

**Submission
No 7**

INQUIRY INTO ZONAL TAXATION

Organisation: Albury City Council
Name: Mr Frank Zaknich
Position: Director Economic Development and Tourism
Date Received: 3 June 2016

Inquiry into Zonal Taxation

1. INTRODUCTION

The city of Albury holds a somewhat unique position in the NSW economy, being located adjacent to the similarly sized cross border Victorian city of Wodonga. This has various local implications, however those of most relevance to this inquiry include cross border competition for investment and a range of state regulatory and taxation anomalies which impact business operation.

Whilst both cities benefit from a combined tourism economy, co-operation around which is strong, the remaining economic factors relating to business and industrial investment, retail and residential development have broad reaching impacts. Factors such as compliance costs, payroll taxes, business incentives, grant funding, vehicle registration, utility infrastructure costs, and a raft of other government fees and charges, significantly favour the Victorian side of the border.

This submission will detail a range of factors which negatively impact the city, mostly relating to the cross border impacts generated by the variances in state taxes, regulations, funding and investment attraction policies. Comments and suggestions from AlburyCity are offered specific to the inquiry terms of reference being:

- Exemptions from, or concessions in relation to Payroll Tax, Stamp Duty, and Land Tax;
- Concessions in relation to utility charges;
- The Impact of fuel levies on regional growth;
- Any other related matters.

2. Exemptions from, or concessions in relation to Payroll Tax, Stamp Duty, and Land Tax;

PAYROLL TAX AND BORDER DISADVANTAGE

The NSW payroll tax rate is 5.45% compared to the Victorian rate of 4.85%. Despite the Victorian rate commencing at a lower threshold, potential new business investors seeking to locate in either Albury or Wodonga will pay a premium where their payroll is in excess of \$750K per annum. For large business investors, the current variation in rates can mean the difference between locating the business in NSW or Victoria.

There are a number of recent examples of Victoria being the preferred investment destination over NSW. Whilst this may be directly related to more favourable taxation, fees and charges in that State, it is understood that the Victorian Government is offering more attractive jobs and investment growth incentive packages than those being presented by NSW, if they are presented at all.

Suggestions:

- 2.1 Clearly define and adopt a more aggressive regional economic growth strategy.
- 2.2 NSW Government to ensure they have investment and job creation incentive programs in place and that they increase the competitiveness of those programs in border areas to align with or better other States.
- 2.3 Match or better the Victorian offer for payroll tax, even if only applied to a defined border zone.
- 2.4 Develop a system of taxation credits to offer to start-up or expanding industries to better support growth and/or attract new investment.
- 2.5 Consider the range of state fees and charges that apply to businesses and restructure to align with or better those applied in Victoria and Queensland.

3. Concessions in relation to utility charges**UTILITES INFRASTRUCTURE REBATES OR CO-INVESTMENT**

Businesses in NSW are severely hampered in situations where new infrastructure to increase electricity or gas supply capacity is required. Essential Energy in NSW requires businesses to pay upfront for new infrastructure, regardless of the additional usage tariffs or term agreements which are also imposed. The comparative situation in Victoria is that the utility provider funds the additional infrastructure investment to support increased demand, the cost of which is recovered by term agreements and additional usage revenue.

AlburyCity and NSW Business Chamber have been approached by several local business owners who have expressed frustrations with the up-front capital burdens required for business expansion, with charges of up to \$450,000 being proposed to increase substation capacity. AlburyCity has examples of five such businesses who have shelved expansion plans and jobs growth as a result of the cost impost.

The historic solution, under RIIF, proposed by NSW Department of Industry has been to apply for grants for the infrastructure which still required a 50% contribution by the business. No programs are currently available to provide such support.

The cost impost of increasing infrastructure capacity for gas and electricity supply to new or expanding businesses has been demonstrated as constraining business investment in NSW, and plays a role in driving potential investors across the border to Victoria, where the costs of business establishment or expansion are much more favourable.

Suggestions

- 3.1 Encourage and facilitate Essential Energy changing the policy applied to infrastructure upgrades to a model that requires infrastructure investment by the provider and cost recovery from the customer over time, through term agreements and additional usage revenue.
- 3.2 NSW Department of Industry to develop a program which provides 100% funding for upgrading utility infrastructure supply capacity to a particular customer where that investment will create new

jobs and investment and deliver a positive return to the state or region. Such infrastructure capacity expansion could;

- be a long term state infrastructure investment in growing the economy and jobs;
- be offset by value creation for adjoining land users accessing the expanded capacity, or;
- be recovered over time by a small government levee on the ongoing tariff.

4. The Impact of fuel levies on regional growth

FUEL LEVY REVIEW

Fuel levies remain a cost impost on businesses which operate in regional areas due to the significant distances which are travelled. AlburyCity supports a review of the current levy with a view to addressing any regional disadvantage and supporting further regional growth.

5. Any other related matters

NSW FUNDING – DISCOUNTING OF COST BENEFITS ON STATE BOUNDARIES

We understand that NSW regional communities located along the Victorian border, and potentially other State borders, are subject to significant disadvantage compared to metropolitan and inland NSW communities in the assessment of the cost benefit analysis of potential project funding.

A process of ‘discounting’ the economic benefit of proposed infrastructure investment and/or jobs being generated by existing or proposed NSW based businesses is being applied by NSW Treasury/Department of Industry. This practice is discriminatory and is reducing the competitiveness of border communities and the level of support they receive from the State Government.

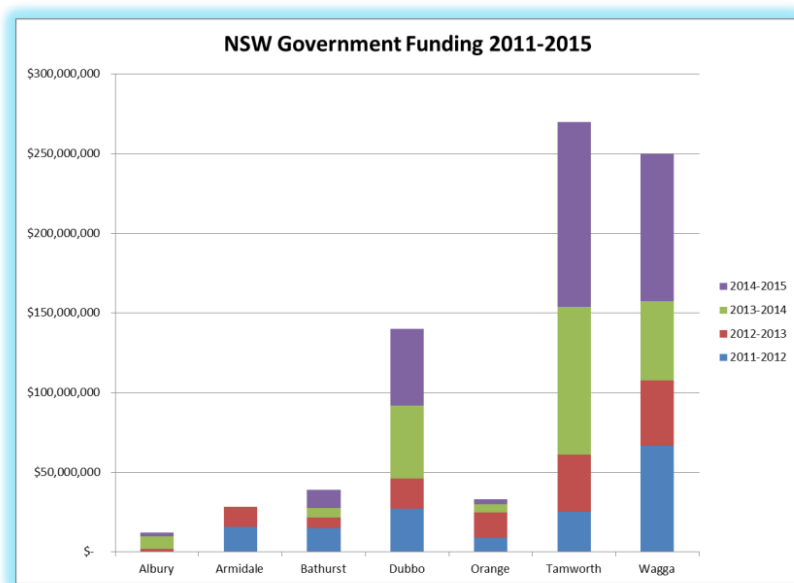
The impact of such discounting, and variation in funding allocated to Albury when compared with other regional cities, is best evidenced by an analysis of comparative funding granted by the NSW government over the past 5 years. The following table was compiled using NSW Treasury reports relating to government infrastructure investment in the seven NSW major inland cities between 2011 and 2015. Despite a raft of viable projects being presented in grant applications with supporting or matched funding commitments from both Federal and Local government, the funding granted to Albury remains **less than 1.6%** of the **total funding allocated to these seven cities in that period**. This is despite AlburyCity undertaking or committing to a huge range of major regional infrastructure projects during this period, almost exclusively without the support of the NSW government.

Some examples include:

- \$38M Nexus Industrial Estate development, including Davey Road Interchange southern ramps on the Hume Freeway - \$12M *Ettamogah Rail Hub (complete)*, \$12M *AlburyCity (water & sewer augmentation and stage 1 construction – underway)*, \$14M *southern ramp construction (proposed)*. Note: \$7M was secured from Federal Government for the ramp

construction but was returned due to an inability to secure matched funding from NSW government.

- \$10.3M Albury Regional Art Gallery redevelopment (MAMA) - \$7M AlburyCity, \$3.3M Federal Government. Note: NSW Government declined a bid for matched funding of \$3.3M.
- \$9M Lavington Sports ground redevelopment including upgraded grandstand for disability access, additional playing field, new amenities block with female change facilities – \$3.48M AlburyCity, \$4.02M Federal Government, \$250k AFL, \$60k Community groups. Balance yet to be sourced. Note: A funding application for \$1M to the NSW Club Grants Program was recently declined.



Funding provided to the community of Albury requires urgent rebalancing and equalisation, including the removal of any discounting of regional benefits practices. The negative economic impact of this investment imbalance is driving investment to Victoria, with jobs and investment growth in Wodonga outweighing that which is occurring in Albury. The NSW government needs to urgently intervene and step up its efforts in supporting border communities to stop this investment leakage and bring the balance of investment back to NSW.

Suggestion:

- 5.1 Investigation cost benefit discounting practices being applied by NSW Treasury/NSW Department of Industry in assessing infrastructure and regional development applications from border communities and determine their impact. If the practice is to continue, ensure there is openness and transparency in relation to the practice, methodology and when it is applied.
- 5.2 Encourage the NSW Government to apply a more equitable approach to the distribution of infrastructure funding provided to regional NSW cities.

6. CONCLUSION

There are a number of specific challenges facing NSW border communities which require NSW government support and intervention. Whilst these are in some instances indirectly related to the terms of reference for the inquiry, they are related matters that require consideration by the Committee on Investment, Industry and Regional Development.

Current practices of writing down the benefits of border jobs and investment must be investigated. If they are to continue to be applied, an open and transparent process should be adopted so they can be fully understood by impacted businesses and communities.

The ongoing success of the Victorian Government in securing business investment across the border, primarily due to a lack of responsiveness and program capacity by the NSW Government, cannot be left unchallenged. AlburyCity is eager to work with the NSW Department of Industry to further develop strategies to restore the balance of investment in NSW favour, but this will require a commitment from all levels of the NSW Government if the challenge is to be overcome.

