

Submission to the Productivity Commission

GST Distribution Reforms – Interim Report

1. About COTA Tasmania and TasCOSS

COTA Tasmania is the peak body representing the interests of older Tasmanians. We work to ensure that the voices and experiences of older people inform public policy and that all Tasmanians have the opportunity to age well, participate in their communities and access the services and supports they need.

The Tasmanian Council of Social Service (TasCOSS) is the peak body for the community services industry in Tasmania. TasCOSS advocates for social justice and the interests of people experiencing poverty, inequality and disadvantage.

Together, our organisations have a particular interest in the capacity of governments to provide equitable access to essential services and infrastructure, irrespective of where people live, their age, income or circumstances.

We recognise that our respective national peak bodies will bring broader perspectives to the Commission's consideration of GST distribution and federal financial relations. This submission is intended to complement, rather than duplicate, that national advocacy.

Tasmania's demographic profile, fiscal capacity, geography and service-delivery environment differ materially from those of larger jurisdictions, and those differences can be obscured in nationally averaged analysis.

We therefore consider it important that the Commission's final assessment explicitly considers how reform options affect smaller jurisdictions such as Tasmania, where structural factors can have a disproportionate impact on both expenditure needs and the capacity to raise revenue.

2. Why this matters

The system for distributing GST revenue is complex. Its consequences are not. Ultimately, horizontal fiscal equalisation is about whether Australians living in different states and territories have reasonably comparable access to essential public services.

That is particularly important in Tasmania, where relatively limited revenue-raising capacity intersects with structural factors that affect both demand for and the cost of services - including an older population, socioeconomic disadvantage, regional and rural communities, and a dispersed population.

Tasmania's demographic and geographic profile differs materially from the national average. At the 2021 Census, Tasmania's median age was 42 years compared with 38 nationally,ⁱ ABS population data also show that 34 per cent of Tasmanians were aged 55 years and over compared with 29 per cent nationally, while the median age in Tasmania's outer regional areas was 47 years.ⁱⁱ

Tasmania's population was also much more dispersed than the national average, with 66.9 per cent of Tasmania's population living outside Greater Hobart, compared with just 33.1 per cent of Australians living outside a Greater Capital City.ⁱⁱⁱ

These characteristics have direct implications for both service demand and the cost of delivering services across the State.

Furthermore, the Productivity Commission identifies Tasmania as one of the jurisdictions most dependent on Commonwealth transfers. In 2024–25, Commonwealth payments represented 63 per cent of Tasmania’s total revenue. The Commission observes that this makes Tasmania particularly vulnerable to reductions in Commonwealth payments because it has less capacity to increase its own-source revenue to compensate.^{iv}

The issue for our organisations is therefore not whether one state “wins” and another “loses” from GST distribution. It is whether the federal financial system gives state and territory governments a reasonable capacity to provide essential services to their communities.

TasCOSS was a signatory to the February 2026 submission to this inquiry from Australia’s Councils of Social Service.

That submission identified a central objective for GST reform: that each state and territory should have sufficient fiscal capacity to provide services and associated infrastructure at an equivalent standard, after appropriate allowance for differences in revenue capacity and expenditure needs.

It also cautioned against arrangements under which differences in state revenue capacity translate into poorer services for people living in less fiscally advantaged jurisdictions.

The present submission therefore does not seek to revisit those national principles, but to examine their particular significance in the Tasmanian context.

The Productivity Commission’s interim report provides substantial support for those concerns. The Commission finds that the 2018 reforms have reduced fiscal equalisation, have largely not achieved their intended objectives, and have not delivered marked improvements in efficiency, fiscal sustainability or certainty sufficient to offset that reduction in equalisation.

This submission therefore concentrates on what those findings mean from a Tasmanian community and service-delivery perspective.

3. Detailed Comments

3.1 Equality of fiscal opportunity should remain the foundation of the system

We support the Productivity Commission’s framing of horizontal fiscal equalisation as a mechanism for promoting equality of fiscal opportunity.

The central principle should be that the quality of essential public services available to an Australian should not depend substantially on the fiscal capacity of the state or territory in which they happen to live.

This does not mean all states must adopt identical policies, spending priorities or service models. Governments must remain accountable to their communities for the choices they make.

It does mean, however, that structural differences outside a state’s control - including demographics, geography and relative revenue-raising capacity - should not leave some jurisdictions systematically less able than others to provide an appropriate standard of essential services.

The Productivity Commission notes that HFE supports equality of opportunity by reducing differences in state fiscal capacity arising from structural factors and thereby making the quality of public services less dependent on where a person lives.

That objective should remain central to any reform.

3.2 Tasmania's structural circumstances must be properly recognised

Tasmania provides a particularly clear illustration of why horizontal fiscal equalisation matters.

Its relative fiscal position reflects structural characteristics rather than simply government policy decisions. These include a comparatively limited own-source revenue base, population ageing, geographic dispersion and the additional costs of delivering some services to smaller rural and regional communities.

The underlying logic was neatly summarised recently in an article by Michael Brennan⁵: Tasmania faces inherent costs in delivering equivalent services because of its older and more dispersed population, while other jurisdictions possess substantially different revenue advantages, including property-based revenues and mineral royalties.

These differences are precisely the kinds of circumstances that an equalisation system should recognise.

For COTA Tasmania, the ageing dimension is particularly important. Population ageing increases demand and expenditure pressure across health, housing, transport and community services. The Productivity Commission itself identifies ageing as an important driver of health-related expenditure pressures over the medium to long term.

The relevant question is not whether Tasmania should receive a particular numerical GST relativity. It is whether the methodology adequately recognises the unavoidable structural factors affecting Tasmania's capacity to deliver services.

3.3 The current arrangements create a risk to essential service capacity

The Commission's interim findings indicate that the post-2018 arrangements have weakened the relationship between relative fiscal need and GST distribution.

The Commission reports that the reforms were expected to cost the Commonwealth around \$5 billion by 2024–25 but in fact cost almost \$23 billion, largely through No Worse Off payments. It also finds that Western Australia has been the material beneficiary of the reforms, while other jurisdictions have relied on the No Worse Off mechanism to maintain the fiscal position they would otherwise have had.

The No Worse Off guarantee is currently scheduled to continue until 2029–30.

For Tasmania, its eventual expiry without an effective replacement creates a significant fiscal risk. The Tasmanian Government estimates that, unless the pre-2018 system is restored, Tasmania's GST revenue could be reduced by up to 15 per cent annually - equivalent to around \$530 million using 2024–25 figures.

The Commission should test that estimate as part of its final analysis.

The community services industry concern is straightforward: a loss of fiscal capacity of that order cannot sensibly be considered independently of the services supported by state revenue. Health care, hospitals, housing, transport, education, justice and community services ultimately compete for finite public resources.

Reductions in fiscal capacity are not abstract accounting changes: they shape what governments can afford to prevent, maintain and provide. Lower fiscal capacity can mean less investment in prevention, reduced capacity to maintain essential community infrastructure, and greater pressure on the sustainability and accessibility of services. Those effects are unlikely to be evenly distributed and will fall most heavily on people and communities already experiencing disadvantage or barriers to access, including older Tasmanians, people on low incomes and people living in rural and regional areas.

We therefore consider it important that the Commission's final recommendations explicitly assess the implications of each reform option for states' capacity to maintain essential services, particularly in jurisdictions with limited capacity to replace lost Commonwealth revenue from their own sources.

3.4 A permanent 'No Worse Off' mechanism should not become a substitute for a sound equalisation system

The original Councils of Social Service submission observed that, in a fair system of GST distribution, a No Worse Off guarantee should not be necessary. The interim report strengthens that proposition.

A system requiring continuing Commonwealth payments simply to prevent most jurisdictions from becoming worse off raises legitimate questions about whether the underlying distribution mechanism is achieving its purpose.

Equally, allowing the guarantee simply to expire without addressing the underlying distribution issue would transfer the fiscal consequences from the Commonwealth to affected states.

Neither approach satisfactorily answers the fundamental question: what distribution framework gives jurisdictions appropriate capacity to provide comparable public services?

Of the reform pathways identified by the Productivity Commission, we see considerable merit in Option 2, which would restore full horizontal fiscal equalisation while addressing any continuing concerns about Western Australia's circumstances through separate and transparent Commonwealth payments outside the GST distribution system.

This approach has the advantage of preserving the core equalisation function of the GST system while avoiding the need to embed state-specific adjustments within the distribution methodology itself. However, our support is for the underlying principles, rather than for closing off consideration of other approaches.

We therefore encourage the Commission to remain open to alternative reform models that may emerge through the consultation process, provided they demonstrably deliver full and durable equalisation, maintain transparency and accountability, and protect the capacity of all jurisdictions to provide comparable essential services.

The Commission's final report should therefore assess longer-term arrangements against the underlying objective of equalisation rather than treating continuation or expiry of No Worse Off payments as the principal policy choice.

3.5 Measure what ultimately happens to services and people

We particularly welcome the Commission's proposal for regular analysis of whether differences in fiscal capacity contribute to diverging outcomes between states.

This is an area where COTA Tasmania and TasCOSS believe the interim recommendations could be strengthened.

We also support greater transparency about how the structural factors recognised within the equalisation system are distributed across jurisdictions.

This should include, for example, additional expenditure needs associated with older populations, socioeconomic disadvantage, First Nations communities, remoteness and geographic dispersion, and the extent to which different reform options would affect jurisdictions' fiscal capacity to respond to those needs.

Fiscal capacity is a means to an end. Ultimately, the public interest lies in what that capacity makes possible.

Monitoring should therefore examine whether persistent differences in fiscal capacity are associated with materially different access to or outcomes from essential services, including health and hospital care, housing and homelessness services, transport, education, community and social services, and services available in rural and regional communities.

Particular attention should be given to groups for whom access barriers are already greater, including older people, people on low incomes and people living outside metropolitan areas.

This would also build on the earlier TasCOSS recommendation for greater transparency about the services and supports provided to communities experiencing disadvantage.

Public reporting should, where feasible, be disaggregated geographically and demographically. Statewide averages can conceal significant inequalities between population groups and locations.

A durable reform must also command public confidence: equalisation will only remain sustainable if communities can understand both why it is necessary and how it supports fair access to services across Australia.

3.6 Transparency around other Commonwealth payments is essential

The interaction between GST distribution and other Commonwealth payments is also important.

Commonwealth funding for health, housing, education, infrastructure and other purposes may be intended to address particular needs or structural disadvantages. How those payments subsequently interact with GST calculations can determine how much additional fiscal capacity they actually provide.

We therefore support the Commission's emphasis on greater transparency and consistent principles governing the treatment of non-GST Commonwealth payments.

Governments and communities should be able to understand whether funding announced to address a particular disadvantage genuinely adds to the resources available to tackle that disadvantage, and why particular payments are included in or excluded from equalisation calculations.

3.7 A broader question for federal financial relations

The interim report has also prompted useful discussion about whether GST revenue itself should remain the sole organising framework for fiscal equalisation.

Former Productivity Commission Chair Michael Brennan has proposed considering a broader pool of Commonwealth grants to the states, potentially combining GST and existing specific-purpose payments and applying equalisation across that expanded pool. He argues that the proliferation of No Worse Off and top-up payments has already weakened the original conceptual link between GST receipts and the total funding flowing to states.

COTA and TasCOSS do not take a position in this submission on that particular model. Given Tasmania's distinctive demographic, geographic and fiscal circumstances, however, we do not consider it prudent to foreclose consideration of alternative approaches before their implications for smaller and more structurally constrained jurisdictions have been fully assessed.

It does, however, illustrate a useful distinction which the Commission should preserve in its final report: the principle of fiscal equalisation should not be confused with one particular mechanism for achieving it. Alternative models should be assessed against clear outcomes: equity, fiscal sustainability, transparency, certainty and, critically, their capacity to support equitable provision of essential services.

4. Conclusion

Australia's federal financial arrangements should provide each state and territory with a reasonable fiscal capacity to provide essential services to its population, recognising structural differences in both expenditure need and revenue-raising capacity.

Tasmania's ageing population, regional and dispersed communities, socioeconomic circumstances and relatively limited own-source revenue capacity make effective equalisation particularly important.

In considering its final recommendations, we ask the Productivity Commission to apply five tests:

- Does the model preserve meaningful equality of fiscal opportunity between Australians living in different jurisdictions?
- Does it properly recognise structural differences in states' expenditure needs and revenue capacity?
- Does it avoid creating a significant loss of essential-service capacity when transitional arrangements expire?
- Does it allow the community to see whether differences in fiscal capacity are translating into differences in service access and outcomes?
- Is the interaction between GST and other Commonwealth funding transparent, consistent and accountable?

The fundamental principle is uncomplicated, even if the mechanism is not: **all Australians should have a reasonable expectation of access to essential public services irrespective of the state or territory in which they live.**

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- ⁱ Australian Bureau of Statistics, *Location: Census, 2021*, released 8 November 2022; Australian Bureau of Statistics, *Snapshot of Australia, 2021*.
 - ⁱⁱ Australian Bureau of Statistics, *Regional population by age and sex, 2022*; Australian Bureau of Statistics, *2021 Census All persons QuickStats – Outer Regional Australia (Tas.) (RA62)*.
 - ⁱⁱⁱ Australian Bureau of Statistics, *Location: Census, 2021*, released 8 November 2022; Australian Bureau of Statistics, *Snapshot of Australia, 2021*.
 - ^{iv} Productivity Commission, *GST Distribution Reforms – Interim Report*, August 2026, p. 55.
 - ^v Michael Brennan, 'Why it's time for a conscious uncoupling: GST and fiscal equalisation', LinkedIn, 2026, accessed September 2026. (Brennan is a former Treasury Deputy Secretary and Productivity Commission Chair.)