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The Vaucluse Progress Association

Established 1915

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ABN 12 756 395 726

RECEIVED
31 MAR 2004
PAC

The Manager
Public Accounts Committee
Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Review of Funding of Fire Services

This letter is our response to the PFS Interim report: *Quantitative Modelling of NSW FSL Methods,* March 2004, following our attendance at the public presentation of the report yesterday. We record our thanks for the opportunity to attend.

We make these general observations:

- The report models only the insurance-based levy, and has nothing to say explicitly about the council levy, which is distributed among councils on an *ad valorem* basis. This was a major disappointment for us, because of the glaring inter-council inequities that arise from that allocation. While we recognise that the intra-council distribution of the levy is determined by councils themselves, councils with high land values per ratepayer bear a share of the revenue burden that is very great and very inequitable, and so – ultimately – do their ratepayers.
- The report shows clearly that a very large sum indeed can be collected by way of a per property base levy on residential properties, under a base levy that is neither unduly burdensome nor high in absolute terms. On the beneficiary and use models, it appears that the council contribution and the insurance levy relating to residential properties can be funded by a combined base levy of something like $75 annually. This low number seems to flow out of the universality of the hypothetical levy, and the very great broadening of the tax base in the residential sector implicit in the mechanism of moving away from the very limited insurance levy for the majority of the funding effort.
- A move away from an insurance-based levy would, unless otherwise compensated, break the present connexion with fire risk that is – imperfectly, and certainly not universally – evident in the link with insurance premiums that underlies the FSL on insurance policies. A property-based levy with differential geographic rates based on claims or use of the service conceptually offers an alternative link. Given the evident and substantial deficiencies in the data modelled for commercial properties, especially relating to insurance business transacted outside the State, we think the Model outcomes for the various scenarios are probably more reliable for residential property than for commercial property.

- There is a substantial variation in values, scope, risk, location, and fire incident experience in the commercial sector. The extent of the variations appears to be relatively less in the residential sector. Equity suggests that each major sector should bear approximately the cost of its protection.
- Recognising that land values are not a reliable indicator of fire service use or benefit, we argue that reliance on them for purposes of funding the fire services should be minimised where possible. The conceptual gap between land values and fire risk is enlarged whenever *ad valorem* mechanisms are added to the simple per property allocation. In the case of residential property, it is reasonable to view everyone's home as being a vital asset, equally deserving of fire protection and equally obligated to fund it.
- Concern about low income residents is equally valid, but it is inefficient to resolve that concern by cross-subsidy through reliance on one or more *ad valorem* layer components of a levy, especially when there is no assurance that low income people will not be adversely affected by that approach. The unusually (and unexpectedly) high proportion of pensioners in our own district supports our point.
- The report suggests that a useful revenue sum may be raised by a reasonable levy on motor vehicle registrations. On the user pays principle, we think that should be pursued.
- The administration of the various scenarios is not discussed in the report. If councils were required to administer the land-based element(s) of a new system, they should be reimbursed the reasonable costs of such work.

* * *

The report shows that the full non-Government cost of residential fire protection, measured by claims or use, is well able to be reflected in the residential sector by a base levy of a low and reasonable amount, without recourse to an *ad valorem* layer. We see no reason to dilute that reasonable residential outcome for the purpose of sweetening outcomes for commercial properties.

Michael Rolfe
President
30 March 2004
Contact: Phone/fax 02 9337 5058

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Vicki Buchbach - PFS report on Fire Services Funding

From: "David Lewis" <dlewis@northbridgeadmin.com.au>
To: <Vicki.Buchbach@parliament.nsw.gov.au>
Date: 1/04/2004 11:48 AM
Subject: PFS report on Fire Services Funding

Dear Vicki

I attended the public meeting regarding Fire Services Funding on Monday 29 March.

I have to admit that I am not an expert on this matter nor have I had any previous dealings with the issue prior to considering the matters raised by the PFS report on Monday.

Clearly, the issues involved are many and various and relate to how the funding requirements are currently met, the winners and losers in changing the method of funding, user pay issues and the political issues raised by the review of funding methods.

As an interested member of the public I wonder if a method of funding based on an approximate assessment of the fire risk at each property has been considered. Basing this risk assessment on insurance premiums clearly does not work as these premiums relate to many other risks apart from fire.

I suggest this would work in a similar way to the workers compensation system. Major risk factors would be identified, the property owner answers some simple questions about these risk factors (postcode, proximity to "bushland", use of property, number of tenants, etc), a rate per thousand of land value would be calculated by the application of a simple formula and a bill sent off to the land owner for payment. This could be carried out by the councils as part of the council rates process.

It seems to my simplistic nature that if a user pays system is one of the aims of this review then there is a necessity to make some approximate assessment of the fire risk.

Regards

David Lewis
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Council of the Shire of Jerilderie

(68)

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31 March 2004

The Manager
Public Accounts Committee
Parliament of NSW
Macquarie Street
SYDNEY NSW 2000

Dear Sir/Madam

I refer to your letter of 16 March 2004 (Ref PAC234) regarding the above matter and a copy of the Interim Report to the NSW Public Accounts Committee for Quantitative Modelling of NSW FSL Funding Methods.

The Interim Report raises a number of questions as does the property-based fire service levy itself. In our view a levy based upon "user pays" principles should be pursued. Fire risk and general risk can best be represented by both property and contents insurance values. The proposed property based model doesn't adequately cover the risk aspect and could have disastrous cost implications for rural and remote communities by increasing farm costs. The property based models are based on values that don't take into account the land use or stock etc, nor does it differentiate between rural and remote communities where property prices have remained static as compared to property boom areas.

A property based system implies management by Local Government. This could be seen as another Local Government rate increase. Furthermore, there appears to be no consideration of resources required to manage and maintain a system that appears to be cost-shifted from the State. The State Revenue Office could be used to collect the levy.

The report seems to suggest that the models reflect a revenue raising scheme in that the State's contribution actually reduces to 7.6% (Page 39). The other side to this equation is not guaranteed in that consumers should receive a reduction commensurate to the amount of the State Government decreased contribution, from the Insurance industry. In the current climate it is very doubtful that insurance costs would even decrease.

The report assumes on P39 Clause 8.1 that insurance premiums would fall by the amount that is currently changed for the FSL and associated Government impacts. It is considered that this assumption is totally unrealistic. Why is it a revenue raising model when it should be risk based and user pays?

In summary, it is virtually impossible to assess the implications detailed in the report due to the assumption made. This matter is further highlighted by the table that appears in paragraph 9.3.3 on page 46. Of the total number of properties there are approximately 47% more policies and only 7% of the records matched.

Based on such sampling is it correct to determine that a property-based model is best for our community?

We would like to suggest that the consultants be employed to come to our Shire and actually use the information in our records to develop the various models so that the Council and community can assess the models and determine the one that best meets our demands.

Yours faithfully

Charles Gentner
GENERAL MANAGER

(69)

CHARGEURS
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6th April 2004

The Manager
Public Accounts Committee
Parliament House
Macquarie Street,
Sydney NSW 2000

Supplementary submission to New South Wales Public Accounts Committee Review of Fire Services Funding in New South Wales

INTRODUCTION

Riverina Wool Combing P/L (RWC) presented a submission in relation to the review of the Fire Services Levy (FSL), by the NSW Government and, in particular, the application of that levy to business throughout NSW.

We have received and studied the interim report prepared by Professional Financial Solutions. We now wish to make a supplementary submission to the Public Accounts Committee in response to the above report.

SUBMISSION

Riverina Wool Combing P/L has reviewed the four (4) financial scenarios (models) contained within the report and we are of the opinion that **all** of the models presented provide a substantially better outcome than the existing method of applying a fixed percentage levy to insurance premiums.

RWC nominates its support for the fourth financial model, which is a combination of the other three (3) models presented and, therefore, provides the most equitable application of the FSL across all property owners in NSW.

Please find below a worked example of the levy applicable to Riverina Wool Combing P/L. In this example the actual amount of FSL paid in 2003 is compared to the theoretical amount to be paid, for the same period, if the 'combined' scenario (fourth financial model) is used to calculate the amount of FSL payable.

1. Amount of Fire Services Levy paid by RWC in 2003 = **$236,059.30**

2. Calculated amount to be paid using the fourth financial "combined" model

Base Levy	=	$30.00
Rate 1	=	$0.13 x 927 (see note below)
	=	$120.51
Rate 2	=	$5.57 x 283
	=	$1,576.31
Total FSL	**=**	**$1,726.82**

Note :

The RWC site is a combination of three (3) separate properties – only one (1) of these properties is valued higher than $500,000)

CONCLUSION

Based on the above comparison RWC would be able to generate savings, in the amount of FSL payable, in excess of $230,000.00 per annum.

As our business is struggling from the combined effects of the ongoing (and in parts) deepening drought conditions, intense international competition and adverse exchange rates these savings will represent a much needed boost to our company finances.

RECOMMENDATION

We ask the NSW Government to consider seriously the recommendations of the Professional Financial Services interim report to the NSW Public Accounts Committee.

Adoption of the fourth financial "combined" model will deliver major financial benefits to business across NSW (as demonstrated in the RWC example) and will provide a fairer and more equitable spread of the cost burden for the provision of the NSW Fire Brigade Services

Yours Sincerely,

Leon Baronet
MANAGING DIRECTOR

(70)

Lockhart Shire Council

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8 April 2004

The Manager
Public Accounts Committee
Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Dear Sir

REVIEW OF FUNDING FOR FIRE SERVICES

This Council wishes to support a shift away from the current method of funding fire services in New South Wales.

The current system is inequitable, as people who choose not to insure or businesses who insure offshore do not contribute.

Council supports a property-based system supported by a levy on motor vehicles. Any new system of raising the necessary revenue needs to be simple and easy to explain. For that reason Council would support a minimum charge plus an ad valorem component.

Assuming that councils would be the collection agents (via rate assessments) some commission system needs to be developed to offset costs and safeguards in place so that councils are not left out of pocket when landowners default on payment and properties are sold for unpaid rates.

Yours faithfully

G Jones

G.R. Jones
GENERAL MANAGER

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