



23rd December 2009

Response to Discussion Paper
2009 Victorian Bushfires Royal Commission
GPO Box 4358
MELBOURNE Vic 3001

Dear Commissioners

We welcome the opportunity to respond to your discussion paper on the Fire Services Levy and insurance as we are anxious to ensure that the fire services in Victoria are adequately funded. At the same time we are keen for investigation to be made into ways in which those property owners who do not insure are in some way contributing to the provision of fire services.

VFBV submits that the following principles are fundamental to the construct of any approach to fire service funding and therefore your analysis into the Fire Service Levy and Insurance. The approach for funding the fire services in Victoria should:

- ensure that everyone who benefits from the services provided, contributes to the funding of these services;
- that funds collected for the provision of fire services are allocated wholly and directly for the funding of the fire services;
- be established in such a way that provides ongoing funding stability and reliability to ensure that essential service provision is not subject to fluctuations or changes in public policy;
- recognise the relationship of risk to relative contribution and encourage risk reduction;
- there are sufficient funds, capable of meeting the requirements of modern fire services; and
- that the funding collection mechanism is efficient in terms of administration and its reliability to capture monies due;

VFBV also submits that the question of the fire service levy, which is ultimately directly linked to the question of funding the fire services, cannot be examined in isolation from two key issues:

- I. Firstly, the question of what is the most efficient and cost effective model of fire service delivery; and
- II. Secondly, an awareness of what the key cost drivers of the fire service funding requirement are and how these cost drivers can be best managed to ensure optimal benefit from finite funds.

Volunteer based model is major contributor to funding of fire services, core to shared community responsibility and essential for Victoria service capacity

Notwithstanding the financial contribution the fire services levy makes to providing the fire services in Victoria, the major contributor to the resourcing, and therefore indirectly the funding of the fire services in Victoria, is volunteer service provided by CFA's 60,000 volunteers. The CFA volunteer contribution is currently estimated at over \$850M per annumⁱ. It follows therefore that any considerations of change to the present funding model has to be approached recognising the volunteer contribution and ensuring that it is not compromised in any way. To prevent a significant potential increase in the cost of fire services in Victoria, every effort must be made to maintain and build an even more effective volunteer based CFA resource model.

CFA's volunteer based resource model is not only cost effective, it is core to CFA's service philosophy of the community having a shared responsibility for their safety. CFA's local community based volunteer brigade structure, incorporating volunteer community members trained to national professional standards and qualified in a variety of roles for firefighting and other emergency response, operational support and community education/advice services, is at the core of all CFA activity.

This community partnership also contributes to developing community capacity, social capital and community resilience which are essential factors in both community preparedness and community recovery, particularly in small rural communities.

Victoria is one of the most fire prone areas in the world. CFA's volunteer based resource model is the only approach capable of economically and practically dealing with the quantum, scale, spread and simultaneous occurrence of fire emergencies experienced in Victoria – whether this be day to day demands, major disasters or a combination of both.

We cannot stress enough that the CFA volunteer based model is vital to having contingent/surge capacity available when it is needed, as well as maintaining the day to day service continuity. The resource model that integrates CFA's 60,000 volunteers (98% of CFA's workforce) and the 1,300 paid operational and support staff who work with and in support of volunteers is essential for state-wide service delivery for Victoria. As well as providing the capacity to deal with multiple emergencies throughout the State every day, CFA's volunteer based resource model provides contingent capability to deal with large scale emergencies and scalability to continually ramp up resources as new incidents occur and/or to cope with long duration incidents.

The fires of February 2009 are proof positive of this with volunteer fire fighters in their hundreds providing protection and services to their communities 24 hours a day for many days on end supported by a limited number of paid staff. The reality is that Victoria could not afford this resource unless it was very largely volunteer.

Notwithstanding that CFA and others need to continuously strive for improved community safety outcomes, decisions about the fire service levy and funding of the fire services must not be made without careful analysis of the impact of these decisions on future volunteer involvement, future volunteer capacity and community shared responsibility.

Ability to flexibly and efficiently manage resources to ensure best value from finite funds is critical to ultimate funding burden

The question for Victorians, and for the Royal Commission, is how to ensure the maintenance and development of the CFA Volunteer model is best managed for service and cost effectiveness.

VFBV believes that a key starting point for the delivery of a cost effective service is to ensure that all decisions about resource allocation, service delivery priority and service delivery approach are driven by objective, outcome based decision making and not subject to interference from external arbitrary influences or interest group pressures.

If the ultimate cost of fire service provision is to be governed appropriately there must be clear, unfettered and transparent accountability for determination of what services will be provided, what service model will be used to deliver those services (in the context of achieving desired community safety outcomes); how best to allocate/deploy finite resources and how best to determine expenditure and funding priorities. This accountability must rest with the organization responsible for delivering the service outcomes, in the case of CFA the CFA Board and Chief Officer.

The approach taken to support, supplement and build volunteer and community capacity has a major influence on the ultimate cost of the fire service and VFBV believes there is significant scope for improvement in this area and thereby mitigate the level of cost growth and impact of the total funding requirement for fire services.

The following exemplifies this point:

In the past decisions as to the location and number of paid staff were made by the Chief Officer and the Board of the Country Fire Authority in consultation with Volunteers based on operational assessments as required under the *Country Fire Authority Act*. VFBV supports this approach.

VFBV believes that flexible deployment of paid support, as determined by the Chief Fire Officer and according to operational need, to work with and in support of volunteers as required, is an important support and supplement to CFA brigades at some locations.

However it is a continuing matter of concern to CFA Volunteers that decisions over the deployment of paid career firefighters has shifted to an industrial relations panel process not provided for in the *Country Fire Authority Act*.

In a recent industrial decision and despite the Chief Officer stating that around half of the purported staffing determinations were not needed, his expertise was

ignored by an external industrial panel which voted two votes (Union delegate and industrial chairman) to one (the Deputy Chief Officer of the CFA) to require CFA to appoint hundreds of additional career firefighters at a very significant cost.

The VFBV supports the Chief Officer's view and believes that the significant funding required for unnecessary or low priority paid staff deployment could be better used for maintaining and building greater CFA Volunteer capacity for local services and major bushfire deployment.

The current industrial arrangements have resulted in the CFA Board being unable to determine all resource levels, workforce configuration or resource allocation based on objective determination of need. Before a meaningful discussion can be had about the fire services funding requirement and therefore the fire service levy, the issue of who determines how limited resources will be deployed and what the expenditure priorities are must be resolved. This is essential for proper accountability.

The funding arrangements must be designed and implemented in a manner to support the integrated volunteer model of fire and emergency services and ensure that the funding system does not undermine the CFA model of fire and emergency service organization.

A substantial number of Victoria's volunteer firefighters come from CFA brigades servicing outer metropolitan Melbourne. These volunteers provide fire and emergency services for their local community around the clock AND provide the backbone of Victoria's contingent capacity to fight bushfires across the state for extended periods.

There are no volunteer or integrated brigades in the MFESB – they are a 100% paid staff force. There is a risk that if the current CFA and MBESB funding arrangements are altered that this could unintentionally flow to a change in current service boundaries and therefore service model with a consequence of critical erosion of Victoria's contingent capacity to deal with bushfires and large scale emergencies. To make up for such loss, many thousands of paid firefighters would be required at a very significant financial cost to Victorians.

We would stress again a critical outcome/measure for any new funding system must be to ensure that Volunteer contribution is not diminished but rather, we would submit, is enhanced.

General Fire Service Funding Principles

We submit that the following principles are fundamental to the construct of any approach to fire service funding and therefore your analysis into the Fire Service Levy and Insurance issue:

- ❖ The funding system must provide the resources expertly judged as required to provide the necessary services and capacity under an integrated volunteer model

- to mitigate relevant risk of fire and emergencies, plan and prepare for such emergencies, respond to such emergencies and recover from them.
- ❖ Be transparent, simple as practicable, administratively low cost and link relative contributions/charges to risk, risk being the major consideration in the provision of fire and emergency services.
 - ❖ Contributions/charges should be dedicated directly to funding the relevant fire and emergency service as part of transparent arrangements and to build strong community trust and support.
 - ❖ Broadening the funding base of the fire and emergency services to better provide equity, efficiency and budget stability. Logical areas for such action include cost recovery from vehicle owners/their insurance companies for at least the cost of road accident and incident turnouts plus perhaps a surcharge for agency standby capacity; requiring corporate entities to pay a contribution equivalent for their policy excess (deductible or self insured portion of their policies) to the relevant fire agency under a reformed FSL system; compulsory insurance for business entities and/or houses;(subject to limited welfare considerations) enforce cost recovery for all call outs, for false alarms and hazardous materials incidents where there is no relevant insurance if the FSL system is maintained.
 - ❖ Contributions/charges from serving emergency service volunteers could be discounted or waived to recognise the unpaid contribution they make to their fellow Victorians and to assist with the personal costs they necessarily incur as volunteers.

Generally, the current fire service levy system has the benefit of being allied to risk (the major consideration in the provision of fire and emergency services); is a dedicated /hypothecated system that delivers the levied funds directly to the fire services (the funds cannot be diverted for other public policy priorities); and has relatively low administrative costs. It does have flaws, particularly as regard to those not insured or under insured.

Under-insurance and non insured

The proportion of property non insured seems to be in the order of 10% according to some studies (including the 2003 review by the Victorian Department of Treasury and Finance) and much higher according to the Insurance Council of Australia. The level of under insurance is unclear. We understand the state government has commissioned a pilot study to try to quantify this.

The fact that a percentage of the population does not pay property insurance and as a consequence does not pay a FSL contribution means that the load is not shared equitably by the community. This means that the FSL percentage of each premium paid is higher than would otherwise be the case if all contributed.

There is also the issue that Insurance companies set their fire services levy prospectively and as such there is a risk that determination of levies will be calculated conservatively to ensure they are “not out of pocket” when the premiums come in. The 2003 Review of Victorian Fire Services Funding Arrangements estimated that the FSL collections by insurance companies if they used the ICA recommended rates was in the

vicinity of \$47Mⁱⁱ more than was needed to meet their statutory requirements over the previous four years.

Submissions to the Victorian Bushfires Royal Commission from the Insurance Council of Australia, through the research carried out by Roy Morgan Research and Australian Bureau of Statistics, express the view that removing FSL and stamp duty would result in a greater uptake of property insuranceⁱⁱⁱ. The issue of stamp duty and GST being applied in addition to the FSL is raised continuously by our members who incur these charges along with all who insure, as a significant concern and an additional unwelcome cost burden.

It is our view that some other means of collection, in addition to the ongoing FSL on insurance, needs to be introduced to ensure that all property owners contribute equitably to the provision of fire services in the state. The cost of administration and compliance for this collection system on non-insured property should be borne by non-insured property owners. The funding system should provide incentives for people to insure, reduce risk and contribute to the fire services, and disincentives for those who don't.

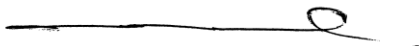
Alternatives to the Fire Service Levy

Various alternatives to the FSL system as advocated by various interest groups are in our view more seriously flawed, particularly as regard their inability to link contributions / charges to risk and the high costs of administration of implementing anything even close to a risk related assessment and therefore equitable alternative to FSL.

Because of its strengths it would be useful to examine ways of reforming the FSL system to mitigate the effects of its flaws before advocating a new and untried system.

Either way, it is the position of the VFBV that any system for funding the fire and emergency services should encompass the principles set out above and must have serious regard to the potential for any unintended consequences such as reducing Volunteer contribution and capacity.

Yours Sincerely



Andrew Ford
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ⁱ CFA Annual Report 2009. Per Hanmer J, Ganewatta G, Comparison of approaches for Valuing Fire and Emergency Service Volunteers. RMIT Centre for Risk and Community Safety, 1 March 2008

ⁱⁱ A review of Victorian Fire Services Funding arrangements July 2003

ⁱⁱⁱ Tooth Dr R, Barker Dr G. The Non insured: who, why and what trends, May 2007, p4. Prepared for Insurance Council of Australia
