

## **VICTORIAN FIRE SERVICES PROPERTY LEVY**

### Response to Options Paper by Dr Allan Manning

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The Victorian Government has requested feedback on the various options open to them to transfer the current method of funding of the fire services, which is predominately the insurance industry and those that insure, to a more equitable method as recommended by the Royal Commission following the “Black Saturday” bush fires.

In response to this request, I, Allan Manning of 43 Kyarra Road, Glen Iris, Victoria 3146 provide the following in response to the various questions and proposals put forward in the Options Paper prepared by the Department of Treasury and Finance.

Before doing so, I would advise that I strongly endorse the Government’s decision in removing the funding of fire service levy from those that insure. Well done at last!

With this brief statement I now turn my attention to the specific questions and proposals put forward in the Options Paper.

#### Question 1

- Which components of the statutory contributions model should be replaced by a property levy?
  - All statutory contributions from insurers and state and local governments?
  - Statutory contributions from insurers and local government only, with existing state government contributions continuing on the basis of the current model?

#### Proposal 1 a.

- Impose a property levy on real property, including non-rateable property, property owned by local councils and potentially the State Government.

**Manning Response:** I support a real property levy including non-rateable property, property owned by local councils and state government and I would go further to include property owned by the federal government unless barred by Commonwealth legislation.

The fire services provide a service to all in the community and all who benefit should contribute their fare share.

The introduction of this new tax should not be used to increase the existing level of taxes by moving all the costs onto real property excluding that of the State Government and the State Government not pay their current level of funding. Either the State Government meet their share based on the Capital Improved Value or as I predict it would be less expensive for the State Government to continue to pay their current percentage level of funding.

## Question 2

- What is the most appropriate valuation base?
  - Site value (i.e. the value of land only)?
  - Improved value (i.e. the value of buildings only)?
  - Capital improved value (i.e. the value of land and buildings)?

## Proposal 2 a.

- Set the property levy annually to ensure the fire services are adequately funded.

**Manning Response:** The difficulty with this proposal is where a situation as occurred during “Black Saturday” arises. Major items of equipment including vehicles that are damaged or destroyed should be insured through the VMIA and requests for special payments for their replacement should not be permitted but rather claimed from VMIA.

Where extraordinary costs are incurred during a particularly bad fire season either a surplus could to be created each year and the pool of excess funds used to fund these one off events. This is not my preferred option. (I am happy to detail my reasoning if requested).

My recommendation is that additional funding requirements in the circumstances described above be met out of the current State Government Budget from Consolidated Revenue with assistance where appropriate/necessary from the Commonwealth.

From time to time capital expenditure needs to be incurred to maintain and or improve existing services and/or provide for growth in population and hopefully industry. I do not believe that this expenditure should be expensed in the year in which it is incurred as is the current model. This can create significant fluctuations in revenue requirements in any one year compared to the next.

As with basic accounting capital expenditure ought to be amortised and charged to the tax payers over the life of the asset. This will help meet Treasury’s preferred position as stated in Section 5.2.3. *“The revenue base needs to grow over time in line with demand and the cost of providing the services. The **amount of revenue received should be predictable** to allow for service planning and **minimise the need for adjustments to the levy**”*

## Proposal 2 b.

- The fire services property levy include a fixed component and an ad valorem charge assessed on the capital improved value of property.

**Manning Response:** I support this model where Capital Improved Value means the value of land and buildings. A significant number of fires are grass fires on rural property (around 16% as I understand it of CFA call outs), rubbish fires and the like where there is no buildings or

other physical assets on the land. Those that own this land should contribute. The levy should be sufficient to meet the cost of the services provided to protect these assets.

I do not support over complicating the tax (levy) by including a separate fee on motor vehicles or any asset. The owners of the vehicles will own or rent property in the state and they will meet their share through the levy on Capital Improved Value either as an owner or tenant.

#### Questions 3 & 4

3. Should the property levy be set at single state-wide rate, or should separate property levies be imposed within and outside the MFD?
4. Are there alternative ways of sharing the cost of funding fire services across the boundary of the MFD?

**Manning Response:** I would recommend one rate across the entire state and by so doing I appreciate that based on current boundaries and budgets the metropolitan property owners would be subsidising/supporting the rural sector. I believe this does not impose a huge burden and that it would be only a modest increase to those in the MFB serviced area of Melbourne due to the due to the much greater population base in the MFB area (around 4 million) compared to the rest of the state (approximately 1.5 million). I say this as an individual living and working in the MFB area.

It appears to me to be unjust to apply different rates to different areas based solely on geographic boundaries set 50 or more years ago which too many are no longer appropriate/relevant.

One way or the other, every Victorian benefits from the work of the fire services and we should all pay the same.

#### Questions 5 - 7

5. Should different levy rates apply to different properties classifications?
6. How should the total funding burden be distributed between property classifications?
7. Should the total budget be allocated according to a measure other than the fire risk of broad property classifications?

**Manning Response:** Any model should not become so complicated it is unworkable or adds unnecessary cost to the tax payer.

Yes there are benefits in equity in rating based on hazard. Many insurers do not rate on the broad category of the building but rather the occupation of the tenant. This becomes very difficult to keep up to date as tenants come and go.

I support the broad categories used by states such Western Australia and South Australia. I think at 17 Queensland has too many.

I have not completed a detailed enough study on which of the existing classification systems is best for Victoria but the KISS (keep it simple) approach is highly recommended. We do not want unnecessary waste in the collection of the tax, as much money as possible should be going to the brigades while not imposing further impost on the people and businesses of Victoria.

#### Proposal

- A concession should be given to holders of Health Care Cards, Pensioner Concession Cards and Department of Veterans Affairs gold cards on their principal place of residence.

#### Questions 8 – 9

8. Should eligibility for a concession be subject to a property value threshold?
9. How should a concession be calculated?
  - Percentage discount?
  - Percentage discount with a cap?
  - A fixed dollar amount discount?

**Manning Response:** Currently pensioners do not receive a discount on their insurance. Some insurers offer discount to persons over a certain age believing that they have less claims but this includes burglary and other non-fire related perils.

The granting of a discount for pensioners is not subject to a question in the Options Paper only the methodology of the discount.

I accept for political and economic reasons that offering a discount to pensioners is desirable.

I am not well placed to offer advice in this area.

What I do not wish to see is discounts offered to charitable organisations particularly those such as religious and other groups with significant assets in the state

Currently the assets of such organisations should be insured and the full Fire Service Levy would apply. Such organisations benefit from the services of the brigade and should meet their equitable share moving forward as they have in the past (assuming they were insured).

### Proposal

- That the fire services property levy be collected by local councils, with support for implementation and administration.

**Manning Response:** This is the model that is used in most other states and seems to work well. It has my support as long as the support provided to Councils is reasonable for the extra work required and not more, remembering insurers have collected the tax for decades without support.

### Proposal

- The tapering approach be adopted to phase out the insurance contributions prior to the introduction of the property levy.

**Manning Response:** Again this model was adopted in other states and is the best method to reduce tax evasion.

In keeping with the KISS method, I recommend it be done on a monthly pro rata basis rather than daily to minimise the transition costs to all concerned.

What appears completely unjust at the present time is the significant amount of capital expenditure that has been included in the CFA budget in the 2011-2012 and 2012 - 2013 budgets.

In fact from the time the decision was made to remove Fire Service Levy from insurance to when it will be finally removed just under \$250 million<sup>1</sup> of Capital Expenditure will be have been included in the CFA budget.

While the benefits of this expenditure will be to all those living and working in the CFA region for up to the next 20 years, on the current funding model a massive 77.5% is to be borne by only by those that insure over the next year or two.

While this may allow the government to introduce the new tax at a lower level it puts an enormous burden on the home owners and business owners/operators that insure at a time when insurance premiums have to increase, typically by 25%, due to the \$4 billion in catastrophe losses paid out the insurance industry during this calendar year.

The significant increase in premiums and fire service levy are made worse by the triple tax effect caused by GST and State Government Stamp Duty.

With two full fire seasons to go through before the tax on insurance is removed I fear this will cause both home owners and business owners, particularly in the CFA regions.

This whole issue is something that the current government, particularly Mr Peter Ryan and the Nationals campaigned heavily on to win government on and the people of Victoria appear to be have been let down and dare I say betrayed by the inclusion of

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<sup>1</sup> Source State Capital Program – Country Fire Authority, Page 53.

such a huge amount of capital expenditure being included in the run off period of the existing inequitable Fire Service Levy.

I recommend that during the transition that all capital expenditure be removed from the amount used to calculate the Fire Service Levy and only an amortised proportion based on the value to the state during the period be brought to account and taxed.

The 17th Century philosopher, John Lock (1681) argued that "*Government has no other end but the preservation of property*". I take this one step further and suggest that the primary role of government is to encourage and protect homes and businesses, and safeguard the on-going growth of the economy. The current system of funding fire services in Victoria has been working contrary to this primary role and this transition model is even worse as it will force people to not insure all classes or under insure.

As we saw following the 'Black Saturday' bushfires this leads to people being caught in a cycle of poverty and dependence on welfare which places a greater burden on all within the community.

#### Proposal

- The Essential Services Commission be appointed to independently monitor the FSL transition process. A public report on whether or not insurance companies have passed on savings to policy holders is to be produced as part of the monitoring role.

**Manning Response:** This proposal has my full support.

I would recommend however that the power of the Essential Services Commission be extended to include the monitoring of expenses charged to the budgets of both the MFB and CFA; the fees paid to council etc to ensure that all parties involved act honestly and in the best interests of the people of Victoria.

Dr Allan Manning  
25<sup>th</sup> September 2011