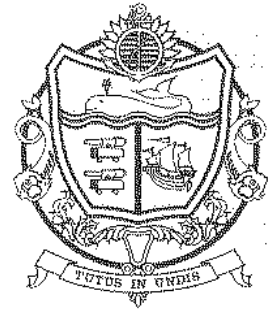


MOSMAN MUNICIPAL COUNCIL

OFFICE OF THE MAYOR

Secretary:	
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House of Representatives Standing Committee on Economics, Finance and Public Administration	



Inquiry into Cost Shifting

Standing Committee on Economics, Finance and Public Administration

Alice Springs, 5 November 2002

Thank you for the opportunity of making this presentation in support of Mosman Council's earlier formal submission to the Inquiry.

For those members who do not know, Mosman is a medium-sized metropolitan council approximately five kilometres from the Sydney CBD. It is almost totally surrounded by water, comprises 9km², has approximately 26,500 residents and 12,500 rate assessments. Our current budget is \$28M of which 40% comes from rates, and 7% from grants. In the last two financial years, income from grants has been disproportionate as the Council has a contract with its community to undertake major capital environmental works to improve the waters of Sydney and Middle Harbours and seawalls of which we have 3.1km.

To undertake works which are essentially for the benefit of all of Sydney the Council had to go cap in hand to the State Government for a 5% rate increase and through the excellent work of a young, innovative and highly committed team of professionals we have been able to more than match the rate income with grants from the State and Federal Governments. While it is not the reason for my presence today, could I congratulate the Government on its green credentials, especially the Natural Heritage Trust. Long may this program continue – future generations of Australians will benefit.

There is a perception that all who live in Mosman are wealthy. It would be unfortunate if my presentation today was devalued by confusing some who are very well off and asset rich with those who may be asset rich and cash poor, or those who simply like to call Mosman home. Like all communities we have disadvantaged residents but I do admit Mosman is disproportionate to the rest of Australia, and in particular those in rural areas.

Earlier this year metropolitan press reports indicated that the Federal Minister for Local Government, Wilson Tuckey, had stated that councils were on the verge of extinction or termination unless they gave serious consideration to proposals for handling and control of health, education and policing to cut State Government powers and to give US-style responsibilities to local government. There is a case for State Government to be abolished and for local governments to work on a regional basis with the Federal Government to provide and maintain community infrastructure and provide other relevant

Mosman IS community

PROUD TO BE MOSMAN PROTECTING OUR HERITAGE PLANNING OUR FUTURE INVOLVING OUR COMMUNITY

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services to their communities. The Commonwealth should provide services such as policing, health, transport, education and community services. This would ensure the removal of duplication and syphoning of funds, and the Federal Government working with local government would ensure that local communities received services relevant to their needs. Clearly a council the size of Mosman would not have the infrastructure or resources to handle the above services but councils working in a partnership with the Federal Government would ensure the 'local' remained in government.

Unfortunately, under the existing constitutional arrangements local government is a mere puppet of the State, and on many occasions treated with complete disdain.

Council's formal submission to the Committee requested that the Federal Government legislate to provide for payment by the States to local government of a proportion of GST from 2004. The rationale being that the growth in revenue from GST should be shared with the three spheres of government.

The distribution of a share of GST to local government prior to distribution to the States was not part of the tax reform package and the Federal Government's position is that local government should be lobbying the States for a share of GST revenue. Unfortunately the States are reluctant to do so.

Despite the evidence of cost shifting practices, such as the continued cascading to local government of community services, revealed by the Commonwealth Grants Commission's 2001 review, the Federal Government continues to distribute fixed financial assistance to local government. My purpose here today is to heighten the Committee's understanding of local government's need to receive a growth tax to correct the untenable position for local government nationally, brought about by continuation of the Commonwealth's existing distribution methods. They are archaic.

The use of CPI and the almost impossible-to-understand horizontal equalisation method are not realistic for appropriately funding local government. Mosman receives a per capita minimum grant, which precludes any weighting for things such as the impart of tourism, foreshore protection, environmental initiatives and stormwater catchment issues.

Clearly, the Financial Assistance grant is not a growth tax. The Commonwealth Grants Commission notes that Commonwealth assistance has been more or less constant in the period 1974/75 to 1997/98, increasing from 10.5% to 12%. However the gap between this constant and the payments to the States from GST is widening exponentially with the States to receive \$33 billion this financial year, up from \$24 billion in 2000/2001.

The FAG assistance grant paid to Mosman is presently 24% of all grants received yet amounts to less than 2% of Council's operating expenditure. More disturbingly, the local roads component of the grant contributes 0.0013% of the value of the roads maintained by Council and available for use by all visitors.

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Council is rightly committed to minimising the rate burden on property owners as recognition of the capacity of property owners to pay. Mosman's high average income and the image portrayed in the media belies the fact that a lot of Mosman residents are asset rich yet income poor. The mean taxable income in Mosman in year 2000 was \$89,000 and mean net tax was \$34,000, yet it costs the resident more to live in Mosman with significantly higher purchasing and rental costs. For instance, the median sale value for houses in the Mosman LGA increased by 103% in the 5 years to December 2001, whilst the CPI increased 14.0%. The next available figures will show an even more disproportionate gap.

While the massive increase in the value of Sydney real estate may be good for some, those who simply want to live in an area because of its environment and lifestyle attributes may no longer be able to do so.

The dilemma pensioners and self-funded retirees face is only exacerbated by the NSW State Government collection of land tax on principal places of residence over the threshold which, despite indexation, will trap more properties through bracket creep. In 2000, Council estimated that 181 Mosman residences exceeded the then threshold of \$1.234 million and were therefore liable to a land tax bill totalling \$1.076 million. Some of the owners of these properties were pensioners and anecdotal evidence suggests that some of these houses have had to be sold to pay the tax bill. Land tax is an abhorrent tax and the NSW State Government is penalising an increasing number of people who simply want to see out their lives in their family homes.

The Commonwealth collected \$456 million in net tax from Mosman residents in Year 2000. \$426,000 or 0.0009% was returned by way of financial assistance. Last year Council collected \$366 from each resident for residential rates yet the Commonwealth collected \$17,812 on average from each resident. The biggest money grab goes to the NSW State Government that will collect over 1 billion dollars in land tax this financial year. It would be of interest to know how much land tax Mosman residents pay, however as this State Government is not transparent, it has not been possible to obtain that information. Nevertheless, you would have to question what Mosman residents receive in return for their land taxes.

For every dollar the NSW property owner pays to Councils in rates for their essential services, an additional 48 cents is paid by those owners to the NSW Government as land tax.

Mosman has experienced a huge growth in both its community services and environmental protection activities over the past decade. The shift in service delivery for community or people services from the State Government to local government has seen a 454% increase in the cost of providing community services to the Mosman community in the last decade. Rates increased 47% in the same period. The scale of the problem is evident.

Apart from the fixed level of commonwealth assistance, the Commonwealth Grants Commission's latest review found that State assistance to local government declined from 15% of local government revenues in 1974/75 to 7% in 1997/98.

Mosman receives a range of specific purpose grant allocations from the State Government each year. In the past decade, grants for operating activities increased 57% from \$429,000 to \$674,000, however when those grants relating to community services shifted to Council are discounted, grants for operating purposes declined by 48% to \$214,000. Meanwhile, total operating expenses for all of Council's activities had increased 78%.

Rate pegging and National Competition reform have brought about revenue pressures on local government whilst cost pressures have come in the form of State Government levies, including the fire brigades (up 72% in the last decade) and waste disposal levies. Now add to the equation, cost shifting by the State Government at a time of ever increasing demand from the community for service delivery.

Some State governments, but notably NSW, have refused to commit a proportion of National Competition payments to local government in accordance with the National Competition Policy agreements. As part of NCP implementation, Local Government has incurred direct costs, increased costs as a result of NCP driven reform and deprivation of revenue streams, yet NSW local government is denied a share of the estimated minimum \$1.3 billion dollars to be paid to NSW between 1997/1998 and 2005/2006.

It is clear from the above that the States do not want local government as a partner in the social and economic management structures entrusted by the communities to government. The Commonwealth must act legislatively to abolish the existing fixed assistance package to local government and establish an intergovernmental agreement that provides local government with direct access to GST revenue.

I repeat what I said in my introduction that taking all factors into account, Mosman is well positioned financially. I have only used Mosman as an example because I have the figures available to me. The problem that Mosman faces I am sure is multiplied many times for councils in developing and regional areas and no doubt some fair method for the distribution of a proportion of the GST would have to be developed. Importantly, Mosman's position is that all councils need financial assistance with a growth, not fixed, tax.

In conclusion may I say that I do not deny the complexity of the task you have been given, but if you could include a recommendation calling for a referendum to give local government constitutional recognition in our federal system I am sure it would be welcomed by the over 700 communities represented by local government.

Councillor David Strange
Mayor of Mosman
5 November 2002