Dear Jeff,

Re: FSL Review Report: Government preferred model

Thank you for the opportunity to comment on the Government’s decisions in relation to reform of the Fire Services Levy.

As requested by the Treasurer, this letter will address the Government’s preferred model, based on the criteria stated in the Review.

We will raise some questions in regard to the model’s implementation, the ongoing review of certain features of the FSL, and some important matters we believe have not been addressed.

The submission focuses specifically on the issues that the Property Council sees as essential to ensure proper implementation of the Government’s preferred model.

**Key issues: Transparency**

FSL rates are determined according to predictions of the insurance company’s premium income approximately one year in advance. This method is inherently imprecise in nature, leading to both over-collection and under-collection. The current system lacks transparency in rate calculation and collection. The Government has said it wants to increase transparency in the system and the Property Council supports this.

The Property Council would support reforms that ensure insurance notices have a clearly noted FSL contribution. As the Government correctly states, this increases policy holder understanding of fire risk associated with their property.

We would also support reform to the method of levy calculation. A simpler and more transparent system would arise from a set FSL percentage established by the Government in consultation with industry.
A set percentage entirely removes the risk of over or under collection. It is not reliant on the calculations of insurance companies, only broad consultation with industry, and it gives the Government increased control over the rate of the FSL. The percentage would be clearly stated on the insurance notice. The Government could provide the industry with increased future certainty and the insurance industry with decreased compliance costs.

**Double Billing**

Under the current FSL scheme, where a property is insured under two property policies, such as Industrial Special Risk (ISR) and Terrorism, FSL is payable on both premiums. This anomaly has created major additional insurance costs for large commercial property owners in Victoria. This is a serious flaw in the current system that must be addressed.

**Deductions**

The Property Council believes the issue of deductions to be more complex than stated in the FSL Review Report.

The Property Council understands the Government’s reform in this area to mean the FSL would apply to a nominal full premium rate prior to any deductions for self insurance, or fire risk strategies.

If that is correct, the Government’s policy misunderstands industry practice.

We consider it almost impossible to determine the differential between a rate on a full premium and the rate after deductions. Simply because, we are not certain any such rate calculation is ever made.

An insurance premium rate is based on a wide range of factors. The premium rate is in fact a bundled range of insurances, including fire risk and special contingencies, such as theft and breakages. Large buildings have as many as five or more insurers, who negotiate the premium rate with insurance brokers. Often the premium is agreed between the broker and the lead insurer with the subsequent agreement of the other insurers. Deductions are never considered, a premium rate is based on the level of risk assumed by the insurer based on a very wide range of factors.

The FSL is applied to the percentage of the bundled insurance that is attributed to fire risk. That percentage changes from property owner to property owner and building to building, based on issues such as, the grade of building, it’s location, the type of sprinklers and monitoring system, the fire risk of surrounding buildings, the building materials and construction, the level of human traffic and the types of tenants, the level of theft and other crime in the area, indeed many factors not related to fire risk in any way, such as market cost pressure.

A further complication is that where a property owner owns more than one building, the premium rate is set across the portfolio of buildings irrespective of the State each building is in, and not separately on individual buildings. The premium rate that is given to the building owner by the broker may apply to dozens of buildings, in the case of superannuation funds and listed property trusts.

For these reasons, the Property Council is unclear how the Government would collect the alleged shortfall between the existing premium and a nominal premium excluding deductions, given, it does not appear to correspond with industry practice.

However, should the Government decide to proceed with this proposal, the Property Council must be involved in any further study to clarify the administrative procedure.
Excluding the issue of practical application, at a more fundamental level, we believe the current system of insurance premium rating, in broad terms, includes recognition of fire risk strategies and the relative fire risks of the particular building or portfolio.

Removing ‘deductions’ penalises the building owners who manage their risk. It takes away the incentive to maintain and up-date fire risk strategies. It potentially increases the risk to community safety and may lead to an increased call upon already stretched fire services, as building safety may become run down.

**Netting**

For similar reasons to the issue of deductions, the question of ‘netting’ is another area in which it is far from clear how the Government proposes such changes to work in practice. Any consideration of policy in this area would require detailed industry consultation.

**False call-outs**

The Property Council is concerned about increased charges for false call-outs. We believe there is no justification for increasing charges for false call-outs to commercial and industrial buildings.

Public safety is a major issue in commercial buildings because of the large number of people that work and shop in such buildings. That such busy and complex buildings present such a low fire risk demonstrates the commitment to safety of building owners. The Property Council believes Government policies should encourage public safety.

The current level of charging for false call-outs and their application in practice appears to be based on nothing more than the capacity to pay.

Irresponsible home owners, who don’t insure or can’t afford to insure, and yet do nothing to reduce fire risk, rarely get levied, because they can’t pay. Yet, insured building owners, who pro-actively call out fire services to ensure the safety of the large number of building occupants, can get billed.

And, even best practice fire alarm systems used by Property Council members are subject to occasional false alarms due to fluctuating sprinkler water levels, power fluctuations, monitoring company software etc.

In most States at least one false alarm per 60 days is free, and in WA all false alarms are free within fire districts. In contrast false call-out charges in Victoria are significantly higher than other States and there are no free false alarms.

The total bill for a false call-out is based on the number and duration of fire appliances attending a building. The number of appliances sent appears to be set by fire services based on building size in advance of a call-out. It is not based on the level of hazard or risk involved with the particular call-out. An unofficial ‘minimum’ appears to have already been established for commercial buildings far above the stated minimum of $1200.

The Property Council is aware of one large city building which paid over $125,000 in Fire Services Levy this year. It also paid over $80,000 in stamp duty on its insurance premium. Yet it still gets charged at least $3-4000 for every fire services call-out.

We suggest commercial building owners already pay in total an amount more than equal to the cost recovery for services provided to their low risk properties.

More fundamentally, we believe community safety requires a responsive emergency services system. That includes a community unafraid to call upon fire services for assistance.
Increasing the false call-out charges too highly may prove to be a disincentive for rapid reporting and consequently put lives at risk.

As such, we believe there is no justification for increasing the charges for false call-outs to commercial buildings, indeed, a strong argument can be made that the charges should be reduced substantially to underpin a system of rapid community reporting, and recognise the high level of payments already made by building owners.

**Commercial v Residential weighting**

We think an annual review of the system’s weighting of commercial and residential buildings is too often. It imposes extra costs upon government and industry, and the relative weighting is not so vital as to require constant monitoring. We think longer term trend analysis is preferable as it prevents fluctuations in weighting caused by one off events. The Report provides conflicting information on the Government’s thinking in this area, and we would seek further information before any policy decision is made.

Currently, weighting appears to be appropriate. There is a narrow differential between fire services use and Fire Services Levy payments and it allows for some minor fluctuations. Recent trends indicate any perceived imbalance may have been temporary and is moving towards equilibrium.

In terms of establishing a long term policy in regard to weighting, we remind you that commercial buildings are, in effect, a community asset. It is not correct to suggest only the building owner carries a risk in relation to commercial buildings. Thousands of people use commercial buildings everyday, to work, shop, eat and be entertained. The community has a place in ensuring the commercial buildings they use are safe. Therefore the FSL weighting between commercial and residential sectors should reflect the community use of those assets.

**Motor Vehicles**

We are disappointed the Government has chosen not to reform the system in relation to the impact of car accident call-outs on our fire services. The Report itself repeatedly points out motor vehicle call-outs account for 15% of fire service resources.

We recognise that Government may have made its decision with regard to the perceived high tax burden upon car owners. However, the Property Council believes drivers involved in accidents requiring fire services that have broken laws, such as drug use, exceeding speed limits or having high blood alcohol levels, or, all of the above should be levied call-out and clean up charges, regardless of other taxes and levies. The community should not have to subsidise law breakers.

Alternatively, the Transport Accident Commission (TAC) could be asked to contribute an increased component of the FSL quantum equivalent to the amount of services used - 15% of total funding based on 15% of total services.
Conclusion
The Property Council supports the Government’s moves towards greater transparency in the funding arrangements for the Fire Services Levy. We feel that a number of issues flagged in the Report require detailed consultation and further industry advice prior to implementation. We are concerned a number of important reforms have not been included and that the intended increase in charges has the potential to undermine the long term effectiveness of our fire services.

We look forward to working with the Government during the implementation of its reforms.

Yours sincerely,

Jennifer Cunic
Executive Director