LOCAL GOVERNMENT NSW

DRAFT SUBMISSION

EMERGENCY SERVICES LEVY

MAY 2024

ONE VOICE FOR COUNCILS

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

OVERVIEW OF THE LOCAL GOVERNMENT SECTOR

Local government in NSW employs **55,000 people**

Local government in NSW is responsible for about **90% of the state's roads and bridges**

Local government in NSW looks after more than **$177 billion** of community assets

NSW councils manage an estimated **4 million tonnes of waste** each year

Local government in NSW spends more than **$2.2 billion** each year on caring for the environment

NSW councils own and manage more than **600 museums, galleries, theatres and art centres**

NSW has more than **350 council-run libraries** that attract tens of millions of visits each year

NSW has more than **400 public swimming and ocean pools**

INTRODUCTION

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

This submission is made in draft form, pending approval of the LGNSW Board. Any amendments will be forwarded in due course.

LGNSW welcomes the opportunity to respond to the Treasury Consultation Paper – *reforming the emergency services funding system*. LGNSW also thanks the Treasurer for inviting LGNSW President, Cr Darriea Turley AM to join the Stakeholder Reference Group for this reform. LGNSW has been a long-term advocate for reform of the current funding arrangements, particularly the Emergency Services Levy (ESL) applied to insurance policies and local government.

LGNSW has provided a response to each of the 8 questions raised in the Consultation Paper.

RESPONSE TO QUESTIONS

1. Do you agree with the design principles of cost recovery, equity, efficiency, simplicity and sustainability for the replacement levy?

LGNSW agrees with the design principles. The proposed new Emergency Services Levy (ESL) levy is effectively a land tax to be collected by or on behalf of the NSW Government, therefore it is appropriate that it is subject to the universal principles of good taxation design.

The equity principle in the ESL needs to incorporate the principles guiding local government rates. Specifically, the:

- *Benefit principle.* The extent to which those who receive the benefits of services also pay for those services.

- *Ability to pay principle.* The extent to which those who pay for services have the ability to pay for those services.

2. Which of the four revenue base models – capital improved values, unimproved land values, gross rental values and a fixed charges model – should be used to design the replacement levy?

Local government rates and NSW state land taxes are currently based on unimproved land value otherwise known as Unimproved Capital Value (UCV).

Capital Improved Values (CIV) would ideally be the most appropriate for the levy as it relates to the value of property being protected by the emergency services and is therefore reflective of the benefit being received (benefit principle). CIV also reflects market value and is more easily understood by property owners. It would also assist in improving equity in local government ratings between free standing houses and strata properties. CIV for rating is favoured by many metropolitan councils for this reason, although is not favoured by some rural and regional areas who do not see the need or value for it. LGNSW advocates that councils should have the choice to use UCV or CIV as they do in Victoria.

While CIV may be the preferred base for the levy and rating purposes, LGNSW recognises that CIV valuations are not currently available and transitioning from UCV to CIV valuations would be a major undertaking in itself. It would involve a complete overhaul in the NSW land valuation system, requiring considerable investment and time. This would potentially delay implementation of the new levy by years. The introduction of CIV for the levy and rates should be considered as a potential long-term improvement that more accurately accounts for the benefit provided to the property through the provision of an emergency service as it more directly relates to the risk of financial loss or damage, but for practical reasons the new levy should proceed on UCVs to avoid any further undue delay in the removal of the burden from local government.

Gross rental value (GRV) has some merit, but LGNSW understands that it is only applied in metropolitan Western Australia and Tasmania. GRV is unfamiliar in NSW and other states. Adopting GRV would also face the same transition obstacles as CIV. As with CIV, a gross rental value model would require NSW to develop a database of valuations for all properties in the State, with the associated lead time and cost.

LGNSW is opposed on equity grounds to a model based solely on fixed charges. While mechanisms such as property categorisation and zonal overlays may assist with the equity deficit, they still leave an unacceptable equity gap.

LGNSW supports a levy based on a combined fixed component and an ad valorum component based on UCV as generally applied to local government rating structures.
This provides the opportunity to split the fixed costs evenly across the contribution base and the ad-valorem component aligns with the taxation principle of equity.

A number of parties have suggested additional or alternative revenue sources such as a levy on motor vehicle registrations. LGNSW acknowledges that a significant proportion of emergency services call outs is in response to motor vehicle accidents and therefore there could be some user pays justification for applying such a levy. For example, 8 per cent of NSW Fire and Rescue callouts in 2023 were in response to motor vehicle crashes. It would also capture a contribution from people who own motor vehicles but not real estate. However, it could also be argued that many people would already be paying the levy indirectly through rents.

While this proposal has some merit and justification, LGNSW is concerned that there would be a public backlash against what many would perceive as "double dipping". People who have paid the ESL, a new tax, on their property, are likely to object to being taxed again on their motor vehicle registration, and even more so in a household with a number of vehicles.

3. Which of the current revenue sources for emergency services agencies should be replaced?

LGNSW has a longstanding policy position that the ESL on both insurance policies and on local government should be removed and replaced with a broad-based property levy.

LGNSW support for reform of the funding of the emergency services is conditional on removal of the levy on local government. This has been the case in other states when they have transitioned to a property levy to fund their emergency services.

The current levy on local government lacks transparency. It is essentially a state government tax that becomes buried in council rates. It also fails the equity principle in that the levy does not fall evenly across councils, often disproportionately falling on smaller rural and regional councils with a relatively high RFS funding component. It is acknowledged that the revised rate peg methodology issued by IPART now makes an allowance for an ESL component, but it does not make provision for any additional prior years expenditure and it due to the timing of release of the rate peg amount, in some cases sees councils effectively having to bank roll the NSW Government's cash position for a further 12 months until the true charge can be reflected in the following year's rates.

LGNSW agrees with the Consultation Paper findings that council contributions to emergency services funding further complicates the current funding system. Transitioning these contributions into the replacement levy would make the system much simpler.

LGNSW maintains that the current levy on local government is unsustainable. Council contributions need to be removed with that contribution incorporated into the new levy.

It is a matter for the NSW Government if it also wants to incorporate its current funding contribution of 14.6 per cent from consolidated revenue and stamp duty into the levy.

4. Should different levy rates be applied to:

- ***different property types, such as residential, commercial or farmland, or***
- ***properties in different locations?***

It is recognised that there are different views on categorising different property types, however LGNSW considers that it is necessary to differentiate levy rates to address the inherent equity deficiencies that arise from the use of UCV by levying different ad valorem rates to different properties.

For example, the use of UCV by itself tends to undervalue strata and commercial values. It also applies the same valuation to vacant land as it does to highly developed land that may be adjoining. Applying property types also allows for the government to provide concessions or exemptions for public benefit properties (e.g. schools and churches) and government buildings.

The application of geographic zones should be given consideration as an overlay. However, it needs to reflect access to the emergency services, service levels and standards rather than the cost of delivering services to those locations. For example, three zones could be created i.e. metropolitan, regional and rural. Metropolitan would have the highest access to services, followed by the regional and then the rural zone with a low expectation of timely service delivery because of distance from centres. The levy would decline through metropolitan, to regional and then rural. More zones could be added to the model to make it more targeted.

This is sometimes referred to as a service expectation model and LGNSW understand that forms part of the Queensland model. While having some appeal it would add to the complexity of the model being developed for NSW. Some would argue that property values already deliver this result.

5. What protections are necessary for pensioners and other vulnerable cohorts?

It is imperative that the new levy be accompanied by protections for pensioners and others facing hardship. The protections would include significant and meaningful discounts. The new model should also include provisions for deferral and the establishment of a hardship scheme. Deferral may be a suitable option for those who are asset rich through their family home but would have difficulty paying the levy. The protections will need to be indexed to reflect increases in land values. This would be best achieved by setting the discount as a percentage of land value, not a fixed amount like the current local government pensioner rate rebate which has remained at $250 for combined ordinary rates and the domestic waste management charge since at least 1993.

The protections must be substantial as the new levy is introducing a tax that unlike the current land tax, will be a tax on the family home. While all homeowners are already currently paying for this levy through their council rates and, if insured, through their insurance policies, the levy is a highly sensitive proposition and so protections for the vulnerable are necessary.

For the avoidance of doubt, any pensioner rebate or hardship provision should be funded entirely by the NSW Government and should in no way impact council's financial position.

6. How should a levy collected each year reflect changing funding needs for emergency services?

LGNSW agrees that the levy should aim for full cost recovery. This should be based on the long-term financial plans of each of the services to be funded by the levy. Using a multiyear rolling average based on these plans would be desirable to help smooth out the volatility associated with emergency services budgets, for example, budget spikes in response to natural disasters.

LGNSW agrees with the Consultation Paper observations that any misalignment between the revenue collected, and the funding required in a given year could be adjusted in subsequent years to ensure that over the medium term, revenue collected aligns with the funding required.

The levy should not be extended to cover the budgets of other emergency services such as the NSW Police, NSW Ambulance, Surf Life Saving NSW or Marine Rescue in the short to medium term. Any such move could inflate the levy to potentially unacceptable levels, particularly at the implementation stage.

7. Should revenue from a replacement levy be collected by local governments or by the State Government through Revenue NSW?

LGNSW is firmly of the view that that the levy must be collected through Revenue NSW. Our reasoning is that the levy is being collected to fund state emergency services agencies and therefore should be levied and collected by the NSW Government through Revenue NSW.

The Consultation Paper itself presents a compelling case for the collection of the levy through Revenue NSW:

> *The 128 councils in NSW use a range of different software and platforms. Changing these systems to deal with a replacement levy – and then training staff on the changes – may add cost and complexity first to the transition, and then to the levy's ongoing administration. Revenue NSW is the State's primary revenue collection and debt recovery agency. It could collect a levy using one integrated system to issue levy bills and refer to debt recovery when required. The implementation and ongoing operations may be simpler without the need to coordinate and conduct assurance activities with 128 councils.*

LGNSW fully agrees with this assessment. It would clearly be more efficient to manage one collection point instead of 128 varied collection points. Furthermore, Revenue NSW already has access to all the valuation data available to local government and is already geared for state government tax collection across the state in the form of land tax.

8. What arrangements should be put in place to ensure that the removal of the current Emergency Services Levy is passed on in lower insurance premiums? How long should the transition take? What other transitional arrangements should be considered for the reform?

For the reform to be successful it is essential that the NSW public are confident that the promised insurance savings will be delivered. Insurance costs have been a major source of dissatisfaction over recent years with rising premiums, claims disputes and refusal of coverage in the wake of consecutive natural disasters, both in Australia and internationally.

The public will require assurance that the removal of the current ESL will be passed on in the form of lower insurance premiums. LGNSW believes that it is essential that an independent insurance monitor with effective compliance and enforcement powers is established to oversee the transition and ensure the savings are passed on. It is important that the insurance monitor has a high profile and credibility. It will require substantial powers and will need to be suitably resourced.

It would be expected that the insurance monitor would need to be in place for a minimum of 3 years with its future reviewed at the end of that period. This could be reviewed at the initial 3-year period.

It should be noted that in 2017 the previous Government appointed Allan Fels as the insurance monitor for the proposed introduction of the then proposed Fire and Emergency Services Levy (FESL). The establishment of the original role should be a point of reference in establishing the new insurance monitor.

LGNSW is aware that the Government has introduced the Emergency Services Levy Insurance Monitor Bill 2024 (NSW). The Bill establishes the Independent Pricing and Regulatory Tribunal [IPART] as the Insurance Monitor. LGNSW has no objections to the appointment of IPART providing it is adequately resourced to undertake this important role.

LGNSW looks forward to working with the NSW Government on the design and implementation of the long overdue reform of the emergency services funding system. LGNSW again emphasises that true reform will include removal of council contributions along with the ESL on insurance policies.

LGNSW would be pleased to provide clarification on any matter raised in this submission. For further information, please contact, Shaun McBride, Chief Economist, at shaun.mcbride@lgnsw.org.au or on 02 9242 4072.