THE DENNIS FAMILY
CORPORATION

July 29, 2002

The Secretary
House of Representatives
Standing Committee on Economics, Finance
and Public Administration
Parliament House
CANBERRA ACT 2600

Dear Sir

Re: Inquiry into Cost Shifting onto Local Government

Up until the early '80s, the Federal Government provided loans and grants to the States for the provision of Infrastructure by their Instrumentalities and Municipalities.

Over a decade or so these were substantially reduced to negligible proportions and were temporarily replaced by the Building Better Cities Program. The BBC Program appeared to be a diversion to take attention away from the rundown in funding.

Leading up to the early '80s, Victorian instrumentalities set monies aside in a sinking fund for the replacement of large items of infrastructure.

The Cain Government was elected on the promise of raiding the hollow logs (the sinking funds) and putting the money to work for the benefit of Victoria. The logs were raided, the funds put with V.E.C. and the V.I.D.C., and subsequently lost.

Until the early '90s Victorian Municipalities borrowed to provide infrastructure. Loans were regulated through the Loans Council, however the growth councils were classified no differently from no growth councils and as a result were inadequately funded.

When the Kennett Government was elected in 1992, it set about restoring Victoria's credit rating. Part of the process was to restructure the Municipalities and to encourage or cause them to reduce debt, and at the same time, reduce rates.

The City of Wyndham in Victoria had around $30million of debt in 1992. If Wyndham had continued to fund infrastructure through debt, its debt levels today would be substantially higher.

However, over the last 10 years, the debt has been repaid in full out of rates while at the same time the real level of rates has reduced. This means that Wyndham today has around $40million less in infrastructure than if it had continued with funding through borrowings.

This has produced a crisis in Wyndham. The Council recently considered a moratorium on growth until the issue of infrastructure funding is addressed.

In Victoria, the water, sewerage and drainage authorities have been corporatised. As a consequence, 65% of their profit is paid to the State Government in the form of notional taxes and dividends.

Water, sewerage and drainage contributions paid to the authorities for the provision of headworks to a development area are treated as income in the year the funds are received and 65% is repatriated to the State Government.

The rundown in funding combined with the taxation dividend requirement has left the authorities starved of funds to the stage where the provision of infrastructure is borne by the purchaser while the authorities set the standard.

Melbourne Water has recently decided that drainage water from new developments is to be treated through wetlands before discharging into its drains. All of the capital cost is to be borne by the purchaser with a good deal of the maintenance borne by the municipality. Yet for the whole of the existing settled area of Melbourne, Melbourne Water has no strategy in place to treat this drainage for which it is responsible, because it has no funds.

Similarly, VicRoads is setting a high standard for works to be carried out by others because they are starved of funds for works that are their responsibility.

This inexorable shifting of funding away from the public sector has led to an expansion of the user pays system for the private sector.

Fringe development fulfils an important social responsibility by providing large scale affordable housing opportunities. Many families choose to live on the fringe of large cities due to the better affordability, however those who are least able to afford an expensive product are now in effect paying twice. Once for the capital cost and secondly through paying the same rates and taxes as those who purchased an existing residence.

For example:

- The new home purchasers pay for the roads on their estate and through levies contribute to the roads to get them to their place of employment while at the same time paying a road tax in their petrol price as well as paying the same rates and taxes as the general public.

- They pay for the capital cost of community centres through levies, which existing ratepayers will be entitled to use free of cost, as well as paying the same rates and taxes as the general public.

Sooner or later there will be a tremendous backlash by new home purchasers against both Federal and State Governments when the realisation sinks in as to how they are being treated.

All of the above has a major impact on affordability. Each authority acts in a vacuum and tries to extract the maximum it can out of the system and no-one prior to this Inquiry, has looked at the bigger picture.

The ideological approach continues to be "the wealthy developer can afford it". In the history of development, there has never been a cost imposed that has been absorbed and not passed on over time. Developers must continue to make a commercial return in order to stay in business. This is a pre-requisite of the financiers who fund development.

I think that an affordability review committee consisting of representatives of Federal and State Governments, and industry, should be set up to review all proposals, such as treatment of drainage water, five star energy rating etc. to gauge their effect on housing affordability.

The requirement that the Inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth is not realistic. The Commonwealth is the prime reason for the shortfall in funding of the authorities and municipalities and must be part of the solution. We must get back to the position where major items of infrastructure are funded out of rates and taxes.

If the provision of infrastructure in growth corridors continues to be applied in a discriminatory manner it will result in higher costs, lower affordability and an increase in the demand for public housing.

Yours faithfully

A.G. Dennis
Chairman

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