REPORT THREE

A Better Fire and Rescue Service for the ACT:

Funding

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UNITED FIREFIGHTERS UNION OF AUSTRALIA

ACT BRANCH

1. Introduction

This is the third of four reports commissioned by the United Firefighters Union in the Australian Capital Territory Branch to inform its 2019 enterprise bargaining process.

Report One focused on the context, administrative arrangements and demand pressures facing the ACT Fire and Rescue (the Service). It concluded that the Service is under great strain as a result of immense demand pressures made more challenging by organisational and governance arrangements which are not fit for purpose.

In Report Two we looked at various measures of efficiency and effectiveness. We concluded that the ACT Fire and Rescue Service is arguably “best in class,” topping most measures, despite reductions in staffing.

This Third Report turns to funding problems and opportunities facing fire services in the ACT.

- Report One – context, administrative arrangements and demand pressures facing the Fire Service.
- Report Two – considers evidence on the efficiency and effectiveness of the Fire and Rescue Service.
- Report Four – outlines specific resources the Service will require over the coming decade.

5. Funding

5.1 The budget

The Service is primarily funded out of the ACT Government's budget[1]. The Territory's overall financial position is heavily dependent on the trajectory of the economy and on this score the ACT is doing very well, performing consistently better than Australia as a whole both over the last few years and as projected over the next four years (see Table 16). As the Government proudly points out in its most recent budget, the ACT has,

> "been growing well above our long-term trend in recent years. We have seen cumulative growth of 12 per cent over the past three years, with the ACT consistently recording among the strongest growth of any Australian state or territory. Following rapid growth estimated at 4 1⁄4 per cent in 2018-19, the pace of economic growth is expected to consolidate to a more sustainable average of 3 1⁄4 per cent a year over the next four years" (2019: 1).

This is a healthy financial environment to manage forward estimates in the ACT budget.

1 Around 94% of the ACT Fire and Rescue Service's budget in 2017/18 came from government grants, a slightly higher percentage than all of Australia's fire and rescue services combined (Productivity Commission, 2019: Table 9a.4.

Image: Ainslie fire station pumper during the 2019 bargaining dispute

Table 16: ACT economic forecasts (percentage change)

	Actual	Estimate	Forecasts			Projections
	2017-18	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*
ACT						
Gross State Product[1]	4.0	4¼ (+¾)	3 (-½)	3¼ (-¼)	3½	3½
State Final Demand[1,2]	3.6	4¼ (+1¼)	3 (-¼)	3¼	3½ (-¼)	3½
Employment[3]	2.2	1 (-1)	1½ (-¼)	1¾ (+¼)	1¾ (+¼)	1¾
Wage Price Index[3,4]	1.8	2¼ (-¼)	2½ (-¼)	2¾ (-¼)	3¼	3¼
Consumer Price Index[3]	2.8	2 (-¼)	2¼ (-¼)	2½	2½	2½
Population[3]	2.2	2 (+¼)	1¾	1¾	1¾ (+¼)	1¾
Australia						
Gross Domestic Product[1,2, 5]	2.8	2¼ (-½)	2¾ (-¼)	2¾ (-¼)	3	3

Sources: ABS Cat. No. 5220.0, 5206.0, 6202.0, 6345.0, 6401.0 and 3101.0; Chief Minister, Treasury and Economic Development Directorate; 2019-20 Pre-election Economic and Fiscal Outlook.

Notes: Forecasts and projections are rounded to a¼ of a percentage point, reflecting an appropriate level of accuracy in forecasting economic parameters. Projections are based on long-run trend assumptions. Numbers in brackets for ACT parameters represent the change from the 2018-19 Budget Review.

Source: ACT Government (2019), 2019/20 Budget Papers, Budget Paper Number 3, p. 2

1. Real values.
2. Year average basis.
3. Through the year basis.
4. Total hourly rates of pay excluding bonuses.
5. These are the 2019-20 Pre-election Economic and Fiscal Outlook forecasts, which are identical to the 2019-20 Commonwealth Budget forecasts. Comparisons are to the Commonwealth's 2018-19 Mid-Year Economic and Fiscal Outlook.

The ACT Government's fiscal strategy has four elements to it: balancing the budget in the medium term; delivering a stable budget through tax reform; investing in the ACT's people and city; and using the balance sheet to leverage longer-term prosperity (see ACT, 2019: 35-39).

The core underlying concept holding the budget strategy together is a recognition that the Territory is going through a period of strong population growth, which in turn requires the Government to fund additional services at a sufficient pace to ensure living standards are enhanced. Rapid population growth eventually requires more land to be zoned for residential development, and that's exactly what the Government is doing, releasing "land for 15,600 new homes over the next four years".

In a rather important development, the Government has altered its budget policy settings. It is prepared to allow small operating deficits to emerge in the interests of prioritising service delivery. Budget policy now requires the operating budget to be balanced over the medium term, with short term deficits in 2019/20 and 2020/21 to be compensated for by larger surpluses in the outyears.

Table 17 shows the actual, estimated and forecast budget aggregates for the 6 years to 2022/3.

Table 17: ACT General Government budget aggregates, 2017/18-2022/23

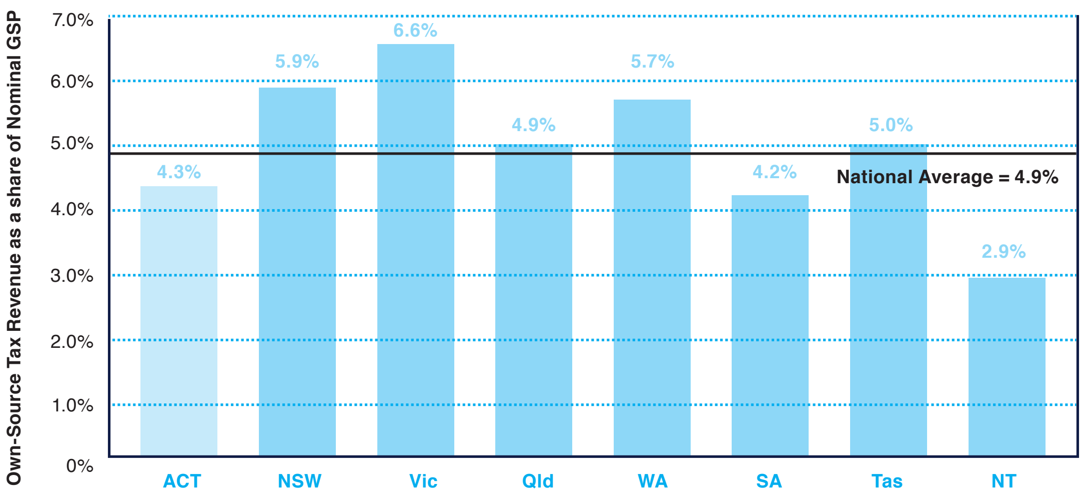
	2017-18	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*
	Actual outcome	**Est. outcome**	**Budget**	**Estimate**	**Estimate**	**Estimate**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	5,401 ,532	5,646,494	5,871,208	6,161,739	6,526,479	6,982,651
Expenses	5,482,493	5,799,285	6,157,966	6,440,570	6,618,635	6,813,259
Superannuation return adjustment	161,762	196,563	197,703	212,019	227,381	243,868
HEADLINE NET OPERATING BALANCE	**80,801**	**43,772**	**-89,055**	**-66,812**	**135,225**	**413,260**
Net cash from operating activities	523,556	353,357	240,906	525,920	781,685	1,054,778
Net debt (excluding superannuation)	1,302,158	2,181,737	2,713,929	3,257,646	3,363,532	3,019,165
Net financial liabilities	7,706,509	6,570,950	7,274,947	7,809,377	8,047,007	7,981,795

Note: Numbers may not add due to rounding.
Source: ACT Government (2019), Budget Papers, Budget Paper Number 3, p. 41

New expense initiatives announced in the budget reflect the Government's prioritising service delivery over other values. Amongst other things, the budget contains funding to train 36 replacement firefighters, as well as capital funding of almost $1m to start building new Fire and Ambulance stations (which will ultimately require additional staff) in the City and the Molonglo Valley.

While the Government has now placed service delivery over the need to balance the budget in the short term, it has done so while simultaneously keeping the Territory's tax levels relatively low: "The ACT remains a relatively low-taxing jurisdiction…(O)ur own-source tax revenue as a share of Gross State Product is the third lowest across all Australian states and territories." (ACT Government, 2018: 47).

Figure 4: State and Territory own source revenues as a percentage of Gross State Product, 2017/18



Source: ACT Government (2019: 229)

> Were the ACT to commit to a level of own source revenue equivalent to the Australian average, the ACT would have an additional $240m available a year.

The budget papers make an important point about the ACT's tax base, justifiably pointing to the stabilising impact on the budget bottom line of its decision to replace over the medium term residential stamp duties with land taxes. Whereas other states and territories remain prisoner to the sometimes quite rapid changes in stamp duty receipts, the ACT is increasingly free of this, leaving the budget bottom line in a stronger underlying position: "(T)he ACT budget is already much less exposed to fluctuations in the property market because of our transition away from conveyance duty. This means we can deliver more and better services for Canberrans with greater certainty about how these will be funded into the future".

It should be noted that one reason for the ACT having a relatively low level of taxation is because of the size of the Commonwealth Government presence in Canberra. Commonwealth Government employees, for example, are exempt from payroll taxation.

> There is nevertheless one revenue source that has conveniently already been established with the explicit purpose of funding the fire and rescue service and to which the Government has increasingly relied upon to do just that over the last four years – the fire and emergency services levy.

5.2 The fire and emergency services levy

The ACT Government imposes a Fire and Emergency Services levy. The purpose of this is to "cover costs associated with fire and emergency services in the ACT" (ACT Revenue Office accessed at https://www.revenue.act.gov.au/levies/fire-and-emergency-services-levy on March 15, 2019)[2]. Proceeds from the levy therefore contribute not just to the cost of the fire and rescue service, but also the ambulance, emergency and rural fire services.

The levy is imposed on property owners. For residential properties it is currently at a fixed rate of $344 per year. For commercial properties the levy varies according to a formulae based on the unimproved value of the property. There are three bands based on the unimproved value of the property (see https://www.revenue.act.gov.au/levies/fire-and-emergency-services-levy).

2 This is not the only source of dedicated funding for fire services in the ACT. The Commonwealth also provides funding to help defray the cost incurred by the ACT in protecting Commonwealth employees and assets. In 2018/19 approximately $5.1 will be paid to the ACT from this source. There is one additional source of funding for the fire service referred to in the budget papers (2018: 249) as "ACT Emergency Services Agency fees for Fire Alarm monitoring and false alarm call-outs". This would appear to be $3.9m in 2018 (see Justice and Community Safety Directorate Annual Report, 2017/18, Financial Report, p. 17).

Table 18: Fire and Emergency Service Levy Thresholds from commercial properties, 2019/20

AUV threshold	Marginal rate %
$1 to $300,000	0.6815
$300,001 to $2,000,000	0.8029
$2,000,001 and above	0.8342

In 2015/16 the Government announced that the proceeds from the levy would be increased substantially over the forward estimates, rising from $43.4m in 2014/15 to $54.4m by 2015/16 and a planned $80.7m by 2018/19. In justifying this increase, the Budget Papers said:

> "The ACT Government is transitioning the Emergency Services Agency to a more sustainable funding model so that, in total, by 2018-19 the FESL and other emergency services charges (the Road Rescue Fee and the Ambulance Levy) will account for approximately 75 to 80 per cent of the total cost of delivering emergency services to the Canberra community, which is the standard used by other jurisdictions across Australia".

No details or data were provided to justify these statements[3].

It should also be noted that by choosing to increase the percentage of the Emergency Service Agency's budget funded out of the Fire and Emergency Services Levy without increasing expenditure on these services at the same rate, the ACT Government has effectively freed up remaining sources of revenue for spending on non-emergency services.

Nevertheless, in broad terms identifying a dedicated funding source for the Territory's emergency services is good public policy. Having said that, such an approach should be founded on the widely-accepted principles of transparency, equity and efficiency. The ACT's approach falls short on all three criteria.

3 In its most recent budget, the ACT Government revealed that the levy in 2018/19 will deliver slightly more than originally planned ($84.4m cf $80.7m), and that the revenue increases will continue so that it will reach almost $97m by 2022/23 (ACT Government 2019: 23).

Lack of transparency

There is no way of knowing what the cost structure is of the various services that make up the Emergency Services Agency, nor is it possible to tell how revenues are allocated or deficits (surpluses) are generated. Transparency is a key value for well-developed government revenue measures. Without that it is impossible for stakeholders to monitor and hold agencies to account for their budget decisions.

Equity and efficiency

The flat rate imposed on households is inequitable and inefficient for a variety of reasons. All households pay the same amount, even though the value of their properties (and contents) varies enormously as does their income, the size of the households as well as their locations. The levy does not link behaviour to particular outcomes, with those who do their best to minimise the likelihood of fires occurring or doing damage to people or property potentially paying more than those who do not.

Earlier we argued that there is a strong case for the Fire and Rescue Service to be separated out as a a separate agency in the way that the McLeod Report recommended. We now reinforce this conclusion by saying that there is a compelling case for the Fire and Emergency Services Levy to be reviewed. The Fire and Rescue Service should be funded from a dedicated and transparent, hypothecated levy based on property value (preferably improved value)[4]. Such a levy could be based on the successful Victorian scheme that was implemented in 2017 and which takes account of each property's value, classification (whether it is residential, commercial, industrial etc) and location (see https://www.sro.vic.gov.au/fire-services-property-levy).

4 A useful summary of the issues can be found in 3 recently released parliamentary reports: NSW Legislative Council Legal Affairs Committee (2018), Fire and Emergency Services Levy, February (accessed at https://www.parliament.nsw.gov.au/lcdocs/inquiries/2454/Final%20report%20-%20Fire%20and%20Emergency%20Services%20Levy%20-%20November%202018.pdf); accessed at Tasmanian Government Review of the Fire Services Act (2019) Discussion Paper (http://www.fire.tas.gov.au/userfiles/felicityn/file/Issues_Paper_Fire_Service_Act_Review_June_2018.pdf)

5.3 Summary

In this section we have seen that the ACT budget strategy has shifted its emphasis toward service delivery at a time of strong population growth instead of a single-minded focus on keeping the operating statement of the budget in surplus. Small deficits over the next two years are projected to be more than compensated for by surpluses in the outyears. All this is happening against the background of an economy growing at a healthy clip, well above that for Australia as a whole.

We have seen that own-source revenues are being kept relatively low, even though there is no explicit policy commitment by Government to justify this.

We have also seen that there is one potential revenue stream available to properly and fully fund the proposed increase in funding for the Fire and Rescue Service: the Fire and Emergency Services Levy. This has been growing at a rapid rate over the last four years, but is poorly structured (it lacks transparency and equity) and is in need of major overhaul.

About the researchers

David Hayward

Dr David Hayward is Emeritus Professor of Public Policy and the Social Economy at RMIT University.

He is a former Dean of Business at Swinburne University (2004-2009), Dean of Social Science at RMIT University (2004-2016), and member of the Board of Directors of the Royal Melbourne Hospital (he Chaired the Finance Committee) (2008-2013). He is a life member of the Victorian Council of Social Service and in 2015 was invited to become a seconded member of its governing board (resigned in June 2018). In 2013, he was elected (twice re-elected unopposed) as Chair of RMIT's Academic Board (the University's principal academic committee), retiring in December 2018, during which time he also served on University Council and its Infrastructure and Information Technology sub-committee.

David's research interests are the funding of social policy, with a focus on the State Governments.

He has published widely, most recently on the NDIS (Journal of Critical Social Policy), the Social Economy (published by VCOSS), and state and federal government elections (the Conversation). He is a regular commentator on social and economic affairs for ABC radio and The Age newspaper.

Vin Virtue

Vin is a private consultant in Human Resources and Service Delivery Structures in the public and private sector.

Vin had an extensive career with the Department of Education in Victoria. He was the Principal of three state secondary schools as well as having policy and operational roles as Assistant General Manager of Communications, Regional Director in Ballarat, Bendigo and Southern Metropolitan Melbourne, and as General Manager of School Operations.

In the early part of his career Vin also had experience as an elected Union official.

About the researchers

Liss Ralston

Urban Statistician, Centre for Urban Transitions, Swinburne University of Technology

Liss is a statistician at Swinburne Institute for Social Research. Her work involves questionnaire design, data cleaning and statistical analysis for surveys as well as data cleaning and analysis for large secondary data sets. Liss has extensive experience in working with a broad range of ABS data (including very large data sets; HES, SIH, HILDA , Census), Valuer-General's property data, Centrelink data, local council rates data and other data sets, as well as human demography data, including Census Data and GIS.

Liss has been engaged in private consultancies for Local Governments, National Library of Australia, community organistions and produces two reports for the Real Estate Institute of Australia on a quarterly basis.