

**Submission
No 10**

INQUIRY INTO FIRE AND EMERGENCY SERVICES LEVY

Organisation: Mid-Western Regional Council

Date received: 27 November 2017



IC: RAT700001

MID-WESTERN REGIONAL COUNCIL
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Office of the General Manager

24 November 2017

Portfolio Committee No.4 – Legal Affairs
Parliament House
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Dear committee,

Submission to Inquiry into the Fire and Emergency Services Levy (FESL)

I refer to the above and thank you for the opportunity to present this submission on behalf of Mid-Western Regional Council.

Staff from Mid-Western Regional Council participated in the reform process through the FESL workgroup. Council committed resources to the workgroup as we had concerns around the implementation of the levy, particularly the workload Council would incur in the operation of the levy and the appropriate reimbursement of Costs.

Although the FESL was ultimately postponed, we believe the consultative model was highly successful. We commend Government for allowing this genuine consultation and encourage the use of this model in future reform processes where Local Government is a stakeholder.

Submission:

(a) the policy process and financial modelling underlying the provisions of the Fire and Emergency Services Levy Act 2017,

Having participated in the workgroup, it was clear that the policy direction around the FESL was set by Government (NSW Treasury).

Council was not party to any of the detailed financial modelling undertaken.

From a policy process perspective, we believe that timeframes allowed to implement the levy were possibly not sufficient. We believe that the process was quite rushed and possibly did not allow sufficient time to fully analyse the impacts, prior to the actual implementation of the levy.

(b) the policy and financial implications for all stakeholders of repealing this Act,

We believe the ultimate postponement of the FESL did not have a significant policy or financial implications for council.

Councils completed a significant amount of work in the lead-up to the proposed implementation of the levy. This work included classification of properties in line with the FESL requirements, data exchanges with the Valuer-General, software modifications and testing and the issue of FESL notices to our property owners. Undertaking this work in a relatively short period of time imposed significant resourcing issues on council.

The decision to then postpone the introduction of the levy also imposed additional tasks in order to then prevent the levy being raised, to “de-FESL” computer systems and deal with customer enquiries.

The costs associated with undertaking this work were reimbursed to council through the formula method initiated by the FESL workgroup. The total amount reimbursed to Council was sufficient to cover the costs incurred.

The postponement of the legislation therefore did not have a significant adverse financial implications to Mid-Western Regional Council. Should Government now proceed to repeal the FESL legislation, we foresee no further impact.

(c) alternative models for ensuring that fire and emergency services are fully funded in a fair and equitable manner;

Mid-Western Regional Council supports the funding of fire and emergency services through the imposition of a property based levy. We acknowledge that this model is used by most other states, and we believe it is a fairer system where a contribution is made by a larger number of potential users of the services.

The current insurance based levy system is inadequate and inequitable, allowing too many beneficiaries of the services to make no contribution to the cost of the services.

Although a property levy is theoretically fairer, any individual who is required to pay more than they did previously will not see the levy as fair. Given the large diversity of land values across the state, it was inevitable that some individuals would be adversely affected.

Councils' experience similar reactions when attempting to alter the distribution of our rate levy or introduce new charges. There are some mechanisms available to help flatten the peaks and troughs as best as possible in order to allow those affected to adjust to the impacts. Consideration should be given to the following :-

1. Differential levy rates

Land valuations vary greatly across the state. Applying common ad-valorem rates will therefore see the largest levies in areas with the highest values (e.g. metropolitan or city properties) whereas the opposite will apply for lower valued areas (e.g. country regions). This variation does not take into consideration the cost of providing services in those areas.

The setting of differential rates in the areas where land values are very different would flatten the peaks and troughs in the amounts levied and would redistribute the levy payable across the state. The split could be made on the basis of property location (metro/regional) or possibly by the service provider such as NSW Fire and Rescue and Rural Fire Service.

2. Differential Fixed Components

There may be scope to set differential fixed components, although this mechanism is likely to result in a lesser re-distribution of the levy.

3. Land valuation basis

The Independent Pricing and Regulatory Tribunal (IPART) recommended in its draft report on the NSW rating system of August 2016 that NSW councils be provided with a choice in using either unimproved land values or capital values when determining land rates. The FESL was based in part on the model used in Victoria where the basis for calculating both the Emergency Services Levy (ESL) and land rates is on capital improved values.

We believe the use of capital improved values would increase the equitable distribution of both the FESL and council rates. Highly developed properties who benefit most from the availability of services would contribute more to the cost of those services in comparison to lesser developed properties. It would also negate the need to separately classify vacant land.

4. Varying pensioner and vacant land discounts.

5. *Set a cap on the maximum and/or minimum chargeable amounts.*
6. *Scale the levy based on land area or land value.*
7. *Review distribution of the total contributions across the classification sectors.*

It is our understanding that rates were set for each land classification sector in order to levy the same total amounts paid by those sectors under the current insurance based scheme. Perhaps these amounts could be re-examined, as a redistribution of the total levy amounts may help resolve the individual variations.

8. *Allow the transition to property based levy to be phased in over a number of years.*

It is inevitable that despite the use of the above to help flatten the distribution of the levy, some individuals or businesses will ultimately pay more than they currently do. If the introduction of the levy was phased in over a number of years, that would allow those adversely effected to adjust to the change over time.

(d) any other related matter.

There are a number of ancillary comments that Council would like to make in relation to the FESL.

Council contribution

NSW councils currently contribute an amount of 11.7% of the total cost in operating fire and emergency services within their local government area. It is our strong view that this council contribution should be discontinued. The full cost of providing these services should be recouped via the property based levy.

This would provide much greater transparency as to the actual cost of the services. The current funding model makes the Council contribution a hidden component not understood by those paying the levy or receiving the benefits of the services.

Other efficiencies

There are a number matters that Council believe would add to the efficiency of the FESL. While efforts were made to align the FESL with local government legislation and practices, there are further opportunities to reduce costs and simplify the levy processes.

1. Vacant land

The FESL legislation provides a discount on vacant land as there are no improvements or assets needing a high level of protection in the event of fire. There are also no added hazards to fire personnel as opposed to non-vacant properties (e.g. gas bottles, liquid fuels, etc.).

The effort, and cost, to councils in identifying and classifying vacant land varied across the state. Generally speaking, the more urban Councils were able to undertake this task much more easily than rural and regional Councils.

As mentioned above, a shift to the use of capital improved values and use of the associated Australian Property Classification Codes (AVPCC) would remove the necessity to identify vacant land. This would greatly reduce the administrative burden on councils and create significant savings in the administration of the levy.

2. Land Classifications:

In working toward the implementation of the FESL, all land recorded in councils systems (including Government land) needed to be classified according to the nine classification definitions.

We submit that further consideration should be given to the alignment of the FESL classifications and rating categorisations made under the Local Government Act, 1993. The process of establishing separate FESL classifications was, and would continue to be, very costly and administratively burdensome. This would also reduce landowner confusion and strengthen the relationships between the two sets of legislation.

3. Reporting to Revenue NSW (formerly Office of State Revenue - OSR)

During the FESL implementation process OSR imposed a regime of mandatory reporting considered by Council to be extremely onerous, inefficient, burdensome and unnecessary. The detailed information required drilled down to a transaction level.

The majority of costs incurred in the sectors corporate software modifications and testing was consumed with ensuring compliance with these requirements.

Councils routinely deal with complex legislative, transactional and compliance matters and should be provided autonomy in performing its duties under the FESL legislation. Council processes and financial accounts are already subject to audit by the NSW Auditor General.

We submit that confirmation of Councils compliance with the requirements of the FESL legislation would better be proven via certification by the General Manager, Responsible Accounting Officer and Auditor General as part of the annual financial reporting.

The efficiency gains in adopting these compliance measures would significantly exceed any revenue lost due to error or miscalculation. It would also reduce the ongoing costs in software maintenance and internal council costs in preparing and maintaining quarterly reports. OSR, and therefore the NSW Government, would also make significant savings in not having to oversee the great bulk of data they would have been receiving.

4. Local Government Rating System review

The NSW Government has received the IPART report on the Review of the Local Government Rating System, which recommends wide ranging changes to the current rating model.

The postponement of the FESL now allows an opportunity for the recommendations to be fully considered and any accepted changes to be made. In considering these potential changes, the FESL requirements should also be considered and further aligned with the rating changes.

I thank the Committee for the opportunity to make the above comments and trust they will be useful in your deliberations.

Yours faithfully

BRAD CAM
GENERAL MANAGER



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