



Response to Commission Position Paper 2008/11

Miscellaneous Revenue

Department of Treasury and Finance

January 2009

Summary

- The Commission intends to assess miscellaneous revenues and user charges equal per capita (EPC). Conceptually, user charges are generally set to recover costs and, therefore, an equal per capita approach is reasonable.
- However, Tasmania believes that there is a case for differentially assessing Public Safety Levies (predominately the fire services levy) in the 2010 Review. This is because these levies are set to take into account capacity to pay.

Public Safety Levies

1. Public Safety Levies (predominately the fire services levy) are material, with average revenue of \$74.71 per capita. Based on the 2008 Update, the Public Safety User Charges assessment redistributed \$45.69 per capita to the Northern Territory, \$27.39 per capita to the Australian Capital Territory and \$22.43 per capita to Tasmania.
2. Notwithstanding that the 2004 Review method is not a basis for considering a method for the 2010 Review, conceptually there is a case to consider that the Commission's materiality thresholds of \$50 per capita (average revenue) and \$30 per capita (for any state) are met. Based on the Commission's Assessment Guidelines, Public Safety Levies (predominately the fire services levy) is justifiable as a separate category, or at least a separate assessment (for example, a component within a category).
3. The current Public Safety User Charges category currently redistributes funds to the smaller states, reflecting the differential capacities to raise revenue. The fact that capacity to pay is a factor in setting levies is evident because they are generally not set to fully recover costs. The balance of funding is often met through direct Budget support.
4. The Commission acknowledges the different revenue bases on which states impose the fire services levy and the differences in the coverage of the levies between states. For example, New South Wales and Victoria, which account for 60 per cent of Australia's population, fund around 75 per cent of their fire services through levies on insurance companies. The remaining states have a property-based system (with the exception of the Northern Territory, which funds its fire services through consolidated revenue).
5. The Commission has suggested that the most likely measure is some form of unimproved property values. The Commission notes, however, that Commission Staff have not been able to find a reliable indicator of unimproved property values¹.

¹ Commission Position Paper 2008/11, Miscellaneous Revenue, paragraph 47, page 7.

6. Currently, the fire services levy is differentially assessed as a Public Safety User Charge, with insurance premiums as the broad indicator. Premium revenue data is provided by the Australian Prudential Regulation Authority (APRA), being the sum of premium revenues associated with two classes of insurance business – fire and industrial special risk and house-owners/householders.
7. Prior to the 2004 Review, the revenue base for the fire services levy component was measured by reference to the unimproved value of land as a proxy for the improved value of property.
8. Tasmania is aware of the long-standing concern of the Commission regarding the comparability of state provided land valuation data.
9. Tasmania considers that the data quality and comparability issues associated with land valuation data can be improved. Commission Staff have earlier acknowledged opportunity to work with the Australian Valuation Office to address known deficiencies by putting in place more rigorous processes for ensuring land value comparability in terms of valuation and reporting processes².
10. In fact, Commission Position Paper 2008/06 relating to the 2010 Land Revenue assessment proposes to largely continue with the 2004 Review methodology – which is based on land value data.
11. Having regard to what states do, Tasmania believes that the fire services levy can be differentially assessed as a Public Safety Levy using a hybrid measure. This measure could incorporate an insurance premium and an unimproved property value component.
12. The Productivity Commission “*Report on Government Services 2008*” identifies the major sources of fire service organisations’ funding on a state-by-state basis. Attachment 1 summarises fire service organisations funding sources, in both percentage and dollar terms on a state-by-state basis.
13. While funding of fire service organisations differs across jurisdictions, on a national average basis, in 2006-07, levies comprised around 60 per cent of fire service organisation funding, with the remainder sourced from government grants (Australian, state and local), user charges and miscellaneous revenue.
14. On a national average basis, levies reflect a 60/40 per cent split between insurance premiums and property owners.
15. Tasmania therefore considers that it may be appropriate to weight a hybrid measure on a similar basis, as outlined in Table 1.

² Commission Staff Paper 2007-03/S.

Table 1 – Proposed Assessment “Public Safety Levy – Fire Services Levy”

<i>User Charges Component</i>	<i>Component Weight</i>	<i>Revenue Base</i>	<i>Basis of Calculation</i>	<i>Data Source</i>
Insurance based measure	60%	Premium revenue factor	Sum of premium revenues associated with two classes of insurance business: Fire and Industrial Special Risk, and Houseowners/householders.	APRA
Property based measure	40%	Unimproved value of land factor	Based on the unimproved value of residential and commercial property.	Australian Valuation Office

16. Attachment 2 illustrates how a Public Safety Levy (fire services levy) assessment could be constructed, focusing on the insurance component. The illustration uses insurance premium data from APRA for 2006-07, extracted from Commission Position Paper 2008/08 Insurance Tax.

17. The illustrated assessment highlights the ability of the larger states (particularly New South Wales) in their capacity to raise levies from insurance premiums, compared with the relatively lower capacity of smaller states to raise revenue.

18. Importantly, Table 2 shows that the insurance component of a Public Safety Levy (fire services levy) is material for the smaller states, passing the \$10 per capita threshold established under the Commission’s Assessment Guidelines. The information in Table 2 is extracted from Attachment 2, which provides the full calculation of a proposed Public Safety Levy (fire services levy) assessment, based on the insurance component.

19. The inclusion of the property based component would further increase the materiality of the proposed assessment.

Table 2 – Materiality Proposed Assessment “Public Safety User Charges – Fire Services Levy” (Insurance Component)

	<i>NSW</i>	<i>Vic</i>	<i>QLD</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aus</i>
\$ per capita	7.14	-1.58	-3.81	-4.75	-2.02	-12.63	-10.54	-10.14	0.00

ATTACHMENT 1 – MAJOR SOURCES OF FIRE SERVICE ORGANISATIONS’ FUNDING (Productivity Commission)

2006-07	<i>Unit</i>	<i>NSW</i>	<i>Vic (b)</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT (c)</i>	<i>NT</i>	<i>Total</i>
Government grants										
Australian	%	–	0.8	1.4	2.0	0.4	0.9	–	1.4	0.7
State/Territory	%	21.9	43.3	16.8	26.0	0.2	13.0	70.8	86.0	29.2
Local	%	7.7	3.5	–	0.7	–	–	–	–	3.7
Levies										
On insurance companies	%	61.8	41.4	–	–	–	24.2	–	–	34.3
On property owners	%	2.9	1.0	73.3	64.1	94.9	46.1	–	–	23.6
User charges	%	1.7	2.4	6.9	1.7	2.3	12.4	17.1	9.0	3.3
Miscellaneous revenue	%	4.1	7.7	1.7	5.4	2.2	3.4	11.7	3.6	5.2
Indirect government funding	%	–	–	–	–	–	–	0.4	–	0.0
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total government grants	%	29.6	47.5	18.2	28.8	0.6	13.9	70.8	87.3	33.6
Total levies□	%	64.7	42.4	73.3	64.1	94.9	70.3	–	–	57.9
User charges	%	1.7	2.4	6.9	1.7	2.3	12.4	17.1	9.0	3.3
Miscellaneous revenue	%	4.1	7.7	1.7	5.4	2.2	3.4	11.7	3.6	5.2
Indirect government funding	%	–	–	–	–	–	–	0.4	–	0.0
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total government grants	\$m	228.9	422.7	62.5	65.6	0.9	7.4	35.7	19.3	842.9
Total levies□	\$m	501.1	377.3	251.9	146.1	139.1	37.6	–	–	1 452.9
User charges	\$m	12.9	21.7	23.7	3.9	3.4	6.6	8.6	2.0	82.8
Miscellaneous revenue	\$m	31.7	68.3	5.8	12.3	3.2	1.8	5.9	0.8	129.7
Indirect government funding	\$m	–	–	–	–	–	–	0.2	–	0.2
Total	\$m	774.6	889.9	343.9	227.8	146.6	53.4	50.4	22.0	2 508.7

ATTACHMENT 2 – PROPOSED FIRE SERVICES LEVY FACTOR (INSURANCE COMPONENT)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
Population	6,855,811	5,167,516	4,135,619	2,082,041	1,576,644	491,648	336,691	212,802	20,858,772
Assessed revenue base (\$m)*	9,616.3	5,931.6	4,477.8	2,197.2	1,789.3	405.5	298.3	191.0	24,906.8
Actual revenue (\$m)^	483.2	354.6	0.0	0.0	0.0	14.2	0.0	0.0	852.1
Average tax rate (%)									3.42
Assessed revenue (\$m)	329.0	202.9	153.2	75.2	61.2	13.9	10.2	6.5	852.1
Assessed revenue per capita (\$pc)	47.99	39.27	37.04	36.10	38.83	28.22	30.31	30.71	40.85
Materiality test \$10pc	7.14	-1.58	-3.81	-4.75	-2.02	-12.63	-10.54	-10.14	0.00
Category factor	1.1747	0.9613	0.9068	0.8838	0.9504	0.6907	0.7420	0.7517	1.0000

Based on premium data from APRA, extracted from Commission Position Paper 2008/08 Insurance Tax.

*Insurance premiums less employers' liability premiums and reinsurance premiums (as it is average state policy not to tax these).

^Fire insurance levies.