

Local Government
Association of NSW



Shires Association of NSW

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| Submission to NSW Government Review of Emergency Services Funding | |
| DATE | OCTOBER 2012 |

Introduction

The Local Government Association of NSW and Shires Association of NSW (the Associations) are the peak bodies for NSW Local Government. Together, the Local Government Association and the Shires Association represent all the 152 NSW general-purpose councils, the special-purpose county councils and the regions of the NSW Aboriginal Land Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community.

The Associations welcome this review and are pleased to submit our responses to the questions raised in the *Funding our Emergency Services Discussion Paper*.

As Local Government is a key funding element in the current system and is identified as being central to the operation of the proposed property levy system, it is vital that the NSW Government take account of the Associations' responses. It will also be essential that the NSW Treasury and the Ministry of Police and Emergency Services meet with the Associations to work through issues in detail.

Given the high level and somewhat superficial analysis provided in the discussion paper, it is recommended that the NSW Government issue more fully documented draft proposal before proceeding to legislation based on responses to the discussion paper alone.

Background

The Associations have long advocated replacing the Emergency Services Levy (ESL) on Local Government and insurance policies with a fair and transparent broad based property levy. The Associations' current policy position was developed in widespread consultation with councils in 2003-04. The Associations developed a comprehensive discussion paper on fire services funding that was distributed to councils for comment. At the same time, the Associations entered into an alliance with the Insurance Council of Australia (ICA) and several other stakeholders including the Housing Industry Association (HIA) and NSW Farmers, to mount a major campaign to replace the council and insurance levies with a property tax (the Alliance for the Equitable Funding of Fire Services). There was also a NSW Legislative Assembly Public Accounts Committee inquiry into funding the fire services at that time to which the Associations made a major submission and were party to the submission made by the alliance.

Despite these concerted efforts and a growing acceptance of the argument for change at that time, the Public Accounts Committee recommended that the current system be maintained. It is encouraging that the current government is approaching the property levy option in a positive manner.

Responses to Discussion Paper

1 Which of the following revenue sources associated with emergency services funding should be replaced by a property levy:

a The emergency services levy payments by insurers and the associated stamp duty;

b Local government contributions; or

c The portion of emergency services funding currently provided from general NSW government revenue?

The Associations maintain that the new property levy should replace both the emergency services levies on insurance policies and Local Government.

Replacement of the existing levy Local Government levies would be one of several necessary conditions if Local Government were to be the collection agent for a new broad based property levy.

2 Should a property levy be raised as a fixed amount per property, as a proportion or percentage of property value, or some combination of the two?

It is the Associations' view that that the levy should be a combination of both a fixed and an ad valorem component. Councils commonly apply a combination of base rates with ad valorm rates in their rating structures to help achieve more equitable outcomes.

Ideally, the ad valorem component would be based on Improved Capital Value (ICV) as this better reflects risk in terms of the value of the property being protected. Land Value only provides a loose correlation on an average basis. If Land Value is applied without qualification, it would tend to disadvantage owners of vacant land, where there is no property to protect, and the owners of farmland. It is noted that the Victorian and South Australian models are based on capital values and that the Western Australian model is based on Gross Rental Value where applicable. It would be appropriate for the NSW model to be consistent with other states.

The adoption of ICV valuation methodology in NSW would also help address a number rating anomalies that currently exist.

The discussion paper is lacking in that only canvasses options based on a simplistic fixed and/or ad valorem components. The paper does not present or explore different options for determining a fixed levy, either as the sole basis or in combination with an ad valorem component. For example, under the Queensland model contributions are based on risk and service level expectation with land value not taken into consideration at all. This model provides for different levels of fixed contributions based on district classification and property categories.

While the Queensland model presents a level of administrative complexity the NSW Government is seeking to avoid, there are attributes that should be considered for the NSW model.

It is incumbent on the NSW Government to model and present a more comprehensive range of structural options for consideration by the public before proceeding with the installation of a new broad based property levy.

3 Should different rates of tax be applied to different property types?

The discussion paper advises that under current arrangements the combined contributions from insurance policies and council rates are apportioned across different categories of property as follows:

| <u>Current</u> | |
|----------------|-----|
| Residential | 48% |
| Business | 46 |
| Rural | 6 |

Replacement of the ESL with a flat fee per property or a common ad valorem rate would result in the following redistributions:

| <u>Flat Fee</u> | | <u>Common Ad Valorum</u> | |
|-----------------|-----|--------------------------|-----|
| Business | 10% | | 13% |
| Residential | 80 | | 75 |
| Rural | 10 | | 12 |

These two extreme examples result in a very large increase in the proportion of revenue collected from residential and rural properties and a dramatic reduction in the proportion of revenue collected from business properties. A shift of this order would be unacceptable to NSW Local Government and the communities it represents.

Any number of alternative models can be developed using different combinations of base charges, ad valorum taxes and caps that will produce different distributions.

A move to property tax based funding is likely to meet less resistance if there is not a dramatic shift in the revenue burden between property categories. Further, the current distribution has some rational basis in that it more closely reflects the call out rates for Fire and Rescue NSW (FRNSW) (call out rates for business

properties are 55%, rural 7% and residential 34%). If the FRNSW statistics were considered in isolation, there would be scope to reduce the burden on the residential category and increase the weighting to the business sector. However, it is noted that there are other factors and services to take into account when apportioning costs.

It is recommended that the property levy model developed to fund emergency services be modelled so that it approximately maintains the current apportionment of the revenue base across the different property categories (also see comment above on modelling).

4 Should different tax rates be applied in different parts of the State? If revenue amounts are zoned geographically, where should the boundaries of those zones be?

A single tax rate would be more simple and efficient, but many would question whether this is fair.

The other states governments who have moved to this system have applied zonal tax rates. The more zones the more complicated the system becomes. The zones are primarily based on service expectation/availability models. Basically, property owners in dense, well serviced areas (i.e. capital cities) pay a higher tax rate than those in less well serviced areas that pay progressively lower tax rates. It is argued that this is more equitable.

In contrast, there are others who would argue that a zonal system does not reflect costs. Dense urban areas may be relatively cheaper to service because of economies of scale resulting in a lower unit (per property) cost of delivering emergency services. For example, one fire station may be able to cover several Local Government Areas.

On balance, a service expectation approach appears appropriate for emergency services funding and the Associations would support a zonal model.

The discussion paper suggests that one option might be to simply distinguish between the Greater Sydney Area and the rest of the state. This is not appropriate as property owners in many regional cities probably enjoy similar service levels to those in the metropolitan area. Other zones could be added to more accurately distinguish between service levels. For example, Queensland and South Australia have four zones.

One possible basis for a zonal model could be a condensed version of the Division of Local Government's Local Government Area categories; for example, three zones with:

- **an urban zone** that includes the metropolitan, regional city/town (medium to very large) and urban fringe categories;
- **a country zone** including the small regional town sub category and agricultural zone category; and
- **a remote zone** based on the remote category.

5 Should some proportion of emergency services funding be raised as an annual charge on vehicle registration?

As around 17% of all emergency call outs are for motor vehicle incidents there is a rational case for raising a proportion of emergency services funding from vehicle registrations. However, it is also acknowledged that doing so would detract from transparency, add complexity and raise equity considerations.

6 Should pensioners receive concessional rates for a new property levy that funds emergency services?

NSW pensioners currently benefit from (modest) rate rebates. Local Government supports the principle of pensioner concessions but argues that, as a welfare measure, the cost should be funded from the broader consolidated revenue pools of state and/or national governments.

As the proposed property levy is presented as a single purpose levy, it is questionable whether the costs of providing concessions or subsidies should be internalised within the levy system. It could be argued that, as a welfare measures, they should be funded from consolidated revenue.

Exemptions

As with the Victorian model, the property levy should apply to all real property. Properties that are currently exempt from council rates should be subject to the new property levy. These properties are generally insured and are not currently exempt or receiving any concessions on the emergency services levy on insurance policies. It would be unreasonable for the owners of such properties to receive a windfall from the proposed change. In economic terms, this outcome would effectively amount to swapping one set of free riders for another. This would be at odds with one of the key objectives of adopting a broad based property levy.

7 How should the revenue target be set each year to take account of changing costs of fire and emergency services?

If the levy is to be the primary mechanism for funding emergency services it will need to be able to be varied to reflect changes in cost, i.e. revenue requirements. This could be achieved through normal NSW Government annual budgetary processes or, alternatively, through the Independent Pricing and Regulatory Tribunal of NSW (IPART)'s price determination process. The latter would be consistent with the current Local Government rate determination process.

Both approaches would provide a far higher degree of transparency and accountability than the current process.

8 Should revenue from a land based levy be collected by Local Governments or the Office of State Revenue?

Both options are currently practiced in Australia at present. In Queensland and Western Australia the levies are collected by Local Government. In South Australia the levy is collected by the State Revenue Office. The Discussion Paper does not present a comparative analysis of the advantages and disadvantages, including costs, of the alternatives and moves directly to the conclusion that collection by Local Government is the preferred option.

The Associations acknowledge that Local Government is well placed to act as an agent of the NSW in collecting the levy by virtue of established property rating systems. However, the NSW Office of State Revenue (OSR) already has systems in place for the collection of property tax, including debt collection. It would only a matter of scaling up. The OSR already has access to the required property and valuation data. While there would be an initial administrative investment required, it would be recoverable. Therefore, both options are viable in practical and economic terms. It is not a given that Local Government is the obvious solution.

The Associations do not rule out either option at this stage. The NSW Government needs to engage with the Associations in detailed discussions and negotiations on a preferred option. It is evident from individual council responses that there are mixed views and many of the concerns relate to detail. These include debtor management, cash flow sequence and structure of the levy.

However, some matters are clear:

- Any agreement would be subject to full cost recovery by councils. The basis will need to be negotiated.
- The property levy would not form part of council rates. It would need to be separate and distinct from rates – clearly identified as NSW Government levy. This could involve a separate invoice to the rate notice;
- Council rates are given priority where a property owner does not pay the full amount of the rates and the property levy;
- Councils should not bear the risk of non-payment (i.e. liability will remain with the property owner).
- That the levy collected by Local Government be fully and solely applied to the funding of emergency services; and
- The current ESL on Local Government would be replaced by the new property levy.

The Associations acknowledge that Local Government has a role in emergency management and this, along with an interest in removing the current ESL, provides some rationale for Local Government to act as a

collection agent. If the State Government were to expand the scope of the property levy to cover other expenditures or as an alternative revenue source to replace other less efficient taxes such as stamp duty or payroll tax, this rationale would be lost. Local Government would not accept becoming a general tax collection agent of the NSW Government.

Councils are concerned that a large proportion of the general public are likely to perceive a new property levy to be a Local Government levy even though it is separately identified as a State Government levy on a rate notice. The same public perception will be present when Local Government is required to undertake debt collection. Further, councils are also sensitive to the likelihood that, as collection agent, they will also become the frontline for complaints about increases in the property based levy.

Misplaced public perception also poses a risk to councils own rate revenue base, with the danger being that it will become harder for councils to win community support for special rate variations to fund local infrastructure requirements. If the NSW Government proceeds down this path, it would need to be accompanied by a campaign to raise public awareness of the nature, purpose and ownership of the property levy.

9 Is a transitional period required for adjustment of the emergency services levy, and if so how should any funding gap arising from a transitional period be recovered?

The Associations favour the first option presented in the discussion paper, i.e. *“To avoid incentives to delay the purchase of insurance, insurance companies could be required to reduce their surcharge on insurance premiums by 1/365th per day. A compulsory scheme would require a defined methodology under which insurance companies would pass on the ESL to consumers. No such methodology currently exists in NSW. Western Australia applied this form of tapered transition when removing its insurance levy in 2002-03”*.

The option of leaving the transitional adjustment to competition in the market would be potentially confusing for consumers.

10 What arrangements are needed to ensure that any reductions in insurance taxes are passed on to consumers?

The question of whether insurance companies will fully pass on reductions in insurance taxes to consumers is commonly raised in this debate. While a competitive market should ensure that this will happen, there is a considerable level of distrust in the broader community. It is reassuring to find that reviews of the Western and South Australian transitions found no evidence to suggest that insurance companies took advantage of reduced taxes to increase profit margins.

To help provide confidence, the Associations support the proposal to have IPART monitor insurance premiums and report on whether tax reductions are passed on. We also support the establishment of a hotline within NSW Fair Trading.