

Response to Options Paper

Victorian Fire Services Property Levy Options Paper – September 2011

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne Victoria 3002

29 September 2011

PRINCIPLES

VFBV submits that the following principles are fundamental to the construct of any approach to fire service funding. We believe the approach for funding the fire services in Victoria should:

- Ensure that everyone who benefits from the services provided contributes to the funding of these services in a fair and equitable way
- Ensure that any mechanisms used for funding the fire services does not unintentionally erode Victoria's Volunteer surge capacity which is fundamental to emergency management in Victoria and ensure it does not unintentionally erode or diminish Victoria's Volunteer contribution
- Recognise that Victoria depends on the States significant Volunteer contingent capacity for large scale emergencies. Decisions on Service Delivery models and Fire Service boundaries must not be allowed to be made based on local cost shifting or any other process that does not take into account the effect of such decisions on the States Volunteer contingent capacity
- Ensure that funds collected for the provision of fire services are allocated wholly and directly for the funding of the fire services
- Be established in such a way that provides ongoing funding stability and reliability to ensure that essential service provision is not subject to fluctuations or changes in public policy
- Recognise the relationship of risk to relative contribution to therefore encourage risk reduction
- Ensure there are sufficient funds, capable of meeting requirements of modern fire services and long term predictability / confidence in funding availability based on projected need as forecast by the fire services; and
- Ensure that the funding collection mechanism is efficient in terms of administration and its reliability to capture monies due, that it is cost neutral to the collector and that the cost of collection has no impact on the funds available to fund the fire services

LEVY DESIGN – FUNDING REQUIREMENTS

Statutory Contributions - State

VFBV submits that the State Government has a key responsibility to ensure it contributes fairly on behalf of the Victorian people to essential fire services with the principle being that all citizens rely and benefit from State assets, amenities, critical infrastructure, community resilience and capacity building as well as other key services that are protected by the fire services.

Critical infrastructure are those physical facilities, supply chains, information technologies and communication networks which, if destroyed, degraded or rendered unavailable for an extended period, would significantly impact on the social or economic wellbeing of the State, or affect Australia's ability to conduct national defence and ensure national security.

The State as a whole benefits not only from the fire service protection of State assets, amenities and critical infrastructure, but also directly from the fire services in areas other than property, such as;

- Protection of State assets, primary resources, amenities & liveability
- Major incident capability for natural disasters
- Non Fire related emergencies such as flood, hurricane, terrorism etc
- Contingent capability for prolonged emergencies
- Increased community resilience
- Social capital provided to communities by Victoria's Volunteer model

How this is best achieved should ultimately be up to the government; however VFBV would submit that whatever mechanism is used to calculate the State's contribution to the fire services should be cognisant of the fact that;

- Statutory contributions by the State should not be reduced from current existing levels
- That capacity for growth and re-evaluation of the costs of providing the protection of these assets & services is factored in via a review mechanism
- Should not over complicate the levy nor disproportionately contribute to collection costs
- Much of the services provided by the fire services are not directly allocated for a specific location or risk situation and all Victorians rely on and benefit from the State's overall core service capacity

VFBV's view would be that the statutory contribution portion of the funding is a vital component, and is a simple and effective mechanism in recognizing the state's contribution to the fire services.

Further, VFBV submits that crown land represents a significant fire risk to Victoria. The risk that crown land represents is not fully realized by the same methodologies and calculations used to calculate private land holdings via the capital improved value methodology. Whilst DSE will usually provide initial response to crown land, there is still a reliance on CFA to provide emergency response to assist with these fires. VFBV submits that it is important to recognise this responsibility via continuing a statutory contribution rather than potentially complicating a property levy to try and achieve the same funding through other means.

Statutory Contributions – Local Government

A substantial number of Victoria's Volunteer firefighters come from CFA brigades servicing outer metropolitan Melbourne. These Volunteers provide fire and emergency services for their local community around the clock AND provide the backbone of Victoria's contingent & surge capacity to fight bushfires across the State for extended periods.

VFBV submits that removing the 12.5% council contribution from the MFD would present a high risk that councils may choose a different service model which would impact significantly on the States surge capacity.

VFBV submits that the only way to ensure the States capability and capacity is factored in is to ensure that councils are not able to "opt-in" or "opt-out" of any particular service model without the approval of the Fire Services Commissioner & the Minister and not without the development of an evidence based impact analysis guaranteeing no erosion of the State's surge capacity provided by the CFA Volunteer based service model.

VFBV submits that the Fire Services Commissioner is well placed to perform this role, as under the Fire Services Commissioner Act of 2010, the Fire Services Commissioner must, in performing his or her functions, have regard to the importance Volunteers of the Country Fire Authority have with respect to Victoria's fire-fighting management and capacity.

VFBV submits that Volunteers and the States capability and contingent capacity are inextricably linked to the CFA Volunteer & integrated service model that operates outside the Metropolitan Fire District and any incentives or disincentives for local councils to change service models that does not factor in the danger this poses to the State poses a significant risk and should be mitigated.

Nor should it be underestimated that even small changes to boundaries between areas covered by the Metropolitan Fire District would significantly impact upon Victoria's surge capacity in the immediate term and potentially lead to further erosion over time. These highly populated metropolitan areas are increasingly accounting for a high proportion of the State's surge capacity due to declining rural populations in many areas of Country Victoria.

Cost Drivers

VFBV submits that the question of funding requirements and the principle of a property levy in general, cannot be examined in isolation from two key issues:

- i. Firstly, the question of what is the most efficient and cost effective model of fire service delivery to the State of Victoria; and
- ii. Secondly, an awareness of what the key cost drivers of the fire service funding requirement are and how these cost drivers can be best managed to ensure optimal benefit from finite funds

VFBV believes that a key starting point for the delivery of a cost effective service is to ensure that all decisions about resource allocation, service delivery priority and service delivery approach are driven by objective, outcome based decision making, and be a holistic approach across the State of Victoria and not subject to interference from external arbitrary influences or interest group pressures such as that experienced by the 2010 industrial agreements that directed CFA to employ an additional 342 paid firefighters regardless of the CFA's Chief Officers identified need.

If the ultimate cost of fire service provision is to be governed appropriately there must be clear, unfettered and transparent accountability for determination of what services will be provided, what service model will be used to deliver those services (in the context of achieving desired community safety outcomes); how best to allocate/deploy finite resources and how best to determine expenditure and funding priorities.

VFBV believes there is significant scope for improvement in this area and thereby mitigate the level of cost growth and impact of the total funding requirement for fire services.

VFBV is particularly concerned that funding resource priority within the fire services has been subject to considerable external interference, and that as a result, Victorian residents are increasingly being asked to carry the burden of increased funding that is not being directed to appropriate community priorities.

VFBV further submits that the findings of the Independent Inquiry should be considered in the context of cost drivers and the fire services ability to control costs and provide value for money to the general public. VFBV believe this is essential for proper accountability and for the greater good of the Victorian public who ultimately must fund the fire services.

LEVY DESIGN – TAX BASE

VFBV supports the principle in the options paper that “since all property owners benefit from the availability of fire services”, the levy should be imposed on real property (ie. Land and improvements)

Broadening the Tax Base

VFBV supports the case for broadening the funding base of the fire and emergency services to better provide equity.

The owners of motor vehicles receive significant benefits from the fire services. As reported in the options paper, approximately 12% of CFA incidents, and 9% of MFESB incidents are in response to motor vehicle accidents. VFBV would submit that imposing a levy on car registrations would provide a more equitable arrangement and should be investigated further.

Non-rateable property

VFBV submits that should a property levy be extended to all real property including that owned by local councils and potentially the State government, that Fire Service Assets and Property (Fire Stations, Fire appliances & support vehicles) be exempt from such a charge. Taxing a fire service asset or property simply generates administrative and collection costs for a zero gain – as it would ultimately go back to the fire services.

Valuation Base

VFBV submits that the most appropriate valuation base would be Capital improved value. (Value of land **and** buildings)

VFBV agrees with the options paper in that a Site Value valuation would impose more heavily on property owners with low improved values relative to land value, such as farms and low density residential properties in metropolitan Melbourne – and therefore does not adequately account for the risk the site poses. Using an improved value only which only accounts for the value of buildings only would mean property owners of vacant blocks would not contribute to the services even though they represent a fire risk which would not be equitable or fair.

VFBV submits that the definition for Capital Improved Valued refers to the total market value of the land plus the improved value of the property including the house, other buildings and landscaping (fencing etc) – but should NOT include the value of livestock or crops etc.

Revision of the funding requirement and levy

One of the key principles that VFBV submits is to ensure there are sufficient funds, capable of meeting the requirements of modern fire services, and that it be established in such a way that provides ongoing funding stability and reliability to ensure that essential service provision is not subject to fluctuations or changes in public policy.

Consequently, VFBV submits that the levy should undergo periodic review in line with fire service budget estimates. Whilst annual review makes sense in line with the setting of the fire service budgets, it could potentially create restrictions for the fire services to forward plan. VFBV would further submit that more emphasis should be placed on forward looking estimates, so that the fire services can benefit from longer term planning and budgetary stability and assurance. Truck and Station assets and infrastructure as an example, form a significant part of the fire services budgets. Longer term funding surety is essential for infrastructure planning, acquisition & construction.

The revision mechanism should also retain an element of flexibility, that would ensure one-off events can be catered for, and to ensure that periodic review does not create a restriction or barrier for a fire service to adapt to meet new and unforeseen community expectations.

Fixed and variable charge

VFBV agrees that the fire services provide an on-call fire fighting capacity and undertake fire prevention activities that benefit the community as a whole. The cost of these prevention and preparedness services can be considered broadly equivalent across a given class of properties.

VFBV agrees that a fixed component (or minimum payment) would reflect broader community benefits.

VFBV also agree that the cost of responding to fire and emergency incidents is also likely to be similar for many sectors of the community, however the costs will be greater for high value properties such as multilevel office, retail or apartment buildings, and VFBV submits that in keeping with the principle of basing the levy on risk, would be supportive of the recommendation that this additional cost to be reflected in an ad valorem (variable) component of the levy to be added to the fixed component. The variable component should also be capable of picking up special risk, high risk or high service situations, to provide greater equity when additional services or costs are incurred as a result.

MFESB and CFA

There are no Volunteer or integrated Volunteer & paid staff brigades in the MFESB – the MFESB operate a 100% paid staff force which comes at a significant cost premium. There is a risk that if the current CFA and MFESB funding arrangements are altered that this could unintentionally flow to a change in current service boundaries and therefore with the unintended consequence of leading to the critical erosion of Victoria's vital Volunteer contingent & surge capacity required to deal with bushfires and large scale emergencies. To make up for such loss, many thousands of paid firefighters would be required at a very significant financial cost to Victorians which would increase the property levy exponentially and also leave Victoria less prepared to deal with large scale emergencies such as Black Saturday and Victoria's recent floods.

Under the current system, the owners of properties in a CFA area pay a higher rate of FSL than those in a MFESB area. This difference arises because the budget of the CFA is supporting service delivery to a much larger geographic area, is less densely populated, and under the current FSL is spread over a smaller pool of insurance premiums. VFBV submits that this arrangement is flawed, in that it does not take into consideration

the protection by the CFA of key public assets which are vital to Victoria which are mainly situated outside the Metropolitan Fire District.

Just as the State is the beneficiary of State assets, amenities and other critical infrastructure, so are all Victorians. VFBV submits that the current situation where insurance owners in the Metropolitan Fire District pay a lesser rate than those outside the Metropolitan Fire District ignores the fact that a considerable number of the State's critical infrastructure and supply lines are located within the Country Areas of Victoria, and all citizens who benefit from those assets & services should contribute to their protection.

It is important to note that some elements of critical infrastructure are not assets, but are in fact networks or supply chains. For example, bringing food from the paddock to the plate is dependent not only on particular key facilities, but also on a complex network of producers, processors, manufacturers, distributors and retailers and the infrastructure supporting them.

VFBV would submit that maintaining separate levy rates for properties within the MFD that only go towards funding the MFESB is inappropriate. As all citizens benefit from the critical infrastructure outside the MFD, the spreading of that cost of protecting those assets should be fair and equitable. Namely;

- Natural Resources
- Primary Producers & Agriculture
- Power Generators
- Defence Facilities
- Public Health & Education
- Water Catchments
- Telecommunication Infrastructure
- Transmission Lines
- Gas Production & Refinement
- Tourism

Further, VFBV would submit that the CFA service model not only provides Victoria with its contingent and surge capacity for major disasters, but is also significantly more cost efficient.

It should also be noted the significant non-tangible benefits this community partnership contributes to developing community capacity, social capital and community resilience which are essential factors in both community preparedness and community recovery.

Notwithstanding the financial contribution the fire services levy makes to funding the fire services in Victoria, the major contributor to the resourcing, and therefore indirectly the funding of the fire services in Victoria, is Volunteer service provided by CFA's 60,000 Volunteers. The CFA Volunteer contribution is currently estimated at over \$1 BILLION per annum . It follows therefore that any considerations of change to the present funding model has to be approached recognising the Volunteer contribution and ensuring that it is not compromised in any way. To prevent a significant potential increase in the cost of fire services in Victoria, every effort must be made to maintain and build an even more effective Volunteer based CFA resource model.

CFA's local community based Volunteer brigade structure, incorporating Volunteer community members trained to national professional standards and qualified in a variety of roles for fire fighting and other emergency response, operational support and community education/advice services, is at the core of all CFA activity, and as was found during the Victorian Bushfires Royal Commission is of equal and comparable quality to other service models operating in Victoria.

Differential rates by property type

VFBV submits that a key component of the cost of delivering a fire service is inextricably linked to a properties risk, and therefore advocates for risk to play some part in the calculations of a levy on equity grounds.

Whilst acknowledging that care must be taken to ensure factoring in risk does not disproportionately increase the administration and collection costs of the levy for little gain, VFBV would submit that consideration should still be given to encouraging risk mitigation. This could be done by way of a negligible fee added to the fixed charge that would specifically fund rebates for land owners who carry out eligible risk mitigation activities on their properties, similar to the water rebate schemes run for installation of water tanks and low flow shower heads etc.

CONCESSIONS

VFBV submits that consideration should also be given to a concession for serving emergency service Volunteers who meet certain conditions, to recognise the unpaid contribution they make to their fellow Victorians and to assist with the personal costs they necessarily incur as Volunteers.

VFBV acknowledges that it may be difficult to identify such persons and would as a consequence complicate collection costs. An alternative method would be to allow serving emergency service Volunteers to apply for a rebate through their relevant agency – whom would then be responsible for validating their membership and eligibility, before submitting to government for reimbursement.

COLLECTION AGENCY

VFBV does not have a view on the appropriate collection agency, but reinforces one of our key principles being;

- That the funding collection mechanism is efficient in terms of administration and its reliability to capture monies due, that it is cost neutral to the collector and that the cost of collection has no impact on the funds available to fund the fire services.

VFBV would be concerned at any arrangements that would increase a local communities collection or enforcement costs, and believe efficiency and reliability of collection should be the key factors considered when weighing the options. It would be our opinion that adding the levy to the existing local government rates collection provides the most efficient method, as it would utilize existing arrangements and processes for dispute resolution and payment recovery.

TRANSITIONAL ARRANGEMENTS

VFBV does not have a strong view on the appropriate transitional arrangements, other than to say that the Tapering Model suggested in the options paper appears to be the preferred option and avoids the perception of the levy “doubling” in its second year of operation which would be the case under the decoupling model suggested. VFBV’s concern would be that sufficient public education occurs to ensure the general public did not perceive this increase to be the result of a doubling in the funding to fire services if the decoupling method were chosen.

MONITORING

VFBV is supportive of the need for there to be an independent monitoring authority to ensure insurance companies remove the FSL premium from insurance premiums, and would support the Essential Services Commission being appointed to this role.

CONCLUSION

Victoria is one of the most fire prone areas in the world. CFA’s Volunteer based resource model is the only approach capable of economically and practically dealing with the quantum, scale, spread and simultaneous occurrence of fire emergencies experienced in Victoria – whether this be day to day demands, major disasters or a combination of both.

We cannot stress enough that the CFA Volunteer based model is vital to having contingent/surge capacity available when it is needed, as well as maintaining the day to day service continuity. The resource model that integrates CFA’s 60,000 Volunteers (97% of CFA’s workforce) and the 1,300 paid operational and support staff who work with and in support of Volunteers is essential for State-wide service delivery for Victoria. As well as providing the capacity to deal with multiple emergencies throughout the State every day, CFA’s Volunteer based resource model provides contingent capability to deal with large scale emergencies and scalability to continually ramp up resources as new incidents occur and/or to cope with long duration incidents.

Notwithstanding that CFA and others need to continuously strive for improved community safety outcomes, decisions about the fire service levy and funding of the fire services must not be made without careful analysis of the impact of these decisions on future Volunteer involvement, future Volunteer capacity and community shared responsibility.

Either way, it is the position of the VFBV that any system for funding the fire and emergency services should encompass the principles set out above and must have serious regard to the potential for any unintended consequences such as reducing Volunteer contribution and capacity.

VFBV thanks the Department for the opportunity to provide this submission and welcomes the opportunity to provide the Department with any further information or clarification that you consider necessary, and we hope that you find the information contained in this submission helpful in your deliberations.

Sincerely,

Andrew Ford
Chief Executive Officer
Volunteer Fire Brigades Victoria