



Mildura Rural City Council

SUBMISSION

Fire Services Funding Review

DECEMBER 2002

Fire Services Funding Review

1. Introduction

The Mildura Rural City Council is concerned at the inequities in the current Fire Services funding system, particularly the application of the Fire Services Levy for rural and regional insurance payers.

The current funding system is an anachronism that is a vestige of the time in the 1800s when the fire services were owned and operated by insurance companies. When the government created the Metropolitan Fire Brigade and the Country Fire Authority in 1890 as publicly owned services, it chose to require insurers to fund them even though the services were no longer privately owned.

2. Comments on the current system

It is obvious that the current fire service levy system is unfair, inefficient and non-transparent.

Major faults that warrant immediate action include:

- The Fire Services Levy is grossly unfair as it discriminates against people and businesses which choose to take responsibility for managing their own property risk by arranging insurance cover. Those who choose not to take out insurance do not contribute to the funding of fire services. More than one in four households have no insurance cover and are free-riders on the community's fire services. Those who choose to under-insure or self-insure, contribute only partially to funding these services.

- Rural and Regional Victorians are seriously disadvantaged by the current funding system because Fire Services Levy rates in Country Fire Authority areas are significantly higher than for the metropolitan areas serviced by the Metropolitan Fire and Emergency Services Board. Rural communities in Victoria pay the world's highest taxes on insurance policies. In fact, farmers and businesses in rural Victoria are paying 60% higher levies than those paid in Melbourne.

There is further disadvantage in that many people in Rural and Regional Victoria pay both increased levies and form the backbone of the Country Fire Services through their volunteering efforts and utilising their own private fire fighting units to complement Country Fire Authority resources.

The following chart highlights the funding disparity between rural and metropolitan areas:

Fire Services Levy

	Country Fire Authority (CFA)	Melbourne (MFESB)
Domestic Insurance	24%	16%
Contractors, all risks	57%	36%
Commercial	55%	34%

- Poorer members of the community are discriminated against by the current funding system because state taxes reduce the affordability of insurance by significantly increasing the total premium charged. Recent surveys indicate around 75% of people in rental accommodation do not insure their contents.
- The Fire Services Levy is an inefficient tax because it relies on a small proportion of the population to fund the increasing budget requirements of the Country Fire Authority and the Metropolitan Fire and Emergency Services Board.

- Victoria has the highest tax levels on insurance in the world because insurance policy holders are obliged to pay for the fire services on behalf of the whole community.
- This position is clearly demonstrated in a report by international consultants, Deloitte, which shows that compared with rates of up to 87.6% for Victoria, France charges 30%, Germany 10%, UK 5%, Canada (Ontario) 3.5%, Singapore 2%, US California 2.4% and Ireland 2%.
- The Fire Services Levy system is also non-transparent. Surveys have shown that few insurance policy holders are aware either of the level of tax they are paying that they are funding the bulk of the fire services' budget.
- Property insurance premiums are triple taxed in Victoria. The Fire Services Levy costs consumers an additional 16% to 55% on the risk premium, 10% GST is then applied to the premium plus the Fire Services Levy and finally 10% stamp duty is added to the lot. Property policy holders in Victoria therefore pay a tax on a tax on a tax. Stamp duty paid on the Fire Services Levy alone (as distinct from the risk premium) will amount to approximately \$26 million this financial year.
- Mildura Rural City Council is aware that the Terms of Reference for the Review process state that:

“investigations and modelling shall not extend to issues of GST, stamp duties or other taxes on property or financial instruments”.

However this council highlights the fact that these are very significant issues within an already inequitable system; they are also issues that distort payments and give an unrealistic “bottom line” to the Fire Services Levy.

- The continuing presence of the Fire Services Levy is a major and unnecessary cost burden to businesses in Victoria and a direct disincentive to new investment in the state.

Regional Cities Victoria, in conjunction with the Victorian State Government is conducting a research and implementation project to attract business development and encourage people to live, work and invest in regional and rural Victoria. This is, in fact, part of the Labour Government's policy for Rural and Regional development. The inequities in levels of charges between rural and metropolitan areas makes a mockery of our combined efforts to promote economic development.

- The Fire Services Levy component of Mildura Rural City Council's Special Risk Policy is \$15,682.77 to this is added GST and State Government stamp duty. For the 71 Victorian councils insured under the Jardine Municipal Asset Protection Plan, \$1.72 million is payable in Fire Service Levies alone.

3. Recommendations for Consideration

- 3.1 Mildura Rural City Council strongly believes that an efficient and effective fire service for Victoria is a fundamental component of the State's emergency services system. As such it should be funded from Government revenue in a manner similar to the Police (and to a lesser extent, the ambulance service).
- 3.2 Given that the Terms of Reference for the Review state that "*Any alternative funding arrangements considered or recommended by the Review will have a broadly neutral impact on the State's total expenditure on fire services and the total revenue collected, or contributions sought, are sufficient to fund the provision of fire services on a sustainable...*" it appears unlikely that this recommendation will be considered.

3.3 This council has considered both the South Australian and Western Australian fire services funding reform models and is mindful of the Harvey Committee (Victorian State Business Tax Review Committee) recommendations that a revenue neutral reform to abolish the existing Fire Services Levy and replace it with a charge on all rateable property be instituted.

3.4 Mildura Rural City Council is very wary of an property rates-based system based on either Net Annual Value or other rating mechanism, for the following reasons:

- There would be an enormous administrative and political burden on local government if they were expected to collect and pass on these funds. Although Councils would be collecting funding on behalf of Fire Services, this would inevitably be viewed by the general public as another “tax” or impost by Councils. The costs of such collection would be very significant and rural and regional councils in Victoria would require a full (and agreed) cost recovery mechanism to undertake this task.
- The issue of non-rateable land needs to be addressed in consideration of any property-based funding system.
- There is an argument that cars should be included, as should other categories of property. In regard to this argument, perhaps the South Australian system of a broad property based funding arrangement would be preferable to Western Australia’s model which is considerably narrower.

The South Australian system appears to be working well and insurers have apparently provided the South Australian Government with a formal undertaking to reduce premiums following the introduction of the new funding arrangements.

4. Conclusion

Fire Services in Victoria have an outstanding reputation for efficiency and effectiveness. They are also an integral part of our State emergency management system and should be funded as part of the overall system in a similar way to the Police service.

If a property rate-based funding system is considered, it must be carefully considered as this Council would be very concerned if local government was expected to collect and transfer these funds without accurate and agreed collection fees being in place.

The Mildura Rural City Council urges consideration of elements of the South Australian model to ensure equity, transparency and effectiveness of the funding for Victorian Fire Services.