Submission
No 34

EMERGENCY SERVICES FUNDING REFORM

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LOCAL GOVERNMENT NSW

DRAFT SUBMISSION

EMERGENCY SERVICES FUNDING REFORM

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ONE VOICE FOR COUNCILS

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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**

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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.

LGNSW welcomes the opportunity to respond to the NSW Treasury Emergency Services Funding Reform Options Paper, which is being considered by the Select Committee on Emergency Services Funding Reform ('the Committee').

This submission builds on LGNSW's previous submission in response to the NSW Treasury consultation paper from May 2024.

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

OPENING COMMENTS

LGNSW commends NSW Treasury on the detailed modelling of 5 levy model options including:

- **Option A**: Four tiers of fixed charges
- **Option B**: Four tiers of fixed charges with greater escalation
- **Option C**: Six tiers of fixed charges
- **Option D**: Fixed charges with regional discounts
- **Option E**: Fixed charges with surcharges by property type.

This is a reasonable sample of potential levy options, but this should not rule out substantial modification of the given options or the development of additional options. LGNSW accepts the models are for the facilitation of discussion and greater understanding of how levies could be determined under a new funding model for emergency services.

LGNSW is not in a position to nominate a single preferred model. LGNSW is the peak body for the local government sector as a whole, and member councils and the communities they represent have different views on which model would best suit the circumstances of their local government area. For example, some councils would favour Option D because of the regional discounts. Other councils may support Option C due to its stronger emphasis on equity and capacity to pay. Other stakeholders may prefer a composite like Option E with surcharges for property types including mining and potentially, home units.

LGNSW's overarching position is to support the introduction of a broad-based property levy to replace both the Emergency Services Levy (ESL) on councils and insurance policies. However, **this long-held policy position is contingent on:**

- **The removal of the levy on councils and;**
- **The new levy being collected by Revenue NSW, not councils.**

LGNSW observes that the Options Paper is lacking in its consideration of other operational and design options that will be critical to the successful adoption and implementation of emergency services funding reform. As it stands, this paper alone will not be sufficient to guide the Committee on the most appropriate emergency funding model for NSW.

This submission identifies many of the other operational and design issues. It also provides overarching comments on the Options Paper.

KEY ISSUES

1. LEVY COLLECTION OPTIONS – REVENUE NSW or COUNCILS

The Options Paper is silent on this matter other than to point out that across Australia the levy is collected by states/territories in some jurisdictions, and councils in others. However, the option of having councils collect the levy has been suggested in other forums despite strong opposition from local government.

LGNSW is firmly of the view that that the levy must be collected by 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. This view is also shared by other stakeholders including NSW Revenue Professionals.

NSW Treasury's Consultation Paper 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 strongly 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. Evidently it will be more cost effective for the levy to be collected by Revenue NSW.

Councils are concerned about the additional administrative workload and costs that would be imposed if they were required to collect the levy, even if compensation arrangements were in place. This concern is heightened by the fact that the proposed new levy does not align with the current options used in the calculation of land rates by local councils and by Revenue NSW for land tax.

In addition, NSW Revenue Professionals note the unknown cost and time involved to transition council's software solutions to enable the charging calculation in line with the proposed tiered methodology of the new levy, in parallel with the incompatible council rating system. It seems that this is creating two systems rather than saving on costs from utilising the same systems.

There is strong concern that collection of the levy by councils alongside council rates will create the impression that it is a council levy rather than a State Government levy. This is likely to result in many property owners directing any objections and complaints to councils. A high level of objections is expected in the initial stages of the implementation of the new "tax". It will not be sufficient to list the levy as a separate item on a rate notice. Further, it will create an additional administrative burden on councils as they would need to manage and redirect complaints and inquiries to Revenue NSW.

Proposing that councils collect any replacement levy would be an unacceptable outcome to the local government sector.

2. REPLACING THE ESL ON COUNCILS

The Options Paper does not discuss the option of removing the 11.7% ESL currently funded by council contributions.

As noted above, 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, effectively operating as a State Government tax embedded within council rates. It also fails the equity principle, in that the levy does not fall evenly across councils, often disproportionately impacting on smaller rural and regional councils with a relatively high Rural Fire Service funding component. While the revised local government rate peg methodology issued by IPART provides for an ESL component, it does not account for prior years' expenditure. Due to the timing of the rate peg determination, councils may, in some cases, be required to effectively bankroll the NSW Government's cash position for up to 12 months until the full cost can be recovered in the following year's rates.

Council contributions to emergency services funding further complicate the current funding system. Transitioning these council contributions into the replacement levy would make the system much simpler.

The current levy on local government is unsustainable. Council contributions need to be removed and that contribution must be 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.

3. LAND VALUATION BASE METHODOLOGY

A deficiency of the proposed reform model is that land valuations will be based on Unimproved Capital Value (UCV). This is the same as the current valuation methodology for land tax and council rating purposes. The Options Paper does not discuss valuation methodology options.

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 more reflective of the benefit being received (benefit principle). It may also provide a better indication of capacity to pay than the UCV and this is important as capacity to pay is a key feature of each of the models presented.

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 also favoured by many councils for this reason. Victoria and South Australia use CIV for ESL purposes.

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 for the NSW Government. The introduction of CIV for the levy (and councils having choice to opt-in to use CIV for rates) should be considered as a potential long-term improvement for the NSW rating and taxation system.

LGNSW supports a levy based on a combined fixed component and an ad valorem when referring to rates 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.

4. PENSIONERS/ HARDSHIP

LGNSW is pleased that the proposed models include protections for pensioners and others facing hardship. This is an essential element of a new funding model.

The protections would include significant and meaningful discounts. The new model should also include provisions for deferral and the establishment of a hardship scheme.

The protections should be indexed to reflect increases in the levy. This would be best achieved by setting the discount as a percentage of land value, rather than 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 1989. There should also be provision for deferral.

Councils with a higher number of pensioners or people facing hardship should not be financially penalised by having to subsidise the cost of any pensioner rebate or hardship provisions. This cost should be fairly distributed across NSW and funded entirely by the NSW Government as a welfare measure.

5. TRANSITION

The NSW Treasury Emergency Services Funding Reform Options Paper under review by the Committee does not extend to cover the operational and transitional matters involved in implementing a new funding model. These matters will need to be considered as the reform process progresses and will be critical in determining the optimal funding model.

Matters to be addressed include:

- Development of software solutions
- Need to realign land valuation base dates
- Cost allocation and reimbursement of councils if levy is collected by councils ensuring full cost recovery

- Debt recovery issues such as whether councils can use commercial debt recovery services for recovery of ESL debts or would they be forced to use Revenue NSW. (Many councils have expressed concern about the efficiency of Revenue NSW)
- Prioritisation of debt
- Audit processes and additional costs, potential duplication
- Reporting processes for new levy, which may place an additional burden on councils
- Public awareness raising
- Complaints handling processes
- Ensuring the new levy is clearly identified as a State Government imposition

6. OTHER CONSIDERATIONS

Design Principles

LGNSW agrees with the proposed design principles. The proposed new ESL levy is effectively a land tax to be collected by or on behalf of the NSW Government. Therefore, it is appropriate that it be 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.

ESL Coverage

The new funding model is being designed to fund the budgets of Fire and Rescue NSW, the Rural Fire Service and the State Emergency Service. The State Government must resist the temptation to extend its scope to cover 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. Furthermore, these services are not funded by the current ESL on insurance policies.

SUMMARY OF KEY RECOMENDATIONS

LGNSW recommends that the NSW Government:

Recommendation 1: Ensure that any new ESL is collected by Revenue NSW (and not councils).

Recommendation 2: Remove the current ESL council contributions, along with the ESL on insurance policies.

Recommendation 3: Adopt Capital Improved Value (CIV) for the purposes of calculating the ESL.

Recommendation 4: Ensure that the new ESL includes protections for pensioners and others facing hardship, with the cost of these provisions to be wholly borne by the NSW Government.

Recommendation 5: Implement further consultation processes with local government, including LGNSW and the NSW Revenue Professionals to guide the development of a new funding model, with due consideration of the complex operational and transition matters. The list provided above is not exhaustive, there are numerous issues to be addressed.

CONCLUSION

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.

As emphasised throughout the consultation process, LGNSW advocates for the introduction of a broad-based property levy to replace both the Emergency Services Levy (ESL) on councils and insurance policies. This is a long-held policy position but is contingent on:

- The removal of the levy on councils and;
- The new levy being collected by Revenue NSW, not councils.

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, [redacted]