provided the funding that rural, remote and regional communities depend on to ensure they can access the services and facilities they need.

Preferred Distribution Methodology

The CMA supports a return to pre-2018 arrangements whereby full equalisation would be to the strongest state (currently WA), rather than the 'standard state' (currently NSW). A return to full equalisation would see WA included in the equalisation process. While this would result in a greater share of the GST pool being made available for redistribution, full equalisation would result in the fiscally stronger states (currently WA, NSW and QLD) financing the fiscally weaker states, thus achieving the HFE principle.

⁴ Morrison Low: *LGNSW Cost Shifting Report – How State Costs Eat Council Rates*, <https://lgnsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>,

In addition, returning to the pre-2018 arrangements would remove the unfair competitive advantage given by the Commonwealth to WA and free up Commonwealth funding for other purposes which could involve additional funding for areas of state expenditure.

The CMA would like the Review to consider applying an Equal per Capita (**EPC**) distribution methodology. Further, we are suggesting a more nuanced approach whereby a fixed percentage of the total GST pool be using EPC and that the balance of the pool be used to address the material factors that impact on equitable service delivery for each state.

The above methodology, to an extent, mirrors the current distribution of Financial Assistance Grants for Local Government. In the instance of the Financial Assistance Grants, the Commonwealth dictates that 30% of the total pool be distributed equally among all councils while the balance is distributed using a formula that recognises each LGA's disability factors – that is the material issues that impact on the council's ability to deliver services and facilities equitably.

The CMA recommends that 85% of the GST revenue be distributed using EPC and that the remaining 15% be allocated to address material factors. The EPC approach has the benefit of being:

- simple;
- transparent;
- stable; and
- efficient.

We believe that the retained 15% of the total pool should be used to address material issues affecting specific states, thus addressing the HFE principle and ensuring that the EPC approach delivers fair outcomes.

The CMA believes it is very important that there be designated funds set aside to address the material issues. We question whether, to date, the distribution methodology has adequately accounted for *material factors beyond the control of the state such as demographics, relative remoteness of its population* (Paper pg. 4). We raise this in the context of NSW and whether the unique challenges the State faces in relation to its remote, rural and regional communities are accounted for adequately.

NSW is not just the most populated state in Australia it also has the largest dispersed population. Unique to NSW is the number of Regional Cities that have grown to support its dispersed population creating a hub and spoke servicing culture relied on by the State in its attempt to deliver the HFE goal of providing services and infrastructure at the same standard for every resident of the State.

NSW has fifteen Regional Cities, each one servicing a population of between 150,000 and 250,000 people. NSW's regional cities are listed below:

1. Albury
2. Armidale
3. Bathurst

4. Broken Hill
5. Coffs Harbour
6. Dubbo
7. Goulburn
8. Griffith
9. Lismore
10. Maitland
11. Orange
12. Queanbeyan
13. Tamworth
14. Tweed Heads
15. Wagga Wagga

The services and facilities that these cities provide are integral to the economic prosperity, health, safety and wellbeing for the almost 3 million people that choose to live and work outside of the Newcastle, Sydney, Wollongong conurbation. The State Government is pivotal in providing and funding the services and facilities that are delivered through those Regional Cities as well as providing additional services to the communities in their regional catchments.

As stated above the CMA has 89 General Purpose Council Members, only 15 of which are a Regional Cities. The balance of our Members are servicing remote and rural LGAs with populations ranging from 1,800 people to over 40,000. Every one of those LGAs consumes services and funding provided by the State which in turn relies heavily on NSW receiving its fair share of the GST so that it can deliver those services. As is always the case, when Governments are forced to make decisions in relation to where funds are directed utilitarianism often rules the day, meaning that small communities can and do miss out.

We believe, therefore, it is imperative that when determining state relativities for the GST distribution that consideration must be given to the material issues that impact on the operation of the state. NSW's population size and spread across multiple population centres in remote, rural and regional NSW should be factored into the calculation for the share of the GST.

We note that the Scope of the Inquiry requires that the Commission provide a range of options including options with a funding relativity floor "*comparable to the current level, with and without top-up funding from the Commonwealth*". We struggle to understand how the current relativity floor of 0.75 can be retained without Commonwealth funding and how it can continue while staying true to the principle of HFE.

WA is in the fortunate position of being able to generate almost \$10 billion in revenue per year through mining royalties, we have to question why it is imperative that there be a relativity floor applied when the WA's capacity for own source revenue is so overwhelming. The CMA believes that the continuation of a relativity floor, would result in a structural flaw in a new distribution methodology that could only be addressed through additional Commonwealth funding.

If the Commission is determined to recommend a relativity floor, then the CMA would only support this if Commonwealth made a long-term commitment to GST top-up and No Worse Off

payments. However, such a recommendation would entrench the unfair advantage that WA has over other Australian states due to the revenues it is receiving compared with the high-density population it is servicing.

Conclusion

The 2018 Reforms to the distribution methodology for the GST is critically flawed; it actively undermines the delivery of the HFE and relies on top-up and No Worse Off payments to retain a semblance of equalisation. It is financially unsustainable and we believe the Federal Government will eventually be forced to turn those taps off, leaving NSW in a far worse position financially.

The adoption of an Equal per Capita (EPC) distribution of GST revenue would produce stable outcomes, as the population of states does not vary significantly on an annual basis. We recognise that this option involves less equalisation, however it would allow for more fiscal certainty for state governments, perhaps allowing them to consider policy reforms which the Commission has flagged as desirable in the Paper. It is hard to plan ahead, when revenue is uncertain.

In addition, an EPC distribution would be contemporaneous, removing the pro-cyclical nature of the current system, allowing states to appropriately manage their budgets in response to changing circumstances. An outcome that would be highly desirable for NSW which can in a single year experience bushfires, devastating floods and drought. Most of which occur in the LGAs represented by our Members.

As stated above, the CMA would support more nuanced approach to the EPC, whereby the CGC distributes 85% of the GST revenue using this methodology and retains the balance to “top up” the GST share through addressing material factors identified by each state.

The CMA does not agree with the proposal to embed a relativity floor even with top-up funding from the Commonwealth because this action would entrench unfairness and result in WA having a competitive advantage over the other states because of its fiscally stronger position.

The CMA welcomes the opportunity to provide this input to the Review and we look forward to any further opportunities that may arise to provide feedback.