



3 March 2008

Local Government Study  
Productivity Commission  
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Dear Sir

The Inner South Metropolitan Mayors' Forum (ISMMF) is a regional peak body for the local government councils covering 700,000 people living in that part of the Melbourne metropolitan area. The group has long been interested in the topics of cost shifting and the long-term financial viability of local government and was active in the Hawker 'Fair Share' report on cost shifting.



We believe the Productivity Commission Draft Report on the Revenue Raising Capacity of Local Government demonstrates the financial stress that many Councils operate under and the limited opportunity these Councils have to increase their own source revenues.



The Productivity Commission Draft Report claims that many Councils appear to have some capacity to raise additional revenue if their communities wished to. However, this conclusion is drawn from aggregated data and the capacity to increase rates is, in reality, limited to the capacity to pay across all income groups in a municipality. The ISMMF commend the Municipal Association of Victoria's submission to the Commission on this point.



The ISMMF contends that any capacity remaining in local government to raise more own source revenue through rates is limited in the longer term by two fundamental issues:

- the municipal cost structure that is heavily influenced by wages and construction materials has been, and will continue to rise faster than CPI
- the ageing of the population will mean a rapidly growing increase in the proportion of retired households on low or fixed incomes with an ever-diminishing real capacity to pay rates that are rising faster than general inflation.



Modelling has shown that the proportion of retired households in metropolitan Melbourne will grow from about 25% at present to 38% by 2030. The proportion of a retired household's income required to pay municipal rates and charges is estimated to grow from 4% to almost 9% in that period.



An ageing population in Australia therefore makes a third tier of government largely reliable on property tax unsustainable. The long-term solution has to be a serious examination of vertical fiscal imbalance against responsibilities.

Yours sincerely

Hadley Sides  
Chief Executive Officer, City of Stonnington  
on behalf of the Inner South Metropolitan Mayors' Forum



