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By Email Only: act.review@fire.tas.gov.au

To whom it may concern,

SUBMISSION ON REVIEW OF THE FIRE SERVICE ACT 1979 - OPTIONS PAPER: FIRE SERVICE FUNDING ARRANGEMENTS

The Property Council of Australia welcomes the opportunity to provide its input to the Review of the Fire Service Act 1979, as the Tasmanian Government works to develop a new funding model for the Fire Service.

We support the implementation of the recommendations of the Blake Review and our submission directly responds to the Options Paper: Fire Service Funding Arrangements provided by the Department of Treasury and Finance. We would be pleased to expand on any of this in further dialogue or consultation as the new model is progressed and finalised.

Current Arrangements

As the Blake Review stated and the Options Paper confirms, the current fire service funding arrangements are unclear, complicated and make it difficult for either entity (SFC and SES) to appropriately plan.[1]

The current arrangements also do not meet the sustainability, stability, simplicity, or equity criteria against which the alternative models presented in the Options Paper are being assessed.[2]

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[1] Pg 6, Review of the Fire Safety Act – Mike Blake – October 2020
[2] Pg 9, Options Paper Fire Service Funding Arrangements

Tasmania funds fire and emergency services mainly through property rates and taxes on commercial and motor vehicle insurance. This means commercial property owners and businesses are paying the levy twice, unlike other property owners. This is an inequitable and unfair burden on this portion of the Tasmanian community.

Commercial Industrial Special Risks (ISR) insurance attracts a levy of 28% of gross premium. In many instances the cost is then passed onto the commercial tenants and businesses. Commercial Insurance premiums have increased significantly over the last three years as evidenced by the Insurance Fire Levy increasing from $18.65 million a year in 2017/18 to over $29.20 million in 2020/21 which is a significant increase of 56% over three years. This is outlined in more detail below, however it effectively means that insurance premiums for Tasmanian commercial properties owners and businesses have more than doubled over the last six years.

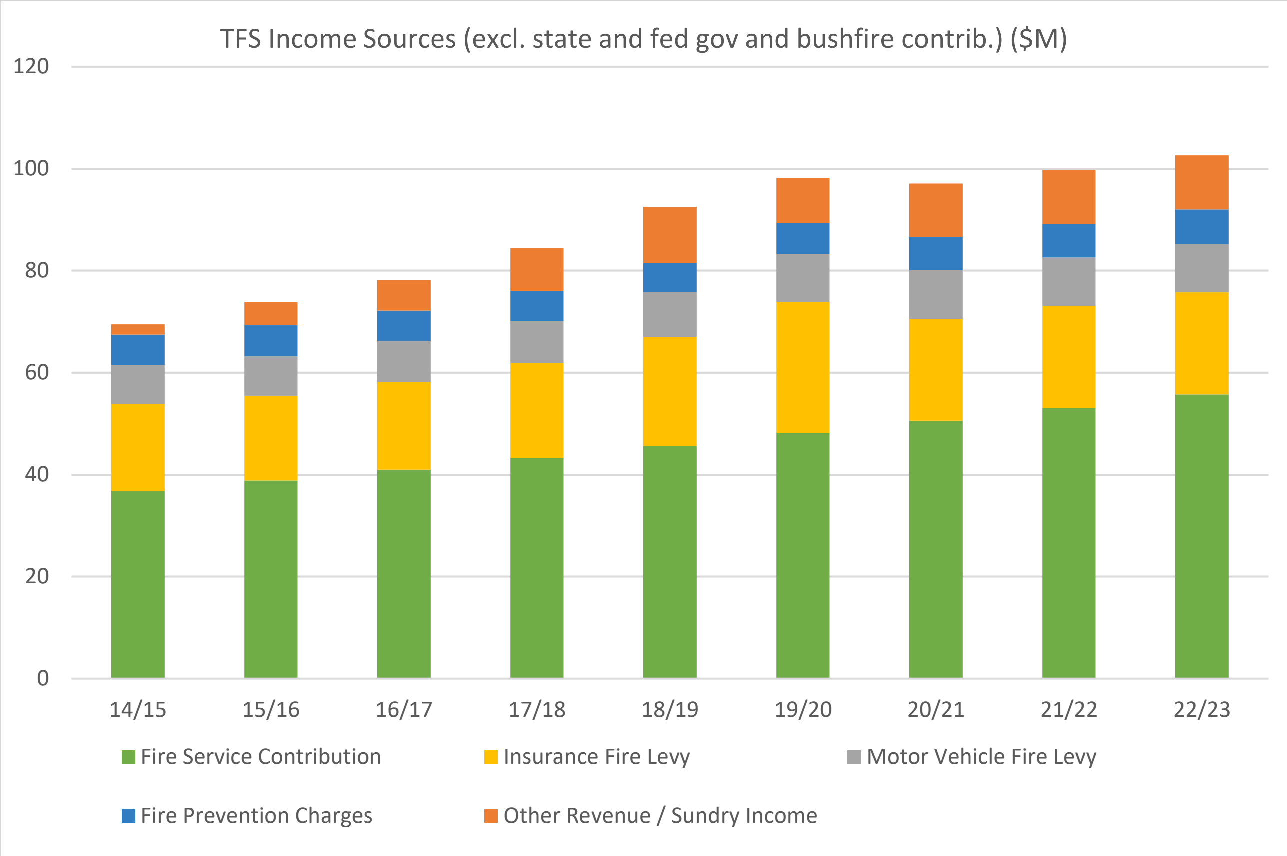
It is clear that commercial property insurance is becoming incredibly expensive, which is added to by the further 28% levy from the Fire Service Levy. This has resulted in some commercial property owners and businesses reducing insurance coverage or taking on more risk through higher excesses. We believe this is a perverse outcome.

Currently the Insurance Council of Australia estimates only 60% of businesses have building insurance. In Tasmania, this means 20% to 25% of SFC funding is sourced from only 60% of businesses. It is critical that all parties contribute at the same level, including those property owners which are currently excluded. We believe assets owned by Federal, State and Local Governments in Tasmania as well as other independent institutions should not be excluded from contributing. The Property Council believes that all properties should be contributing to the Fire Service Levy on an equal basis as they are all beneficiaries of the service

Property Council members also agree with the Blake Review that, the collectible amount of the Insurance Fire Service Levy is not predictable and does not satisfy any of the sustainability, stability, simplicity, or equity tests. This is evidenced by the 56% increase in insurance contributions over the last three years, yet the contribution from the Property Levy has only risen by 11.18% over the same period, clearly demonstrating that the Insurance Levy is doing the heavy lifting. The Property Council believes that the Property Levy rate should have been being reduced as the contribution increased.

Support for New Funding Arrangements

Treasury modelling within the Options Paper 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.



The statistics show that in just five years there has been a 70% increase on collections through the Insurance Fire Levy, from $17.14 million in 2016/17 to $29.2 million in 2020/21.

Additionally, in the past year alone, the Fire Service Levy collection increased more than 16%, compared to annual CPI of 3%.

The Property Council acknowledges the need to ensure the integrity and adequacy of funding for the Fire Service while also moving towards a more equitable system, whereby commercial property owners and businesses aren't disadvantaged by increasing costs well in excess of inflation as well as paying the contribution twice.

Our aspiration is for a more equitable model, where we can reduce the cost of doing business in Tasmania while having more properties and businesses more appropriately insured. We believe this would be a positive outcome for all Tasmanians.

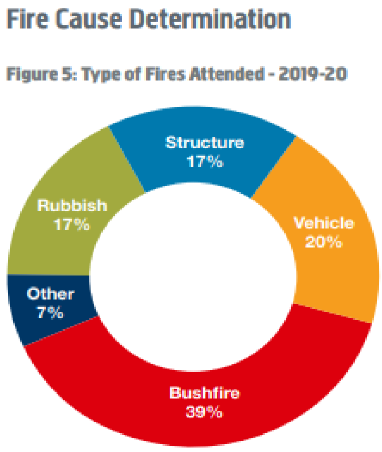
The Property Council and its members support the Blake Review's recommendation that the Insurance Fire Levy should be replaced with a single property-based levy based on a property's AAV. This is generally consistent with arrangements in other jurisdictions, where most jurisdictions use property-based levies to fund fire service costs at least partially.

Current figures provided by the State Government show that the number of rateable properties in Tasmania is currently 291,601.

Retaining the Motor Vehicle Levy

Additionally, the Property Council supports the continuation of the motor vehicle levy, as it would reduce the amount of revenue needed to be raised from the property-based levy, and result in a lower levy rate for property owners. In addition, it is an equitable levy, as outlined below.

The Blake Review 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.



The above graph[3] shows a large percentage of the work conducted by the Fire Service is attached to Road/Motor Vehicle accident call outs.

With Treasury modelling suggesting the need to fund Tasmania Fire Services to the amount of $100 million per annum, some would argue that given 20% of calls for the Fire Service are for motor vehicles, the contribution should be $21 million via the Motor Vehicle levy, to be equitable. This is a significant increase on current contributions of $9.2 million and will need to be closely examined as to how this is equitably increased over a specified period of time.

Preferred Option 3A

The Property Council and its members support Option 3A – A single fee structure which includes a motor vehicle based levy and limited exemptions. This ensures the current integrity of the rating system is maintained.

Both a fixed contribution and a variable system ensures higher value properties with higher projected income, whether a house or a commercial property, pay a higher contribution. This is the same system as is currently used but at a higher rate to recover more funding. It should be noted that the reason the Property Council supports Option 3A is that, given two equally-

[3] Tasmania Fire Service Annual report 2020

valued properties, one being commercial and the other being residential, the commercial property will make a higher contribution due to the AAV of a commercial property generally being double that of a residential property. Many observers do not understand this nuance, and this is why differential rating is not recommended as it already is embedded in the AAV system.

A split system, as suggested in either option 2B or 3C, is effectively what is in place today with a Fire Service Levy on insurance for commercial property owners and businesses, as well as on AAV on their rates. Residential property owners are just paying the same rate on their AAV, even though the AAV calculation on residential properties is lower than on commercial properties.

Exemptions

The Property Council and its members strongly object to special parties continuing to be exempt from Fire Service Contributions. We believe that there should be no exemptions except for charities and in cases of hardship. Federal, State and local Governments, as well as Government businesses and independent institutions should be included.

It is contended that 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. The Property Council believes is fair and equitable as the broader range of property owners also obtain the benefit from a well-funded Fire Service.

Collections

The Blake Review 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% of the Fire Service Contribution collected, which is approximately $2 million per annum.

The Property Council agrees that Local Government should continue to collect the levy as this method of collection is efficient and cost effective, however the fee should be capped. We would argue that billing and payment costs are declining, and with increased amounts to collect there will be no increased cost to Local Government, therefore the amount charged by Local Government should be capped. Property Council members support a review of the council collection fee/percentage, given there will be an increase in revenue through a single property-based levy and no additional costs.

Transition Period

As noted in the Options Paper, 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.

To ensure the transition period strikes the right balance between what is fair and equitable but also timely, the Property Council would support the introduction of a three-year State Government subsidy to minimise the initial impact on property owners. This could be funded out of the likely large increases in land tax over the next two or three years which are expected to dwarf this contribution and would redirect the revenue coming from the same commercial property owners and businesses. This model we believe would be considered as both palatable and equitable. We believe the government transfer would need to be approximately $15 million in the first year, $10 million in the second, and $5 million in the third year before decreasing to zero in the fourth. This should then have the support of all participants.

Next Steps

We commend the Tasmanian Government for their commitment to implementing the Blake Review recommendations including new funding arrangements for the Tasmania Fire Service to ensure we have a more equitable and sustainable model moving forward.

The Property Council is eager to see progress, and we would appreciate the opportunity to continue to provide input into the development and implementation of the new funding model over the coming months.

If you require further information or clarification on our submission, please contact me on 0477 555 227 or Rellston@propertycouncil.com.au.

Yours sincerely

Rebecca Ellston
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Property Council of Australia