

**Submission  
No 2**

## **INQUIRY INTO FIRE AND EMERGENCY SERVICES LEVY**

**Organisation:** Woollahra Council

**Date received:** 9 November 2017

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Council Ref: SC3665 DJ  
Your Ref:

8 November 2017

The Hon Robert Borsak MLC  
Committee Chair  
Legislative Council  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

Dear Sir

**Submission to the Inquiry into the Fire and Emergency  
Services Levy**

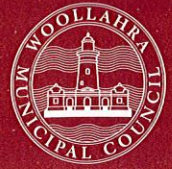
Council welcomes the inquiry into the Fire and Emergency Services Levy and makes the following submission.

(a) the policy process and financial modelling underlying the provisions of the *Fire and Emergency Services Levy Act 2017*

From a policy perspective:

- this is a State tax and should not be collected by local government
- a golden opportunity to make the full cost of providing emergency services more transparent was lost by not including the 11.7% local government contribution currently hidden in council rates.
- Reliance on the unimproved capital value of land, fundamentally unrelated to the improvements on the land that are potential service recipients, is flawed. Proceeding with FESL in any form should not continue until a decision is taken in regard to a move to capital improved values for local government rating purposes. If that decision is to remain with unimproved capital value a different collection method is required.
- property classification is unnecessarily complex. If it is to be levied and collected by local government it should reflect existing rating categorisations. Currently non-rateable properties can easily be classified as residential or business.
- the fixed component of the levy should be expressed as a percentage of the levy yield, the same as for local government rating. The inflexible structure in the Fire and Emergency Services Act (the Act), specifying dollar amounts for the fixed component, may have contributed to the excessive levies on certain properties that, according to the Premier, imposed 'unintended consequences'.
- there is a complete lack of transparency around the levy structure – what percentage does the fixed component recover?

Woollahra  
Municipal  
Council



ABN 32 218 483 245

Redleaf Council Chambers  
536 New South Head Road  
Double Bay NSW 2028

Correspondence to  
General Manager  
PO Box 61  
Double Bay NSW 1360  
DX 3607 Double Bay  
records@woollahra.nsw.gov.au  
www.woollahra.nsw.gov.au

Telephone: 61 2 9391 7000  
Facsimile: 61 2 9391 7044

- the idealistic view of striking a levy structure, based predominantly on land value (? – we don't know) that applies to the state as a whole is inequitable, clearly skewed toward metropolitan property owners. This needs to be re-thought with a potential solution being levying by fire district. If there is to be cross-subsidisation of rural and regional fire districts it should be made explicit.
- unnecessarily complex arrangements for payment of the levy to the State. Local government rating systems apply receipts to the various rates and charges on a rates notice. The amount received for FESL can be easily determined and remitted. These payments can be made on the 15<sup>th</sup> of September, December, March and June (earlier than currently in the Act) and the administrative burden envisaged / imposed by the Act can be abandoned.
- if the above approach is not taken, the reconciliation periods need to be aligned with the requirement to provide an annual return to the Chief Commissioner. Reconciliation periods should be 1 July to 31 August, 1 September to 30 November, 1 December to 28 February and 1 March to 30 June.

From a financial modelling perspective:

- financial modelling, what financial modelling? There was a total lack of transparency around the modelling of the Levy. It is difficult to make an informed submission on an aspect of the implementation of the levy that was not done in a collaborative, consultative way.
- How could it go so wrong? NSW Treasury had all the data. There should not have been any 'unintended consequences'. This is a clear indication that the basis of the charge is flawed and the property classification unnecessarily complex.
- There was no sharing of modelling data. The claims that the average levy was \$185 and that 'in the majority of cases across NSW, fully insured people would be better off under the new system' were not supported by data. Local government was basically left in the dark. Very shortly after the announcement of the ad valorem rates for the levy Council sought the following information from NSW Treasury:
  - What percentages of the levy are collected from the base amount and ad valorem amount and if this varies between classifications
  - The total collected across the State and by local government area, ideally by classification
  - statistics on what the value of the ESL collected on insurance policies in the Woollahra LGA was

To date Council has not received a response, presumably as a result of the deferral of the levy.

Council's Chief Financial Officer also shared his observations with NSW Treasury around the impact of the levy on landowners in its local government area:

*I have been concerned from the outset that the FESL would have a significant impact on our landowners, but I have to say I wasn't prepared for the level of FESL to be collected from Woollahra. On average, our residential landowners will be paying a third of their Council rates again for FESL. Our business landowners are even worse off, paying on average two thirds of their rates in FESL. The Woollahra LGA will be contributing at total of \$15.5m toward funding emergency services. That's equivalent to 45% of our total general rates income*



- Perhaps selecting a range of sample councils and sharing the impacts of the proposed levy structure in the real world would have better informed the modelling process.
- Also suggest engaging a consultative group of Local Government Finance Professionals to work with NSW Treasury on any future modelling.

(b) the policy and financial implications for all stakeholders of repealing this Act

To be fair, the financial implications for local government during the implementation phase were generally well managed and expenditure incurred was covered by the payments made by NSW Treasury. This includes the costs of software changes the enable, and then disable, the levying of FESL.

In the absence of knowing what might replace FESL if this Act was to be repealed it is difficult to make a submission on this point. If it is to remain unchanged there would be no financial implications for local government.

(c) alternative models for ensuring that fire and emergency services are fully funded in a fair and equitable manner

Council has been a long-time advocate for changing the funding methodology for emergency services. Its objections remain unchanged from the 2003 inquiry into Fire Services Funding when Council submitted:

*Council's principle objections to the current methodology are:*

- *Inherent inequities in using land values for the distribution of the local government proportion of Fire Brigades funding, skewing it toward those municipalities and shires with relatively higher land values with no regard for the services provided to or risks associated with those areas; and*
- *Non-rateable properties not contributing to the local government proportion of funding;*

*but also has concerns regarding :*

- *Lack of accountability at the State Government level for substantial changes to funding requirements from year to year; and*
- *Lack of transparency with the vast majority of funding (86%) being "hidden" in council rates and insurance premiums*

*Item 4 of the Committee's Terms of Reference deals with Council's principle objections whereby proposed funding arrangements should:*

- ensure, to the maximum extent possible, that all those who benefit from the provision of fire services contribute to funding the fire services;*
- broadly matching funding contributions to the level of service provided to the taxpayer and/or the risk of fire affecting each taxpayer;*
- be difficult to avoid through changed taxpayer behaviour; and*
- provide a stable base for funding fire services.*

*To achieve this, Council advocates the abolition of the current Fire Services Levy and funding methodology and the introduction of a fixed charge approach having regard to the services provided to and potential risks associated with different property types. It also supports the introduction of a levy on all registered motorised transport to broaden the base from which the funding requirements are recovered to include a well-known source of cost and risk.*

*In advocating this, Council refers to the South Australian Government's approach. Administered under the Emergency Services Funding Act 1998 the levy comprises a fixed charge and variable charge while recognising area factors and land use factors. A further levy is raised on mobile property. Council's position is that the fixed charge be set with these factors in mind rather than employing a variable component. If a variable factor is to be used it should be with a view to staging a transition away from a land value based calculation to a fixed charge.*

*It is noted that that South Australian model sees the levies collected by Revenue SA and Transport SA respectively, rather than using local government as a collection agency. In considering this issue over time, Council has also supported an alternative approach proposed in a discussion paper issued by Lgov NSW in January 2003. This approach uses a property levy augmented by a flat levy on motor vehicles, not unlike the South Australian approach. The property levy incorporates a 'property type' factor and a fixed charge. In supporting this approach, Council suggested that the fixed charge component should recover at least 50% of the total funding requirements to reduce the inequities associated with using a land value based calculation.*

*In introducing any new funding model, if local government is to continue to be a collection agency, an appropriate fee needs to be negotiated to fully compensate councils for the costs associated with the collection process. Council's strong preference is for the levy to be collected directly by the State Government.*

*Council believes that a fixed charge which has regard to property type and location will most fully meet the criteria set down in Item 4 of the Committee's Terms of Reference and strongly supports any approach that moves away from, or reduces, a land value based charge. It also supports the introduction of a levy on motor vehicles, or motorised transport generally, which clearly meets the criteria in Item 4 establishing a direct link with service provision and risk.*

Much, if not all of this 2003 submission remains unaddressed by the FESL Act.

To ensure that fire and emergency services are fully funded in a fair and equitable manner the State needs to:

- consider / reconsider a charge on every registered vehicle, supported by incident statistics from FRNSW 2015/16 Annual Report, to directly fund vehicle fires and accidents



#### 1.4.1. Emergency incidents

Number and Type of Incidents and Emergencies Attended					
Profile of Incidents attended	2011/12	2012/13	2013/14	2014/14	2015/16
<b>Fires and explosions</b>					
Structure fires	6,711	6,766	6,259	6,286	5,772
Outside storage fires	257	234	232	262	257
Vehicle fires	3,939	3,763	3,303	3,091	3,080
Bush and grass fires	6,393	10,153	8,449	5,959	6,411
Rubbish fires	7,926	7,593	6,753	5,684	5,207
Other fires	360	375	345	664	1,315
<b>Total fires and explosions</b>	<b>25,586</b>	<b>28,884</b>	<b>25,341</b>	<b>21,964</b>	<b>22,042</b>
<b>Non-fire rescue calls</b>					
Motor vehicle accidents involving the extrication of victims	5,086	4,909	5,012	4,829	4,681
Other non-fire rescues including industrial and vertical rescues	2,962	2,878	3,152	3,340	3,113
Medical assistance	1,057	1,062	1,178	1,477	2,056
Animal rescues	2,117	1,894	1,745	1,802	1,670
<b>Total non-fire rescue calls</b>	<b>11,223</b>	<b>10,745</b>	<b>11,067</b>	<b>11,448</b>	<b>11,520</b>
Hazardous material incidents and other hazardous conditions including power lines down	15,594	15,901	15,453	16,272	15,621
Storm, floods and other natural disasters	3,679	3,713	3,973	5,675	4,528
Other service calls	3,359	3,388	3,307	3,861	3,776
Good intent calls	11,127	12,059	11,753	12,129	13,831
Malicious false calls	2,147	2,071	1,615	1,266	1,385
System initiated false alarms	52,235	49,181	46,384	49,077	45,541
Other calls	5,785	7,665	8,069	6,363	4,583
<b>Total other emergencies and incidents</b>	<b>105,149</b>	<b>104,723</b>	<b>101,621</b>	<b>106,091</b>	<b>100,785</b>
<b>Total fires, explosions and other emergencies</b>	<b>130,735</b>	<b>133,607</b>	<b>126,962</b>	<b>128,037</b>	<b>122,827</b>

RevenueSA acknowledges that around 25% of all emergency service call-outs in South Australia involve road accidents or related activity and continues to impose a levy on motor vehicles payable at the time of registration.

- await a decision on the introduction of capital improved land values for local government rating before proceeding with FESL in its current form
- increase the fixed component of the levy to reduce the inequities arising from the spread of land values
- consider FESL at fire district level rather than State wide to assist with addressing the spread of land values and to better reflect a user-pays model
- make any cross subsidisation between fire districts explicit

(d) any other related matter

One of the potential contributors to this debacle is the timeframe within which the State tried to implement the change. It was entirely inadequate. Such a significant change to the current funding model should have been done over a much longer period including more robust software testing and financial modelling. Software providers were given precious little time to make quite complex changes to software to facilitate levying and reporting of FESL. Councils were given even less time to test those changes, placing heavy reliance on a handful of test sites.

If / when the State looks to re-introduce FESL it must incorporate a full test of the levy by councils and a report back on the real world application of the levy structure.

It is acknowledged that there is a need for change. Council has been a long term advocate for change, but that change must improve the equity in funding emergency services, not exacerbate existing inequities.

Woollahra Council would welcome the opportunity to participate in any consultative working group with NSW Treasury to consider future models.

Enquiries in relation to this submission can be directed to Council's Chief Financial Officer, Don Johnston.

Yours sincerely

Gary James  
General Manager