

Emergency Services Management and Support A Decade of Change in the West

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Introduction

As a result of a major reform process, emergency service management, coordination and funding has changed significantly in the West during the past decade and the sector now operates under more effective, and ever evolving, arrangements that provide an excellent platform for the various emergency services to better serve the community.

In summary, in Western Australia, the last decade has witnessed:

- ❑ significant improvements in emergency service management and coordination;
- ❑ a greater commitment to localised emergency service planning and response; and
- ❑ the introduction of a better funding base for emergency services.

That is not to say that there is total support by all members of the community of all of the changes that have occurred. Consequently, FESA continues to face many challenges, but the West is heading in the right direction.

Overview

This paper is intended to provide the reader with a general overview of:

- ❑ the principle reasons that FESA was created on 1 Jan 1999;
- ❑ FESA's size, structure and rolls in 2007; and
- ❑ the current emergency service management/coordination arrangements;

... and a more detailed insight into:

- ❑ the history of the funding reform process, that eventually resulted in the introduction of the Emergency Services Levy (ESL) in 2003/04;
- ❑ the way that the ESL based funding system currently operates; and
- ❑ the way that the transition from the old funding arrangements to the new ESL based system was managed and received by the public (including the critical roll that the insurance industry played).

This paper also presents comment on the factors that benefited or hampered the reform process.

It is also important to note that the reform process that has taken place in the West, responded to the structural, economic and administrative circumstances, and the political and social imperatives particular to Western Australia at the time. By their very nature, reform processes of this nature and magnitude must be unique in their design and tailored for the State/Territory which they will impact.

Service Arrangements – Pre 1999

Prior to the creation of FESA, a number of separate organisations existed to support the various emergency services in Western Australia. Service management and coordination had largely been a product of history and largely reflected ‘who’ was prepared to pay.

For example, a century or so ago, insurance companies created their own ‘fire brigades’ to respond to fires in properties underwritten by the insurer. It followed that the paid and volunteer fire and rescue services, that were eventually to operate under a 1942 Act of Parliament that established the WA Fire Brigades Board (WAFBB), were largely funded by the insurance industry. Only the percentage of the contribution base that the insurance industry funded had varied over the years.

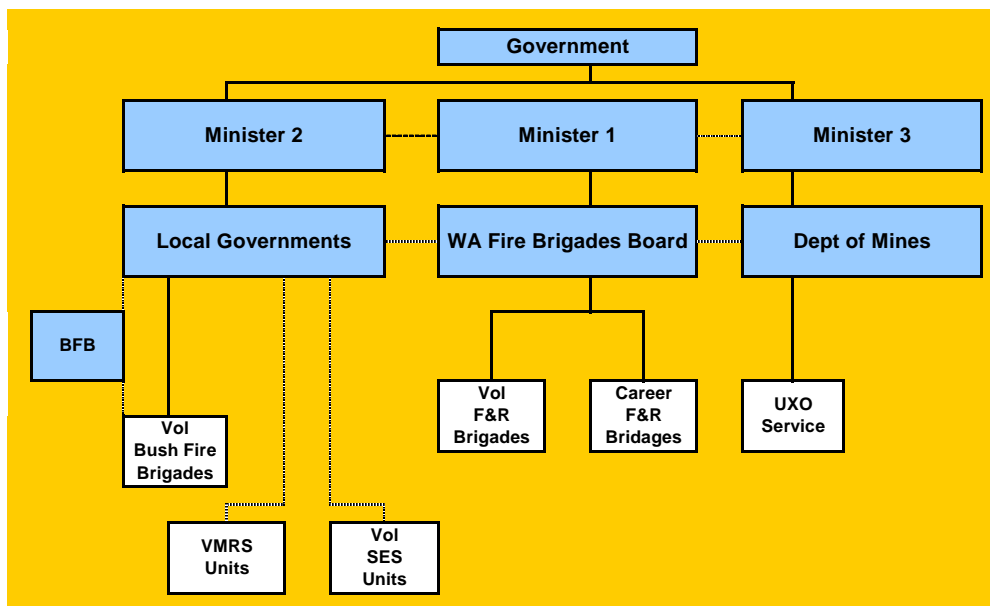
Rural (or Bush) fire brigades naturally evolved as communities became self sufficient. As a result, while there was some State Government funding provided, including ‘advisory’ services provided by the Bush Fires Board (BFB), bush fire brigades were operated and managed by local governments and in the main funded through each local government’s rates base, with supplementary support from local community donations.

The State Emergency Service (SES) had evolved through the spirit of volunteerism and had developed a regional structure that relied heavily on localised fund raising and, to some extent, on funding provided by Commonwealth, State (including grants) and local governments. Again, significant supplementary funding support was provided through local community donations. The coordination and, more recently, management of SES units was eventually assigned by Government to the WA Police Department.

Similarly, Volunteer Marine Rescue Services (VMRS) were established by community minded volunteers. These groups were largely autonomous and relied on funding support from the State (including grants), local governments and a significant level of community fundraising.

So prior to the establishment of FESA, whilst many good men and women were dedicated to the cause and provided excellent service to their respective communities, the overarching emergency service management and coordination structure was not ideal (as reflected in **Diagram 1**) and each service had its own funding arrangements which had simply evolved over time as a product of history.

Diagram 1 – Emergency Service Management & Coordination in WA - Pre 1999



The Creation of FESA – January 1999

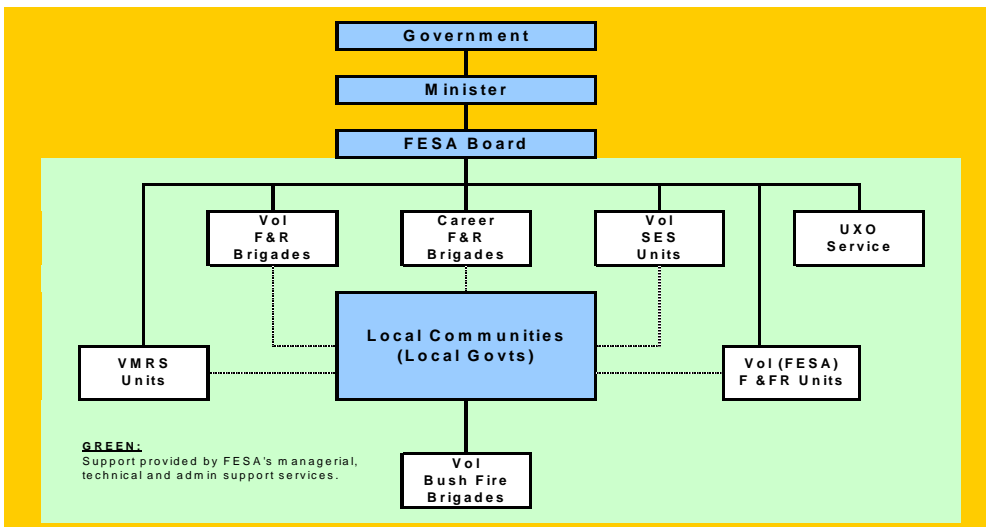
An independent review was established in 1996 by the (then) liberal State Government. In early 1997 the 'Emergency Services Task Force' recommended the establishment of an overarching body to manage and coordinate the State's emergency services, along with funding reform (discussed later). With support from the Government and Parliament FESA was created on 1 January 1999 to **directly** manage and coordinate the activities of:

- ❑ the Career Fire & Rescue Service (approximately 1,000 staff in 25 24/7 brigades);
- ❑ the Volunteer Fire & Rescue Service (approximately 2,500 volunteers in 100 brigades);
- ❑ the Volunteer State Emergency Service (approximately 2,000 volunteers in 80 units);
- ❑ the Volunteer Marine Rescue Service (approximately 33 groups);
- ❑ aerial firefighting and rescue services;
- ❑ the Unexploded Ordnance Unit (originally approximately 10 staff); and
- ❑ FESA technical, administrative and managerial support services (approximately 200 staff).

Indirectly, FESA was also established to provide advisory support to local governments and their bush fire brigades (approximately 20,000 volunteers in 700 brigades). Importantly, the roll of the local government sector which, under the Local Government Act, continues to have the power to establish, support and abolish bush fire brigades, has been retained. This decision was critical to help reinforce the appropriate responsibility that local communities and their local councils continue to have to oversee and coordinate many aspects of local emergency management. This localised responsibility for communities to ensure effective and comprehensive emergency planning (encompassing preparedness, prevention, response and recovery) has more recently been further enforced through the introduction of the Emergency Management Act 2005.

To better support local communities, FESA has decentralised and regionalised much of its operational managerial structure to enable FESA officers to directly interact with the general public in country communities, and the local governments and bush fire brigade volunteers that they support, advise and, in some cases at emergency incidents, coordinate and/or control. Importantly, while FESA was created as an umbrella organisation, the individual identity of the various service arms has been retained. So conceptually, emergency management activities, directly run or coordinated by FESA, now operate as shown in **Diagram 2**, with the retention and reinforcement of the role of local government.

Diagram 2 – Emergency Service Management & Coordination in WA – From January 1999



The Funding Review Process – 1997 to Early 1999

The funding review process was impacted to a large degree by the creation of FESA.

Initially stemming from 'Emergency Service Task Force' recommendations, a review of the funding system for the Career Fire & Rescue Service (CFRS) was initiated mid 1997 by the (then) Liberal State Government. In 1997 the CFRS had an annual budget in the order of \$80 million (principally firefighter salary related expenses) and was funded 75% by insurance companies, with the remaining 25% being equally funded by the local government and State Government sectors.

This review therefore had a limited focus, concentrating on the equity of the system of funding the CFRS. It had long been accepted that funding the CFRS largely through insurance premium loadings, was unfair and inequitable, as insurance was both avoidable (including 'self insurance' arrangements), and levels of coverage were discretionary.

In the early days of the review, a project committee structure was established, to directly advise and report to the Minister, which involved:

- ❑ an overarching Executive Steering Committee which involved 'executive level' representation from the WA Local Government Association, FESA, the State Treasury, the Minister's Office and the Insurance Council of WA.
- ❑ a number of 'issue specific' working groups, which involved 'key officer' representatives from the local government sector, FESA, the State Treasury, the Minister's Office and the insurance industry; and
- ❑ a small dedicated 'concepts development, research and evaluation project team, run by FESA which reported directly to the FESA CEO.

A considerable amount of work and stakeholder consultation was undertaken, and the merits of replacing the insurance-based CFRS funding system with a property levy-based one (Fire Service Levy) were generally 'supported in principle' and a Bill was drafted for presentation to Parliament. However, there was less weight of political support than that required, for a change that simply addressed the 'insurance inequity' issue, and the Bill was withheld.

The Funding Review Process – From Mid 1999

Hence, in May 1999, following the establishment of FESA in January 1999, the Minister announced to the State Parliament that a review of funding would continue, but with an expanded Terms of Reference that would involve the examination of funding arrangements that applied to all of FESA's services.

Importantly, this enabled the expanded review process to not only address the inequities in the insurance based funding system that supported the CFRS; but also (and more importantly):

- ❑ challenges that rural and remote based (bush fire) services were experiencing in securing adequate levels of funding – potentially putting at risk life and property in those communities; and
- ❑ the complexity and rigidity of having different funding bases for the different service arms.

In early 2001, the current Labour Government was elected in WA. Whilst the change of Government temporarily impacted the review process, strong support from the new Minister and the Chief Executive Officer of FESA ensured that the review continued with vigor.

The representative Steering Committee that had been formed in 1997, was re-established to ensure comprehensive stakeholder involvement and the Project Team and specialist Working Parties continued to meet to recommend policy and develop detailed administrative policies and procedures.

During the 'expanded' review process, there was further Statewide consultation with key stakeholder groups. This consultation concentrated principally on five key issues:

1) Should there be a change in the funding arrangements?

and, on the basis that there should be:

2) What should the new funding system look like?

3) Which emergency services and community groups should be funded and to what extent?

4) What was the most cost effective way to raise and collect the funding? and

5) What transitional arrangements needed to be put in place?

When the dust had settled the following principles and arrangements were given the full support of the Minister/Government:

- ❑ the old funding arrangements should be abolished and replaced with arrangements that better supported rural and remote services. Hence, the pre-existing requirements to match 'amounts collected' in any given area with the 'amounts spent' would be removed. This inevitably requires a funding cross subsidy from the metropolitan area to the country;
- ❑ a new property based **Emergency Services Levy (ESL)** should be introduced that 'transparently' identifies the cost to a property owner of their emergency service protection, based on 'service availability' (and not 'service usage' or risk);
- ❑ whilst introducing fairness and equity of contribution, the new property-based system should not be too complex. Hence (unlike the system that had earlier been introduced in South Australia) the introduction of a supplementary 'Vehicle Levy', with the associated additional establishment and ongoing operating costs, whilst debatably more equitable, was not supported to raise any portion of the funding required for fire and emergency services in WA;
- ❑ all of FESA's 'mainland' services should be funded under the new arrangement, Hence, the State Government continues to provide direct funding support to the Volunteer Marine Rescue Service, which is not supported through the ESL;
- ❑ being best place to do so, local governments should continue to own and operate bush fire brigades and be required also to manage the funding for their local SES Units. This led to the introduction in 2003/04 of an ESL Grants Scheme that local governments can now access to recoup 100% of the **direct** operating and capital funding (allocated by representative Capital Grant Committees) required to operate their bush fire brigades and SES units. The arrangements retain all bush fire brigade assets in local government ownership. In excess of \$60 million in grants will have been provided from ESL to local governments by the end of 2006/07;
- ❑ whilst concerted efforts were made to identify more cost effective and efficient property-based levy collection methods (such as direct billing/collection by FESA, the Water Corporation or the State Revenue Department), the inclusion of the levy on local government rates notices was acknowledged as the most effective and cheapest collection option (minimising collection costs that have to be funded via increased ESL charges). In 2006/07 142 local governments are involved;

- ❑ the ESL should be introduced on a 'budget neutral' basis to the State Government (CF), thus avoiding any transfer of costs from the public sector to the private sector. Hence, the funding that the State contributed, under varying arrangements, to the individual service arms in 2002/03, was retained in 2003/04 and beyond;
- ❑ the amount collected each year from the ESL each year should be 'budget driven'. Hence, different ESL rates are declared annually to ensure targeted aggregated ESL collections;
- ❑ insurance companies should not be able to profiteer from the change and insurance based loadings (in many cases specifically highlighted as 'Fire Service Levies') would be fairly and fully eliminated. This would involve the majority of CEO's of insurance companies that conducted business in Western Australia signing (or at least committing to) a 'Letter of Understanding' which detailed transitional and future operating arrangements, and their commitment to participate in a formal 'compliance review' that the Minister would be required, by legislation, to conduct; and
- ❑ there should be a comprehensive public awareness program initiated involving the Insurance Industry, FESA and the local government sector. This should include the establishment of an ESL Call Centre to enable local government rates officers to refer more complex/difficult enquiries that they would inevitably receive. An annual 'ESL Brochure' is also included in rates envelopes.

2003/04 - ESL Introduced With Transitional Arrangements

In November 2002 legislation was passed by the WA Parliament and the new funding arrangements, involving a property based ESL, were introduced on 1 July 2003.

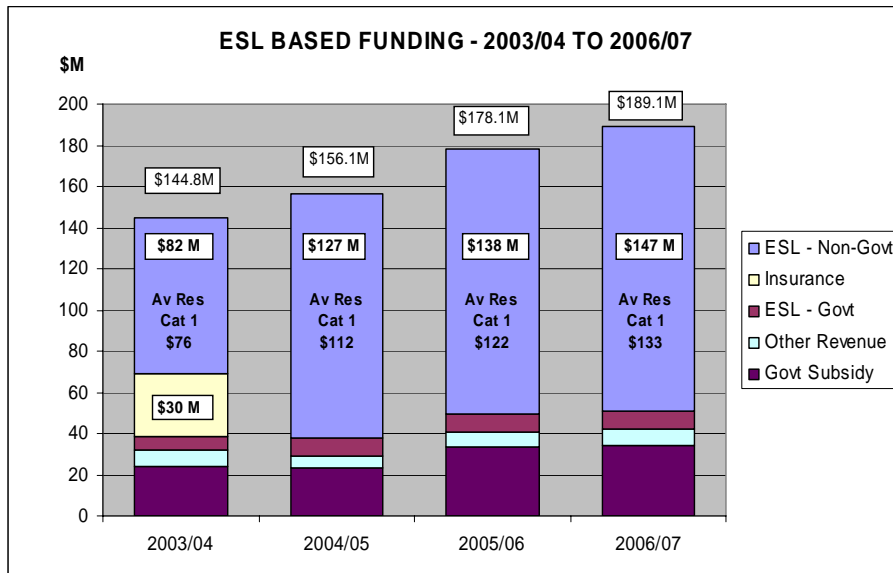
However, mid way through 2002, and just prior to legislation being put before the Parliament, the insurance industry advised the Minister that it was not willing to commit to a process (that had previously been negotiated with WA insurance industry representatives) that would have resulted in insurance policy loadings (FSL) being eliminated on 1 July 2003 and approximately one million policy refunds being made where loadings had been billed/collected post 30 June 2003.

This late change threatened to derail the funding reform process, but to ensure that the reforms could progress, and in view that the enacting legislation was scheduled to be passed before the end of 2002, the insurance industry and Government agreed to introduce a reworked transitional arrangement that involved the gradual elimination of contributions from the Insurance sector by 31 Dec 2003.

This resulted in a six month overlap (July to December 2003) of the old insurance based system and the new ESL based arrangement, which provided \$30 million of the required funding in 2003/04 from the insurance sector, and in turn saw 'discounted' ESL rates introduced in 2003/04 in areas where Career Fire & Rescue Services were established, as demonstrated in **Diagram 3** and **Table 4**.

The diagram also shows the total funding requirement (from all revenues sources) in the first 4 years of the ESL and the average metropolitan (ESL Category 1) residential ESL charges that applied.

Diagram 3 – FESA and ESL Funding 2003/04 to 2006/07 – Including Average Metropolitan ESL Charges



The transitional process involved a commitment by insurance companies to a 12 month pro-rata reduction and then full elimination of 'insurance loadings (FSL). The legislation, to reform FESA's funding and introduce the ESL on 1 July 2003, was passed in December 2002 and from 1 Jan 2003 insurance companies commenced the gradual reduction of policy loadings (FSL) from premium on a daily basis until the loading were fully eliminated by 4.00 pm on 31st December 2003.

It would be fair to say that the revised transitional arrangement had some positive benefit and negative effect on the funding reform process.

On the positive side, the process to eliminate policy loadings (FSL) on a pro-rata basis was able to be audited and provided a policy holder a clear understanding of the financial benefit of the elimination of the loading. The process also reduced the amount that needed to be collected via ESL in 2003/04 and, the resultant discounted ESL rates that applied in 2003/04 in areas serviced by the CFRS (metropolitan regional and five country cities) arguably made the transition more palatable to approximately 70% of property owners as they were introduced to the new ESL charge.

On the down side, and after potentially derailing the political process, it created a perception in some minds that the Government and insurance industry were 'double dipping', the issue most frequently raised by opponents of the new arrangements.

The arrangements to gradually reduce and then fully eliminate policy loadings (FSL) were detailed in a Letter of Understanding (LOU) that insurance companies (representing 96% of all property related business written in WA) either signed or committed to. The administration of the LOU process was coordinated by the Insurance Council of Australia (WA). The LOU also set out the following commitments agreed to by the insurance industry and insurers:

- ❑ the provision of \$1.25 million industry funding for 'transitional' costs, which financed the majority of costs associated with upgrades local government rates systems to support ESL administration and reporting;
- ❑ a marketing strategy that involved newspaper advertising and information about the funding reform process being included in insurance renewal literature;

- ❑ the refund of any loadings that had been collecting relating to periods beyond 31 December 2003 and involvement in the process to handle unclaimed refunds;
- ❑ a requirement that insurers lodge with FESA quarterly audit verifications that the loading reduction process was being appropriately conducted; and
- ❑ insurance company participation in a compliance review that the Minister was required to undertake.

Transitional clauses in the enacting legislation stated:

- 14 (1) *The Minister, after consultation with the ICA, is to take all reasonable steps to enter into arrangements with insurance companies that provide for the Minister to be given sufficient information by the companies to satisfy the Minister that, as a result of the introduction of the levy, the companies have appropriately reduced, or have given appropriate refunds in relation to, the premiums payable for policies of insurance.*
- 15 (1) *Within 18 months after the commencement day the Minister is to prepare a report on the arrangements referred to in clause 14 and information given to the Minister in accordance with those arrangements;*
- (2) *The Minister may omit from the report any matter that the Minister considers to be of a commercially sensitive nature; and*
- (3) *As soon as practicable after the report is prepared the Minister is to cause it to be laid before each House of Parliament.*

The Compliance Review Report, by the successful tender, NSW based 'Sigma Plus Consulting' was tabled in Parliament in June 2004. The compliance review noted that "*ESL compliance consists of two parts:*

- 1) *whether the FSL component of insurance is being correctly calculated and quoted during the phase-out period; and*
- 2) *whether reductions in FSL are resulting in savings to consumers."*

The compliance review utilised:

- ❑ insurance renewal quotes and premium rates that insurers provided – enabling the aggregate movements in premium costs and sum insured amounts to be measured ;
- ❑ time series and claims data from Insurance Statistics Australia (ISA); - to enable the percentage in change in premium in WA (net of FSL) to be compared with South Australia and Queensland;
- ❑ JP Morgan published data – to enable the percentage in change in premium in WA (net of FSL) to be compared with the other States; and
- ❑ the quarterly audit reports/verifications that insurers had provided FESA.

The review also involved consultation with insurers.

The report (which incorporates the LOU as an attachment) is available on FESA's website at www.fesa.wa.gov.au [Funding levy (ESL) – Publications]. It stated:

“ Insurers passed on FSL savings of 10% for home insurance and 16.7% for commercial property insurance. In addition the premium rate changes in WA were noticeably less than the Australian averages. We can therefore conclude that the industry passed on the FSL savings to consumers.”

and

" The evidence shows that the insurance industry has passed on the FSL savings to consumers. Gross premiums have dropped over the year - consumers are paying less for insurance. Net premiums (after removing government charges) have increased by amounts similar to other states. This is despite extra costs to insurers that are specific to WA, such as higher claim costs and the extra cost to insurers of complying with the new FSL regime. "

Colin Priest - Director - Sigma Plus Consulting - 29 April 2004

FESA's New ESL Based Funding System

Gone is the complicated, inequitable 'hotchpotch' of funding arrangements of the past. FESA now has two principle revenue streams involving ESL and State Government contributions (**Diagram 4**):

Diagram 4 – FESA Funding Pre and Post 2003/04

		<u>Before</u>					<u>After</u>							
Service Arm		Ins	LG	Donations	Other	Govt (CF)	Service Arm		Ins	LG	Donations	Other	Govt (CF)	ESL
CFRS	25 Brigades	X	X	X	X	X	CFRS	25 Brigades				X	X	X
VFRS	100 Brigades				X	X	VFRS	100 Brigades				X	X	X
BFB	700 Brigades		X	X		X	BFB	700 Brigades				X	X	X
SES	80 Units		X	X		X	SES	80 Units				X	X	X
ES Units	10 Units				X	X	ES Units	10 Units				X	X	X
VMRS	70 Services					X	VMRS	70 Services					X	
UXO	1 Unit					X	UXO	1 Unit					X	X
							Air OPS					X	X	X

The new arrangements require **all** property owners in WA to make a fair and equitable contribution which is paid via the local government rating process and remitted, by Councils, directly to FESA. ESL funding is committed by FESA to emergency service delivery on a strategic basis, with the ongoing aim of matching 'resource allocation' with 'risk' throughout the State.

The amount of ESL that each property is assessed depends on:

- ❑ service availability - which determines the 'ESL Category' classification of the property;
- ❑ the Gross Rental Value (GRV) value of the property - which determines the ESL charge (ESL Cat Rate x GRV = Annual ESL charge); and
- ❑ the usage of the property – which determines the minimum and maximum charge thresholds that apply.

To maintain simplicity, five (5) ESL category classifications apply:

- ❑ ESL Category 1 - Perth metropolitan area (Network of CFRS & SES support);
- ❑ ESL Category 2 - 5 regional centres (CFRS and VFRS & SES support);
- ❑ ESL Category 3 - Metro periphery (BFB/VFRS and frequent Metro CFRS attendance & SES support);
- ❑ ESL Category 4- Regional towns (VFRS & SES support); and
- ❑ ESL Category 5 - The rest of State (BFB & SES support).

Conceptually, and legally defined by gazetted ESL Category boundary maps, 'islands' of ESL Category 1, 2, 3 and 4 'float in a sea' of ESL Category 5. These boundaries are reviewed annually to ensure that ESL charges continue to reflect service availability. The ESL rate for each ESL Category, and minimum and maximum ESL charge thresholds, are declared by the Minister annually and notified by FESA to local governments by 31 May.

ESL related declarations that apply in 2006/07 are shown in **Table 1** and **Table 2** below:

Table 1 – 2006/07 ESL Rates

ESL Cat	ESL Rate
1	\$0.0146 per \$GRV
2	\$0.0110 per \$GRV
3	\$0.0073 per \$GRV
4	\$0.0051 per \$GRV
5	\$35 (Min)

Table 2 – 2006/07 Min/Max Thresholds

Property Use	Min	Max
Vacant, Residential & Farming	\$35	\$195
Commercial, Industrial & Miscellaneous		\$110,000
Cat 5	\$35	

Table 3 provides shows the average annual ESL charges for residential properties in each ESL Category over the first 4 'levy years',

Table 4 – Average Annual ESL Charges for Residential Properties

ESL Cat	2003/04	2004/05	2005/06	2006/07
ESL Category 1	\$76	\$122	\$128	\$133
ESL Category 2	\$53	\$85	\$85	\$94
ESL Category 3	\$47	\$56	\$60	\$68
ESL Category 4	\$36	\$41	\$44	\$44
ESL Category 5	\$30	\$30	\$35	\$35

Community Reaction to the Introduction of ESL

The general acceptance by the community of any 'tax change' can generally only be measured in terms of the backlash, complaints and negative press that the system receives during the implementation stage.

Being a property levy, the ESL was introduced as a tax Bill. However, whilst it did receive some public criticism, there were also few stakeholders that publicly expressed support of the system.

It would be reasonable to say that a change that impacted all 900,000 (plus) property owners in Western Australia was generally well received. This was largely due to the following factors:

- ❑ the general public have a very high regard for firefighters and emergency service volunteers and are willing to help emergency service organisations;
- ❑ the ESL was generally seen by the Western Australian public as a fair and sensible way to provide a robust funding base for emergency services;
- ❑ there had been extensive consultation in the design of the ESL with all key stakeholders over a number of years – and the detailed 'FSL phase out' and 'ESL administrative operating arrangements' had been well designed and put in place;
- ❑ there had been a long-term, comprehensive and effective community/public advisory campaign, involving FESA staff and volunteers, the local government sector and the insurance industry;
- ❑ FESA executives, regional managers and 'specialist ESL staff' were available and accessible to communities, the general public and the media during the transition period;
- ❑ There was a thorough understanding of the 'workings' of ESL by local government 'front counter' staff;
- ❑ Insurance companies 'did the right thing';
- ❑ FESA (using the transitional funding provided by the insurance industry) had financed all of local government's additional 'ESL establishment costs' and local governments shared an initial 'ESL Establishment Fee' in 2003/04 (\$0.25 million) and an annual 'ESL Administration Fee' (\$2.25 million per annum);
- ❑ All ESL collections are remitted directly to FESA and not to the State Government Consolidated Fund; and
- ❑ The transition was based on State Government 'budget neutrality', avoiding a transfer of costs from the public sector (CF) to the private sector (ESL).

The result was only a low level of negative press and media coverage, with the ESL Call Centre receiving only 2,200 calls in the 'transition' period which ran from July to October 2003, and the Minister/FESA receiving only 250 more intense complaints/queries.

The Funding Reform Process - Conclusion

In Western Australia, the process to reform emergency service management arrangements and, in particular, the funding system, took time. However, it was time that enabled a comprehensive package to be developed and public acceptance to develop. As mentioned earlier, all States have their own needs and present their own unique challenges – so each must be viewed differently if/when structural and funding reforms are being considered.

In WA the review and reform process was effective, as it essentially had the full support of the responsible Minister and the Government (both Liberal and Labour Governments throughout the full course of the process). Similarly, the strong leadership and commitment demonstrated by the Chief Executive Officer of FESA, which adequately resourced the review and implementation process, was critical to its success.

The WA experience also showed the merits of a process that was 'internally' driven by the Agency – as FESA knew it's business and stakeholders best. FESA was also able to effectively support the process through its regional offices.

Essentially, any transition from one funding system to another must be fair, well communicated, cost effective and fully transparent. That said, the introduction of ESL, as a transparent line on local government rates notices, has created its own challenges as property owners are now more aware of what they are paying for the services available to them.

Importantly, wherever possible and viable, ESL administrative policies and procedures followed established practices. The use of GRV and the alignment of ESL with many of the local government sector's rating rules and processes simplified the implementation of ESL and has proven to be cost effective.

Four years after the introduction of the ESL in WA challenges still exist, but the funding reforms are underpinning emergency service delivery and effectively supporting the direction that emergency service management is heading in the West.

Dale Fulcher

May 2007