



Response to Discussion Paper – cover sheet

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Response
2009 Victorian Bushfires Royal Commission
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Municipal Association of Victoria, C/- Mallesons Stephen Jaques		
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Postal address:	[REDACTED], Melbourne, Vic 3000	
Telephone:	(03) [REDACTED]	
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MUNICIPAL ASSOCIATION OF VICTORIA

2009 Victorian Bushfires Royal Commission

Response of the Municipal Association of Victoria to the Discussion Paper on the Fire Services Levy and Insurance

Date: 21 December 2009



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1 Executive Summary

The Municipal Association of Victoria's (MAV) response focuses on the fire services levy (FSL). With respect to this levy, the MAV argues:

- the funding of other emergency services should be explicitly considered in the review because these services undertake similar and complementary activities;
- an evaluation requires a discussion of what the funding model should achieve and the principles underpinning the model;
- how fire services are classified in economic terms should guide the funding model;
- fire services are an impure public good meaning the community cannot be easily excluded from the benefit and nor is consumption of the service generally rival; and
- given this, the primary consideration of the FSL is ensuring the funding model reflects the attributes of a good tax, not a fee for service approach.

As such, the MAV supports a broad based property tax to fund the fire services with a progressive tax rate structure. The MAV strongly believes that the State Revenue Office (SRO) is the most appropriate body to collect a property-based tax as it has an existing capacity to collect a statewide property tax.

Should the Royal Commission recommend a property-based system that attempts to align benefit to the financial contribution to the fire services, the model must incorporate the risk of fire into the payment structure.



2 Introduction

The MAV welcomes the opportunity to provide a response to the Bushfire Royal Commission on its discussion paper on the fire services levy (FSL) and insurance in bushfire prone areas.

The MAV's major interest and the focus of this submission is the FSL. This interest is derived from the contribution councils within the Metropolitan Fire Brigade (MFB) area make to the Metropolitan Fire and Emergency Services Board (MFESB) of about \$34 million. Further, one of the major alternatives outlined in the discussion paper is a property tax, which could be collected by local councils. As such, the MAV and councils have a direct interest in this matter.

The MAV believes that the key question in assessing the FSL is whether the distribution of the burden of the tax is reasonable. The alternatives identified in the discussion paper all can be examined and assessed on the basis for how and why they distribute the burden for funding fire services to different taxpayers.

The consideration of a funding model for the fire services is a complex issue and needs to be assessed within an appropriate conceptual framework. The MAV believes that the discussion paper does not give sufficient weight to principles which evaluate various approaches to the FSL.

This paper therefore develops a conceptual framework for the assessment of the FSL that is based on assessing taxes and defining the type of services provided by the Country Fire Authority (CFA) and the MFESB. The MAV considers what type of service is provided by the above two agencies from an economic perspective and how these should be funded.

Based on this, the MAV supports a broad based property tax to fund the fire services with a progressive tax rate structure. The MAV strongly believes that the State Revenue Office (SRO) is the most appropriate body to collect a property-based tax as it has an existing capacity to collect a statewide property tax.

3 State Government Review

The State Government will undertake a review of the FSL in 2010, which will commence with an analysis of several options, including a property based model and a broadening of the current insurance based levy. The analysis will use insurance data and property value data derived from statutory valuations to better understand how any reform is likely to change who contributes to fire services funding.

In addition, the State has indicated that it will consider the Henry Tax Review in its consideration of the levy. The Henry review is likely to make recommendations about taxes on insurance and is therefore an important input into a discussion on the FSL.

The modelling undertaken by the State Government is critical as the discussion paper shows that data on the implications of the various options being considered is incomplete. Financial and economic modelling must be undertaken on the current and alternative options to better understand the factors affecting insurance premium levels, the price elasticity of insurance products, and the likely consequences of moving to another model.



4 Emergency Services

4.1 Fire Services

Modern fire services undertake a wide range of roles. Although the key role of the CFA and the MFESB continues to be on fire prevention and suppression, they also attend car accidents, industrial accidents and medical emergencies. The MFESB has reported in recent years that it has expanded its role in planning counter terrorism activities and responses.

The priorities, functions and organisational structure differ between the MFESB and the CFA. The CFA is reliant on a volunteer fire fighting force to supplement its paid staff. The MFESB is staffed exclusively by professional fire fighters. It is expected that the CFA has a greater emphasis on fire prevention, and particularly, wild fire prevention than the MFESB.

Many of these functions overlap, in part, with other agencies, such as the ambulance service, the State Emergency Service (VicSES), the Department of Sustainability and Environment (DSE) in their fire management on public land and the police. For example, both ambulances and fire services will respond to emergencies where a person has no pulse and is not breathing. This reflects a best practice approach in maximising survival, by reducing the time taken to reach the patient. Similarly, both DSE and CFA complement each other in fighting fires and planning fire prevention.

4.2 Emergency Services Funding

Each of the emergency services is funded differently. This is important to better understand the overall funding approach for emergency services in Victoria in addition to the piecemeal funding for individual emergency service agencies.

As is outlined in the discussion paper, the fire services are funded by a combination of levies on property, State contributions from consolidated revenues, and in the case of the MFESB, local government contributions.¹

The police services are funded by consolidated revenue.² The State Government predominantly funds the VicSES with councils providing some matched unit funding.³ The ambulance service is funded by a mixture of State grants, membership fees and user charges.⁴ The DSE fire functions are funded by consolidated revenue.⁵

¹ Bushfire Royal Commission, *The Fire Services Levy and Insurance: Discussion Paper*, November 2009, p 3.

² Victoria Police, *Victoria Police Annual Report 2008-09*, <http://www.vicpolannualreport.net.au/>, accessed 14 December 2009, p 104

³ Victorian State Emergency Service, *Annual Report 2008-09*, [http://www.ses.vic.gov.au/CA256AEA002EBBF1/Lookup/VICSES_Strategic_Plan/\\$file/07-10-09%20edition%20final%20to%20print.pdf](http://www.ses.vic.gov.au/CA256AEA002EBBF1/Lookup/VICSES_Strategic_Plan/$file/07-10-09%20edition%20final%20to%20print.pdf), accessed 14 December 2009, p60.

⁴ Ambulance Victoria, *Annual Report 2008-09*, <http://www.ambulance.vic.gov.au/annualreport0809/PDF/Financials.pdf>, accessed 14 December 2009, p93.

⁵ Department of Sustainability and Environment, *Annual Report 2008-09*, [http://www.dse.vic.gov.au/CA256F310024B628/0/5CBB49262DB2B347CA25764E00111BD0/\\$File/Annual+Report+2009+-+Financials+1.pdf](http://www.dse.vic.gov.au/CA256F310024B628/0/5CBB49262DB2B347CA25764E00111BD0/$File/Annual+Report+2009+-+Financials+1.pdf), accessed 14 December 2009, p103.



As referred to above, a further issue is the overall funding of the emergency services. The MAV submits that there is a clear overlap between emergency agencies in their activities – which contributes to better service delivery and improved outcomes for the Victorian community. However, this overlap means that some consideration must be given to the funding of emergency services generally when assessing the appropriate funding mix for the CFA and MFESB

The table below provides an overview of the funding quantum and sources for each of the emergency services agencies in 2008-09.

Agency	Consolidated Revenue (\$m)	Insurance FSL (\$m)	Council Contribution (\$m)	Sales of Goods and services/user charges (\$m)
CFA	88	303		15
MFESB	34	206	34	27
VicSES	37	0	0.5	0
VicPol	1,767 ⁶	0	0	0
Ambulance	271	0	0	91/85 ⁷
DSE	546 ⁸	0	0	9.2

5 Conceptual Framework for the Evaluation of Taxes

Conceptual frameworks to evaluate taxes are fairly common and largely consistent. The MAV has adapted the model developed through the *Review of State Business Taxes*, undertaken in 2001 by the Victorian Government. This review focused on the attributes of business taxes, but many of the criteria are directly applicable to a broader consideration and evaluation of taxes.

The MAV and councils have strongly supported the view that a standard set of criteria is desirable to assess the efficacy of a tax.

5.1 Efficiency

A key issue in assessing a tax is its efficiency, reflecting the extent to which taxpayers change their actions because of the tax. Examples of changed behaviour due to taxes include:

- altering purchasing decisions to avoid taxes, such as substituting the purchase of one product for another;
- changing the amount of goods or services purchased;
- changing their choice of providers, such as public versus private enterprises

⁶ This reflects total grant revenue for the Victoria Police and does not reflect this organisation's commitment to emergency management functions. A majority of this will be directed to the police's primary functions in crime prevention, detection and prosecution.

⁷ \$91 million reflects service charges and \$85 million reflects membership fees

⁸ This figure reflects effort related to the Black Saturday fires. DSE raised \$176 million in 2007-08 for its fire prevention and suppression activities.



Efficiency essentially refers to the allocation of resources to achieve the maximum benefit to the economy.⁹ Except in circumstances where there is failure occurring in the market, due to either under or over allocation of resources, taxes generally distort behaviour and lead to sub-optimal outcomes.

As such, an efficient tax is one which does not provide incentives for taxpayers to significantly change their actions. As such, governments will typically raise taxes to either reduce the efficiency costs or to achieve other objectives, such as improving the overall equity of the taxation system through redistributing wealth.

5.2 Competitive neutrality

According to the Review of Business Taxes, a competitively neutral 'tax system' is one that:

- does not discriminate between business form, location, functions or transitions; and
- ensures that taxpayers in similar situations pay similar levels of tax.

5.3 Equity

In discussions of taxes, equity is often used without a precise definition. An equitable tax system typically involves:

- a progressive tax, with the tax and transfer system redistributing wealth and income;
- contributors paying the same quantum irrespective of income or property value (that is, a poll tax);
- all parties who receive a benefit from the publicly provided service being levied the tax in proportion to the benefit they receive.

The MAV believes that equity primarily relates to the regressive or progressive characteristics of a tax. A progressive tax collects an increasing proportion of income as income rises, while the inverse is true of a regressive tax.¹⁰ As a general rule, the broadly based property taxes and consumption taxes used by councils and the States tend to be regressive, while income taxes and some forms of land tax are progressive.¹¹

This perspective must be balanced against the overall implications on the taxation system. A single tax might be regressive, but does not change the overall balance in the contributors to the tax system significantly. That is, an additional tax burden of the system is regressive but the overall system may remain progressive.

One of the issues frequently raised about the current insurance-based model is that the incidence of non-insurance and under-insurance reflects an inequity in the tax.

⁹ This is different to technical efficiency, which reflects the ratio of inputs to outputs

¹⁰ The MAV's position on progressive taxes has been developed in its October 2008 submission to the Henry Tax Review, available at: [http://www.mav.asn.au/CA256C320013CB4B/Lookup/submissioncwealthtaxreview08/\\$file/MAVSubmissionCommonwealthTaxationReviewOctober2008.pdf](http://www.mav.asn.au/CA256C320013CB4B/Lookup/submissioncwealthtaxreview08/$file/MAVSubmissionCommonwealthTaxationReviewOctober2008.pdf)

¹¹ Previous work undertaken by the MAV on the implications of rates on residential households suggested property rates and the GST are regressive



This issue cannot be separated from a conclusion of the economic definition of fire services. If fire services are viewed as a public good, which is discussed below, there are fewer equity considerations in the exclusion of beneficiaries of service to contributing; if the converse was true and the good is a private good, serious equity considerations may be evident.

5.4 Cost Effectiveness

A tax should be cost effective to collect and administer. This means that the administrative burden for government and taxpayers should be considered and minimised, where possible, when determining which taxes to choose.

5.5 Consistency

Consistency reflects whether a tax base is likely to be stable over time. This is important for funding fire services, which require consistent funding allocations to maintain service delivery.

5.6 Transparency

Taxpayers should understand the purpose of the tax, who is liable to pay, and how the liability is calculated.

6 Key Issues

6.1 Economic Classification of Fire Services

A key issue is what type of good¹² – from an economic perspective – is provided by the fire services. Economic goods can be broadly classified into four types: private, common, club, and public goods, based on whether individuals can be excluded from the good and whether its consumption is rival. While the public sector can and does manage or provide goods of all economic types, public and common goods more typically lend themselves to funding from a broad tax base with redistributive funding purposes.

There are arguments that fire services are made up of different goods:

- fire prevention could be considered a public good at the community level. That is, when a fire service undertakes prevention activities for a community, the whole community is protected equally, irrespective of whether they contribute to the service;
- fire service responses to emergencies reflect partial private goods and partial public goods. The individual clearly receives private benefit from a fire service suppressing a fire on private property. The broader public good is derived from ensuring the fire does not spread from the private property – once a fire has been suppressed, it is impossible to exclude an individual from receiving this benefit;
- many of the activities could be considered private goods but have significant social benefits, including the non-fire related functions.

¹² An economic good also include services



As such, the MAV considers the fire services to be an impure public good.

6.2 Criteria for assessing to fire services funding options

The MAV submits that the funding methodology for fire services should meet several criteria. The MAV believes that consideration should be given to the efficiency, equity and transparency of the tax as the primary criteria. The administrative costs of collection may also be an important consideration.

The MAV has argued above that fire services are an impure public good. That is, they retain many aspects of an economic public good but do have some characteristics of a private good. These characteristics suggest there are strong arguments for a broader funding model than a user pays approach.

This is a salient point, as it raises critical issues about how equity is defined for fire service funding. The existence of public good characteristics in fire services suggests that an argument that beneficiaries do not contribute to funding the service has only limited merit. An assessment of options should therefore consider the broader equity, efficiency and transparency of the taxes.

6.3 Cross subsidies

The funding methodology must consider whether cross subsidies should operate in the fire services funding and if so, how these should occur. These subsidies could potentially occur between:

- country and metropolitan areas, such as through a single 'fire services' funding mechanism;
- between commercial and residential properties;
- high risk to low risk properties;
- low and high income taxpayers.

Any funding approach must give consideration to cross subsidies and make an explicit decision whether these should occur, and if so, in what form.

The MAV does not have firm views on whether there should be a single fire services funding model which would draw funds from across the State.

6.4 Minimisation of risk

A potential efficiency gain through a well targeted tax could achieve behaviour change and improve the risk management practices of households and business.

This would require a pricing/taxing structure which identified risk and has the capacity to influence behaviour. If the Royal Commission accepted this principle, it would lead to a funding regime with a direct link to risk.



The MAV notes that the Department of Treasury and Finance (DTF) will be undertaking a full analysis of several options for the reform of the FSL using data sourced by the insurance industry and the State Revenue Office.

These issues are important factors when considering how fire risk on private land can be managed without the need for a strong regulatory regime.

7 Assessment of Options

7.1 Insurance based model

The discussion paper starts with the premise that an insurance based model has a number of deficiencies.

The MAV agrees that the current funding model can be criticised based on:

- the ease with which it is avoided, either through non-insurance, or more commonly under or self insuring;
- the failure of all beneficiaries to contribute, particularly the beneficiaries of non-fire related services;
- the existence of stamp duty and GST on the fire services levy, which creates a tax cascade that reduces the transparency and efficiency of the tax;
- the potential for the levy to act as a disincentive to insure.

However, it should be noted that an insurance levy does have some benefits, including its:

- stability over time;
- ability to align risk to contribution (see above for further discussion about this matter);
- ability to tax the beneficiaries of fire services fairly closely.

7.1.1 Risk

The consideration of risk in this funding model is particularly important. The MAV contends that the data provided in the discussion paper suggests a strong link between the quantum of the insurance levy paid and fire risk. Despite the Commission's discussion paper concluding that fire claims constitute approximately 50, 40 and 12 per cent of the value of claims in the commercial, residential buildings and residential contents sectors respectively,¹³ it is contended that fire risk does not reflect a principle consideration of insurance companies.

The discussion paper's conclusions based on these data can be criticised on several grounds. These data relate to 2003 and the large fires of 2002-03, 2006-07 and 2009 are likely to have influenced the proportion of claims represented by fire. For example, the value of claims from the February 2009 fires relating to property is over a billion dollars.¹⁴

¹³ Royal Commission, op cit, pp 5-6

¹⁴ Victorian Bushfire Reconstruction and Recovery Authority, *Key Statistics and Progress*, 1 June 2009.



It is difficult to reach the conclusion that with the value of fire claims for business and residential buildings totalling 50 and 40 per cent respectively that fire risk is not an important consideration in the determination of premiums. With the value of claims at this level, it is not credible that a pricing regime would not consider the likely biggest risk factor facing the property.

In addition, contrary to the views in the discussion paper, the MAV believes that the characteristics listed which reflect the 'primary determinants of residential property insurance'¹⁵ are cogent in an assessment of the probability of a property's loss by fire. These characteristics are quoted directly from the discussion paper:

- *the value of the property*
- *the date of construction (from which the standard of construction may be inferred)*
- *the design and construction of the building, including the building material used, in particular the floor and roof materials (from which fire and storm risks can be inferred).*¹⁶

The MAV notes that no evidence is provided to support the assertion that the above are the principle determinants of residential property insurance premiums. The MAV believes that further analysis – including appropriate statistical analysis – is required to better understand and identify the objective determinants of property insurance premiums.

However, the MAV contends that the latter two characteristics reflect risk from fire. The new building standards clearly reflect that the standard, design and construction of the building are all important variables in assessing the probability of a building being destroyed in fire. The Royal Commission has considered the above matters at length in its initial hearings. The Bushfire Cooperative Research Centre (CRC) in its initial research on property damage and destruction also concluded that the above factors are important in determining whether a property would survive fire.¹⁷ The Bushfire CRC concluded that:

Building quality, detail and possibly house age appear to be factors influencing the likelihood of house loss.¹⁸

While these are not the only factors that influenced house loss in the 2009 bushfires, the conclusion that house age and design and construction have no influence on risk is tenuous at best.

An assessment of risk takes into consideration the probability of an event occurring and the implications if the event did occur. In the event of the above factors, the standards and materials related to a building will clearly influence the probability of a fire occurring and the value of the building will reflect the consequences of a fire. As such, it is difficult to reach the conclusion that the above approach does not reflect fire risk. While these characteristics reflect the capacity of the building to withstand

¹⁵ Royal Commission, op city, p5

¹⁶ Ibid, p5

¹⁷ Leonard, J, et al, *Bushfire CRC: Building and land use planning research after the 7th February 2009 bushfires, preliminary findings*, Final Report, October 2009. The research finds that many characteristics of the building influenced its likelihood of survival from fire, particularly the cladding type.

¹⁸ Ibid at p 108



other risks (such as flood or storms), the assertion that they do not reflect fire risk lacks credibility.

7.1.2 Sensitivity of Insurance to Price

Many of the issues identified which cause underinsurance or non-insurance do not appear to be sensitive to price considerations. Rather, broader ignorance of the actual need to insure, age factors (that is, the older population tends to value insurance over younger), home ownership status and mortgage status are key factors.¹⁹ The role these play in influencing choices to insure is key and further research is required to better understand this issue.

Given the very broad range of factors outlined above about the choice of individuals to insure and the lack of academic research about the own price demand elasticity of insurance, the MAV believes that further information needs to be collected before conclusions are drawn about the efficiency of this levy.

The Royal Commission should seek its own independent research to examine the likely changes in insurance rates if the FSL were removed as the current literature on this matter is deficient and inconclusive. In its submission to the 2003 review of the FSL, the MAV raised concerns about the potential for the full benefits of removing the FSL from insurance to be passed on to consumers. The MAV believes this issue is worthy of further consideration by the Commission.

7.2 **Enhanced insurance based model**

Options identified by both the DTF and the Royal Commission include improvements to the current insurance based approach to increase the proportion of households and businesses that contribute to the funding of fire services.

These include introducing a levy on properties that do not have insurance or mandating compulsory property insurance.

This approach would increase the tax base of the fire services and potentially reduce the incentives for people to avoid property insurance. The extent that this approach is possible would depend on the sensitivity of insurance to price.

A further broadening of the base could also include other major users of the fire services. However, this approach may not be consistent with fire services being an impure public good, unless this approach improves the insurance-based levy against the criteria identified above.

The MAV emphasises that if the Royal Commission concluded that fire services should be funded on a beneficiaries approach, then improving the coverage of the insurance based model would be beneficial. In particular, councils have identified motorists as a potential beneficiary of fire services and as a potential source of further fire services funding.

7.3 **Property based model**

The major benefits of a property based model are that:

¹⁹ Richard Tooth and George Barker, *The Non-insured: the who, why and trends*, report for the Insurance Council of Australia, May 2007.



- it is likely to increase the proportion of property owners that contribute to the fire services funding;
- it is difficult to avoid as a charge can be placed on the value of the property;
- property taxes are generally considered highly efficient;
- an existing infrastructure exists for collecting the tax through the State Revenue Office, which raises land tax.

The limitations of a property based model include that:

- property taxes are regressive,²⁰ unless higher tax rates apply as properties become more expensive (such as land tax) which raises critical issues of equity;
- it does not consider the risk properties face from fire;
- it would result in different outcomes for properties in similar positions if the tax were levied on councils.²¹

There is considerable support amongst councils for a property-based funding model, on the basis that it would increase the number of contributors to fire services and would be difficult to avoid.

This naturally raises a question about the type of property tax which could be adopted if an insurance-based levy was scrapped.

In particular, there are several different characteristics of the tax that need to be considered. Each of these are considered in turn below.

7.3.1 Valuation base

Councils already compute several valuation bases as part of their biennial revaluation of properties, including the site value (SV), capital improved value (CIV) and net annual value (NAV).

The discussion paper notes that different valuation bases are used in South Australia and Western Australia.

The MAV argues that the nature of the fire services – reflecting an imperfect public good – suggests the most efficient and equitable valuation base should be adopted, rather than attempting to align risk to contribution.

In some ways, there is a direct conflict between these principles in assessing the valuation base. CIV probably best reflects capacity to pay since the inclusion of capital improvements taxes a higher proportion of a person's wealth.

²⁰ Unpublished MAV reports which assess the distribution of the council rate burden highlights the regressive characteristics of this tax. This paper suggested that GST is also a regressive form of taxation.

²¹ This occurs through the current levy on councils in the MFB area. In effect, the contribution of each ratepayer will be dependent on the taxing characteristics of each council. This means, for example, that a residential house valued at \$500,000 may contribute very different levels to the MFESB depending on the council it is located in.



Site value, in contrast, is considered a more economically efficient approach as it does not act as a disincentive to building capital. However, it is likely this base more narrowly considers capacity to pay and hence may fall more heavily on properties with lower wealth.

This is ameliorated to some extent if the progressive structure of the land tax system were adopted. However the narrow base of the State's land tax regime is not appropriate.

As such, the MAV recommends that a site value with progressive tax rates be adopted should a property based tax be preferred.

7.3.2 Adjustment for Risk

The MAV's argument that a fire service is an impure public good implies that risk should be not a significant consideration in the funding model.

However, if the Royal Commission takes the view that the fire services should be funded based on a beneficiaries' pays approach, then risk is a fundamental issue that must be considered and included in the model.

As discussed above, the discussion paper has failed to adequately define or identify how insurance policies price risk for fire. The MAV contends that given the value of claims for property (not content) insurance will be at least 50 and 40 per cent for commercial and residential properties respectively, this will be a major pricing consideration for insurance companies.

As such, the MAV rejects the assertion that 'it is not clear that these deficiencies in property-based systems would result in worse outcomes than the current arrangements.'²² The approach must be capable of identifying differences in risk both between and within property classes at least as well as the current system.

7.3.3 Collection Agency

The most appropriate collection agency should minimise the administrative costs of raising the revenue. The MAV believes that the SRO would be the most appropriate body, but further analysis on costs is required.

The administrative costs of processing a new charge on properties for 79 councils would be significant, particularly upfront costs associated with system changes and updates to incorporate a completely different taxing model into rating processes.

An issue that needs to be considered is which agency should bear the risk of non-payment of a property tax. Councils noted that the State's deficit levy in the early 1990s placed this risk on local government leading the burden of unpaid State taxes on the sector.

A closely related matter is the question of the legal accountability for paying the tax. The current MFESB contribution paid by councils places the burden on local government. As councils determine their rates based on their expenditure and revenue requirements and their distribution of property values, similar valued properties will contribute very different amounts to the MFESB.

²² Royal Commission, op cit, p 7



Further, in order to fulfil the transparency criterion, it must be clear to the taxpayer that the purpose of any new charge or tax is for the funding of fire services. Using council rate bills as the collection instrument is likely to decrease, rather than increase, transparency in the tax.

As such, the MAV and councils do not support local government being the collection agency for fire service funding.

7.3.4 Cross Subsidies

The question about whether the fund should be for all fire services or whether separate collection processes should be undertaken for CFA and MFESB district primary relates to an issue of whether a cross subsidy should be introduced. A single collection agency would increase the contributions of people and businesses in the MFB area and reduce the contributions in the CFA area.

The MAV does not have a position on this matter.

7.4 **State consolidated revenue**

The MAV has previously supported funding for the fire services being principally based on State consolidated revenue, reflecting the public good component of the fire services.

This also reflects greater consistency with the funding of other emergency services, as considered above.

The distributional implications of collecting the levy from State revenue sources should be considered if this option is to be seriously entertained. The State currently collects about a third of its revenue in the form of taxation. These taxes are outlined below.

Tax	2008-09 (\$m)	2009-10 (budget) (\$m)
Payroll tax	4023.5	4083.3
Property	4356.0	4759.0
Gambling	1625.3	1641.8
Levies on statutory corporations	73.7	73.7
Taxes on insurance (including FSL)	1221.0	1275.9
Motor vehicle taxes	1320.0	1348.4
Other (liquor, transurban and landfill levies)	100.5	91.6
Total	12,720	13,273.7

Source: 2009-10 Budget Paper 4, p 195

A significant portion of the State's taxation base is likely to be regressive – with the exception of land tax – or open to criticisms about the tax's efficiency.

Drawing funding from taxes on insurance would potentially result in a slightly broader tax base through the inclusion of vehicle insurance, but only marginally and are likely to be inefficient. Similarly, stamp duty on property transactions is a narrow tax and considered inefficient insofar as it acts as a disincentive for selling properties.



Payroll taxes are criticised heavily by business groups, typically due to the perceived negative implications for productive capacity in the economy. While this contention is open to debate, States have also agreed to the harmonisation of payroll taxes, further limiting their capacity to be introduced to replace an insurance-based levy.

In addition, many of the State's taxes have relatively narrow bases. Land tax, for example, is only levied on businesses and investment properties. Primary producers and principal places of residence are exempt, raising serious concerns about whether this increases the 'equity' of the tax. This would not preclude the introduction of a broader property tax to collect the levy.

Of the remaining taxes, any increase to allow for an increase of about \$500 million would involve a very significant increase in taxes. With the State unable to directly influence or access income or GST tax bases, some of the more appropriate general taxes are unavailable to replace the FSL on insurance.

As such, unless the State were able to access a broad based, efficient and equitable tax, a consolidated revenue funding approach does not appear to be feasible.

8 Conclusion

As previously indicated, the MAV is primarily interested in examining and commenting on issues pertaining to the fire services levy as councils have a direct interest through being a contributor to the MFESB and because one of the alternatives proposes to introduce a new property-based tax.

In assessing alternative options, the MAV is cognisant of the current review being undertaken by the State Government. The MAV strongly believes that the State review, with an emphasis on undertaking a quantitative analysis of the options available, will provide valuable data to inform the position on a preferred funding model further.

Notwithstanding this, the MAV contends that any consideration of a new funding model for the FSL must give consideration to the type of service provided by the CFA and MFESB. This is critical, as it informs the overarching criteria that should apply to an assessment of options relating to taxing options. Ultimately, the alternatives offered in the discussion paper all look to spread the burden for fire services in different ways.

Because of the nature of the fire services, the MAV supports the use of a broad based funding model that is largely progressive. Ideally, income or company tax revenues would be directed to this service, but it is not feasible for this to occur. The State does not have the capacity to collect and direct these revenues to the fire services.

In the absence of a funding model drawing on income taxes, the MAV supports a property-based system in which the SRO collects the levy. Councils are not appropriate collection agencies as the differing systems across 79 councils would result in an inefficient collection system.

The MAV's position is predicated on the conclusion that fire services are an imperfect public good. In the event that the Commission takes a different approach, the MAV



would strongly argue for a different taxation approach which sought to align the beneficiaries of fire services to the burden of taxes.

Dated: 21 December 2009