Review of the *Fire Service Act 1979*

OPTIONS PAPER: FIRE SERVICE FUNDING ARRANGEMENTS

Department of Treasury and Finance

Tasmanian Government

Contents

BACKGROUND

In the lead up to the 2021 State election, the Tasmanian Government committed to initiating a consultation process on the development of a contemporary new Fire Service Act within 100 days of being elected. The aim of this commitment was to ensure that the Tasmanian Fire Service (TFS) is underpinned by contemporary legislation that reflects the service delivery that is expected by the community now and into the future.

As part of this commitment, the Government is undertaking community consultation. Significant work has already been undertaken through the Review of the *Fire Service Act 1979* led by Mr Mike Blake (the Blake Fire Service Act Review (Blake Review)) and the previous work undertaken by the House of Assembly Standing Committee Inquiry into the State Fire Commission (SFC).

Due to the alignment of roles and functions, the Blake Review also included consideration of future arrangements for the State Emergency Service (SES).

The Blake Review includes 45 recommendations for reform, including 16 Financial Management Recommendations (Recommendations 10-25). A copy of the Blake Review is available at https://www.dpfem.tas.gov.au/consultation-fire-service-act.html.

The Blake Review was released for consultation on 26 August 2021. At the time, the Government also committed that, as part of the consultation process, the Department of Treasury and Finance (Treasury) would release a separate Options Paper for consultation on potential funding models for the TFS and SES to ensure that fire and emergency services are funded in an equitable, transparent and sustainable way.

PURPOSE OF THIS PAPER

This options paper has been developed following the release of the Blake Review for public consultation. Given the Blake Review contained 16 financial management recommendations, Treasury is seeking specific feedback on the most appropriate funding model for an integrated fire and emergency services function, taking into account the objective of ensuring future funding arrangements that are more sustainable, equitable and commensurate with future functions and the business operating model.

The purpose of this paper is to outline the current operation of the *Fire Service Act 1979* as it relates to funding arrangements, detail the various alternative funding models raised in the Blake Review, and raise a number of issues and questions for consideration.

Interested parties are invited to comment on the issues and questions raised in this paper.

Submissions should provide evidence and reasoning as to the support/non-support of the Blake Review recommendations.

Submissions on the potential funding models are to be provided to act.review@fire.tas.gov.au by 5pm on 6 December 2021 and may be published.

CURRENT FUNDING ARRANGEMENTS

The Fire Service Act prescribes the current funding arrangements for the SFC, which is the governing body for the TFS.

As noted in the Blake Review, these arrangements are extremely complex and highly prescriptive, with funding being provided from a range of sources. This includes the Fire Service Contribution, the Motor Vehicle Fire Levy and the Insurance Fire Levy, together with funding from a number of other sources, including the Australian Government, State Government and internally generated income. The Fire Service Contribution and the two levies made up 82 per cent of the SFC's total revenue of $122 million in 2020-21.[1] The levies are expected to make up a similar percentage of revenue in 2021-22.[2]

The interactions between the funding sources are shown in the following diagram.

	INSURANCE FIRE LEVY	•Prescribed by Division 2B of Part VI of the Fire Service Act. •Collected by insurance companies through a levy on premium income for certain prescribed classes of business insurance. Levy differs depending on type of insurance.
+	MOTOR VEHICLE FIRE LEVY	•Prescribed by Division 2C of Part VI of the Act. •The Government collects this through a fire levy applied to all vehicle registrations.
+	AUSTRALIAN GOVERNMENT FUNDING	•Contributions made by the Australian Government under a Memorandum of Understanding for fire protection of Commonwealth land.
+	REVENUE FROM MARKETING ACTIVITIES	• Not defined in the Act. • Includes revenue from the sale of goods and services.
-	OPERATING COSTS	•Operating costs of brigades, which are defined in Section 74(2) of the Act as the costs of servicing the brigade and ensuring that it is maintained at an appropriate level of operational efficiency and readiness. •Section 74(2) specifies that these costs include the following, as they relate to the brigades: salaries and wages; costs of equipment, land and buildings; borrowing costs; workers compensation insurance; council rates and charges; other brigade-related operating costs; and the part of overall infrastructure costs that are attributable to the maintenance and operation of the brigades.
=	FIRE SERVICE CONTRIBUTION	•Theoretically is a balancing item that enables the SFC to recover its brigade operating costs, once all other funding has been taken into account. •In practice, this is set annually by the Minister after considering the SFC's Corporate Plan. It is set annually via a percentage increase or decrease on the previous year's fire service contribution. •It is collected by local councils through rates charges. The amount collected by each council is calculated in accordance with a complex formula.

PROGRAM SPECIFIC FUNDING

STATE GOVERNMENT FUNDING	•General contribution under section 101 of the Act, which provides that the Treasurer must pay to the SFC such amount as the Treasurer determines is appropriate towards defraying the operating costs of the SFC[1]. •Funds specific program costs that are not funded by the Fire Service Levy, such as the Bushfire Readiness Program (operating and capital expenditure) and wildfire fighting reimbursements.

OTHER REVENUE SOURCES

MISCELLANEOUS REVENUE	•Insurance recoveries and interest revenue

[1] Based on the SFC's Statement of Comprehensive Income for the year ended 30 June 2021.
[2] Based on the SFC's 2021-22 Corporate Plan.

Further detail in relation to the Insurance Fire Levy, the Motor Vehicle Fire Levy and the Fire Service Contribution is included in Attachment A, including revenue collected from each of these sources in 2020-21.

Funding arrangements for the SES also lack clarity and are uncertain. As with the State Fire Commission, funding also comes from a range of sources, including from local government via provisions in the *Emergency Management Act 2006,* which stipulates that councils are responsible for the establishment and maintenance of local SES units. The remaining funding sources are largely via annual appropriation to the Department of Police, Fire and Emergency Management. Funding for the SES is expected to be in the order of $2.9 million in 2021-22.[3]

BLAKE FIRE SERVICE ACT REVIEW - FINANCIAL MANAGEMENT RECOMMENDATIONS

The Blake Review was required, among other things, to assess the SFC's funding base and identify future funding options and undertake an analysis of those options against the following criteria.

> Provide sufficient funding to ensure the fire and emergency services can perform the functions agreed by Government.
>
> Be administratively simple to calculate and collect.
>
> Be stable and predictable.
>
> Be equitable so that those who receive the various services contribute to the costs; levy payers in rural fire districts and all other asset owners receive benefits that reflect their needs and contribution; and minimise distortions in investment decisions, insurance price and coverage.
>
> Provide recommendations for the SFC's future funding base so it can be more sustainable, stable, simple, equitable and commensurate with future functions and the business operating model, including how improvements could be made to the current insurance-based levy; and whether there are any other viable funding sources.

The Blake Review recommended that any model should raise sufficient revenue to pay for the services of an integrated fire and emergency services function. It was also proposed that such a model should also include the full range of activities undertaken by the entity, including administration costs.

The Blake Review recommended the following four funding models.

1. Base case - continuation of the current model.
2. A single property-based levy.
3. A property-based levy combined with a vehicle levy.
4. Fully funded by annual appropriation.

With the underlying assumption that funds raised are fully ring-fenced for use by the entity.

---

[3] Based on the SFC's 2021-22 Corporate Plan.

The Blake Review includes discussion of the four options at a high level. As part of this, it is acknowledged that the current system is complex and not fit-for-purpose, but it is likely there will be winners and losers as a result of any proposed reform.

The current funding arrangements were developed in 1979 and do not take into consideration recent developments, including greater interoperability, technology changes, longer fire seasons and the impact of climate change.

The Blake Review notes that any future funding model needs to take into account these differing circumstances and, at the same time, be future-proof.

It is also noted in the Review that the Insurance Fire Levy should be replaced with a single property-based levy or another funding source. This is generally consistent with arrangements in other jurisdictions, where most jurisdictions use property-based levies to at least partially fund fire service costs.

Arrangements in other jurisdictions are summarised in Attachment B, together with a brief discussion in relation to recent commentary around insurance levies.

The Blake Review also acknowledges that, while there is a case for retaining the current Motor Vehicle Levy, a single property-based levy is preferred.

The Review indicated that further modelling would be required to determine the quantum of the impact on businesses and individuals for each of the options.

The Blake Review also proposed that local government continue to collect any new property-based levy and be paid a renegotiated collection fee for doing so. The current fee is 4 per cent of the Fire Service Contribution collected, which is approximately $2 million per annum.

An alternative approach may be for the levy to be collected by the State Revenue Office, which may result in some savings due to internal efficiencies, and allow for greater control and transparency over the collection and distribution of the levy. However, the SRO does not currently invoice all property owners and mechanisms would need to be developed.

MODELLING OF OPTIONS

Modelling limitations

Treasury has undertaken high-level modelling of the options proposed in the Blake Fire Service Review. The results of this are detailed below.

There is a range of significant limitations in relation to the outcomes of this modelling and the results are therefore only indicative of the potential impact on individual taxpayers.

A significant limitation of the modelling undertaken by Treasury is the inability to accurately model the impact of a change in the funding model for individual stakeholders. Treasury does not hold all necessary information in relation to the actual cost for individual ratepayers under each of the three elements of the current funding model, given this revenue is collected by third parties. For instance, as the current Fire Service Contribution is collected by local councils, Treasury does not have access to information or data in relation to amounts charged to individual ratepayers.

Similarly, the current Insurance Fire Levy is collected by insurance companies and passed directly to the SFC, meaning Treasury also does not hold this data. However, given the current Insurance Fire Levy rate of 28 per cent for some insurance policies, this is likely to significantly impact on the cost of insurance for businesses that are insured and in some cases, act as a deterrent to businesses being appropriately insured.

Key assumptions

Given the limitations detailed above, indicative modelling has been undertaken of the expected impact on groups of taxpayers arising under Options 2 and 3, based on average residential property values and average commercial property values.

The Treasury modelling assumes that in the order of $100 million would need to be raised under each option, which broadly includes current revenue collected from the Fire Service Contribution, the Motor Vehicle Fire Levy and the Insurance Fire Levy. It is assumed that revenue from other sources, such as the Australian Government and internal activities, would continue at their existing levels. It is also assumed that existing support measures from local councils would continue in relation to the operation and maintenance of SES assets and functions.

The modelling does not make any assumptions around the future cost of an integrated fire and emergency services function, and the costs largely reflect current arrangements. Treasury has not undertaken any type of analysis in relation to ongoing or future expenditure needs of an integrated fire and emergency services function to verify this assumption.

It is also assumed that a property-based levy will continue to be collected by local government and the costs for collection would continue at the existing rate of 4 per cent of the total revenue collected. As noted above, an alternative approach may be for the levy to be collected by the State Revenue Office, which could result in some savings, although this is unlikely to materially impact the outcomes of the modelling.

It is assumed that any existing exemptions and concessions will remain under any new funding arrangement. This includes the existing 20 per cent discount for eligible pensioners on residential properties.

The property-based levies outlined in Options 2B and 3B propose a differential rate dependent on property classification. The rate applied in Treasury modelling is highest for industrial and commercial properties.

Similarly, Treasury modelling proposes a higher bushfire prone area (BPA) charge rate for industrial, residential and primary production classifications, with lower rates for community services and other categories. This is for demonstrative purposes only and subject to further consultation.

Transition measures will be an important part of implementing any new funding arrangement. It is expected that such measures would be phased in over a reasonable period to support those persons or entities that are most affected by the change. However, the impacts of any targeted transition measures are not reflected in the modelling.

As noted previously, the modelling has been undertaken at a high level based on a range of assumptions. In the event a decision is made to proceed with reform of the funding arrangements, specific details would need to be considered, including the impact on individual taxpayers.

OPTION 1: RETAIN CURRENT ARRANGEMENTS

Option 1 is provided for comparative purposes.

This option assumes the continuation of current arrangements. However, it is assumed that funding is extended to cover the cost of an integrated fire and emergency services function. Existing exemptions and concessions would also continue.

As noted previously, Treasury does not hold detailed information in relation to amounts charged to individual ratepayers for the Fire Service Contribution. Treasury also does not have access to Insurance Fire Levy amounts levied on individual business's insurance policies.

Based on Treasury's modelling, it is expected that the Fire Service Contribution on a mid-range residential property would be in the range of $54-$303, and a mid-range commercial property would be in the range of $131-$689,[4] noting that the actual amount will vary depending on the municipality, assessed annual value (AAV) of the property and the type of fire brigade service (permanent, composite or volunteer). The minimum Fire Service Contribution, which is indexed in line with movements in the consumer price index ($42 in 2021-22), would also apply.

It is assumed that the Motor Vehicle Fire Levy continues at the flat rate of $19 per vehicle (based on 2021-22 costs). As such, the total contribution from a household or business will depend on the number of vehicles owned.

While Treasury is not able to provide any indication of the likely cost to businesses on their insurance, for some businesses it is likely to be material, particularly for those with high value properties or those in high risk industries or high risk locations.

[4] Based on mid-range residential property AAV of $11 960, and mid-range commercial residential property AAV of $25 840.

Commentary

As noted previously, the Blake Review found that the current arrangements are unclear, complicated and made it difficult for both the TFS and the SES to appropriately plan. Given the complexity of the funding arrangements, there is also an overall lack of transparency of the fire service funding model.

The current arrangements place a higher burden on businesses, with some businesses likely to be paying the Fire Service Contribution, the Motor Vehicle Fire Levy and the Insurance Fire Levy. For some of those businesses, the Insurance Fire Levy may be a material annual expense, particularly at a time when insurance costs are rising due to the increase in frequency of natural disasters and the impacts of climate change. This cost may act as a disincentive for businesses to adequately insure, with the potential for some businesses choosing non-insurance or self-insurance.

The Insurance Fire Levy also fails to take into account that a number of businesses may also have sophisticated in-house fire risk mitigation arrangements in place.

Further, the Insurance Fire Levy is only payable on traditional insurance policies, meaning those who maintain a mutual fund or who insure offshore are able to avoid a contribution due to legislative loopholes; thereby not contributing to the cost of fire services in the same manner as other businesses.

The brigade rating districts (permanent, composite or volunteer) used to calculate individual property owner's contributions for the Fire Service Contribution lack relevance and do not adjust over time with changes in actual resource allocation. This is an outdated approach that does not take into account more modern mobile firefighting capabilities such as the ability to deploy brigades between districts state-wide, both via road and air. Brigade rating districts also do not reflect the level of fire risk attached to a property.

These arrangements do not meet the sustainability, stability, simplicity or equity criteria against which the models are being assessed.

Questions

1. Do you support retaining the current arrangements? If not, why?
2. Does the Insurance Fire Levy act as a disincentive to your business being appropriately insured?

OPTION 2: A SINGLE PROPERTY-BASED LEVY

Instead of the three levies currently in operation, an alternative is to introduce one levy which is calculated based on the value of a property.

There are a range of alternatives for the calculation of a single levy that is solely property-based.

Treasury has developed two single property-based levy options based on a property's AAV. The options include:

- *Option 2A:* a single fixed charge and a single variable rate applied to all properties; and
- *Option 2B:* a differential fixed charge and a differential variable rate applied on the basis of a property's classification.

In Tasmania, 41 per cent of properties are classified as being in bushfire prone areas.[5] As such, both Option 2A and 2B also include an additional variable charge on properties that are considered to be in a bushfire prone area (BPA charge).

As noted previously, all exemptions would continue to apply, noting that the current Fire Service Contribution does not apply to State and local governments, Government businesses and religious and charitable bodies. Property owned by the Australian Government is also exempt. To minimise the impact on existing property owners from any changes, consideration could be given to extending the new property-based levy to a broader range of property owners.

Option 2A - single fee structure

Under option 2A, each property, regardless of its classification, would be subject to an annual amount that includes a fixed and a variable charge. The variable charge is calculated using a single rate based on the AAV of the property.

For those properties in bushfire prone areas a further variable charge would also apply, calculated using a single rate on the AAV of the property.

Under option 2A, the average residential property owner would pay a property-based levy of $273. This would increase to $335 for those subject to the BPA charge.

The average commercial property owner would pay a property-based levy of $473; or $607 for those subject to the BPA charge.

Option 2B - differential fee structure based on land classification

Under option 2B, a differential fixed charge and a differential variable rate would be payable on the AAV of properties based on the property classification.

Property classifications include:

- residential;
- commercial;

[5] Further information regarding bushfire prone areas is available at: http://www.fire.tas.gov.au/Show?pageId=colBushfireProneAreas

- industrial;
- primary production;
- community services (ie community halls and sporting facilities); and
- other (ie vacant land and recreation land).

Properties in bushfire prone areas would also be subject to the additional BPA charge. The BPA charge would also be levied at a variable rate, depending on a property's classification.

Under option 2B, the average residential property would pay a property-based levy of $288. This would increase to $348 for those properties subject to the BPA charge.

The average commercial property owner would pay a property-based levy of $450; or $528 if subject to a BPA charge.

Commentary

Both options 2A and 2B use a combination of fixed and variable charges to ensure that all property owners, regardless of the value of property, are contributing to the funding of an integrated fire and emergency services function.

Both options also include a BPA charge to account for the increased fire risk in bushfire prone areas. This also takes into account the fact that bushfire prone areas can also be harder for fire crews to access and resource in the event of an emergency.

The key difference between option 2A and option 2B is the fact that option 2B applies a differential rate depending on the property classification.

Option 2A is simple to calculate. However, the levy applies an equal rate to all property classifications, which means a higher burden is placed on residential and primary production property owners compared to the current arrangements.

The variable rate applied in option 2B applies a lower rate to residential properties compared to commercial properties, consistent with the current funding arrangements. However, given the relatively high rate of the current Insurance Fire Levy, option 2B may still result in savings for businesses compared to the current arrangements.

Overall, a single property-based levy would generally be considered an efficient tax, given it does not tend to alter business or individual behaviours and would provide stable revenue growth based on property value growth. Tying funding arrangements to property values is equitable and sustainable, would simplify the administration and collection of fire service funding, and would ease complexity for all stakeholders.

A single property-based levy meets the sustainability, stability, simplicity and equity criteria and provides a growing source of revenue to ensure that adequate resources continue to be available in the future to maintain an appropriate level of fire and SES capability in Tasmania. Option 2A is a simpler model and is likely to be more equitable across all property owners, irrespective of property usage.

OPTION 3: PROPERTY AND MOTOR VEHICLE-BASED LEVIES

Option 3 proposes that the existing Motor Vehicle Levy is retained in conjunction with a property-based levy.

The approach explored in option 3 is consistent with the options under option 2. However the variable rates and the fixed charges applied are lower to reflect the lower amount of revenue to be collected through the property-based levy. This is because the property-based levy in option 3 will be supplemented by the motor vehicle levy, compared to option 2 which relies solely on a property-based levy.

The two alternatives include:

- *Option 3A:* a single fixed charge and a single variable rate applied to all properties, plus the existing motor vehicle levy; and
- *Option 3B:* a differential fixed charge and a differential variable rate applied on the basis of a property's classification, plus the existing motor vehicle levy.

The BPA charge applied under options 2A and 2B would similarly apply to options 3A and 3B, to reflect the inherent risk in properties located in bushfire prone areas.

The motor vehicle levy would apply in the same manner as it does under the current funding arrangement. Note that once again, all exemptions and concessions would continue to apply.

Option 3A - single fee structure

Under option 3A, each property, regardless of its classification, would be subject to an annual amount that includes a fixed and a variable charge. The variable charge is calculated using a single rate on the AAV of the property.

Option 3A also imposes a BPA charge on those properties located in a bushfire prone area.

The motor vehicle charge, currently levied at $19 per vehicle, would also be payable. The total contribution from a household or business will depend on the number of vehicles owned.

Under option 3A, the average residential property owner would pay an annual property-based levy of $249. This would increase to $311 for properties subject to a BPA charge.

The average commercial property owner would pay a property-based levy of $403; or $538 for those subject to a BPA charge.

Option 3B - differential fee structure based on land classification

Under option 3B, a differential fixed charge and a differential variable rate would be payable on the AAV of properties based on the property classifications detailed under option 2B. The BPA charge would also be levied where applicable.

The motor vehicle charge, currently levied at $19 per vehicle, would also be payable. The total contribution from a household or business will therefore depend on the number of vehicles owned.

Option 3B would result in the average residential property owner paying an annual property-based levy of $261, plus $19 per motor vehicle. The property-based levy would increase to $320 with a BPA charge.

The average commercial property owner would pay a property-based levy of $388, plus $19 per motor vehicle. The property-based levy would increase to $465 with a BPA charge.

Commentary

Comparisons between the property-based levy under option 3A compared to 3B will be in line with the commentary above in respect of options 2A and 2B.

The key question in comparing these approaches is whether it is equitable to levy a differential rate based on property classifications, particularly given the manner in which this shifts the financial burden between different classes of taxpayers. The differing rate is also more complex compared to the standard single rate for all property classifications.

The Blake Review acknowledged that the continuation of the motor vehicle levy may detract from transparency, add complexity and raise equity considerations. On the other hand, it reduces the amount of revenue needed to be raised from the property-based levy, which results in the benefit of being able to lower property-based levy rates, relative to options 2A and 2B.

The Blake Review also found that the motor vehicle levy had only marginal volatility and represented a fair contribution to an integrated fire and emergency services function given the number of car-related incidents that either the SES or TFS are required to attend.

Questions

3. Do you consider that a single property-based levy would provide a more stable, simple and equitable approach to funding an integrated fire and emergency services function?
4. If so, do you support a standard single-fee structured property-based levy as proposed in options 2A and 3A, or the differential rates based on a property's classification as proposed in options 2B and 3B?
5. If differential rates based on a property's classification are adopted, which classifications do you think should have higher rates when compared to others?
6. Do you support the use of a bushfire prone area charge for higher risk fire areas?
7. If a property-based levy was introduced, is it also appropriate to retain the Motor Vehicle Levy?

OPTION 4: ANNUAL APPROPRIATION

Consistent with other publicly provided services, option 4 proposes that emergency services be funded by an annual appropriation from the State Government via the Department for Police, Fire and Emergency Management.

The implementation of this model would mean significant change, both legislatively and administratively. This model would ensure that the SFC budget is consistent with overall Government budget policy. This would require annual expenditures to be appropriated by Parliament, thus enhancing clarity and accountability.

However, an integrated fire and emergency services function would be dependent on annual budget processes and would not have dedicated funding available each year. The Government would also lose a significant source of revenue with around $100 million collected from the Fire Service Contribution, Insurance Fire Levy and Motor Vehicle Fire Levy per annum. Other sources of revenue would need to be considered, or services reduced in other important areas of Government service delivery.

Alternatively, options 1, 2 or 3 could be adopted, with funding directed to the Public Account rather than directly to the integrated fire and emergency services function.

Question

8. Should an integrated fire and emergency services function receive dedicated funding each year rather than being subject to annual budget processes?

COMPARISON OF OPTIONS

The tables below compare the estimated cost to residential and commercial property owners under options 1, 2 and 3, as per Treasury modelling.

Table 1: Residential property owners

	Option 1	Option 2A	Option 2B	Option 3A	Option 3B
Property-based levy	$54 - $302	$273 - $335*	$288 - $348*	$249 - $311*	$261- $320*
Motor vehicle- based levy	$19 per vehicle	N/A	N/A	$19 per vehicle	$19 per vehicle
Insurance-based levy	Unknown	N/A	N/A	N/A	N/A

* Note the higher range amount is for those properties subject to a bushfire prone area charge.

Table 2: Commercial property owners

	Option 1	Option 2A	Option 2B	Option 3A	Option 3B
Property-based levy	$130 - $685	$473 - $607*	$450 - $528*	$403 - $538*	$388 - $465*
Motor vehicle- based levy	$19 per vehicle	N/A	N/A	$19 per vehicle	$19 per vehicle
Insurance-based levy	Unknown	N/A	N/A	N/A	N/A

* Note the higher range amount is for those properties subject to a bushfire prone area charge.

Questions

9. Which of the proposed funding model options in this paper do you prefer, and why?
10. Are there any other funding models which you would propose instead?
11. Are there any other sources of funding that haven't been considered?
12. Do you have any other feedback for the Government in relation to the funding model?

CONCLUSION

This Options Paper demonstrates the outcome of high-level financial modelling of the impact of the four options for funding an integrated fire and emergency services function detailed in the Blake Review.

As noted previously, there are a range of limitations in relation to the outcome of this modelling and the results are therefore only indicative of the potential impact on individual taxpayers.

Notwithstanding this, based on the outcomes of this modelling, it is likely that there would be an increase in the property-based levy for residential properties under options 2 and 3, compared to the current arrangements.

However, businesses that are required to pay the Insurance Fire Levy under the existing model would be likely to receive a significant benefit under options 2 and 3. Taxes on insurance products are generally inequitable, make insurance more expensive and act as an incentive for businesses to under-insure or self-insure.

Options 2 and 3 are more likely to meet the criteria of administrative simplicity, equity, stability and sustainability, compared to the current arrangements.

However, any change is likely to be complex. Even if a new funding model is implemented on a revenue-neutral basis, any change will shift the burden from one group to another, thereby creating winners and losers.

Transition measures may need to be considered in the event of a change in the funding model. The Blake Review recommended that, in the event that the Review's recommendations are accepted, suitable transition arrangements should be identified and implemented over a reasonable period. This would assist in supporting those who are most affected by any change in regime, and help minimise any cash flow impacts on taxpayers. This could include consideration of current concession arrangements.

ATTACHMENT A: CURRENT FUNDING ARRANGEMENTS

The current funding arrangements were developed in 1979 and are no longer fit for purpose. They do not take into consideration recent developments, including greater interoperability, technology changes, demographic changes, longer fire seasons and the impact of climate change.

The Blake Review notes the funding model needs to take into account these differing circumstances and, at the same time, be future-proof.

Insurance Fire Levy

The Insurance Fire Levy is collected by insurance companies through a levy on premium income on certain prescribed classes of business insurance. Contributions are received monthly with an approved lodgement return. The Insurance Fire Levy is paid directly to the SFC by insurers.

The current Insurance Fire Levy is 2 per cent on marine cargo insurance, 14 per cent on aviation hull insurance, and 28 per cent on other classes of insurance. The rates are prescribed in the *Fire Service (Finance) Regulations 2017*.

$29.2 million was collected from the Insurance Fire Levy in 2020-21.

Motor Vehicle Fire Levy

The Motor Vehicle Fire Levy is collected through a levy applied to all registered vehicles. This is collected by the Department of State Growth as part of the vehicle registration fee and forwarded to the SFC. The Motor Vehicle Fire Levy is not applied on registrations of motor cycles, trailers, caravans or horse floats.

In 2021-22, the Motor Vehicle Fire Levy is set at $19 per vehicle, with a pensioner rate of $13 per vehicle. The pensioner rate is available to people who hold a Services Australia or DVA Pensioner Concession Card. The levy is adjusted annually in line with CPI.

$9.2 million was collected from the Motor Vehicle Fire Levy in 2020-21.

Fire Service Contribution

The Fire Service Contribution is calculated on an annual basis with the total amount approved by the Minister for Police and Emergency Management as part of the SFC's corporate planning process.

The Fire Service Contribution amount is calculated as the difference between the SFC's annual operating costs and the funds it expects to receive from other income sources. In effect, the Fire Service Contribution is a balancing item that enables the SFC to recover its brigade operating costs, once the SFC's other funding has been taken into account. Therefore an increase in one component of the funding should result in a decrease in the Fire Service Contribution - assuming operating costs remain constant. It is therefore likely to change annually.

The Fire Service Contribution is collected by local councils through rates, and paid directly to the SFC. Councils are entitled to retain a 4 per cent collection fee.

The amount charged to property holders is calculated according to a complex formula which takes into account the assessed annual value (AAV) of the property and the type of fire brigade available in the area (permanent, composite or volunteer). A minimum Fire Service Contribution per property applies, which is indexed in line with movements in the consumer price index ($42 in 2021-22). Eligible pensioners are entitled to a 20 per cent discount on their Fire Service Contribution.

The Fire Service Contribution currently has a range of exemptions for State and local governments, government business enterprises and religious and charitable bodies. Property owned by the Australian Government is also exempt.

$48.1 million was collected from the Fire Service Contribution in 2020-21.

ATTACHMENT B: FUNDING ARRANGEMENTS IN OTHER JURISDICTIONS

With the exception of the Northern Territory, which funds its fire service entirely through the consolidated fund, all states and territories use property-based taxes to at least partially fund fire service costs. States' property levies vary based on location, level of fire brigade service, land use type and land value.

In general, states have moved away from insurance based taxes, with only New South Wales and Tasmania using an insurance levy to contribute towards the cost of fire services.

Taxes on insurance are widely considered an inefficient tax given the tax imposes significant costs on insurance premiums and may distort business behaviour through deterring businesses and people from getting sufficient insurance.

In 2013, following a recommendation from the 2009 Victorian Bushfires Royal Commission, Victoria removed its Fire Service Levy from insurance policies after the Royal Commission considered:

> *"the fundamental problem with the current funding model is that it is inequitable: those who do not insure or who under-insure avoid making a proportionate contribution to the funding of fire services but are afforded the same protection as those with insurance. A disproportionate share of the cost of providing fire services benefiting the entire community falls on insurance policy holders" (the 2009 Victorian Bushfires Royal Commission Final Report).*

In 2017, the New South Wales Government introduced legislation to remove its insurance levy, which was responsible for over 70 per cent of the Fire and Rescue NSW's revenue at the time. Fire and Rescue New South Wales intended to move to a solely property-based levy, however the transition to a property-based levy was deferred in 2017 due to the expected impact on some businesses of the proposed changes.

In August 2020, the New South Wales Government's Review of Federal Financial Relations recommended that all specific taxes on insurance products, including the Emergency Services Levy, should be abolished and replaced by more efficient and broader tax bases, to improve the affordability and uptake of insurance. The Review found that:

> *"a broad-based property levy is a far more efficient approach: it makes insurance more affordable and ensures all property owners contribute to funding fire and emergency services. By including uninsured properties and reducing the contribution required from insured properties, it can in principle be fairer as well".*

The Review recommended that the New South Wales Government reconsider applying a levy on property owners. The New South Wales Government continues to consider the recommendations of the Review.

Only South Australia and Tasmania use a mobile property-based levy such as the motor vehicle fire levy to fund fire services.

Specific details in relation to each state's fire service funding arrangements is included in the following table.

Other Jurisdictions' Fire Service Funding Arrangements

	Property based	Insurance based	Vehicle based
NSW	Councils recover property charges indirectly through general rates	Levy based on market share of property policies	
VIC	Fixed charge plus a variable rate based on: • Properties classification (residential, commercial etc) • Capital improved value *Concessions:* *Pensioners and DVA Gold Card holders receive a flat rate ($50) concession on their principal place of residence*		
QLD	Fixed charge based on levy group (property type and use). From 1 July 2021, all similar properties will contribute equally, due to change in district resourcing. *Concessions:* *Pensioners and Repatriation Health Card holders receive a 20 per cent discount for their principal place of residence*		
WA	Charge which varies between minimum and maximum based on: • Gross rental value • Emergency Services Levy category based on level of services (1-5). *Concessions:* *Pensioners, Seniors or Concession card holders receive a rebate on their rates of up to 50 per cent, limited to a maximum capped amount of $750.*		
SA	Fixed charge plus a variable rate based on: • Capital value • Land use • Brigade service *Concessions:* *Pensioners or holders of other related cards from Services Australia or DVA receive up to a maximum concession of $46*		Levy varies by vehicle type (includes all mobile property)
TAS	Minimum charges plus a variable rate based on: • Brigade service • Assessed Annual Value Rates vary by council due to caps. *Concessions:* *Services Australia or DVA Pensioner Concession Card holders receive a 20 per cent discount.*	Levy based on varying proportion of commercial premiums	Flat levy on motor vehicles (excludes some mobile property ie motorcycle, trailers, caravan) *Concessions* *Services Australia or DVA Pensioner Concession Card holders receive a $6 discount.*
NT	Funded directly from consolidated fund		

ACT	Fixed charge for residential and rural properties. Commercial properties have a rate that varies based on Average unimproved value. Average is based on 5-year average of unimproved value *Concessions:* *Pensioners eligible for a rates rebate will receive a rebate on the levy capped at $98.*