

GREATER HOBART COUNCILS PARTNERSHIP

28 September 2026

Supplementary submission to the Productivity Commission inquiry into GST distribution reforms

Response to the Interim Report and following the public hearing of 18 September 2026

Purpose of this further submission

The Greater Hobart Councils Partnership (GHCP) provides this supplementary submission in response to the Productivity Commission's Interim Report and following its appearance at the public hearing on 18 September 2026.

Our February 2026 submission supported the Tasmanian Government's call for restoration of full horizontal fiscal equalisation (HFE), removal of the GST relativity floor and a return to equalisation to the fiscally strongest state. Those remain our core positions.

The Interim Report and subsequent hearing raise several additional matters that were not addressed in our original submission. This supplementary submission focuses on those issues, particularly the implications for local government and regional Australia.

1. Full HFE remains the preferred outcome

GHCP welcomes the Commission's conclusion that the 2018 GST reforms are not operating efficiently, effectively or as intended, and that reform of the current system is warranted.

Of the options presented in the Interim Report, GHCP supports a return to full HFE with dominant-state issues addressed separately and outside the GST distribution system. This is consistent with the Tasmanian Government's position and would restore the fundamental equalisation principle without requiring other states to bear the cost of addressing a particular dominant-state effect.

The Commission's preferred option also moves substantially back towards full HFE, but proposes that dominant-state effects continue to be addressed within the GST distribution system. The Tasmanian Government has advised that preliminary analysis indicates Tasmania would be worse off under this approach than under the full HFE arrangements applying before the 2018 reforms.

GHCP therefore supports the Tasmanian Government's preferred approach.

2. There must be no No Worse Off cliff

The Interim Report raises an immediate issue that was not available to address in our February submission: what happens if the existing system remains substantially in place when the No Worse Off guarantee expires on 30 June 2030.

The guarantee currently shields affected states from losses relative to the previous GST distribution arrangements. The Tasmanian Government's position is that, if the 2018 reforms are not fully revoked, a permanent and fully Commonwealth-funded No Worse Off guarantee that ensures no state is worse off than under full HFE would broadly align with its fallback position. GHCP supports that hierarchy.

From a local government perspective, a reduction in State fiscal capacity does not remain confined to the State Budget. It can flow through to councils through constrained co-investment, delayed enabling infrastructure and increased pressure on community-facing services. The possibility of the guarantee expiring while the underlying post-2018 arrangements remain should therefore be expressly addressed in the Commission's final report.

3. Commonwealth payments to local government should be clearly distinguished

The Interim Report provides useful clarification about the interaction between non-GST Commonwealth payments and GST distribution. It identifies payments to local governments distributed through the states among payments that generally do not affect GST distribution because they do not support state-government services. This is significant for local government.

There remains a perception in some intergovernmental funding discussions that Commonwealth investment in council infrastructure may adversely affect a state's GST position. Greater clarity would help ensure that misconception does not become an unnecessary barrier to Commonwealth investment in legitimate local government priorities.

GHCP therefore asks the Commission to make clear in its final report that Commonwealth funding genuinely provided for local government purposes does not reduce a state's GST entitlement where it is excluded on the basis that it does not support state-government services. Any future reform should preserve that treatment.

This would provide greater certainty for funding arrangements across all three levels of government without altering the underlying principles of HFE.

4. Regional programs should not be treated as fragmented local funding

GHCP supports the Commission's broader objective of reducing unnecessary complexity and administrative burden in Commonwealth-state funding arrangements. However, the distinction between small, fragmented local agreements and genuinely regional programs is important.

Greater Hobart councils increasingly work collectively because housing markets, transport networks, infrastructure, economic development, resilience and community needs extend across council boundaries. A regional investment delivered through a single business case, shared governance and consolidated reporting is not an example of fragmentation. It is a means of overcoming it.

The Commission should therefore ensure that proposals to consolidate or reduce lower-value funding agreements do not inadvertently discourage arrangements that aggregate investment across several councils or a functional region.

A useful distinction would be whether an arrangement:

- delivers benefits across multiple local government areas
- is supported by a consolidated business case
- operates through shared governance and reporting arrangements
- addresses a regional need or opportunity, and
- contributes to broader state or national policy objectives.

This would support the Commission's objective of reducing administrative burden while encouraging more strategic regional investment.

5. Regional delivery requires capability and consideration of whole-of-life costs

The hearing also provided an opportunity to raise an issue not addressed in our original submission: the way responsibilities and costs can shift between levels of government through funding design.

Governments increasingly expect councils to collaborate regionally, prepare business cases, coordinate implementation, monitor outcomes and report across jurisdictions. Those functions require capability. Where funding arrangements favour larger and more strategically coordinated regional investments, they should also recognise the modest governance and coordination capacity needed to deliver them successfully.

The same principle applies to infrastructure funding. Capital investment creates assets, but those assets must subsequently be operated, maintained and renewed. Where those responsibilities ultimately fall to local government without an appropriate funding pathway, costs are effectively transferred to the level of government with the narrowest revenue base.

GHCP encourages the Commission to recognise whole-of-life funding and delivery capability as part of good federal financial relations, particularly where Commonwealth and state investment creates ongoing responsibilities for councils.

6. Look below state averages

The Interim Report recommends regular analysis where HFE settings allow one or more states to maintain significantly stronger fiscal capacity than others, to determine whether those settings contribute to divergent outcomes between states. GHCP supports that recommendation and encourages the Commission to take the concept one step further, as fiscal and service outcomes can also diverge materially within states.

Funding methodologies need to adequately recognise the different unavoidable expenditure requirements faced by different types of councils and regions. For Greater Hobart, this means ensuring that the structural costs associated with capital-city and regional functions are properly recognised. It is not an argument for funding to be redirected from rural Tasmania, or for economic contribution to determine grant entitlement.

Capital cities and regional centres can incur costs associated with services used by commuters and visitors, statewide-serving facilities, concentrations of non-rateable land, growth-related infrastructure and service populations larger than their resident rate bases. Rural and remote councils face different structural disabilities.

Greater transparency about regional outcomes would make those differences more visible and provide a stronger evidence base for future funding decisions.

GHCP therefore encourages the Commission, in developing Recommendation 5.1, to consider whether Commonwealth reporting can identify significant divergence within states as well as between them.

7. Information requested at the hearing: Rate-setting and Financial Assistance Grants

At the hearing, the Commission asked whether a Tasmanian council that raises more own-source revenue through rates could consequently receive a lower Financial Assistance Grant, creating a similar incentive issue to that considered in relation to HFE at the state level.

On review of the Tasmanian State Grants Commission methodology, not in the direct way described. The National Principles require an effort-neutral or policy-neutral assessment. As far as practicable, an individual council's own expenditure and revenue effort should not affect its grant determination. Instead, the assessment considers differences in expenditure requirements and underlying revenue-raising capacity.

A council's assessed capacity to raise revenue may therefore affect its relative need, but its decision to set rates higher or lower should not, in itself, determine its grant. The National Principles also require a minimum general-purpose grant equivalent to the amount a council would receive if 30 per cent of the state's general-purpose grant were distributed on a per capita basis.

This reinforces the point we made at the hearing. Revenue-raising capacity and expenditure need are distinct elements of equalisation. Greater Hobart's four councils account for approximately 37 per cent of Tasmania's population and all currently receive the statutory minimum general-purpose Financial Assistance Grant. The question raised by GHCP is whether unavoidable expenditure requirements, including those associated with capital-city and regional-centre functions, are being sufficiently and consistently recognised.

Conclusion

GHCP's position remains consistent with our original submission and the Tasmanian Government's position: full HFE should be restored, with dominant-state effects addressed outside the GST distribution system. If that reform is not achieved, the No Worse Off guarantee must not be allowed to expire while arrangements remain that leave Tasmania worse off than under full HFE.

The Interim Report also provides an opportunity to improve the way federal financial relations interact with local government. Clearer treatment of Commonwealth funding to councils, support for genuinely regional investment, recognition of whole-of-life and delivery costs, and greater visibility of outcomes within states would strengthen those arrangements without compromising the principle of horizontal fiscal equalisation.

GHCP appreciates the Commission's consideration of these issues and the opportunity to contribute a local government perspective to the inquiry. We hope the additional information provided through the hearing and this supplementary submission assists the Commission in preparing its final report.

Yours sincerely,

Lisa Bennetto
Executive Officer, Greater Hobart Councils Partnership
On behalf of the Greater Hobart Councils Partnership