
From:
Sent: Thursday, 11 October 2018 2:24 PM
To: Portfolio Committee 4
Subject: HPE CM: RE: Fire and emergency services levy inquiry - Transcript - 13 August 2018
Attachments: LGSA, Submission to IPART Review of State Taxation - Draft Report, (2008).pdf

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Hi Elise,
I think the amended transcripts were returned some time ago, but you are still awaiting the answer to the Question on notice.

Answer:
Yes, LGNSW made a submission to the IPART Review on State Taxation 2008. A copy is attached.

We also made submissions to the IPART Review of the Local Government Revenue Raising Framework 2008. Links are provided below.

<http://www.lgnsw.org.au/files/imce-uploads/39/lgsa-submission-to-ipart-review-of-revenue-framework-for-local-government.pdf>

<http://www.lgnsw.org.au/files/imce-uploads/39/lgsa-submission-on-ipart-draft-report-review-lg-revenue-framework.pdf>

We did not make a submission to the Henry Review,

regards

SENIOR STRATEGY MANAGER
LOCAL GOVERNMENT NSW

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Local Government
Association of NSW



Shires Association
of NSW

Submission to

IPART Review of State Taxation
Report to the Treasurer
Other Industries – Draft Report

Sydney, July 2008

R96/0104-08

I. Introduction

The Local Government and Shires Associations of NSW (LGSA) welcome the opportunity to make a further submission to the Independent Pricing and Regulatory Tribunal (IPART)'s Review of State Taxation and to provide comments on the draft report released in June 2008. The LGSA have previously provided a submission to the review dated 23 November 2007, which this submission refers to.

The LGSA are the peak bodies of Local Government in NSW representing the interests of all 152 general purpose councils and the majority of special purpose county councils in NSW.

LGSA' submission will address two of IPART's draft recommendations that are of significant concern to Local Government in their current form:

- Recommendation 2: The payroll tax exemption for councils should be removed and a corresponding increase in municipal rate-pegging limits should be phased in over two years; and
- Recommendation 7: In the short term, the statutory contributions by insurance companies to fund fire services should be replaced by a corresponding increase in the contributions by councils, with a phased implementation and accommodating increases in the municipal rate cap.

II. Abolition of payroll tax exemption for Local Government

In its draft report, IPART recommends that the payroll tax exemption for councils should be removed and a corresponding increase in municipal rate-pegging limits should be phased in over two years (recommendation 2).

The LGSA strongly oppose this recommendation.

It has been a long established principle that general government activities (Commonwealth Government, State Government and Local Government) are exempt from the taxes of other levels of government. Local Government is currently exempt from State Government taxes, including payroll tax for its general government services in NSW.¹ At the same time, core State Government activities/lands are exempt from council rates.

The LGSA strongly support continuing the application of this principle to avoid hidden taxes and prevent complex reciprocal taxation arrangements.

Even though IPART proposes that the rate pegging limit be lifted to allow for increases in rates to accommodate the associated cost for councils, the proposal amounts to a hidden state tax as it would broaden the state tax base through council rates.

The removal of the payroll tax exemption for Local Government would also challenge the justification of rate exemptions for State Government properties. If Local Government is to be subject to payroll tax, the exemption of State Government properties from council rates also needs to be removed. However, IPART fails to consider this issue of reciprocal taxation and the complex arrangements involved in implementing it.

¹ Under National Competition Policy, councils businesses are already subject to payroll tax, including water supply and sewerage businesses (councils owned and operated water utilities). In turn, most state public trading enterprises (e.g. Sydney Water, Country Energy) are subject to council rates.

Reciprocal taxation requires each level of government to be subject to the taxes of other levels of government. That often requires complex and costly legal and administrative arrangements among levels of government.

Finally, it appears administratively difficult and complex to adequately determine a corresponding increase in the rate pegging limit.

Because the potential payroll tax liability might be different for each council dependent on the range and level of services provided and the associated employee cost, a universal increase in the rate pegging limit for all councils might not be adequate.

Rather, the corresponding increase in the rate pegging limit would need to be determined for each council individually, corresponding to the individual impact of the abolition of the payroll tax exemption. This would require a very complex and costly administrative process.

III. Increase in Local Government contribution to fire service funding

In its draft report, IPART recommends that, in the short term, the statutory contributions by insurance companies to fund fire services (NSW Fire Brigade, Rural Fire Service) should be replaced by a corresponding increase in the contributions by councils, with a phased implementation and accommodating increases in the rate pegging limit (recommendation 7).

The LGSA oppose this recommendation in its current form.

The LGSA support IPART in addressing the need to remove the inequities associated with the levy on insurance policies and instead moving towards a funding scheme based on property values. However, by burying another 73.7% of required funding in general council rates, IPART falls short of recommending a fully transparent and accountable scheme of fire service funding. IPART's recommendation would mean that councils would be required to contribute 88% of the cost of fire service from their general rate income.

LGSA' position on fire services funding is that the current system of contribution by councils, insurance companies, and the State Government should be replaced with a broad based property levy (tax) so that all property owners finance the services in an equitable manner.² The levy should be based on the rateable value of each property and, for reasons of administrative simplicity, its collection process could utilise the existing council rate collection process.³

However, to ensure that funding of fire services is fully transparent and that the NSW Fire Brigade, the Rural Fire Service and the State Government as a whole are fully accountable for the operations, management and budgets of the fire services, the levy needs to be separate and distinct from council rates. If councils were to collect the levy on behalf of the fire services/State

² The principle of linking the levy to unimproved land value is suggested on the basis of equity and also on the grounds that it, albeit imperfectly, provides a proxy of the value of the property being protected. Ideally, the levy should be based on improved land value to capture the risks associated with and protection required for the development on the land. The levy could also take account of different land uses (e.g. residential, commercial, farmland) and provide for a mechanism to reflect different service levels in different physical locations (e.g. remote areas in rural NSW might have a lower service level than metropolitan areas in Sydney). However, as improved land valuations are not available, it is simpler to use the existing valuations for rating purposes. The property based levy could be supplemented by a levy on motor vehicles reflecting the cost of services provided by the fire services to motorists.

³ The model proposed by LGSA is described in detail in the attached LGSA submission to the NSW Legislative Assembly Public Accounts Committee's Review of Fire Service Funding and the attached submission to the same review of the Alliance for Equitable Funding of Fire Services in NSW which LGSA was a co-signatory to.

Government through their rate notices, the levy needs to be clearly identifiable to ratepayers as a direct payment to the State Government to fund fire services.

Furthermore, if councils were to become the tax collection agent for the fire service providers/State Government, councils would need to be compensated for the cost associated with collecting the levy. Local Government could receive a commission of an appropriate proportion of the collected revenue. Also, councils should not be responsible for the collection of bad debts.

IPART'S recommendation falls short of achieving the transparency and accountability that should be required of an effective and efficient tax system.

According to the correspondence principle, each level of government should finance its own expenditure functions. That ensures the level of government that provides the function is accountable to those that fund its activities as well as those who are expected to benefit from them. Funding and performance of functions should be transparent so that the taxpayer understands what he or she is being taxed for and who is accountable.

The provision of fire services is not a function of Local Government (anymore). Councils do not have any operational or strategic decision making role in the provision of fire services nor do they have any input into fire service budgets, just as they have no role regarding the NSW Police or ambulance services. Therefore, councils should not be required to fund these services via their own revenue raising powers.⁴

Also, IPART's recommendation in its current form fails the test of transparency. The real cost of providing fire services would be hidden in general rates. Ratepayers would not be able to identify their contribution to the funding of fire services and would not be aware that they pay through their council rates for a State Government service. Essentially, the recommended funding scheme would impose a hidden state tax on local ratepayers.

The LGSA have long advocated a change to the current fire services funding model. LGSA' position is comprehensively presented in their 2003 submission to the NSW Legislative Assembly Public Accounts Committee's Review of Fire Services Funding. A copy of this submission is attached for IPART's consideration.

Our position on fire services funding is shared by a significant number of other peak organisations. In 2003, the LGSA joined with the Insurance Council of Australia to form an alliance with a wide range of other peak bodies to advocate reform. A separate joint submission was made by the alliance to the Public Accounts Committee Review. This submission was consistent with that made by the LGSA and demonstrated broad based support for the type of model advocated by the LGSA. A copy of this submission is also attached.

IV. Other comments

The LGSA would also like to comment on the considerations with respect to an expansion of land tax to raise additional revenue for the State Government (pages 112-113 of the draft report).

The draft report suggest that one model for a tax base for an expanded land tax could be utilising the municipal rates base by adding an additional percentage to the rates collected by local councils.

⁴ The transfer of responsibility to Local Government for funding of a service/function, responsibility for performing and funding of which lies with other levels of government is considered cost shifting. According to LGSA' cost shifting survey, the current Local Government contributions to the fire services already represent a significant proportion of the total amount of cost shifting, totalling currently more than \$400 million per annum.

The LGSA would strongly oppose such a model.

Principally, Local Government should not be responsible for raising revenue for the State Government. If Local Government were to become a tax collection agent for the State Government, the tax would need to be clearly identifiable and Local Government would need to be compensated for its tax collection efforts. A percentage increase in municipal rates to collect state land tax would not satisfy these conditions.

Raising State Government property taxes for consolidated revenue through council rates would constitute a hidden tax and lack the transparency and accountability that should be required of an effective and efficient tax system. Council ratepayers would not be aware that they pay State Government taxes through their council rates and would not be able to identify what proportion of their rates actually constitutes a State Government tax.

V. Summary/conclusion

The LGSA strongly oppose the proposed removal of the payroll tax exemption for Local Government. This would go against the long established principle that general government activities are exempt from the taxes of other levels of government. Also, the removal of the payroll tax exemption for Local Government would challenge the justification of rate exemptions for State Government properties. If Local Government is to be subject to payroll tax, the exemption of State Government properties from council rates must also be removed.

The LGSA reject the proposal that fire services be almost fully funded by council contributions because of the lack of transparency and accountability inherent in such a scheme. LGSA proposes to go one step further and introduce a broad based property levy collected by Local Government on behalf of the State Government and clearly identified as a direct payment to the State Government for fire service funding. Councils would need to be compensated for the cost associated with collecting the levy.

In the event that IPART's recommendations are implemented, the LGSA question the appropriateness of the recommended two year phasing-in period of accommodating rate increases above the rate pegging limit. The combined impact of the two recommendations would require dramatic increases in council rates. Preliminary calculations show that the combined impact of implementing recommendations 2 and 7 would amount to approximately \$700 million per annum to be recovered through council rates. This would require an increase in revenue from rates of approximately 26%. With average residential rates at about \$700 per annum, this would mean an average increase in residential rates of more than \$180.

Furthermore, many councils already need to seek special increases above the rate pegging limit to fund necessary infrastructure renewals that cannot be funded through "normal" rate income. For these councils, the impact on ratepayers would be even more significant. This would make it extremely difficult for councils to raise additional rate income to fund essential infrastructure renewals.

The LGSA would be pleased to comment further on issues raised in this submission and our previous submissions to this review and to the NSW Public Accounts Committee's Review of Fire Service Funding.

To ensure the issues raised in this submission are adequately addressed, LGSA suggest that they also be comprehensively considered during the upcoming IPART Review of Local Government Revenue.