



**Victorian Fire Services Property Levy  
Option Paper**

*SEPTEMBER 2011*

## TABLE OF CONTENTS

|   |    |
|---|----|
| Introduction.....   | 3  |
| What should the property levy replace.....                                      | 4  |
| What is the appropriate valuation base .....                                    | 5  |
| Assessment of a Fire Services Property Levy based on building asset value ..... | 6  |
| A single statewide levy rate.....   | 8  |
| Property levy rates.....  | 9  |
| Accommodating Concessions .....   | 9  |
| Proposals regarding levy administration.....                                    | 10 |
| Other Issues .....  | 11 |
| Stamp Duty .....  | 11 |
| Treatment of Over/Under Collection .....  | 11 |
| Conclusion .....  | 11 |
| Appendix One - VFF Fire Services Funding Policy .....                           | 12 |

# THE VICTORIAN FARMERS FEDERATION

The Victorian Farmers' Federation (VFF) is Australia's largest state farmer organisation and the only recognised, consistent voice on issues affecting rural Victoria.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three percent of Australia's available agricultural land, Victorian's produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

## INTRODUCTION

The Victorian Farmers Federation congratulates the State Government on abolishing the inequitable system of funding fire services and appreciates the opportunity to comment on the future of fire services funding in Victoria. The VFF have been an advocate of reform to the Fire Service Levy for a number of years.

Refreshingly, the Issues Paper is to transition to a new model, not justify the existing system. In developing the VFF policy over a number of years there has been some guiding principles that were used to form a model that would be superior to the current system. The guiding principles for the VFF under a new funding arrangement are:

1. Collection needs to be as broad based as possible. All potential benefactors of the service should contribute to the service;
2. Farmers should not be disadvantaged under a new funding model, unlike the current system (with CFA commercial FSLs always the highest) or the municipal funding model due to the land intensive nature of farming;
3. Improved oversight and transparency in budgets should be a priority;
4. Regional and Rural areas should not be disadvantage compared to metro areas;
5. Current state government contributions should at least be maintained; and
6. GST and Stamp duty should not be collected on fire services funds.

This VFF submission will provide answers to the questions posed in the options paper based on the policy developed at the VFF that we feel will satisfy the principles outlined above.<sup>1</sup>

---

<sup>1</sup> The VFF Policy can be found in Appendix One

## WHAT SHOULD THE PROPERTY LEVY REPLACE

*Which components of the statutory contributions model should be replaced by a property levy?*

- 1.1. *All statutory contributions from insurers and state and local governments? - **Disagree***
- 1.2. *Statutory contributions from insurers and local government only, with existing state government contributions continuing on the basis of the current model? – **Agree***

It is difficult to determine what the overall contribution changes would be if the property levy replaced all contributions, including that of the State, therefore the VFF supports the levy contributions from insurers and local government.

The VFF does not want to see an overall net reduction in contributions to the fire services by the State Government, so we believe that to start with replacing the insurers' contributions would be prudent.

Where local governments within the MFB area contribute 12.5% to the MFB, the CFA area does not have direct contributions from local government. The VFF is concerned that if there is a greater level of contributions required from local councils in regional areas there will be a greater burden placed on farmers.

Farmers contribute a disproportionate amount towards local government through the assessment of rates. In regional areas farmers pay half of all rates assessed on business but farm gate output is 13.5% of the economy. This is clearly unfair and we are concerned added costs on to local governments will be passed back to the farmers.

### **Proposal:**

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

Following from the statements above the VFF is supportive of this proposal as it attempting be a fair imposition of the levy. As stated in the options paper we believe there is a case on equity, efficiency, competitive neutrality and transparency grounds for a fire services property charge to be levied on local government property and properties that currently receive exemptions from other property taxes in Victoria.

The new policy should be as broad-based as possible to ensure equity. The free-rider problem of the current system is made worse and the greater burden is placed on a smaller amount of people. This increase in fire effort puts further pressure on existing insurers, making self-insuring a more attractive option – leading to the downward spiral of reduce insurance uptake.

## WHAT IS THE APPROPRIATE VALUATION BASE

### 2. What is the most appropriate valuation base?

2.1. Site value (i.e. the value of land only)?- **Disagree**

2.2. Improved value (i.e. the value of buildings only)? - **Agree**

2.3. Capital improved value (i.e. the value of land and buildings)? - **Disagree**

## NOT ANOTHER MUNICIPAL RATES

We are concerned that a charge based on CIV will have the same inequities, which farmers are disadvantaged by, as municipal rates. Currently, farmers pay a considerably larger portion of municipal rates than their town resident counterparts and other business of a similar size. This is due to the land intensive nature of the farming business.

Also, a levy based on land valuations introduces another layer of cost fluctuations due to changing valuations. Farm land values can have large changes between valuations and also change in relation to residential properties. A land values fluctuate the relative contributions will fluctuate as well. Building values do not have this weakness.

In the absence of funding fire services through consolidated revenue, a levy charged on property and vehicle registrations is the most equitable way to fund the fire services. The FSPL should be based on the building asset value (Capital Improved Value minus Site Value), not the entire property value. There are several advantages to this approach, including:

- Equitable – All those who benefit contribute
- Broad-basing – One of the fundamental principles of taxation is broad-basing to ensure all the potential benefactors of the service are contributing. A charge on property and vehicles are a positive step to ensure a broader contributing base, lightening the load for all contributors.
- Vehicle charges pay for their use – Between the 2005/06 and the 2009/10 financial year, 11.5% of incident responses, not counting false alarms, were related to motor vehicle accidents, Rescue and EMS calls.<sup>2</sup> While the Transport Accident Commission does contribute some funds to the CFA, it is unclear how much, but is less than \$14.3m.<sup>3</sup> Considering 11.5% of the 2009/10 budget is over \$43m, it is clear the motor vehicle component is under-funded.

## CFA Incident Activity

| Incident Type          | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 |
|------------------------|---------|---------|---------|---------|---------|
| Fire and Explosion     | 11,358  | 16,862  | 15,774  | 16,369  | 13,589  |
| MVA, Rescue, EMS calls | 2,928   | 3,738   | 3,780   | 3,868   | 3,806   |
| Hazardous condition    | 2,986   | 3,650   | 2,963   | 3,057   | 3,125   |
| Overpressure rupture   | 37      | 62      | 73      | 56      | 37      |

<sup>2</sup>[http://www.cfa.vic.gov.au/about/documents/cfa\\_annual\\_report\\_2010.pdf](http://www.cfa.vic.gov.au/about/documents/cfa_annual_report_2010.pdf), CFA 2010Annual Report

<sup>3</sup> CFA 2010 Annual Report, page 27, “Other income during the year totalled \$14.3 million from a number of sources including the Transport Accident Commission, public donations and recognition of additional brigade assets.”

|                                     |        |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|--------|
| Service calls                       | 2,097  | 2,773  | 2,787  | 2,853  | 2,822  |
| Good intent calls                   | 4,509  | 5,745  | 5,400  | 6,129  | 5,552  |
| FALSE alarms and FALSE calls        | 6,024  | 7,588  | 7,506  | 7,011  | 6,927  |
| Other situations                    | 161    | 256    | 192    | 188    | 166    |
| Undetermined                        | 276    | 254    | 258    | 200    | 174    |
| Missing                             | 6156   | 190    | 127    | 182    | 575    |
| Total                               | 36,532 | 41,118 | 38,860 | 39,913 | 36,773 |
| <hr/>                               |        |        |        |        |        |
| MVA per cent excluding false alarms | 9.6%   | 11.1%  | 12.1%  | 11.8%  | 12.8%  |

## ASSESSMENT OF A FIRE SERVICES PROPERTY LEVY BASED ON BUILDING ASSET VALUE

The VFF, using valuation data, have analysed the impact of this policy shift. According to this analysis, adoption of our policy to fund fire authorities will translate into an annual, transparent charge of 1.03 cents for every \$1000 of building asset<sup>4</sup>.

### **Charge on Building Asset for Fire Protection**

|  |    |                    |
|--|----|--------------------|
| MFESB and CFA Budgets (308.4m + 402.6m)            | \$ | 710,949,257.00     |
| Contributions from Insurance companies (206m+303m) | \$ | 509,302,347.00     |
| Less: Car registration (4.2m x \$20)               | \$ | 84,000,000.00      |
| Remaining  | \$ | 425,302,347.00     |
| Total 2008 assessed Victoria CIV-Site Value        | \$ | 421,009,000,000.00 |
| Fire Authorities Charge/\$1000 of building asset   | \$ | 1.01               |

Based on this information, our policy will translate into a lower contribution from the average insurer. Below is a list of selected shires across Victoria with average values for that particular shire that could be expected to pay to fund the fire Authorities.

| Shire           | Average asset Value | Fire Authority Charge |
|-----------------|---------------------|-----------------------|
| Buloke          | \$62,203.20         | \$62.83               |
| Yarriambiack    | \$78,084.38         | \$78.87               |
| West Wimmera    | \$93,175.41         | \$94.11               |
| East Gippsland  | \$124,984.76        | \$126.23              |
| Loddon          | \$132,473.88        | \$133.80              |
| Greater Bendigo | \$148,791.17        | \$150.28              |

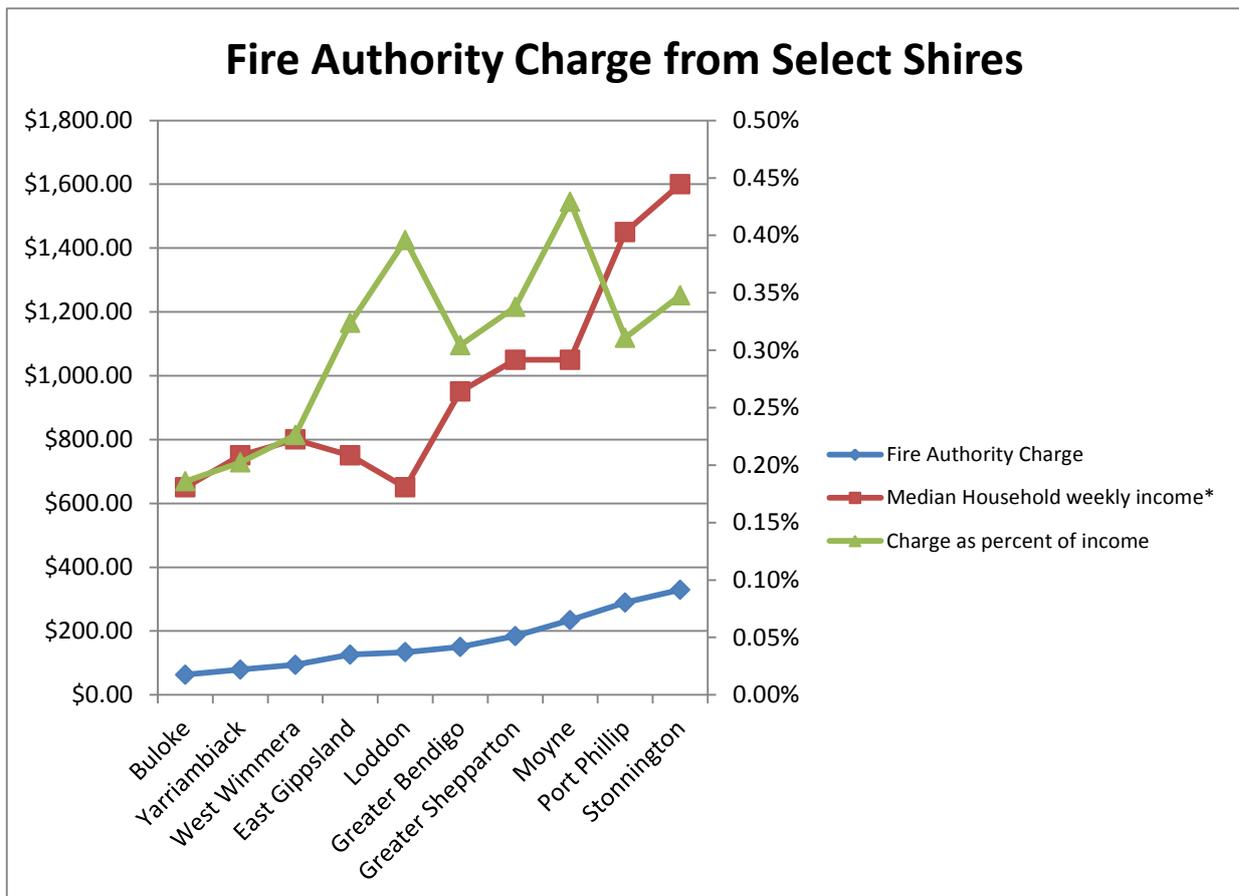
<sup>4</sup> This is in addition to a \$20 charge placed on car registration as outlined in our policy statement.

|                    |              |          |
|--------------------|--------------|----------|
| Greater Shepparton | \$182,495.90 | \$184.32 |
| Ararat             | \$184,876.87 | \$186.73 |
| Moyne              | \$232,012.45 | \$234.33 |
| Port Phillip       | \$286,476.24 | \$289.34 |
| Stonnington        | \$326,234.46 | \$329.50 |

### A progressive Charge

The VFF in the past have argued that property values do not relate to one's ability to pay, especially in the case of local government rates. However we do advocate for a system on rates that is based on house and curtilage as we feel that is a much better assessment of ability to pay.

This proposed system to fund fire authorities does prove itself to be a progressive charge when applied to building asset. Using the information from the table above and from Census 2006 data, there is evidence that the VFF model is approaching a progressive charge, albeit with a some inconsistencies as with any tax. This information does support the notion that there is a direct relationship between home asset (building) value and income making our policy even more equitable.



## Proposal

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

The VFF agrees in principle that the levy amount will have to change from year to year, to reflect changes in fire risk and response, however it is extremely important there is proper oversight of the CFA and MFB budgeting process and expenditure. The budget process and fund collection/distribution needs to be based on approved transparent budgets that work towards medium and short term goals in a cost efficient manner.

## Proposal

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

If the levy is assessed on building asset value, then there should not be a fixed component to the charge. The fire services property levy should be purely based on the property levy component.

However, if there is the situation where there are properties in residential areas that have buildings, but there is little or no building value on that site, it may be worthwhile to consider a minimum charge for those sites.

This minimum charge should not be assessed on farmland blocks. The majority of farmers own a number of titles and if a minimum charge was assessed on all blocks, farmers would again be overpaying.

## A SINGLE STATEWIDE LEVY RATE

*Should the property levy be set at single statewide rate, or should separate property levies be imposed within and outside the MFD? - **Single Statewide rate***

*Are there alternative ways of sharing the cost of funding fire services across the boundary of the MFD? - **Unsure***

There are several advantages to creating one fund for all fire services in Victoria. Most would agree that the provision of fire services is similar to law enforcement. When any resident in Victoria is requiring police action, they expect a local response, similar to fire services. Whether you insure your property, or are in a car accident you will expect the police and fire service to attend and assist.

Related to this issue is the question of risk - should it play a part in the amount one contributes to the fire services? There is an argument condoning a risk based approach, but if you consider fire services similar to police services then risk should not affect the contribution. The residents of areas in Melbourne where there are considerable higher levels of crime and police activity are not asked to contribute higher taxes to help pay for the additional police presence and

enforcement activities. As fire services is a similar public service, the high risk areas should not be asked to contribute more.

All fire service funding will also force added transparency and accountability in the pursuit and expenditure of funds for the fire services. CFA and MFB will then have to compete on efficiency for allocation of a set amount of funds.

The only disadvantage to this approach the VFF can identify is the vastly different business models between the two organizations. One of the major differences is the employee structures. The MFB employ a large number of permanent fire fighters and staff while the CFA rely heavily on volunteers to fight fires. CFA employee benefits expenses are approximately 49% annually<sup>5</sup> while MFB employee benefits account for nearly 72% of annual expense.<sup>6</sup> Due to structural and cultural differences between the two organizations, there may be difficulties in allocating the funds. However, as long as the budgeting process and allocation of funds is done in a transparent and objective manner the added difficulties will most likely lead to greater efficiency and accountability.

## PROPERTY LEVY RATES

*Should different levy rates apply to different properties classifications?*

The VFF is of the view that any increases in the complexity of the levy will increase the administration costs and risks inequity based on arbitrary classifications. For this reason we feel it is reasonable to only apply one rate across property classifications as long as the basis is the building asset value.

*How should the total funding burden be distributed between property classifications?*

Equally based on building asset value.

*Should the total budget be allocated according to a measure other than the fire risk of broad property classifications?*

The MFB and CFA budgets should largely be allocated on an ad hoc basis and distributed as needed based on approved transparent budgets that work towards medium and short term goals.

## ACCOMMODATING CONCESSIONS

Should eligibility for a concession be subject to a property value threshold? - **No**

---

<sup>5</sup> Based on 2008 annual report (Total expenses = \$281.7m, Employee benefits = \$136.7m)

<sup>6</sup> Based on 2007/08 Annual Report (Total expenses = 266.838m, Employee benefits = \$190.901m)

## PROPOSALS REGARDING LEVY ADMINISTRATION

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.

### **Agree in Principle**

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

The VFF has concerns that the collection of the levy by councils will be costly and inefficient if there is a considerable administration component built into the fee for the service. While we are not in the position to determine which is the most efficient mechanism (either by the SRO of local government) to collect the levy the priority goal should be to be done the most economical way.

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

– **Agree in Principle.** Due to the levy model that is being replaced and the replacement we do not see any other way to implement the new model. However, it should be clear that there should not be any additional levies in place during the transition to fund the transition.

The transition will be difficult to administer and to make as equitable as possible, so it will be imperative that the approach used be transparent, does not influence insurance decisions, and does not disadvantage insurers.

*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.*

### **– Agree in Principle**

There are a number of transitional arrangements that will need to be addressed. Most importantly, an education and awareness campaign for Victorian residents will need to be undertaken to ensure that the new bills for fire authorities are understood and expected.

There should also be oversight of the insurance industry to make sure that insurance premiums reflect the relative decrease in insurance expenses. For example, if the FSL is at 72% when the system is changed, cost to insure should drop by at least that amount.

## OTHER ISSUES

### STAMP DUTY

One of the inequities of the current system is the 'tax on a tax on a tax' phenomenon, with stamp duty being paid on the fire service levy and GST being paid on the total of FSL and stamp duty. The creation of a new fire services funding model provides the State with the opportunity to not only end this inequity, but also reduce the relative cost of fire services by removing the stamp duty revenue component.

The VFF would like to for the legislation associated with this levy to stipulate that the purpose of the levy and associated total collections to only be for funding of the fire services and not endorse over collection to recover revenue lost through reduced stamp duty collections.

### TREATMENT OF OVER/UNDER COLLECTION

The VFF believes every step should be taken to ensure that there is not an over collection or under collection to fund the fire services from year to year, but we acknowledge that this will happen. It will be sensible to quarantine the funds collection through the property levy within a trust structure where any funds that are 'left over' after a budget year can be held to be used in future years when the collection amount has fallen short of needs.

## CONCLUSION

Farmers in Victoria own the majority of land in the state and are caretakers of that land. We also make up a large part of the CFA volunteer force that is called on to fight fires and protect lives and buildings in regional and rural Victoria. Therefore, we take the funding of the fire services very seriously.

On one hand we need a properly funded fire services to ensure we can do our jobs well and on the other hand we don't want to be subjected to inequitable charges because of the level of land ownership.

We feel that a model that charges based on building asset value will be the most equitable to ensure the fire services property levy will not overcharge farmers due to their land ownership profile. VFF struggle every year with the inequitable impost of municipal rates, which is a tax on land values and we do not want to see this inequity continued through the fire services property levy.

A uniform charge across the State on buildings and vehicles will be simple to administer and sufficiently fund the fire services.

We congratulate the government for taking on the task of abolishing the Fire Services Levy.



Andrew Broad  
VFF President

## APPENDIX ONE - VFF FIRE SERVICES FUNDING POLICY

The VFF advocates that *the fire service levy be removed from property insurance and be replaced with a more equitable funding arrangement*. The principles of a more equitable system include:

- **Charge based on Building assets value (CIV-Site Value):** The majority of the funding should come from a charge applied to building assets owners. The charge will be based on the building asset value which can be determined from the Capital Improved Value of the property subtract the Site Value.
- **Calculation could include a risk component based on the geographical location and/or building use:** To ensure added equality in the assessment of the property based charge there should be a risk component in the calculation of the charge. There are a number of models used in other states, but this approach can either use a geographical assessment of bushfire risk, an assessment of fire risk due to the building use, or a mixture of the two approaches.
- **Partially funded through a levy on motor vehicles:** Motor vehicle accident are a significant contributor to CFA activity comprising anywhere from 15%-22% of the annual call-outs. There are 4.2m cars on Victorian roads and a small additional charge on registration will provide the means to recover the costs associated with vehicle accidents.
- **Broad based as possible:** There is an expectation that when there is a fire that the relevant fire authority will attend, and rightly so. A broad based approach to funding the fire authorities will reflect the potential benefactors in a much more equitable way than the current FSL approach.
- **Maintains Government contribution for Fire Authorities:** The government has significant assets in Victoria, from land assets to road and other infrastructure. The current contribution should not be reduced in the future as fire authorities' resources are also used to protect government assets.
- **Collected by the most efficient means:** The State's predisposition is for collection by the local governments. The other option for collection is by the State Revenue Office. Levy payers want this done as efficiently as possible.
- **As transparent and simple as possible:** The new way to fund the fire authorities needs to be as transparent and understandable as possible. The current system, using a series of complicated formulas makes it difficult to understand the funding mechanism. A simple levy on each property will create equity and understanding of the value and cost of the fire authorities.
- **Stamp duty would not apply:** Under the current system there is stamp duty that is applied to the FSL. This is not appropriate and under this proposed system it would be inappropriate to apply Stamp duty.