

PUBLIC SAFETY USER CHARGES – ASSESSMENT RESULTS¹

- 1 This working paper describes the user charges assessment for Public safety user charges and provides information on its impact on the GST revenue distribution for the 2008 Update. The assessment method is discussed in Volume 3 of the 2004 Review Working Papers.

DESCRIPTION OF THE CATEGORY

- 2 The Public safety user charges category comprises revenues associated with fire insurance levies and other user charges. Fire insurance levies include statutory contributions for fire brigades from insurance companies and from local government authorities. Other user charges include installation of smoke alarms, false alarm charges and fines.
- 3 Table 1 shows the average user charges for Public safety for the last six financial years. In 2006-07, the average user charges of \$74.71 per capita represented 87.08 per cent of category average expenses.

¹ The premium revenue data used in this paper was supplied by the Australian Prudential Regulation Authority (APRA) as protected information, following an approach by the Commission Secretary. The APRA requires, under subsection 56(9) of the APRA Act, that the protected information not be disclosed to any person, other than to an employee of the CGC for the performance of lawful duties, without the prior approval of APRA. If the CGC is required to disclose the protected information by subpoena, discovery order or other requirement of the law, the CGC must notify APRA without delay and prior to the information and/or documents being disclosed.

Table 1 Public safety average user charges, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average user charges (\$pc)	55.85	58.86	63.74	65.28	69.79	74.71
% of total user charges	9.65	9.56	10.27	10.16	10.17	10.49
% of category average expenses	76.63	68.19	84.40	80.08	84.33	87.08

ASSESSMENT METHOD

Description of the assessment

- 4 The Public safety user charges assessment for the 2008 Update was carried out using two components: fire insurance levies and other user charges.
- 5 The fire insurance levies component was assessed on the basis of premium revenues associated with insurance and the other user charges component was assessed equal per capita (EPC).

Assessment structure

- 6 Table 2 summarises the assessment structure for the 2008 Update.

Table 2 Public safety user charges, assessment structure for the 2008 Update, 2006-07

User charges Component	Component weight	Factors	Basis of calculation
Fire insurance levies	87.00 %	Premium revenue factor	Sum of premium revenues associated with two classes of insurance business: Fire and Industrial Special Risk, and Houseowners/householders.
Other user charges	13.00	None	Equal per capita.

- 7 Component weights for the fire insurance levies and other user charges components reflected the contribution of the relevant revenues to the category. During the 2004 Review, on the basis of ABS-Government Finance Statistics (GFS) data, the Commission revised the component weights. The weights have not been updated between reviews because the changes were not considered to be material.

CALCULATING THE CATEGORY FACTOR

- 8 Table 3 summarises the components, component weights and factors assessed for this category for the last year of the 2008 Update. It shows the calculation of the category factor for 2006-07.

Table 3 Public safety user charges, derivation of category factor, 2008 Update, 2006-07

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fire insurance levies (component weight = 87 %)								
Fire insurance levies	1.18020	1.00077	0.85977	0.71448	1.22054	0.70728	0.59330	0.38039
Component factor	1.18020	1.00077	0.85977	0.71448	1.22054	0.70728	0.59330	0.38039
A Wgted comp factor	1.02677	0.87067	0.74800	0.62160	1.06187	0.61533	0.51617	0.33094
Other user charges (component weight = 13 %)								
Other user charges	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
B Wgted comp factor	0.13000	0.13000	0.13000	0.13000	0.13000	0.13000	0.13000	0.13000
Category factor	1.15677	1.00067	0.87800	0.75160	1.19187	0.74533	0.64617	0.46094

(a) Component factor rebased so that the average is 1.00000

(b) Category factor = (A + B)

9 The category factor was calculated as follows:

$$\text{category factor} = \text{fire insurance levies} + \text{other user charges}$$

where:

$$\text{fire insurance levies} = 0.8700[\text{premium revenue}]$$

$$\text{other user charges} = 0.1300[\text{EPC}]$$

10 In each case, the contributions to the category factor were calculated as the user charges component weight (the percentages in the table) multiplied by the component factor (the bracketed terms in the formulas). Each contribution to the category factor was then scaled to ensure that the sum of assessed user charges equalled the sum of actual user charges.

RESULTS FOR 2006-07

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12 Table 4 shows actual, average and assessed user charges per capita and revenue capacity ratios for 2006-07. The assessed revenue raising capacity ratio is equivalent to the category factor shown in Table 3.

13 Table 9 at the end of this working paper summarises the results of the assessment. It shows the average, actual and assessed user charges for each State for all years of the 2008 Update.

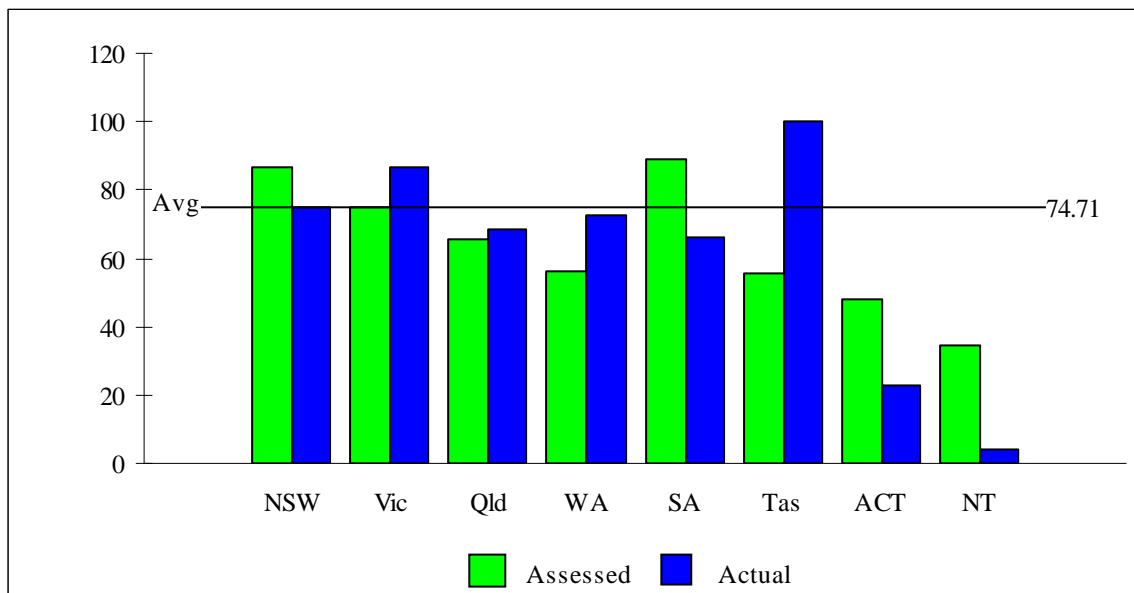
Table 4 Public safety user charges, assessment results, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual user charges	75.05	86.75	68.25	72.59	66.19	100.09	22.87	4.02	74.71
Assessed user charges	86.42	74.76	65.59	56.15	89.04	55.68	48.27	34.44	74.71
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio ^(a)	115.68	100.07	87.80	75.16	119.19	74.53	64.62	46.09	100.00

(a) The capacity to raise revenue ratio is the ratio of assessed to average user charges.

14 Figure 1 illustrates the per capita assessed, actual and average revenue for Public safety user charges for 2006-07.

Figure 1 Public safety user charges, revenue per capita — assessed, actual and average, 2006-07



CONTRIBUTION TO GST REVENUE DISTRIBUTION

15 Table 5 shows the category’s contribution to the distribution of GST revenue and Health Care Grants (hereafter described as GST revenue). It also shows the contribution of each factor and component to the GST revenue distribution.

Table 5 Public safety user charges, contribution of assessment to GST revenue distribution, 2008 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fire insurance levies									
Premium revenue	-106.4	-12.7	59.7	25.3	3.9	11.1	9.3	9.9	119.1
Component factor	-106.4	-12.7	59.7	25.3	3.9	11.1	9.3	9.9	119.1
Other User charges									
Other User charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Component factor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redistribution from EPC resulting from the 2008 Update assessment									
	-106.4	-12.7	59.7	25.3	3.9	11.1	9.3	9.9	119.1

Note: The redistribution due to the component factors includes the effect of interactions between factors. Therefore, the component factor figure may not equal the sum of its factors' redistribution.

DIFFERENCES FROM AN EQUAL PER CAPITA ASSESSMENT

- 16 The premium revenue factor is the only disability of the category.
- 17 The category factors reflected the following on a State by State basis:
- *New South Wales and Victoria* — the negative shares of GST were primarily due to their large capacity to raise levies from insurers. This capacity was assessed using data for premiums on fire and industrial special risk and house owner policies provided by the Australian Prudential Regulatory Authority (APRA); and
 - *Other States* — all other States had lower abilities to raise revenue because of their lower capacities to raise revenue from levies on insurers.

CHANGES SINCE THE 2008 UPDATE

Effect of assessment on the distribution of GST revenue

- 18 Table 6 shows the redistribution of GST revenue resulting from the assessments in the 2008 Update and the 2008 Update. It also shows the sources of changes.
- 19 Changes in the distribution of GST revenue between the 2007 Update and the 2008 Update were brought about because the Commission:
- used revised financial data in the average user charges and other revised data in factor calculations for the years 2001-02 to 2006-07; and

- replaced 2001-02 average user charges and factors with those of 2006-07 to move forward the five-year period on which GST revenue distributions were based. Moving the five-year period forward in this way ensures the assessments reflect recent trends in State priorities on the revenues raised and recent trends in State demographic, and economic circumstances on the relative capacity to raise those revenues.

Table 6 Public safety user charges, effect of assessment on GST revenue distribution, 2008 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-112.1	-14.0	62.5	22.0	11.2	11.1	9.3	9.9	126.0
Effect of revising category averages and factors for 2001-02 to 2005-06									
Category average	-0.5	-0.1	0.3	0.1	0.0	0.1	0.1	0.1	0.6
Category factors	-1.7	0.6	0.6	0.0	0.2	0.0	0.1	0.0	1.7
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-2.2	0.5	0.9	0.2	0.3	0.1	0.2	0.1	2.2
Effect of replacing 2001-02 category averages and factors with those for 2006-07									
Category average	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Category factors	7.8	0.7	-3.7	3.2	-7.6	-0.1	-0.1	-0.1	11.6
Interactions	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Total	7.9	0.7	-3.7	3.1	-7.6	-0.1	-0.1	-0.1	11.7
Redistribution from EPC resulting from the 2008 Update assessment (a)	-106.4	-12.7	59.7	25.3	3.9	11.1	9.3	9.9	119.1
Total effect of revisions and updating (b)	5.7	1.2	-2.8	3.3	-7.3	0.0	0.0	0.0	10.2

(a) Assuming same pool and a constant population.

(b) The total redistributed amount shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

- 20 Compared with an equal per capita assessment, the 2008 Update redistributed \$119.1 million away from New South Wales and Victoria to the other States, \$6.9 million less than in the 2007 Update.
- 21 Table 7 shows the changes in GST revenue attributable to changes in each factor, arising from both revisions over 2001-02 to 2006-07 data and replacing 2001-02 data with 2006-07 data.
- 22 The other user charges factor was assessed EPC and did not have any effect on redistribution.

Table 7 Public safety user charges, effect of assessment on GST revenue distribution by factor, 2008 Update to 2008 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fire insurance levies									
Premium revenue	-106.4	-12.7	59.7	25.3	3.9	11.1	9.3	9.9	119.1
Other User charges									
Other User charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

23 The main reasons for the changes in GST revenue distribution were as follows.

CHANGES DUE TO REVISING AVERAGE USER CHARGES AND FACTORS FOR YEARS 2001-02 TO 2005-06

- 24 **Revising average user charges.** Average revenues were revised upwards for 2001-02 to 2006-07 because the State UPF data were revised upwards. This means that the amount States collected from premium revenues in the 2007 Update was understated. This revision led to a decrease in the amount the assessment redistributes and decreased the GST shares of States with an above average ability to raise premium revenues, in this case, New South Wales and Victoria. It increased the shares of States with a below average ability to raise premium revenues, that is, all other States.
- 25 **Revising revenue data.** Minor revisions in the category factor were due to the introduction of 2006 Census data and revisions made to mean resident population.

CHANGES IN STATE CIRCUMSTANCES — REPLACING 2001-02 WITH 2006-07 DATA

- 26 Table 8 shows the actual expenses and implied costs of service provision for 2001-02, the year that drops out of the assessment period and 2006-07, the year that comes in, for the 2008 Update assessment.

Table 8 Public safety user charges, actual and assessed user charges and capacity to raise revenue, 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual user charges									
2001-02	54.19	68.73	56.10	36.04	56.54	69.87	18.70	5.03	55.85
2006-07	75.05	86.75	68.25	72.59	66.19	100.09	22.87	4.02	74.71
	%	%	%	%	%	%	%	%	%
Change between 2000-01 and 2005-06	38.48	26.21	21.65	101.41	17.07	43.25	22.32	-20.06	33.76
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed user charges									
2001-02	68.39	56.14	45.72	47.13	49.30	40.87	34.59	23.33	55.85
2006-07	86.42	74.76	65.59	56.15	89.04	55.68	48.27	34.44	74.71
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2001-02	122.44	100.51	81.86	84.39	88.27	73.17	61.94	41.78	100.00
2006-07	115.68	100.07	87.80	75.16	119.19	74.53	64.62	46.09	100.00

Changes due to replacing revenue data and revenue bases for 2001-02 with 2006-07 data

- 27 **Replacing revenue data.** Since 2001-02, State revenue from premiums has increased 33.76 per cent. However, this has not been enough to keep pace with the growth in the GST pool (43.9 per cent). So, replacing 2001-02 average revenues with 2005-06 average revenues has led to a reduction in the amount of GST the User charges category distributes (\$0.2 million). It has increased the GST shares of States assessed to have an above average revenue raising capacity (New South Wales and Victoria). It has decreased the GST shares of the other States.
- 28 **Replacing revenue base data.** The largest redistribution of GST from replacing revenue base data occurred in New South Wales. While New South Wales' premium revenues increased between 2001-02 and 2006-07, they did not increase as fast as the Australian average. New South Wales' capacity to raise revenue decreased. This caused an increase of 5.7 million in the GST share to New South Wales.
- 29 Replacing the category factors for Queensland and South Australia reduced the GST redistributions of both States. This occurred because the premium revenue raised by these States increased significantly during the five-year assessment period and at a faster rate than the Australian average. The revenue raising capacities of South Australia and Queensland increased. Therefore, they received a smaller share of the GST.

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Date: 29/02/08

Table 9 Assessment of user charges, Public safety user charges

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Revenue		58.86		63.74		65.28		69.79		74.71
New South Wales										
Assessed difference	- 129.611	- 19.48	- 76.038	- 11.36	- 82.781	- 12.30	- 72.813	- 10.73	- 80.295	- 11.71
Revenue - Assessed	521.187	78.34	502.647	75.11	522.314	77.58	546.601	80.51	592.468	86.42
Actual	382.000	57.42	395.000	59.02	433.000	64.31	472.000	69.52	514.513	75.05
Victoria										
Assessed difference	7.421	1.52	- 24.971	- 5.04	- 21.604	- 4.30	- 10.828	- 2.13	- 0.259	- 0.05
Revenue - Assessed	280.709	57.34	340.891	68.78	349.288	69.59	366.116	71.91	386.305	74.76
Actual	363.372	74.23	422.481	85.24	375.000	74.71	410.000	80.53	448.267	86.75
Queensland										
Assessed difference	63.624	16.89	48.520	12.56	51.959	13.13	40.246	9.94	37.693	9.11
Revenue - Assessed	158.119	41.97	197.703	51.18	206.329	52.15	242.315	59.85	271.264	65.59
Actual	217.597	57.76	231.630	59.97	240.589	60.81	260.582	64.36	282.236	68.25
Western Australia										
Assessed difference	19.312	9.96	17.310	8.79	17.900	8.95	14.743	7.23	38.637	18.56
Revenue - Assessed	94.784	48.90	108.151	54.95	112.666	56.33	127.526	62.56	116.905	56.15
Actual	74.000	38.17	114.000	57.92	125.999	63.00	137.999	67.69	151.142	72.59
South Australia										
Assessed difference	12.664	8.30	10.285	6.69	9.129	5.90	3.907	2.50	- 22.599	- 14.33
Revenue - Assessed	77.173	50.56	87.644	57.05	91.841	59.38	104.995	67.28	140.385	89.04
Actual	88.208	57.79	66.520	43.30	99.094	64.07	100.246	64.24	104.362	66.19
Tasmania										
Assessed difference	11.025	23.21	9.254	19.25	9.347	19.28	8.523	17.45	9.354	19.03
Revenue - Assessed	16.935	35.65	21.387	44.49	22.303	46.00	25.566	52.34	27.375	55.68
Actual	37.000	77.89	42.000	87.38	43.000	88.69	46.000	94.17	49.209	100.09
Australian Capital Territory										
Assessed difference	7.725	23.83	7.493	22.97	7.767	23.64	7.913	23.82	8.900	26.43
Revenue - Assessed	11.354	35.03	13.301	40.77	13.681	41.64	15.273	45.97	16.253	48.27
Actual	1.000	3.09	4.000	12.26	6.000	18.26	7.000	21.07	7.700	22.87
Northern Territory										
Assessed difference	7.841	39.31	8.148	40.56	8.283	40.55	8.308	39.80	8.570	40.27
Revenue - Assessed	3.898	19.54	4.659	23.19	5.053	24.74	6.258	29.98	7.328	34.44
Actual	0.981	4.92	0.752	3.74	0.792	3.88	0.823	3.94	0.855	4.02

Note: Refer to Attachment A, Relative Fiscal Capacity of States for how these figures are compiled.

Source: CGC Assessment System/U2008 GST/Expenses/d. Law, Order and Public Safety/4470 Public Safety/Tables and Chart/4470 R Contribution of Assessment to GST Revenue Distribution.