



Interim Submission to the Economic Regulation Authority

Review of the Emergency Services Levy Issues Paper

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1. Introduction

The Western Australian Local Government Association (WALGA or ‘the Association’) is the peak body for Local Government in Western Australia. The Association is an independent, membership-based group representing and supporting the work and interests of all 138 mainland Local Governments in Western Australia, plus the Indian Ocean territories of Christmas Island and the Cocos (Keeling) Islands.

The Association provides an essential voice for over 1,200 elected members and approximately 14,500 Local Government employees who work on behalf of 2.6 million residents of Western Australia. The Association also provides professional advice and offers services that provide financial benefits to Local Governments and the communities they serve.

The Association is grateful to the Economic Regulation Authority (ERA) for the opportunity to provide a submission in response to the *Review of the Emergency Services Levy Issues Paper*.

Local Government has prescribed legislative responsibilities within the Emergency Management Act (2005), Bushfires Act (1954) and the FES Act (1998) encompassing prevention, preparedness, response and recovery activities. The sector also collects the Emergency Services Levy (ESL) on behalf of the state which creates another layer of complexity to the discussion on funding for emergencies and the review of the ESL.

Whilst the ESL is a critical source of funding that allows the sector to undertake emergency service activities on behalf of local communities, the sector has a number of concerns about the way this funding is collected, managed and distributed.

This submission provides feedback on the Local Government sectors’ views on the current ESL arrangements and areas where it could be improved. Due to the diverse nature of views across the sector, the submission at this stage does not intend to provide a united sector position on the ESL. Rather, it aims to ensure that the ERA is aware of the diverse range of issues and challenges facing the sector in relation to funding emergency management activities.

Due to the five week time frame from the release of the issues paper to the deadline for submission, WALGA has not been able to consult with all parts of the sector. Most survey responses have not been endorsed by individual Councils. Furthermore, due to meeting schedules, this interim submission has not yet been endorsed by the Association’s State Council. The ERA will be informed of any changes to the Association’s submission following consideration by the State Council and the Association looks forward to working with the ERA through the next phases of the review to assist consultation with the local government sector.

2. Executive Summary

The Local Government sector is a critical partner in the collection of the ESL and administration of the capital and operating grants provided via the Local Government Grants Scheme (LGGS). This review provides an opportunity for the state and local government sectors to critically assess the effectiveness of the ESL and the outcomes that are borne for the WA community.

The Association's submission is in response to the ERAs issues paper and addresses the questions posed for interested parties. In reviewing the existing arrangements of the levy against the taxation principles of equity, efficiency and simplicity as outlined in the Discussion Paper, the Association believes it largely meets these principles.

The underpinning principles of emergency management (outlined within the submission) also need to be considered in any decision making criteria. These principles place the community at the centre of our efforts and promotes shared responsibility between all levels of government, private enterprise, not for profit and the community at large. This was formalised in 2009, when the Council of Australian Governments agreed to adopt a whole of nation resilience based approach to disaster management. A national partnership agreement on natural disaster resilience was signed and provides funding to the states and territories to increase community resilience to natural disasters¹. The Association and its members believe that by adopting these principles as a key decision criteria and assessing the expenditure of emergency management funding against these would be useful to ensure that the limited funding that is available is being directed to the appropriate priorities.

The Local Government sector are unanimously in support of greater transparency around the administration and distribution of the ESL. Many local governments believe that all information should be made public.

Suggestions have been made by the sector on how the method of setting the ESL could be improved. By way of example, the Central Country Zone offered that the ERA could explore alternative options such as reviewing the methodology for category 5 properties and consider the use of unimproved land value. WALGA have presented these considerations in the submission and look forward to exploring these further in subsequent discussions and workshops.

There are varied opinions on how the funding should be allocated across prevention, preparedness, response and recovery. Some respondents believe that the ESL should remain purely for response whilst others see a need to expand the funding to include expenditure on prevention, preparedness and mitigation activities.

In relation to future funding expectations, the majority identified a shift in focus to mitigation and preparedness. The rising cost of providing services, population growth and urbanisation are seen as key challenges, and within a funding context provide additional complexity as the current arrangements do not fund these activities.

The clear majority of members are in favour of the introduction of a rural fire service, and believe that it should be funded through ESL. This was primarily on the basis that the bushfire

brigade's capital and operating expenditures is somewhat currently funded by the ESL. It was considered that this would realistically require an increase to the ESL.

As the ERA have discussed in its issues paper it is difficult to cost a model for a rural fire service without an agreed position by government. The Local Government sector communicated during the consultation process that the rural fire service needs to firstly consider the overall fire and emergency service required by the WA community and then develop the most appropriate model. The sector does not want to further complicate an already complex policy environment with additional stakeholders and the duplication of resources and responsibilities creating inefficiencies and no better outcomes for the community.

3. WALGA Approach

This submission provides feedback on the Local Government sectors' views on the current ESL arrangements and considerations for future change.

Emergency management is a complex area of policy, and one which has a significant impact on Local Government and the community. There are many challenges facing the sector in providing these critical services, which are influenced by factors such as geographic location, risk, aging volunteer work force, population decline in regional towns, sustainable funding and resourcing of emergency management capability at the local level.

While the ESL is an important source of funding for Local Government to support their responsibilities for the provision of fire services, the sector has expressed concerns around the current distribution and administration of the funds. However, the diverse nature of emergency management activities at the Local Government level means that there is not always a common set of issues or concerns related to the ESL.

In this context, WALGA's submission does not intend to provide a united sector position on the ESL at this stage. Rather, it aims to ensure that the ERA is aware of the breadth of issues and concerns that have been raised by the sector, to ensure that it is fully informed in progressing to the next stage of the review. To this end, the submission will present feedback from individual councils and/or the sector where relevant in its response to the review questions.

The submission is informed by previous submissions on the ESL and a body of work commissioned by WALGA in 2016. WALGA commissioned AEC Group to conduct the study into the cost to Local Governments to undertake their current and proposed emergency management responsibilities. An important aspect of the research was to survey Local Governments to collect financial data relating to emergency management expenditure. Unfortunately, the response rate for the survey was low which means the results may not be reliable and cannot be used to provide an accurate account of Local Governments' emergency management spending. At the time of writing the report has not been finalized but we expect to liaise with the AEC Group and complete by 31 March 2017.

Most recently, WALGA developed a survey to gain responses from Local Governments to the issues paper released by the ERA on 30 January 2017. WALGA invited all councils to participate and provide a response within two weeks. At the time of writing, over 100

responses have been received. While the survey results are a useful guide to the key issues faced by WALGA members, there are some limitations with the data and therefore results should not be considered a comprehensive sector perspective.

4. Principles

4.1 Emergency Management Principles

In determining how ESL funding should be allocated in order to best manage the risks from bushfires and other hazards, WALGA considers that it is important that the principles of emergency management are taken into consideration.

It is universally accepted that Local Government plays an important role in emergency management given its close working relationship with the communities it serves. The relationship between a council and its community is significant and fundamental. Councils view their links with community groups as a valuable tool to deliver measures to improve community resilience and build social capital. This relationship together with this inherent technical expertise in local government underpins their involvement within the WA state emergency management framework.

Recent reviews by the commonwealthⁱⁱ into emergency management funding highlights the need to invest in prevention, preparedness and mitigation to lessen the social, economic and physical impacts of emergencies. It will be useful to adopt these principles as key decision criteria and assess the expenditure of emergency management funding against them to ensure that the limited funding that is available is being directed to the appropriate priorities within the WA community.

Shared Responsibility for Resilience

Increasing resilience to emergencies is the collective responsibility of all sectors of society, including all levels of government, business, the non-government sector and individuals. Given the increasing severity and occurrence of natural hazards, all of these sectors need to be empowered and work together with a united focus and a shared sense of responsibility to keep hazards from becoming emergencies.

Resilience minimises the vulnerability, dependence and susceptibility of a community by creating or strengthening social and physical capacity in the human and built-environment to cope with, adapt and respond to, and recover from emergencies.

To improve resilience we need to learn from emergencies in order to lead change and coordinate effort; understand the risks and communicate them to all levels of the community; work with the people and organisations that can affect the necessary changes; and empower individuals and communities to exercise choice and take responsibility. Our planning approaches need to include risk reduction strategies and our capacity to deal with disasters needs to be enhanced by greater flexibility and adaptability of our emergency services agencies and communities.

Risk Management Approach

Emergency Risk Management (ERM) is a systematic process that contributes to the wellbeing of communities and the environment. The process considers the likely effects of hazardous events and the controls by which they can be minimised’.

The process begins with an understanding of the hazards, evaluates the likelihood and consequence of possible events and produces a range of treatment options to minimise or eliminate the resulting risk.

Risk treatments include prevention and mitigation measures that reduce the frequency of events or consequence of the impacts, and preparation, response and recovery measures if an emergency event occurs. Ongoing risk identification and analysis is essential for the anticipation and management of the consequences of emergencies. This is underpinned by the six State Core Objectives, endorsed by the State Emergency Management Committee, which apply to Western Australia, to assist in measuring the risk posed to Western Australian communities as part of ERM planning. These highlight important objectives for the State which may be impacted by an emergency event, as they contain identifiable vulnerable elements (i.e. key vulnerabilities).

All Hazards Approach

The ‘all hazards’ approach assumes the functions and activities applicable to one hazard are often applicable to a range of hazards. The all hazards approach increases efficiency by recognising and integrating common emergency management elements across all hazard types. It does not, however, prevent the development of specific plans and arrangements for hazards that require a specialised approach.

In our diverse state, Local Governments are challenged by a variety of natural hazards depending on their geographical location. All communities in WA should have access to the necessary funding and support to assist them before, during and after an emergency.

All Agencies Coordinated and Integrated Approach

The ‘all agencies coordinated and integrated approach recognises that no one agency can address all of the impacts of a particular hazard. It is necessary for a lead agency to coordinate the activities of the large number of organisations and agencies that are involved. These can be drawn from across all levels of government, non-government, volunteer organisations and the private sector.

Emergency management requires collaboration, coordination and integration to facilitate complementary and coherent action by all partners to ensure the most effective use of resources and activities. Coherent actions rely on well-defined and appropriate roles, responsibilities, authorities and knowledge of the capacities of emergency management partners. This includes adherence to an incident management framework encompassing command, control and coordination.

Graduated Approach

The 'graduated' approach is based on the following principles:

- decisions should be made at the lowest appropriate level (subsidiarity); however, existing command, control and coordination arrangement apply; and
- where emergency management activities extend beyond the capability of the local community, support may be obtained from the district, state, interstate, national or international levels, as appropriate.

It is evident that with Local Governments which have managed to source funding to undertake the extensive obligations in prevention, preparedness and response, there is a direct correlation to the lessening impact of the emergency on the community they serve. This principle is critical and should underpin the funding decisions provided by the state.

Community Engagement

Effective and timely communication with the community is a critical and continuous process before, during and after an emergency.

Continuous Improvement

Continuous improvement, including incremental and transformational change, is undertaken systematically as an integral part of emergency management measures and practices to improve outcomes. Improvement in arrangements is achieved through the regular monitoring and review of plans, arrangements, policy and procedures at all levels, as well as the capture and implementation of lessons identified by research, exercises and incident reviews.

WALGA has been advocating for a review of the ESL for over ten years, as has been documented in many post incident reviews and special inquiries. The review of funding arrangements needs to be ongoing as the EM landscape continues to shift dramatically given the increase in more catastrophic incidents along with the rapidly changing community context in which these incidents occur.

4.2 Taxation Principles

WALGA supports the principled and practical approach to considering the appropriateness of the current approach for setting the ESL.

In relation to the existing arrangements, the Association considers that the levy largely meets the taxation principles of equity, efficiency and simplicity as outlined by the ERA in the Discussion Paper.

- Equity – This refers to both horizontal (those in a similar position pay a similar amount) and vertical (those who can afford to pay more) equity. It is considered that the ESL meets this principle, given that the amount a property is charged is dependent on the type and level of fire and emergency services available to the property. It also reflects Gross Rental Value, which is an indication of capacity to pay. This means that those with higher capacity to pay or better access to services contribute more.
- Efficiency – An efficient tax is one in that does not distort behaviour. The ESL meets this criteria, given that it is a tax on property, which is an immobile tax base. The ESL is also

broad based, in that it applies to all properties with very limited exemptions. However, the ESL does not provide incentives for property owners to minimise their exposure to emergencies. These types of activities are currently performed by local government, but are not funded by the ESL.

- **Simplicity** – This largely relates to the cost of administration. While it does add an additional burden onto Local Governments, from an economy wide perspective, applying the ESL to rates notices does reduce collection costs as it removes duplication and uses information on property values that is already available.

Although the ESL does generally meet the taxation principles outlined by the ERA, this does not necessarily mean that current arrangements are working effectively from the perspective of Local Government. This is discussed further at 5.2 Effectiveness of the ESL.

From a community perspective, WALGA members have raised concerns about the fairness of the system in the current economic climate, to the extent that it does not take into account individual circumstances and capacity to pay – particularly in an environment of rising unemployment.

Further, the Local Government sector has raised a number of concerns with the level and distribution of funding under existing ESL arrangements, which are outlined at 6.0 Allocation of the ESL.

5. Current ESL Arrangements

On 1 July 2003 a property-based ESL was introduced by amendments to the *Fire and Emergency Services Act 1998* (FES Act), based on the level of service available and calculated on the GRV of most urban properties, with a fixed rate charge per property in rural and remote areas.

All property owners are required to pay either a GRV base or fixed charge ESL which funds Western Australia's (WA) fire and emergency services, including:

- The career Fire and Rescue Service (CFRS).
- The Volunteer Fire and Rescue Service (VFRS).
- Local Governments' Bush Fire Brigades (BFB).
- Volunteer Fire and Emergency Service (VFES) Units.
- Volunteer Marine Rescue Service (VMRS).
- State Emergency Service (SES) Units.
- DFES' corporate support costs associated with the above services.

In 2015-16, DFES (2016) reported total ESL contributions of \$323.3 million up 11.6% from 2014-15, total revenue of \$344.5 million, up 11.2% and total cost of services of \$376.8 million,

up 4.7%. The ESL represented 93.8% of total revenue and 85.8% of total cost of services in 2015-16. Over the last three years the ESL as a share of total revenue has been fairly stable. Whilst the ESL and total revenue have both grown by similar percentages, the ESL as a share of total cost of services has been increasing since costs have grown at less than half the rate of total revenue (or ESL)ⁱⁱⁱ.

Table 1: DFES revenue and costs in relation to ESL, \$000s

Year ending 30 June	2014	2015	2016
Emergency services levy (ESL)	\$273,087	\$289,676	\$323,268
% growth	-	6.1%	11.6%
Total Revenue	\$288,684	\$309,920	\$344,514
% growth	-	7.4%	11.2%
ESL as % Total Revenue	94.6%	93.5%	93.8%
Total cost of services	\$347,281	\$359,809	\$376,775
% growth	-	3.6%	4.7%
ESL as % Total cost of services	78.6%	80.5%	85.8%

Source: DFES, 2016, 2015)

Some of the funds raised through the ESL are available to Local Governments through the Local Government Grants Scheme (LGGS) which will be discussed further within the submission.

The operating arrangements and business rules that apply to the ESL are documented each year in the *ESL Manual of Operating Procedures* produced by DFES. The key operating arrangements associated with the ESL from DFES (2017) can be summarised as follows:

- Local Governments raise and collect the ESL on their rates notices. The ESL is required to be shown as a separate line item on the rates notice reading “Emergency Services Levy”. The FES Act and Regulations specifies other ESL related information that is to be shown on, or issued with, the rates notice. DFES has financed upgrades to Local Government rates/ESL systems to incorporate ESL administration functionality.
- With few variations, the way that the ESL is determined and collected follows the same procedures that currently apply to general rates.
- The ESL is a service availability based levy payment arrangement.
- Properties that are currently exempt from general rates under the *Local Government Act* are required to pay the ESL. These properties and their assessed GRVs are provided by Landgate:
 - to each Local Government, where the Local Government is required to bill the ESL.
 - to DFES, where it has been determined that DFES will “bulk bill” organisations directly, including:
 - Public Financial, Non-Financial Corporations and Agencies outside the State’s Public Sector (refer to Schedule 1).
 - Local Governments.

- The State Government makes an annual lump sum contribution to DFES in recognition of emergency service protection afforded to its own property based on the Government Property Register. Hence, individual State Government (Crown) owned properties are not directly charged the ESL.
- Local Governments are required to pay ESL for the properties that they own. However, the levy is only calculated on improved properties that DFES directly invoices Local Governments for the ESL payable on these properties.
- The Commonwealth Government makes a contribution to DFES for protection provided for property owned by Commonwealth Agencies. Consequently, Commonwealth property is not to be directly charged ESL.
- With the exception of those Local Governments that elect to pay DFES 100% of the ESL, billed amounts collected from the ESL by Local Governments are required to be remitted to DFES on a monthly basis.
- An annual administrative fee is paid to Local Governments for the services they provide in administering the ESL. DFES (when FESA) also paid a “once off” Commencement Fee to Local Governments in 2003/04, totalling \$250,000.

Local Governments have raised concerns that the current level of funding generated by the ESL is not sufficient to cover all emergency services activities now or into the future. This is placing pressure on the sector to contribute additional funding to ensure there is a suitable level of service for the community.

Revenue raised by the ESL is used to fund the state’s fire and emergency services, which includes career fire stations, volunteer fire brigades, State Emergency Service (SES) units, the Volunteer Marine Rescue Service and the multi-purpose Volunteer Emergency Service units. It is hypothecated tax, in that the revenue raised is earmarked for a specific purpose.

While economists are cautious around the use of earmarked taxes due to the rigidities they impose on the Government’s budget, there can be a case for hypothecation in some circumstances. One of the benefits of hypothecation is that it leads to a closer alignment between those who benefit from a service, and those which fund it, as well as providing a signal to the taxpayer about the true cost of funding the particular service. A further benefit (at least, in theory), is that hypothecation imposes a hard budget constraint on the Government. These factors can lead to a level of taxation and spending that is more closely aligned with the public’s preferences and that is less subject to the political whims of Governments.

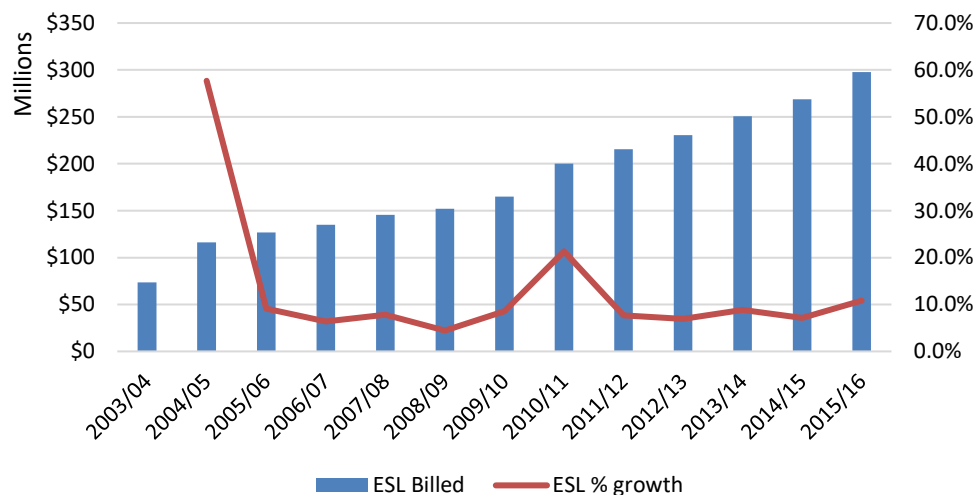
However, if the hypothecated tax only partly funds the services with the remainder being covered by general government revenue, these benefits are diluted. By mixing revenue sources, taxpayers do not receive a clear signal about the true cost of providing emergency services.

WALGA considers that this is a key issue with the ESL. While the revenue raised by the ESL is intended to fund all emergency services in the state, in practise, this does not occur.

5.1 ESL Funds Raised

In 2003-04 the ESL collected by Local Governments raised \$73.7 million. This has grown four-fold to \$297.8 million in 2015-16, or at an annual average growth rate of 12.3%.

Figure 1: ESL Billed



Source: DFES (2016)

5.2 Effectiveness of the ESL

The Local Government sector has raised a number of concerns with the existing ESL arrangements, which are outlined below.

The majority of respondents (70%) believe that the current ESL arrangements are not effective. This proportion was even higher for regional respondents (73%).

There were a wide range of concerns about the current ESL arrangements, with more than half of all respondents indicating 'all of the above'. This includes issues with,

- level of funding for emergency management activities;
- level of funding for local government emergency management activities;
- distribution of ESL funds;
- eligibility of some spending for ESL grants; and
- transparency.

Some specific concerns raised:

- Transparency
- Currently a one size fits all approach – doesn't reflect the different needs of each area
- Need for greater flexibility with under spending
- Limitations on what can be claimed under ESL
- Underspending on mitigation and preparedness activities
- Too much funding allocated to DFES – in particular for administrative activities
- Duplication and inefficiencies in relation to the collection and management of funds
- Need for local governments to play a greater role in distribution
- Detailed and onerous compliance

- Respondents considered that the ERA should examine:
 - The use of Gross Rental Value
 - Insurance costs
 - Population growth
 - Climate change
 - Governance arrangements and transparency
 - The cost of fully funding services now and into the future, and whether current funds are appropriately apportioned
 - Whether a rural fire service is implemented
 - Administration costs

5.3 Administration of the ESL

From an economy wide perspective, it is recognised that there are administrative efficiencies from including the ESL on rates bills.

While this approach may minimise overall costs, it does impose a burden on Local Government. Although the sector receives funding from DFES in order to compensate for these additional administration costs, feedback from the sector is that this funding is generally not sufficient to offset the costs incurred by Local Government.

WALGA research shows that Local Government spending on ESL administration stood at around \$3.9 million in 2015-16, up from \$3.2 million in 2012-13. This compares to the administration fee which is paid by DFES, which totals \$2.25 million, and has remained unchanged since the ESL was first introduced. This suggests that there is a funding gap in the order of \$1.7 million which is borne by the Local Government sector.

Feedback from local governments suggests that this shortfall is felt disproportionately across the sector.

- The majority of respondents (59%) reported that the costs of collecting the ESL had increased since it had been introduced. 40% believed collection costs had remained the same. These costs were generally consistent across the regional and metropolitan areas.
- Most respondents identified the rising cost of staff time and overheads, printing, and postage as the major drivers of the increased collection costs.
- Only 43% of respondents believe that the administration costs paid by DFES were sufficient to cover the collection costs. Many respondents noted the difficulties in identifying or separating out collection costs.
- The majority of respondents used option B for payment (84%). The proportion of respondents in regional areas using this method was even higher (86%). Many respondents considered this to be the best option as it reduced administration costs and time, was simple, and assisted with cash flow management.
- Respondents provided a number of other comments in relation to the administration of the ESL.
 - Concerns that ratepayers believe councils have control over ESL funds

- DFES was considered by some respondents to be a good support and easy to work with.

5.4 Calculation of the ESL

- When asked how the method for setting the ESL could be improved, respondents raised a number of issues. Examples of the key issues raised are as follows.
 - Ensure levy reflects differences in ability to pay
 - Review methodology for category 5 properties and consider the use of unimproved land value
 - Introduction of a rental levy
 - Higher ESL charges for rural areas
 - Zero based budgeting approach
 - Improved transparency and communication around use of funds
 - Consideration from a risk perspective
 - Direct funding of SES by DFES
 - More advertising and communication to educate ratepayers on the ESL and its use.
 - Vehicle changeovers based on fit for purpose rather than age or kilometres travelled (relates to the LGGS eligible items)

6.0 Allocation of the ESL

Local Government Grants Scheme

DFES allocates funding for Bush Fire Brigades (BFB) and State Emergency Service (SES) units via the LGGS process where Local Governments apply for an operating grant and a capital grant for each service. Guidelines for LGGS applicants are documented each year in the *ESL Manual for Capital and Operating Grants* (Grants Manual) (DFES, 2016).

6.1 Operating Grants

Operating Grants relate to the annual operating expenses incurred by BFBs and SES Units in direct support of their activities and readiness for operational duties, including the cost of emergency responses.

Operating Grant offers are based on the average of the previous two (2) years completed acquittals (past expenditure trends) and the current year's actual allocation, indexed with the prevailing cost escalation factor.

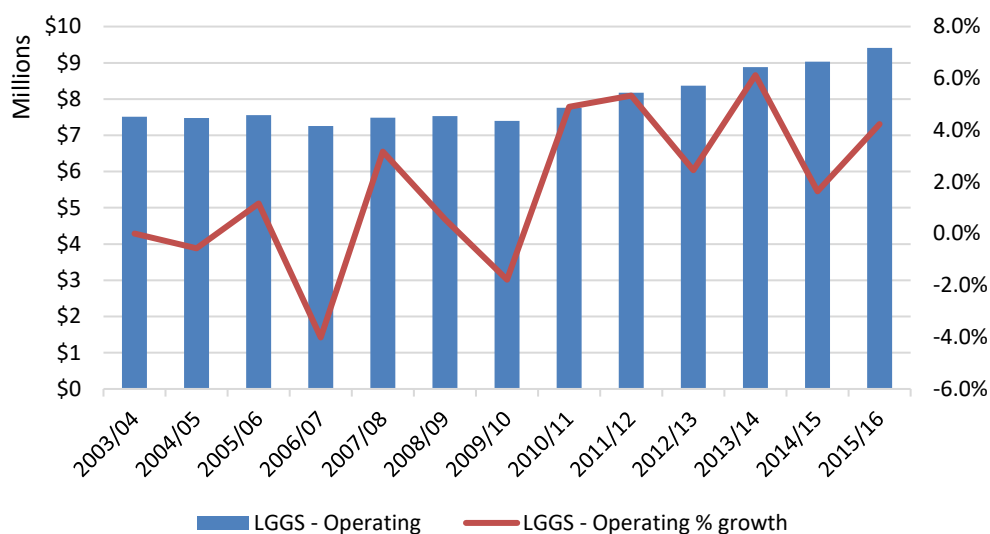
Operating Grant expenditure should be authorised and eligible for LGGS Grant funding. Eligible items are contained in Appendix III of the Grants Manual and include the following eight categories:

- 1 Purchase of plant and equipment (less than \$1,200 per item).
- 2 Maintenance of plant and equipment defined above.

- 3 Maintenance of vehicles, trailers and boats.
- 4 Maintenance of lands and buildings.
- 5 Clothing and accessories.
- 6 Utilities, rates and taxes.
- 7 Insurances.
- 8 Other goods and services.

LGGS operating grants commenced at \$7.5 million in 2003-04 and have increased to \$9.4 million in 2015-16. This represents an average annual increase of 1.9%^{iv}.

Figure 2: LGGS Operating Grant



Source: DFES (2016)

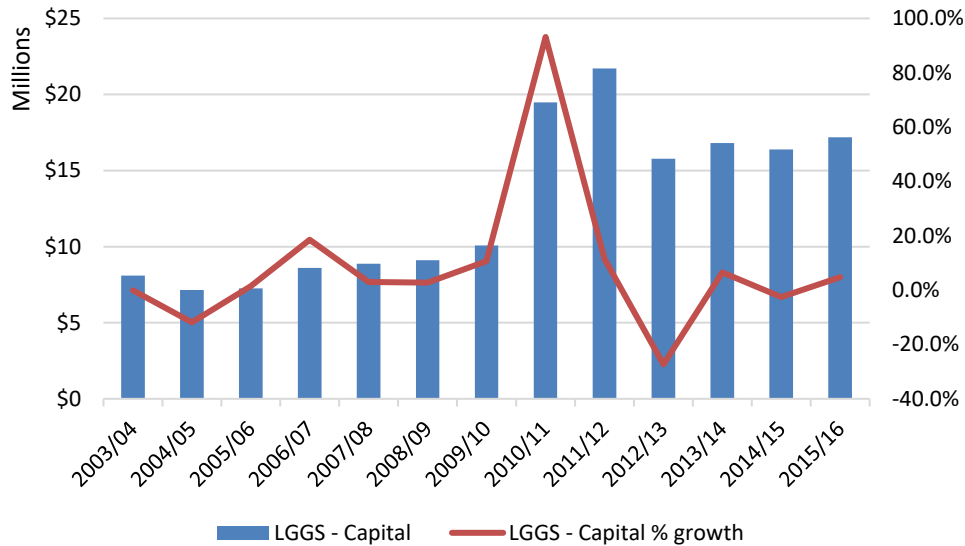
6.2 Capital Grants

LGGS Capital Grants relate to significant capital works initiatives costing more than \$5,000 per item, including the acquisition/construction of facilities, car parks, fences and landscaping), appliances, vehicles and major items of equipment. The following items are not eligible for LGGS Capital grants:

- Land.
- Associated site works for new buildings.
- Utility connections to the site boundary.
- Hydrants in non-gazetted fire districts.
- Earthmoving plant and equipment.
- SES Road Crash Rescue Hydraulic equipment (this equipment is supplied by DFES).
- Privately owned assets and equipment.
- Other assets as determined ineligible by the Grants Committees.

LGGS capital grants commenced at \$8.1 million in 2003-04 and have increased to \$17.2 million in 2015-16. This represents an average annual increase of 6.5%^v.

Figure 3: LGGS Capital Grant

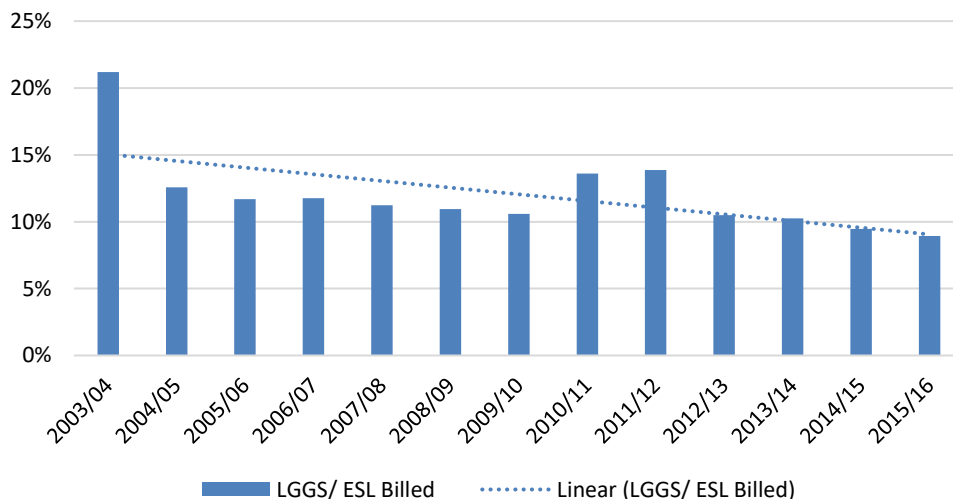


Source: DFES (2016)

6.3 Combined Grant

Overall, LGGS grants totalled \$15.6 million in 2003-04 and have increased to \$26.6 million in 2015-16. This represents an average annual increase of 4.5%. However, as a percentage of the ESL raised these grants only represented 8.9% in 2015-16 a share that has been in trend decline since 2003-04^{vi}.

Figure 4: LGGS Grant



Source: DFES (2016)

6.4 Level of funding for all emergency management activities

Research undertaken by WALGA suggests that Local Government contributes a significant amount of its own revenues towards emergency management activities. In 2015-16, this contribution was estimated to be in the order of \$6.6 million.^{vii} Going forward, feedback from the sector indicates that council revenues are expected to be the largest source of funding for Local Government emergency management activities.^{viii} Overall, ESL funding (through the Local Government Grants Scheme) only represents approximately one third of all spending by Local Government on emergency services activities.

It is important to note that Local Government's ability to raise revenue to fund important community services and infrastructure – including emergency management – has been limited by its financial position. Declining grant funding from the Commonwealth and State Government has placed pressure on the sector's financial position and this is exacerbated by the legislative constraints on the sector's ability to raise own-sourced revenue.

While WALGA believes that these constraints should be removed (as discussed below), to the extent that they exist, it is critical that the sector receives sufficient funding through the ESL to ensure that it is delivering on its emergency management obligations on behalf of the community.

Restrictions on fees and charges

State Government restrictions on Local Government fees and charges are arbitrary (the same fees in other States are often deregulated) and inefficient. Local Governments can impose fees and charges on users of specific, often incidental, services. However, a number of fees and charges are prescribed and restricted by legislation, and are specifically limited to recouping the cost of service provision. Fees determined by State Government legislation are of particular concern to Local Governments and represent significant revenue leakage because of:

- lack of indexation;
- lack of regular review (fees may remain at the same nominal levels for decades); and
- lack of transparent methodology in setting the fees (fees do not appear to be set with regard to appropriate costs recovery levels).

Examples of fees and charges of this nature include dog registrations fees, town planning fees and building permits. Since Local Governments do not have direct control over the determination of fees set by legislation, this revenue leakage is recovered from rate revenue.

This leads to unfair community outcomes in that all ratepayers subsidise services that are only used by a few.

The Association considers that it is appropriate that Local Governments have the freedom to set the level of their fees and charges. In the few cases where legislative restrictions are deemed necessary, they should be justified by a clear and logical rationale. Furthermore,

those fees and charges that are prescribed by legislation should be reviewed and indexed on an annual basis to ensure they are set at appropriate cost recovery levels.

Rates exemptions

Local Government rates are considered to be an efficient way to raise revenue, as they are broad based – to the extent that rates apply to most types of property, including the principal place of residence.

There are some exemptions from the rates base, which are justified by a sound rationale and are generally well supported by the community. For example, charitable organisations are exempt from rates on the basis that they deliver important social services that would otherwise need to be provided by Governments.

However, there are other State Government mandated exemptions that do not have the same sound rationale. These exemptions should be removed as a way to improve the efficiency and lift constraints on Local Governments' ability to raise revenue.

- Independent Living Units - Section 6.26(2) (g) of the Local Government Act 1995 provides that 'land used exclusively for charitable purposes' is exempt from Local Government rates. While there is a sound rationale for these exemptions to exist, they have extended beyond the original intention and now provide rating exemptions for land used by not-for profit organisations for profitable purposes. The most prominent example of this is the exemption provided to Independent Living Units (ILUs).

ILUs are separate dwellings, usually in retirement villages, and residents often manage their own affairs without any health, nursing, personal or other forms of support provided by the owner of the village. The not-for-profit sector is an important, although not the only, developer of such accommodation. As the population ages the revenue forgone from conversion of existing rate paying land to ILU accommodation operated by the not-for-profit sector is expected to grow and place an increasing burden on the smaller proportion of the population who do pay rates.

- State Government Trading Entities - State Government trading entities do not pay rates to Local Governments, but instead pay a 'rate equivalent' payment to the State Government to comply with the 'competitive neutrality' principle of National Competition Policy. This matter is of serious concern to Local Governments with substantial State owned trading entities in their district. The shortfall in rates is effectively paid by other ratepayers, which means ratepayers have to pay increased rates because trading entities have a presence in the district.

The State Government trading entities covered by this arrangement include Port Authorities and a number of utility corporations. Most of these entities place significant demands on Local Government infrastructure, especially roads. The rate revenue foregone from these trading entities is substantial – about \$19 million in 2016-17.^[i] The Association therefore believes it would be appropriate for Government Trading Entities' rate equivalency payments to be made to the relevant Local Governments instead of the State Government.

- State Agreement Acts - Local Governments in WA are often restricted in rating major resources projects, largely as a legacy of a pre-FIFO era where mining firms constructed company towns located near project sites. These arrangements were prescribed in State Agreement Acts, which are essentially contracts between the State Government and proponents of major resources projects that are ratified by the State Parliament.

Local Governments and State Government utility providers have assumed responsibility for services and infrastructure for most mining company towns. However, the rating restrictions remain. This causes inequity between proponents of older projects, who benefit from substantial rates concessions, and newer projects which are generally liable for standard Local Government rates.

Grant programs

Other funding offered by the State government tends to be grants based. Local Government has been disenfranchised by the grants administered by the State, (such as NDRP, AWARE) in recent times as the criteria have changed to focus on projects of state significance. Local governments traditionally focus their efforts on local level, community based projects aimed at building community resilience. Grants provide local governments with little or no on-going funding, leaving councils with legacy projects, particularly in the areas of emergency risk identification, one off mitigation and community engagement projects. Projects funded through grants are typically short term, can lead to unrealistic expectations within the local government organisation and a lack sustainable outcomes for communities.

State based services and activities

Outside of the Local Government sector, there is also a range of emergency management activities undertaken by State Government agencies other than the Department of Fire and Emergency Services (DFES), which are not funded by the ESL. Some examples of emergency services activities that are conducted by other agencies and funded through consolidated revenue include Register.Find.Unite, and the State's public warning system.

While there are clearly significant emergency services activities that are currently being undertaken but are not funded by the ESL, this does not necessarily mean that the ESL needs to increase (although it may). A key issue is that ESL funds are now being used for activities for which it was not originally intended, including the administration and corporate costs associated with the DFES. The initial intention of the ESL was not to fund these costs.

In practise, funding DFES corporate costs from consolidated revenue would free up additional ESL funds to be invested in frontline emergency management services. Further work is needed to quantify whether this would generate sufficient revenue to ensure that the ESL can fund all emergency services activities in the state. It is recognised that funds would need to be reprioritised within the State budget in order to achieve this option.

Alternatively, the rate of the ESL may need to increase in order to ensure that sufficient revenue is raised to fund all emergency services activities in the state.

6.5 Proportion of funds provided to Local Government.

As discussed above, the Local Government sector funds a significant proportion of its emergency services activities from own-sourced revenue.

On average, respondents considered the priority area for ESL funds to be used is in relation to response activities (39%). This was followed by prevention (27%) and preparedness (22%). Respondents considered that the lowest proportion of funding (14%) should be allocated to recovery activities. It is important to note the responses are based on the individual needs of local government and a recognition of their need to increase capacity and capability in response.

However, there was a wide range of responses to the survey on this matter. In relation to prevention, the proportion of funding that should be allocated to this area ranged from 80% down to 5%. Similarly, some respondents believed that no ESL funds should be directed to recovery activities. One respondent believed that all ESL funds should be used for response activities only

Responses also varied by geographic location. On average, regional local governments tended to prefer that a greater proportion of funds are directed to response activities (42%) when compared to their metropolitan counterparts (35%). Similarly, metropolitan local governments had a greater focus on recovery (20% compared to 10% for regional local governments).

When compared to how ESL funds are currently used, there is a considerable difference. Despite respondents believing that nearly 27% of funds should be allocated to prevention activities, the results indicate that only 12% of ESL funds are currently spent on these activities.

By contrast, 57% of ESL funds are currently used for response activities, compared to respondents' preference for 40% to be spent in this area. Similarly, 32% of ESL funds are spent on preparedness, compared to respondents' preference for 22% to be spent in this area.

These broad trends are consistent with regional local governments. Metropolitan local governments are also overspending ESL funds on response activities compared to their preference, at the expense of all other activities.

When asked what ESL funds should be spent on, the key areas identified included:

- Insurance
- Plant and equipment
- Administration and depreciation, medical and police checks, mobile phones
- Development of plans, prescribed burning and other mitigation activities
- Staff training, and exercises
- Community safety programs
- All emergency management activities

In relation to local government spending of their own revenues on emergency management activities, the largest proportion is spent on prevention (33%), preparedness (31%) and response (28%). Only 11% of local government's own spending on emergency management activities is for recovery. Metropolitan local governments spent less than their regional

counterparts on response activities (15% of own sourced funding, compared to 28% in regional areas).

In relation to future funding expectations, these are expected to be broadly consistent with respondents' preferences, with a greater focus on prevention and preparedness.

While many respondents felt that it would be largely the same, those which expected a change identified a number of different factors. The majority of respondents identified a shift in focus to mitigation and preparedness, the rising cost of providing services, and population growth and urbanisation.

6.6 Eligibility for grants

One of the key challenges for Local Governments is that many of the emergency service activities that it undertakes are not eligible for ESL funding through the Local Government Grants Scheme.

The LGGS Grants budget and payment processes currently reflect the historical linkages between the local government, the brigades/units themselves and DFES. It does not reflect contemporary emergency management arrangements nor support the endorsed principles of emergency management.

By way of example, Local Governments are required to administer SES capital and operating grants even though they have no legislative responsibility for SES. Additional burden for Local Governments which effectively act as an intermediary and carry the expenses associated with SES facilities. Site costs associated with SES facilities are not eligible under the LGGS and Local Governments are expected to fund this through their own sources even though they are a DFES responsibility.

The intended role and function of the LGGS is to enable DFES to finance the approved capital and operating costs associated with the provision and maintenance of an effective bush firefighting and state emergency service for Local Governments.

In a contemporary emergency management context, Local Governments require sustainable funding for a range of responsibilities that are bestowed upon them. A comprehensive review would assess the expansion of the ESL to include access to funding for items not currently deemed eligible and that fall into the prevention and preparedness aspects of emergency management.

7.0 Governance Arrangements

7.1 Transparency of funding allocation

Respondents were overwhelmingly in support of greater transparency around the administration and distribution of the ESL. Many respondents believed that all information should be made public.

Some options to improve processes included auditing, annual reporting, or independent review.

When asked which agency should be responsible for distributing ESL funds, the response was similar to the distribution of LGGS. WALGAs historical position on this issue has been that the assessment and allocation of the ESL needs to be removed from DFES and undertaken by an independent body. In this latest consultation, the survey responses actually supported DFES in undertaking this role (34%), closely followed by Treasury (32%). There was a clear preference from metropolitan respondents (67%) for Treasury to undertake this role.

The rationale provided for DFES to maintain this function was their expertise in operational matters and advice on equipment and personal protective equipment.

Critical to the decision of who is given the responsibility of allocating and administering the ESL is the fundamental need to have a transparent process for distributing these funds.

8.0 Rural Fire Service

The introduction of a rural fire service would potentially see significant changes to the allocation of ESL funds.

Through the survey the clear majority of respondents (78%) were in favour of the introduction of a rural fire service. If this were to be introduced, the majority of local governments (86%) believed that this should be funded by the ESL. This was on the basis that bush fire services are currently funded by the ESL.

It was considered that this would require an increase in ESL funding by 64% of respondents.

If the rural fire service was not funded by the ESL, the preferred method was state government consolidated revenue (32%).

It is important to note that many Local Governments shared their concern of making any of these decisions without a clear structure and framework for the Rural Fire Service. There is concern that the state government has not determined a structure for a Rural Fire Service and this is critical for our regional communities to have confidence in an improved level of service.

Furthermore, Local Governments do not want to see inefficiencies created through duplication of administration and services that may result from a new Rural Fire Service. It is clear that further consultation and consideration needs to be given to the final recommendations on the Rural Fire Service to ensure that it provides an improved level of service to rural communities, is economically viable, appropriately resourced, and does not add another layer of complexity to the already complicated emergency management arrangements for bushfire. Consultation with growth council CEOs suggested that the approach required in developing a rural fire service was to consider in the first instance, what level of service is required for the WA community with regards to fire and emergency services. They recognise there are a number of constraints that need to be factored into the development of an overarching service delivery model, however WALGA has advocated for some time that the complexity of the current emergency management arrangements need to be streamlined.

If it is determined that the Rural Fire Service will assume responsibility for Bushfire Brigades (requesting local governments to transfer this responsibility to state government), the Local Government Grants Scheme (LGGS) would need to be reviewed. The Kimberley zone are an

example of this having signed an MOU with DFES to take responsibility for its brigades over four shires. Remembering that Local Governments have an extensive range of legislated responsibilities, the LGGS could be expanded to then focus on prevention and mitigation – which are not currently eligible activities under the LGGS.

There may also be a requirement to look at the level of funds collected by the ESL to ensure that it is adequate to cover the new rural fire service and revised LGGS. If there is a need for an increase, communication with the community will be critical to ensure there is minimal impact on the local governments as many ratepayers perceive that the ESL is a local tax not set and allocated by the state government.

9.0 Future Emergency Management Funding

Given the changing policy landscape and demands of the community, WALGA considers that there may be merit in undertaking a broader review of emergency services funding to ensure that revenue is collected in the most efficient way possible and is adequate to meet future service delivery needs.

A major review of emergency management funding has not occurred since the ESL was introduced in 2003. Such a review will be particularly important if a rural fire service is introduced, given that this represents a fundamental change to the way that emergency services are delivered in WA.

WALGA believes that any review of emergency services funding should be considered in the context of a broader tax reform agenda, which examines not only current arrangements but also alternative approaches that could be used. This may include consideration of whether local government remains best placed to collect the ESL; whether a hypothecated tax remains the most appropriate way to fund these services, as well as alternative options for funding emergency services through the existing tax system (for example, by broadening the land tax base). It is recognised that this is a significant reform that would be difficult to achieve given the State's current financial position, and would therefore need to be introduced over the medium term.

10. Further Consultation

The Association can provide further information and evidence in support of its submission to the ERA. This first phase has seen over 100 local governments participate which provides an indication of the importance of this matter to the sector.

Members have specified they would like the opportunity to participate in the second phase of the review. To this end, WALGA will be facilitating face to face workshops to allow the sector further opportunities to engage and inform the review of the ESL.

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- i [National Strategy for Disaster Resilience](#), Council of Australian Governments, February 2011
 - ii [Australian Government Productivity Commission Inquiry Report](#) – Natural Disaster Funding Arrangements No. 74, 17 December 2014
 - iii AEC Group, 2016, Local Government Emergency Management Funding Review
 - iv AEC Group, 2016, Local Government Emergency Management Funding Review
 - v AEC Group, 2016, Local Government Emergency Management Funding Review
 - vi AEC Group, 2016, Local Government Emergency Management Funding Review
 - vii AEC Group, 2016, Local Government Emergency Management Funding Review.
 - viii AEC Group, 2016, Local Government Emergency Management Funding Review.