REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

REVIEW OF FIRE SERVICES FUNDING

At Sydney on Friday, 7 May 2004

The Committee met at 9.00 a.m.

PRESENT

Mr M. J. Brown (Chair)

Ms G. Berejiklian
Mr P. E. McLeay
Mr J. H. Turner
Mr S. J. R. Whan

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RICHARD DOUGLAS DRYSDALE, Actuary and Principal of Professional Financial Solutions, 350 George Street, Sydney 2000 and

THACH HUYNH Financial Modeller, Professional Financial Solutions, 350 George Street, Sydney affirmed and examined:

CHAIR: I am advised that you have been issued with a copy of the terms of reference and also a copy of the Legislative Assembly's Standing Orders 332, 333 and 334 that relate to the examination of witness, is that corre3ct?

Mr DRYSDALE: Yes.

CHAIR: The Committee has received a submission from you and your report to the Committee. Is it your desire that that submission form part of your formal evidence?

Mr DRYSDALE: Yes.

CHAIR: I thank you both and your firm for the hard work that you have done in this inquiry to date. I know a lot has been asked of you and you have had to balance a lot of competing claims, but on behalf of the Committee thank you very much for the effort that you put into it. Do you have an opening statement you would like to make?

Mr DRYSDALE: I do. Professional Financial Solutions appreciates this opportunity to appear before the Committee and discuss our report.

We were appointed to develop a model to help the Committee assess the impact of changing the financial arrangements for the fire services. In particular we were asked to estimate the revenue derived from a property based levy and to identify on an individual basis those property owners contributing more and contributing less.

Given the complexity and the size of the task, we have made every effort to ensure transparency by firstly highlighting any assumptions and limitations in the model in the process. Secondly, we have given all interested parties the opportunity to discuss the assumptions underlying the model and we have also provided individual demonstrations and encouraged people to come along and run the model with their preferred scenarios. Thirdly, all our work has been reviewed by a group that includes New South Wales Treasury and the PAC secretariat.

On 15 March we issued an interim report that showed the results of the model under four test scenarios. These results show that under most of the scenarios presented residential property owners who had both buildings and contents insurance would generally contribute less under a property based system. This was expected given the widening of the tax base by moving from a discretionary system to a prescriptive system. With commercial properties the benefits of moving to a property based system are not as clear cut.

However, in assessing the modelling results it is important to bear in mind that the quality of the data that we were able to get on commercial properties was not as good as we got on residential properties and, in particular, the sample we got does not allow for contributions made by large industrial special risk policies and which can cover multiple properties and also the contributions from tenants within commercial properties. Hence the individual commercial results need to be treated with caution.

Since the release of the interim report we have undertaken further modelling work to try to address some of the issues that were raised in submissions to the Committee following that report.

The most contentious issue was the high level of contributions required from commercial properties with high land values. We believe that these high contributions can be attributed to three main reasons. First of all is the lack of any risk rating in the proposed system.

We have identified some individual properties that are currently contributing $200,000 or more under the current system because they are rated very high for the risk of fire and other contingencies, but those properties have a very low land value, so under some of the scenarios that we are looking at they would be only paying about $2,000 instead of $200,000. Some people would be enormous winners under this system. Because in a sense the fund is a zero sum game that money has to be made good by others and under a land based system the main penalty would fall on business with large land values.

Secondly, the concentration of commercial land values, the Valuer-General's figure indicate that only two and a half per cent of properties have land values in excess of $2 million but they represent some 44 per cent of all the total commercial land values in the State. I would expect the land values are more skewed towards the top end than building values which might be a better measure of the value of fire services to buildings.

The third issue with commercial was the narrowing of the contribution basis. This arises because many commercial buildings have tenants who also take out business insurance policies on their contents and other risks, and some businesses that do not have tenants may be insuring for a lot of contingencies which are not property related. All of the premiums under these policies are currently subject to the FSL at the commercial rate, but under a property based levy only the building itself would be subject to the levy.

We have tried to get an estimate of the typical amount of current levy paid by tenants in a commercial building, as opposed to the building. We have not got anything good but there has been a couple of anecdotal figures, one of which was at least as much and another which was possibly 13 times as much. You are getting a lot more money that will be lost and the tenants who will be lost in the actual building if you stop the current system.

For the final report we developed an additional scenario which seemed to reduce the burden on the higher value commercial properties. This was achieved by introducing the motor vehicle levy, increasing the levies attributable to small commercial properties, and increasing the contribution requirement for non-GMR properties to be more in line with the GMR. That had the effect of reducing the second ad valorem rate on those properties to slightly less than $3 per $1,000 of land value. We believe this is probably a fairer approach than the combined scenario in the first option and we also developed three variations on that which were in the report.

In summary, for residential properties we regard a property based system using the levies proposed in the additional scenario as being a significant improvement on the current insurance based system, as it addresses the major problem of non-insurance.

For commercial properties we also believe the proposed system could work as it removes the current problems with self-insurance and overseas insurance. We do suggest, however, that the potential large increases on high value commercial properties should be further investigated.

CHAIR: You gave the interim report. Could you talk a little bit about the feedback that you received from the different organisations? I know you have addressed a bit of that in your opening remarks.

Mr DRYSDALE: We received feedback from the property council. They were mainly talking or complaining about the issue raised there, the very high impost on large commercial properties. We received feedback from the local government authorities, asking if the next version of the report could make clear the amount the levy would increase if the local authority contribution was stopped and there was not an equivalent reduction in rates to people with the actual amount and the property based levy which is in there.

Mr HUYNH: We also received feedback from the Minerals Council of New South Wales asking for a change in the calculations, so that rather than doing figures on all properties with mining lease number, it was done on properties that were only actually required to have a rescue service, and they advised us that basically represented the coal mines, which I think are about 101 properties in New South Wales, and 12 metalliferous mines, and so the figures have been redone for them and those results are significantly less than in the original model.

CHAIR: Did you receive feedback from either of the fire services?

Mr DRYSDALE: No. We did come to the meeting on Wednesday where they made some comments on our report but we did not receive any direct feedback.

CHAIR: How were you selected to perform your work?

Mr DRYSDALE: I think last July we were invited to tender for this work by a selection committee that comprised Treasury, the Insurance Council and the fire services. The emergency services may have been part of that as well. Various businesses put up tenders and ours was accepted.

CHAIR: As a professional organisation you would have obviously been provided funding to do this work. Can you explain to the Committee who funded this work?

Mr DRYSDALE: The initial funding for this work was provided by the Insurance Council of Australia. I think they agreed to meet the cost. Initially when we tendered for the job it was expected that the project would run for maybe three months or so from July to September or October last year. It has developed into quite a lot larger project.

When the funding from the Insurance Council of Australia was fully utilised, New South Wales Treasury agreed to share any remaining funding with ICA.

CHAIR: Since you were funded by an organisation which has a real interest in this report, can you explain to the Committee how you ensured that you were not unduly influenced by any sector?

Mr DRYSDALE: We had a lot of discussions with all the insurance companies, as we have had with all other people. Professional Financial Solutions is an independent company, owned by myself, and two other directors. It is not really worth our reputation in the market to be unduly influenced by any one party.

All of the comments in the report are drafted by us. To some degree things were run past a working group which consisted of the PAC Secretariat, Treasury, as well as a representative from ICA. We have tried making it clear that the recommendations are ours based on the information we were given.

Mr HUYNH: That issue has always been something that is going to be broached, and so I think it was very important for us from the very outset to be transparent in the whole process and I think we have shown that, and from our accessibility in terms of giving all parties time to see the model, understand it, and have their own say as to the results.

CHAIR: You collected a lot of data during this process. Hundreds of thousands of entries you put into the system. Can you explain to the Committee how difficult it was in processing all of this information and some of the specific difficulties you encountered in doing so?

Mr HUYNH: The main issue is with the inconsistent formats in which we received the data. Because we received the data from different insurance companies, and there are substantial volumes of data, we had to collate it and in order to do that we had to have a consistent format, and so we spent a fair amount of time, I suspect probably two months, trying to actually fix up the data so that it would be in a manageable form.

The main issue with the data was the addresses, because we were using the addresses as the key link between the insurance data and the Valuer-General's valuation data, and we felt that in order to get the most out of this exercise, we wanted to get as large an example as possible, so we spent a significant amount of time trying to understand the data and fix it up so that we would get a substantial size for the research.

Mr McLEAY: Do you have any advice for any groups who may be doing this kind of think in the future?

Mr HUYNH: It would be do not expect the time line to be short and also place as much restriction on the format of the data as possible. We thought initially when we sent out the request we were very specific in what we wanted, but people interpreted the request in different ways, and once insurance companies do something it is very difficult for them to come back and do it again, so you do not really have a second chance at getting the data extract.

Mr DRYSDALE: I would add to that maybe have a higher level of priority that could have been given initially. The people who actually extract the data in insurance companies or other organisations that we worked with quite often did not meet proposed or suggested deadlines. They had other work on and this work did not have as high priority as it might have had. It caused delays towards the end of last year.

CHAIR: You were provided with a lot of private details about individuals within the State. I understand you also signed privacy agreements. What will happen to the model after this project is complete, and what will happen to the information your firm has collected?

Mr DRYSDALE: We have agreed, once the project is complete and finished, there will be no more need for the data. We will destroy the disk that we have got the data on. It is also on our server obviously in our business. They are issues that people could come back for a period of years with questions or disputes over the results of the modelling so I think we do need to keep a copy probably on the server but destroy any sort of hard copies.

Mr WHAN: I actually wanted to ask a bit about, get a bit more explanation from you about those high value properties you mentioned that you dealt with in your additional scenario. What were the characteristics of those higher value commercial properties that made them so much higher value than others in unimproved capital value? You mentioned in the report about the Valuer-General looking at or considering valuing commercial properties on a building value basis. Without that, with the land value basis only, does that make any of the - sort of a system like this flawed in that you cannot really account for that properly? Is it a bit arbitrary to try and do the additional scenario to cope with that difficulty?

Mr DRYSDALE: Well, the land values are very skewed. There was a graph in the final report showing that sort of two-thirds of commercial land values are less than 200,000 but together they only represent I think 13 per cent of all the land values. Then there are a large number of very small commercial businesses and a small number of very large ones by land value. If you looked at the total building value, and it could be argued maybe building value is a better indication of the value for fire service, you would not have the same level of skewness because it costs roughly the same amount to put an equivalent building onto similar sites, but if one is in the Sydney CBD with the very high land value and one is in non-GMR region with the low land value you would not have the same level of the multiple of the overall building value if you used building values as we are getting with land values. So, by using land values, it is very skewed towards the top end. So, if you are trying to raise a certain amount of money, and you are basing it on land values, and also you have a two-tier system because with commercial, I think the average fire service levy, if you applied the total amount currently raised by commercial divided by the total number of properties it is about $1,000, but most, two-thirds of commercial buildings are less than $200,000 of value and are probably paying less than $100 in the levy at the minute, so that would seem to be a non-acceptable approach. So if you end up putting the higher rate on the higher end it sort of exacerbates the problem.

Mr WHAN: So are most of those high value blocks of land, CBD blocks, or are they areas with large expanses of land, like large properties in the rural areas or something like that? I mean, are they basically all CBD or are they spread around?

Mr DRYSDALE: They are not all CBD. I mean, there are shopping centres and industrial buildings in the suburbs of Sydney that were in the large ones as well. I think the property council made the point to us that some of the industrial properties would be more adversely affected than the CBD properties because they have got less opportunity to pass it on to tenants if you are just running your own business but some of the insurance figures that they were providing were relatively low at the present time and would be very high under your land based levy.

Mr WHAN: You mentioned that that needed further investigation. How would you suggest that we undertake that further investigation of that issue?

Mr DRYSDALE: I think it would be a matter of looking at the different types of properties and maybe trying to take a sample and just getting the information on what is the insurance being paid by the tenants on those properties. I mean, if at the minute in the model we have been comparing the insurance paid on a building with the insurance being paid on the building insurance, sorry--

Mr WHAN: Rather than the insurance.

Mr DRYSDALE: --we are comparing the amount arising from insurance on the building with the total amount that will be coming under the levy. We have not been able to take into account the amount that comes from the tenants. If that is two or three times the amount that has been raised on the building then it obviously reduces the overall increase on that building as a whole which would mean the owner would presumably have to pass some of the rest through to the tenants but the tenants are otherwise getting a windfall gain. I think that is one area that could be more directly investigated maybe by looking at a small sample of properties.

Mr TURNER: The Local Government Shire's Association have expressed some concern that the report did not apportion basically their contribution over the properties. Could you explain why you were unable to do that in the report?

Mr DRYSDALE: It was not we were unable to do it. If the local authorities are charging rates, and some of those rates relate to the amount that the local authorities are paying in their levy under the FSL, if they stopped paying that levy, the amount of rates would reduce and the amounts of the rates would reduce by the same amount. You know, there is no real difference.

Mr TURNER: We would hope it would reduce by the same amount. We had some evidence it might not reduce them by the same amount.

Mr DRYSDALE: So in the latest report we have actually put it in to show the effect. If rates did not reduce, or you take no account of what property owners are advantaged by the reduction in rates, what the effect would be if it all goes onto the property based levy. But if that happens, and there is a reduction in rates, then it is an unfair comparison so it was left out because we thought overall it would be a zero sum game, although individual properties might pay slightly more or slightly less.

Ms BEREJIKLIAN: Can I just ask a question for the record? In relation to your preferred model, can you give us the average percentage that a residential property owner is better off and the average percentage that a commercial property owner is worse off?

Mr HUYNH: As a percentage figure?

Ms BEREJIKLIAN: Yes. So, for example, for each household in a residential property under the proposed preferred model is 5 per cent better off rate, whereas with commercial property there might be a - I know it shows it in a dollar figure but I want to know overall the proportion of the--

CHAIR: How many people?

Ms BEREJIKLIAN: No, no, the percentage, the percentage of the amount.

CHAIR: Page 34.

Mr HUYNH: Just a second.

Ms BEREJIKLIAN: I guess what I am trying to establish is the better off rate is X, compared to the worse off rate.

Mr DRYSDALE: Under the combined scenario, which was the earlier one, the average contribution under the current system was $112 and under the proposed system it would be $89. So you would have a $23 reduction in a bit over $100. We could come back with the full figures on the additional scenario. I do not think we have actually got the percentages.

CHAIR: Maybe if you took that on notice and got back to the Committee.

Mr McLEAY: You did make, in your final paragraph you said you recommend change to the property based scenario away from the current insurance scenario; is that right? In your opening statement?

Mr DRYSDALE: Yes, I think so. I mean, the current system has got obvious flaws in it. There are people who are not insuring, and there are people who take out insurance policies for other than a property risk who are actually paying a levy. I mean, intuitively, it seems more sensible to base the property levy, to base the cost of the fire services on a property levy as opposed to the insurance levy. We were saying that for residential people are definitely better off. For commercial, we have not been able to get the data to fully determine, especially at the large end, whether people are better - whether overall the businesses are better or worse off. But on commercial I think on the additional scenario that we did in the report, commercial was paying about $50 million to $60 million less than they are paying at the present time so, overall, the commercial sector is paying very significantly less than they are paying at present. It is just the distribution is going to be different.

Mr McLEAY: But, also, there would be an additional scenario also increased, also had for motor vehicles as well, is it not? Maybe we should not call it property based. What is the percentage with that levy if it is motor vehicles?

Mr HUYNH: I think under that additional scenario we are looking at collecting 15 per cent of the total of revenue from the motor vehicle levy.

Mr McLEAY: Which is quite significant?

Mr DRYSDALE: I think it was $13 per car, per vehicle in New South Wales, but even if you added that $13 onto the proposed average property based levies under the new system you are still slightly better off.

Mr HUYNH: I think it is also interesting to note that in South Australia I think they collect roughly a third of their emergency services levy from the motor vehicle levy.

CHAIR: Should the Committee recommend replacing the current funding system with the property system, questions will arise as to why each sector contributes the amount that they do if we look at some of the scenarios that you have given. You attempted to define this initially on use, service and beneficiaries. Can you explain why you chose to step back from this approach in the final submission?

Mr DRYSDALE: We tried to get a beneficiaries model based on the amount that was actually being paid in fire claims for the different sectors and we have had - the data there actually indicated that commercial in the last couple of years was I think something like 70, almost 70 per cent of all claims, which it just seemed an incredibly high figure given it was only I think 8 per cent of all properties are commercial. If you go back into earlier years the data was different and the data was not based on the whole of the insurance market. The only data we could get was based on, for some years, 60 per cent and some years 30 per cent of the markets. You were having to gross up figures and then compare them.

Mr McLEAY: Why is that, can you tell me?

Mr DRYSDALE: Well, because that is the only data we were able to get on the actual claims split between the different types of beneficiaries. Another scenario we were looking at, I think it was the user pay one, where you were trying to allocate the costs of the fire service in the greater metropolitan and the other region directly back to the properties in those regions ended up not surprisingly being very disadvantageous to the non-greater metropolitan region because it is a much bigger region and the costs of the fire service I think, on a per property basis is, is it possibly three times the level in the greater metropolitan region. We did not think that was a particularly fair outcome so we ended up moving from those individual test scenarios into trying to combine them. Then with the additional scenario we are looking at trying to address the issue of getting down the penalty on the large commercial, mainly by the motor vehicle levy, but also a few other things.

CHAIR: Just on that last scenario, the flat three-tier approach, which looks at it purely in its simplicity. Could you explain the logic behind the three bands of the flat levy for residential property owners in the sub option under that additional scenario?

Mr HUYNH: Well, that was actually developed by people in New South Wales Treasury which was a structure which they were looking at before - well, I think it was shortly after the release of the interim report - and it met the criteria of meeting the required amount of money for that sector. So we thought we would try and test that one as well and it seemed to produce the right amount of money and the results looked reasonable so we put it into the report.

Mr DRYSDALE: It also avoids the major problem that with councils not getting land values every year from the Valuer-General you have a three-year delay. If you are basing something on land values for some people are up to three years out-of-date. You are adding onto discrimination on that score or you are going to have a very complicated means of trying to adjust for changes in values on some sort of more arbitrary basis. By having a simple $60, $85 and $145 depending--

Mr McLEAY: That is for residential though, is it not?

Mr DRYSDALE: --that is only for residential. Commercial, it is just too skewed, the data, I think to try and do something like that.

CHAIR: You listened to the evidence given by the fire services on Wednesday of this week; have you any comments about any evidence that was given to the Committee during that?

Mr DRYSDALE: One small thing they raised, the issue of the assumption of the $2 per property collection. That figure was actually provided to us by New South Wales Treasury following a survey of what other states in Australia had done where they brought this in and they thought $2 was a possible figure that was put in there for discussion, but it was not just something PFS had plucked out of the air.

Mr WHAN: I just wanted to ask a little bit about, in South Australia they went through and introduced a whole lot of exemptions or discounts for people which seemed to complicate things but I notice how you estimated the impact of a pensioner discount at about $16.8 million or between $10 million and $16.8 million. Have you done - is there an estimate anywhere of how that would change the number of people who benefited from the system if you had to recoup that money by charging it to the other people?

Mr HUYNH: No, because we do not have any indicator in our data as to whether the address is owned by a pensioner or not, so that would by the prime determinant of those new figures, so, if pensioner discount was provided then obviously the percentage of pensioners would benefit. You know, the percentage of pensioners contributing less would increase and the percentage of non-pensioners contributing less would decrease.

Mr WHAN: Yes. I notice when you were looking at the removal of direct local council contributions adjusting that seemed to me to fairly significantly reduce the number of people who got a benefit, although they may get a benefit if the council passes it on. But would you expect for your average non-pensioner family, would you expect that pensioner discounts to make a significant difference to their bill?

Mr HUYNH: The figure seems to be moving unfortunately because I think we had about 22 per cent of all households in New South Wales receive some kind of pensioner discount so you are looking at giving 22 per cent of those properties a discount of some sort. So that would mean that those 78 per cent would have to pay. So if you were to give them 100 per cent discount--

Mr WHAN: I do not think--

Mr HUYNH: --you would basically be asking them to pay maybe a third more, a third more.

Mr DRYSDALE: So if it was half that level it would be a sixth.

Mr McLEAY: If I was to put to you in a moment that we have people with the capacity to pay subsidising those - take the evidence we received from the insurance council - there are a lot of people, particularly renters, who are not paying insurance, those with capacity to pay are now subsidising those without, on your property model, would be those, particularly with the introduction of the $13.50 motor vehicle rate to bring down the commercial rate, would that mean that those with probably the least capacity to pay would now be subsidising those with the most or is that --

Mr DRYSDALE: If you bring in a motor vehicle levy at $13 per car everybody pays the same. There is no - I suppose pensioners do get a reduction under the current motor vehicle registration but in our figures we had assumed that everybody would pay the same amount. You are not basing it on people's capacity to pay.

CHAIR: I just have a final question unless anybody has anything further? The final report discusses options to apply risk factor to commercial properties. Can you describe how this would work and why is this a better way of funding fire services than through the current levy on the insurance policies?

Mr DRYSDALE: If it was introduced I would - one possible way would only be to take the large commercial properties. I think with residential properties you do not get the same spread of risk factors. The premiums are not sort of 10 or 15 times in one area what they are in the other. You do not get the same variation in construction methods. If it was brought in just for large policies on a relatively simple basis it would mean that the people who are currently paying literally hundreds of thousands would only be paying a few thousand under the new system although they are a high fire risk - they do have a high fire risk and they would be paying something more. I think it would be preferable probably to the current system in that it would capture everybody whereas the current system does not and the current system does not just look at fire risk when an insurance company rates a building, it looks at all sorts of risks, some of which are not at all related to fire.

(The witnesses withdrew)

ALLAN JOHN HANSELL, Manager for New South Wales and the ACT, Insurance Council of Australia, Level 3, 56 Pitt Street Sydney and

ALAN JOHN MASON, Executive Director, Insurance Council of Australia, Level 3, 56 Pitt Street, Sydney, affirmed and examined:

CHAIR: I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly Standing Orders 332, 333 and 3334 relating to the examination of witnesses. Is that correct?

Mr HANSELL: Yes.

CHAIR: We have received a submission from your organisation. Is it your desire to have that as part of your sworn evidence?

Mr MASON: Yes.

CHAIR: Could you please describe the process for selecting the consultants for undertaking the modelling work for this inquiry?

Mr HANSELL: Essentially the process was that we got in contact with several companies that we thought might be able to provide this service and from that list we chose three that we thought could do the job. A committee was then formed, including the insurance council, New South Wales Treasury and the office of emergency services to hear the various pitches put forward by those organisations and then based on primarily the ability of the companies to do the job that we thought was necessary, and also on cost issues, Professional Financial Solutions was selected for the task.

CHAIR: Who was responsible for developing the brief for the consultants and establishing the data requirements?

Mr HANSELL: In terms of the brief to the Committee, that was done internally within ICA and by recollection I think we also sought advice from Treasury on the matter. With respect to the data specifications, once the modellers were appointed, the modellers themselves built up the data specifications for the project in consultation with Treasury, the Valuer-General and also the various insurers.

CHAIR: Did you take any steps to ensure that the modelling work was independent, or did you think that was not necessary?

Mr HANSELL: Certainly we thought it was a priority that the project was completely transparent. The reason why we appointed the modellers in July last year was that the Treasurer had indicated that he was going to form some sort of inquiry to consider the issue, and we thought that modelling research of this type would assist the inquiry.

Primarily we wanted to make sure that the modelling work was transparent so that it did have currency in the community. Certainly we have agreements with Professional Financial Solutions and I think also with Treasury, talking about the proper handling of information, the use or protection of privacy principles and the like.

CHAIR: Now that is out of the way, do you have an opening statement you would like to make?

Mr MASON: If the Committee would indulge me for a few minutes, we would like to thank you for the opportunity of addressing you again on the subject of fire services reform.

When we first addressed the Committee some months ago, our key theme was that the current system of funding the state's fire services via what was primarily on a levy on insurance policy holders was neither a fair nor equitable way of ensuring that these critical services are provided into the future, and that a better approach was to adopt a property based funding alternative.

We said that the system had major flaws, including lack of transparency in the application of tax, a very imprecise method of calculating the appropriate payments from people who insure at an aggregate level, which means that inevitable insurers either under or over collect the amount of money on an annual basis.

There is a strong ability of large corporates to avoid paying the FSL, either through self-insurance arrangements or through insuring their assets offshore, and it penalises businesses and people who are prudent enough to insure their assets as they carry the burden for the whole community for funding of fire services.

We believe that the modelling which the Committee has released demonstrates unequivocally that the Government has a golden opportunity to deliver benefits to a very large number of people across New South Wales, by providing greater equity, fairness, efficiency and transparency in the funding of fire services.

I must say that the need for a community based system could not have been more sharply argued in our minds than by the evidence of the fire commissioners earlier this week when they talked about the growing role of the fire services in security, counter-terrorism, rescue, flood, hazardous materials, building collapse rescue, train crashes and the potential for expanding their role into an ambulance backup service, as they said is occurring in Victoria.

It is our view that it is clearly inappropriate for the security of the State and these community issues, to be funded by a very narrow tax on insurance policy holders and local government. It demonstrates the need for a community based solution.

It goes without saying, however, that if we are going to have equity, some people are going to pay more whilst others pay less under any revised scenario. We are not going to achieve a system that everybody pays less.

We have noted the concerns of the Property Council, but I think some of those concerns have not fully considered the fact that the modelling looks at a very narrow set of scenarios as the modellers have just said, and that it ignores a couple of major points.

Property owners currently pay a fire service levy if they insure on their buildings, but also on the insurances on the machinery, plant and stock, on the industrial special risk policies, business interruption policies, goods in transit policies, motor vehicle policies, and tenants also pay all of the above, except a FSL on the building insurance, but we presume a lot of that is already passed through either in rent or in outgoings under lease agreements.

Our manager in South Australia has advised us that when the fire services levy was reformed in South Australia, they showed there that tenants could contribute anything up to 13 times the contribution that the landlord was paying for FSL on the building.

We do think that there is significant capacity for any increased cost to be passed through without tenants necessarily being unduly penalised. We think that the savings they are going to get in other areas could well offset this.

We also think that the Committee could consider the introduction of a motor vehicle levy to minimise the impact on commercial properties and we think obviously that there is the opportunity to do further assessment of that.

We would mention to the Committee that whilst insurers do not explicitly charge a fire service levy on motor vehicles, one per cent of motor vehicle premiums represents an assessment of the contribution to fire services already, so if you had a levy, and I think the model would come out at $13.50 a vehicle, there would be an offset of one per cent of the premium that someone pays on the car insurance to whatever levy you introduce.

We have another couple of points just to raise. In looking at the model previously we were attempting, or the modellers were, to provide a cost neutral outcome to the State Government and in particular built in to the model was an attempt to recompense the State for the loss of GST revenue and stamp duty revenue.

On further reflection, we formed the view that the State does not lose any GST revenue, as the GST revenue in the first place does not go directly to the State.

Secondly, if people spend less money on the fire service levy now they will have more disposable income to spend on other GST taxable supplies, or they will buy more insurance, which will increase their level of insurance, which is obviously one of our objectives, and therefore pay more GST generally on that, so we believe that $10 million could be excluded from the final modelling.

Our experience when the State Government reduced stamp duty on insurance from 10 to five percent last year, the revenue did not reduce by 50 per cent. The revenue to the Office of State Revenue reduced by 8.6 per cent, so the reduction in costs contributes to an increase in the take-up of insurance and therefore we think that the Government will not necessarily lose that money straight off.

As an aside also, the State Government has clearly had concerns about the distribution of the GST revenue and the operation of the Commonwealth Grants Commission. In our analysis of that issue, the fire service levy does not count as a tax for the purposes of the Commonwealth Grants Commission assessments and therefore any change in the fire service levy would not have any impact on the State's share of GST revenues for that reason alone.

A couple of other points. We think that the modelling exercise was a huge effort. In Western Australia the change was based on a model of I think some 22,000 matched properties. Here it is over 600,000. I think there is a number in the modellers' report. We believe that we, the community and the government, can place great reliance on that outcome. I think what it does demonstrate, again, is not only can we have a high level of confidence in the outcome of the modelling but also that the community generally will enjoy a real benefit. We are aware of the concerns of the Property Council. The other signatories to the coalition who made a joint submission with us originally have confirmed that they continue to support that submission so we would like to put that on the record

The last but not least, I think, is, it has been suggested that the alternative to introducing a new property based system is to try and tweak the current insurance based system. We would advise the Committee that in our view that is a fundamentally flawed approach because it cannot, it will not achieve equity, and we are trying to achieve a change in the funding of the fire services by changing what is a global and international insurance system, and I do not think we are going to change the operation of the insurance market driven from the end of the tax.

Anecdotally, in the last two years, the volume of wholesale or commercial insurance business going overseas has increased dramatically. It is all anecdotal evidence because we are trying to count something that is not there any more so it is difficult to count but insurers believe that anything up to half of the wholesale insurance market is now offshore.

Mr McLEAY: Why?

Mr MASON: The most significant motivation for that is price. In the liability area there are other factors at play but in the wholesale commercial area it is largely price and of course a very significant component to that is the level of tax.

CHAIR: Okay. Thank you, Mr Mason.

Ms BEREJIKLIAN: I have a specific question. Can you, if you have the information available, tell us - I am interested in the 1 per cent premium for car insurance that you said would be offsetting the $13.50. Do you have that value in real terms on the average - just on the average vehicle; do you have some rough idea?

Mr MASON: No. We could - in the return - the motor vehicle premium is assessed in the returns that insurers make to the fire brigades so the actual gross amount is something that we could advise you of.

Ms BEREJIKLIAN: I am just looking in terms of a comparison.

Mr McLEAY: Particularly since the insurance companies they say they can charge up to 1 per cent but we are aware that when you say "would" be offset I would have thought it might be more appropriate to say "could" be because some do and some do not.

Mr MASON: Yes. I think the short answer is because it is only 1 per cent of the premium insurers do not explicitly show that charge as a separate amount on invoices but they are assessed for it in their returns to the fire brigade and they pay over 1 per cent of the premium to the fire brigade. That is my understanding of how the system works. We can give you a proper written answer if we can take that question on notice.

Mr McLEAY: You also said that when stamp duty on insurance was decreased, you made reference to it in the opening statement. I am just wondering when that happened how much the insurance premium has come down? Was it able to be passed on?

Mr MASON: Insurance premiums did not come down at the time because the stamp duty - stamp duty as a tax is different to the fire brigade levy in that the fire brigade levy is trying to collect an actual finite amount whereas stamp duty is just a straight out consumption or transaction tax and, therefore, I mean, one of the reasons the state revenue did not reduce was that the stamp duty was cut in at a time when insurance premiums for the risk component were rising significantly but the rate of stamp duty came down immediately. The fact the government halved the stamp duty rate, insurers applied 5 per cent the day after and not 10 per cent.

Mr WHAN: To follow that up, how could the community be assured that some of that rise in risk premium did not occur to fill the gap that was left by the reduction in terms of what consumers would pay?

Mr MASON: Insurers account for the risk component of the premium quite separately. They are accountable to APRA for that. They have got a reserve against it. Provide premium reserves is another thing. Stamp duty does not go into that calculation. I think the question, if I may, the point that you are getting at in terms of the fire service levy, however, is worth reiterating, I think, that insurers proposed to this Committee and are very willing not only for legislation to be put in place if this Committee recommends a reform to make sure that the costs are passed back to the community but as has happened in the other states insurers are very willing to submit themselves to audit to make sure that happens.

Mr WHAN: Your submission notes that the interim report probably underestimates the number of winners under the various options. Could you give us more detail on why you believe that is the case?

Mr HANSELL: Well, certainly in the area of householders, I do not think it necessarily flows that if the property owner assumes the total fire service levy payment under a future system that all of those costs will necessarily flow through to tenants. Tenants, obviously if they are currently insuring their contents, are not looked at as part of the model and they would certainly be winners under an alternative system.

Mr WHAN: Tenants would be winners?

Mr HANSELL: Yes.

Mr MASON: Those that insure currently.

Ms BEREJIKLIAN: Which would be a very small percentage, though, if people are just insuring contents.

Mr McLEAY: 70 per cent.

Mr MASON: I think the modellers exclude - I cannot remember - in the modellers' report is the number of properties they excluded who did not have both buildings and contents insurance so those people would represent, the people they excluded would represent, hundreds of thousands of winners who are not going to pay a levy in future that did not go into this modelling process.

Mr TURNER: The present administration of the levy, I understand from your side of the fence, is fairly cumbersome. Would a proposed new property levy make that easier and if so do you foresee any administrative costs savings being passed back through to your policyholders?

Mr HANSELL: Certainly with the current system, I suppose I want to correct something that has some currency over recent times and that is that there is this view that the administrative effort and costs of a new system will far outweigh those of the current system. If you think about the current system you have currently got every local council in the state paying a fire service levy despite, even though that is not explicitly put on rate notices. You have also got every insurance company remitting a fire insurance levy, brokers and agents. So, in terms of the number of agencies that are actually administering this system, including the fire services, you are actually going to see a huge reduction in the number of agencies involved in an administrative role.

In terms of costs for the insurance council it is a very small cost. It costs us about $5,000 a year to retain the services of an actuary to put together what are our recommended rates for the industry. Included in that is also the time of, or probably a week's time of two managers within the organisation to assist that actuary. I did speak with a major insurer last week about what their costs are. Essentially, I was advised that in terms of their own use of an actuary, to look at what they should be charging, in addition to relevant system changes, it probably costs them about $20,000 a year.

We have never surveyed the whole industry to get a total cost to each organisation but you could basically multiply those figures across, as I said, each insurance company, which is APRA licensed in New South Wales, in addition to all of the brokers and agents that have a role in collecting FSL as well.

CHAIR: Do you have any information about whether removing the levy on insurance in other states has actually led to increased numbers of people taking up insurance?

Mr HANSELL: It has been difficult to look at those price elasticity issues in other jurisdictions. Certainly in Western Australia I think we are trying to do that but, unfortunately, what happened when they reformed the fire service system in that state, the state government subsequently increased its stamp duty take, so we think that would have a distortive effect on that matter.

If we can talk anecdotally, certainly over the last few weeks I have visited areas of country New South Wales and have been talking with companies about their fire service levy payments. There was a company that made a submission to this Committee, Riverina Wool Combing Pty Limited, who I think were paying something along the lines of $200,000 or $230,000 last year as a fire service levy payment. This year they have made a decision to underinsure their assets because of the penal costs of insurance premiums fuelled by fires service levy, GST and stamp duty, so now they are now only paying $75,000 as a fire service levy payment this year.

Surely, if reforms were recommended by this Committee, companies like that would be in a better position to more appropriately insure their assets.

Mr WHAN: But is it a legitimate claim by them to say that it is the taxes which have forced the increases in their premiums? How much of their risk based premiums increased over the last few years of which those taxes are basically percentages of?

Mr HANSELL: Well, certainly it is a high risk industry, the one that they are working in. They are dealing with highly flammable substances, that is wool, but I suppose they make the comparison that their competitors overseas and in states where they do not have fire service levies applied do not have to pay this high level of a fire service levy payment and it is putting them at a competitive disadvantage.

Mr WHAN: But do you have, in considering that case study, do you have information on how much the risk based premium is compared to businesses in other states? Are they paying more or are they - I mean, why, I do not understand I suppose why their fire services levy is so high when it is directly linked to their insurance premium? Do you have a special levy that you are putting on them which is not linked in the same way as every other business insurance?

Mr HANSELL: Not that I am aware of.

Mr MASON: No, I think, if I might, and if you take the example of a wool factory, if the risk premium for the commercial fire insurance is $100,000 a year it will be $100,000 whether they have got their businesses operating in Queensland or New South Wales. But if they then pay $30,000 to $40,000 in addition in state taxes in New South Wales that they do not pay in Queensland that is where the price differential comes.

Mr HANSELL: That was certainly highlighted to me when I met with Fletchers International, which is basically - it is the biggest exporter of mutton and lamb in the southern hemisphere located at Dubbo - essentially what the managing director of that organisation said to me was because of the penal level of fire service levy payments that they are paying, which is in the order of $200,000, it would be much cheaper over time for him to relocate to Queensland because they just do not pay that same level of the fire service levy payments in Queensland.

Mr WHAN: But they pay a risk based. They pay a premium based on --

Mr HANSELL: It is a property based system, they do pay money, but it is more evenly spread across the community and so therefore it is not as high.

CHAIR: But as you said there are winners and losers.

Mr MASON: Winners and losers, yes.

CHAIR: Maybe someone might set up their head office, buy a commercial building in Sydney and invest, depending on the system. The Committee has been quite concerned about the level of premiums, the reduction of premiums noting that the ACCC does not have an ongoing role in monitoring that, we welcome your evidence that you would agree to have independent auditing of insurance companies but as far as complaints coming back to you, or coming back if premiums are not reduced, who do you envisage to be the point of contact of community complaint? Should that be the insurance council or some other body?

Mr MASON: I think - I do not know. What was done?

Mr HANSELL: I really do not know.

Mr MASON: Can we take that on notice?

CHAIR: Sure.

Mr MASON: My view is it is probably preferable if it is an independent body that receives the complaints. For ordinary insurance complaints there is an insurance ombudsman service called Insurance Inquiries and Complaints Limited, that is independent, that hears complaints about insurance claims. So those sorts of mechanisms are well established in the industry, but you would probably need to give special consideration to this issue.

CHAIR: You would be happy to take that answer at the moment and if you change it inform the Committee.

Mr WHAN: This might be a question which backtracks a lot to your first appearance at this Committee but do you have an estimate at all of the value of fire services in prevent to the insurance industry, in prevention and reducing claims? If we had no fire services what would that mean for the insurance industry?

Mr MASON: It is hard to say because insurance is rated on two things. One is past claims experience and secondly the underwriter's judgment of risk exposure. To the extent that fire brigades actually do not prevent fires happening, they address fires when they do happen, it is pretty hard to say what - how you would ever value that but I suppose it still comes back to the core issue. That it is all of us as the community that need the protection of the fire service and not - I mean the fire service was never designed to benefit the insurance companies. It is there to benefit the community.

Mr WHAN: Is it the case that in some parts of the world insurance companies actually started fire services?

Mr MASON: It is in the UK. That is the origins of this levy system. They started them in the UK, in London I think, after the great fire of London, and that is the history of it here. I am not a very good historian but the concept of people in the insurance industry running their own fire brigades led to all sorts of undesirable social consequences which is why we now have got state run fire brigades.

Mr WHAN: I am certainly not proposing they be handed over to them. But if you were to look at the major beneficiaries from fire services, including their work in prevention and even the broadening that they were talking about this week, the property owners would be the major beneficiary but surely the insurance companies are probably the second major beneficiary out of that service?

Mr MASON: The answer is that the cost of the fire brigades is a straight pass through at the moment to the people who insure, and not everybody else. If there is a reduction in hazard and a reduction in premiums, it is the community that will enjoy that. If there is an increase in hazard and increase in premiums, that also gets passed through. The insurance companies themselves are not actually meeting the cost of fire brigades. It is the policy holders who are.

Mr WHAN: Do you think that they should meet more of the cost?

Mr MASON: No, I do not.

Mr WHAN: I knew the answer to that question.

Mr MASON: If you were trying to match a perfect risk system to a costing system, you would end up saying that the fire brigade spends X per cent of its time addressing fires in property structures, which I believe is less than 20 per cent, and therefore that is all that should be visited on people who insure, but even then only on a proportion on people who insure.

We have a vital emergency service that provides, as the Commissioners themselves said, a huge range of services to the community. Our basic proposition is that the whole community should bear that cost. The insurance mechanism is a grossly inefficient way of doing it.

You were speaking earlier about the opportunity to give certain disadvantaged people or pensioners discounts. The insurance mechanism does not allow for that at all at the moment. If you have a policy you pay. If you do not have a policy you do not pay.

Mr TURNER: I probably should have asked the modellers this. Commissioners Koperberg and Mullins gave evidence a couple of days ago and, inter alia, they said as part of their ordinary day-to-day activities, terrorism prevention, terrorism work, the fire service levy per se as it is now should cover terrorism activities, or anti-terrorism activities, or mopping up after terrorist attacks, or should that be a whole of government approach separated out from the fire service levy, and I should have asked the modellers whether that was taken into consideration in the modelling.

Mr MASON: Two issues: One is clearly national security is something that should be a cost borne by the whole community. To the extent that people ensure against property damage for terrorism risk--

Mr TURNER: Can you do that?

Mr MASON: You can. I will explain how that operates if you wish. Those premiums are subject to fire service levies now.

The insurance industry, after the September 11 attacks, withdrew the availability of cover for terrorist acts all around the world, not just in Australia. It was a risk that the insurance companies felt they did not have the capacity to undertake. They did not have the finances to do it. They could not rate it and could not assess it.

Certain parts of the business community felt that it was essential to protect their businesses by having cover against terrorism. The Federal Government introduced an arrangement by which the provision of terrorism insurance is now mandatory in all insurance policies, but basically the Federal Government provides insurance through the Australian Reinsurance Pool Corporation.

The Federal Government in that arrangement has said it is a whole of community need and the terrorism insurance is an another example of the whole community base, in that whilst it is only people who own target risks in CBDs who probably have a terrorism exposure, terrorism premiums are being charged. If you have a wool shed out the back of Coolongolook or somewhere, you are still paying a terrorism premium.

Mr TURNER: There are no sheep in Coolongolook. That is in my electorate.

Mr MASON: A petrol station and a store. The cost of this terrorism insurance pool is actually being spread across the whole insuring community. That is only the cost of providing terrorism insurance, not the cost of providing a security or counter-terrorism response by the government, which is what I understand the fire brigades are involved in.

(The witnesses withdrew)

KEN MORRISON, New South Wales Executive Director, Property Council of Australia, Property Council of Australia House, 11 Barrack Street, Sydney and

CHERYL THOMAS, Senior Policy Officer, Property Council of Australia, Property Council of Australia House, 11 Barrack Street, Sydney affirmed and examined:

CHAIR: I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly's Standing Orders 333, 334 and 332 that relate to the examination or witnesses. Is that correct?

Mr MORRISON: That is right.

CHAIR: We have received a submission from you. Is it your desire that this form part of your formal evidence?

Mr MORRISON: Yes please.

CHAIR: Do you have an opening statement?

Mr MORRISON: Yes I do. As the Committee knows, this is our second time of appearing before the Committee. We have made a submission at this stage as well as a previous submission, as well as signing on to the alliance submission led by the insurance council. Throughout the process our approach has been the same.

We recognise the inefficiencies and the problems within the current system. We recognise that theoretically a land based system will have less distortions, will spread the burden broader, will pick up those people not currently contributing to fire services, and it is a fairer system.

Our concern from the start has been that the modelling needs to be able to provide a solution which means that for those businesses which are currently paying a fair rate, a fair contribution to fire services, then this system should not artificially inflate the contribution those companies are making.

We believe that the situation in the current modelling does provide those distortions and we will talk a bit about that in a moment.

We are very happy to continue working with the modellers and with the community to try to find a solution but, to be frank, we are teetering on the edge in terms of our support for reform, because currently we are seeing currently massive increases for business, but we will talk about that in a moment.

Just an over-arching statement of where we see the interim report modelling, it seems most residential owners appear better off because the tax base is widened. That is a welcome thing. The mixed impact occurs on commercial owners. Small to medium owners seem better off and larger commercial owners seem much worse off.

I will distribute a chart which is taken from the modellers' presentation at Parliament House three or four weeks ago, which particularly struck me, and I think demonstrates the problem that the modellers have in creating a model without distortions.

What the chart shows is the distribution of values by number of properties, so you can see by number of properties which are where does the total proportion of values of that property lie.

If you look at commercial and residential it is relatively even. If you look at commercial, at the top end you have 2.6 per cent of properties by number, accounting for about 44.5 per cent of properties by value. That is your shopping centres, office towers and big industrial parks in the main. Those people happen to be property council members.

The modelling that has been done to date involves increases of around 2,000 per cent for many of those companies.

This is not just an impact on those property owners. Much of the fire services levy increases, if that were to occur, would flow through to the tenants of those buildings.

I need to disagree with the insurance council's statement that that is not a concern for other business groups. We know it is a concern for other business groups and we are at least one other business group who is a signatory to the original alliance letter which will not be signing a subsequent letter on that issue.

This is not just a property council concern, it is a concern for other business groups, and it a concern for them because they recognise that these costs do flow through.

We believe that cost increases of up to 2,000 per cent are not the Government's intention, or the Committee’s intention, and are not a good outcome of this process. We think it is clearly a distortion because of the destruction of values versus the number of buildings which we can see from that chart.

We believe that the reform process can still be rescued but it will require some further options to be modelled. We have listed those in our submission, but I might run through them here.

Before I do that, I should say in recognition that this distortion was occurring, the modellers have run through an alternate scenario which did reduce costs to that top end of the commercial market by some 300 per cent. That is still a very significant increase. It is a lot better than 2,000 per cent.

In terms of our recommendations going forward, we recommend that further work does need to be undertaken to ascertain a level of fire services contributions that tenants currently provide. The initial feedback from the insurers was, I think based on a very small sample, was around 50-50.

We have just heard different evidence where in one example in South Australia that in fact the tenant's burden was more like 13 to one, compared with the owner. We have not been able to provide any of that data. That data needs to come from the insurers at the moment, but you have widely disparate views on what the proportion is between owners and tenants and that will change a lot depending on the property type. I imagine that if you are talking about a shopping centre compared to an industrial park they will have different insurance profiles and very different valuation profiles.

Certainly more work needs to be done on that. Clearly, the results so far show the commercial property needs to be subject to a range of different levy rates according to risk. We think, I know the Committee has been reluctant to consider risk as part of the design of this model but without a risk element to it we are seeing some very significant distortions.

I think if you just look at it at face value, if you have a fireworks factory somewhere, with the same land value as say a shopping centre with the latest up-to-date sprinkler systems and management practices et cetera, clearly they are going to be of different risk profiles. Clearly, they are more likely, the fireworks factory is more likely to draw upon fire services and the implications of an incident there are much greater than the implications of an incident elsewhere.

Further work needs to be undertaken to identify appropriate levy rates for commercial properties so businesses do not face massive increased costs. A flat levy of up to $15 should be imposed on motor vehicles which would raise we understand about $70 million. That money should be directed to making sure this distortion at the top end of the market does not occur.

We believe the government should forego the $31 million in stamp duty and GST inefficiencies where this has been a consistent statement from us from the start. We do not see the value of building in tax on tax inefficiencies and imposts into the design of a new model. One of the things that a new model is supposed to do is to deliver a much more efficient, less distortive approach to build the tax-on-tax costs into this model is an anathema to that approach.

So just to sum up, we support a change for a property based system but on the proviso that the distortions which are evident in the current modelling are resolved and clearly the distortions are very significant.

CHAIR: Thanks, Mr Morrison. You mentioned the need to collect more data. I understood from the submission that you volunteered to actually get a sample of that data.

Mr MORRISON: In terms of tenant/owner?

CHAIR: Yes.

Mr MORRISON: Yes. We are working on that.

Ms THOMAS: We have asked our members if they can assist us on that. Where members are owner/occupiers, which is a very rare instance, they are endeavouring to get back to us or where they have a single tenant in an office block and again that is a very rare instance. If we are lucky we might get one or two examples. We are concerned that that is a very, very small sample on which to base a very important decision and, again, at the moment we are asking for office block examples and different commercial property types have different number of tenants in them which would impact on the degree to which the tenant contribution matches or exceeds or falls below what the building owner actually contributes.

CHAIR: We heard evidence this morning from the insurance council that tenants would be making savings under the current proposal and that costs then pushed through to the tenants moving into this model would be balanced out. What are your views on that?

Mr MORRISON: Well, I think the data void on what the balance is currently between insurance contributions of tenants and the owner is the key critical factor there. Clearly, under a revised property based model, essentially the tenants do not pay this thing directly. They would contribute to fire services through the outgoings or through their rent, depending on the structure of the lease, so the building owner becomes a de facto tax collector, if you like. So there is no doubt that is how it would work.

As to whether that creates an equitable or inequitable outcome that depends on, first, the increases faced by that building owner and, secondly, what the current distribution between tenant and owner of contribution to fire services levy are.

If it is the case that you can use a rule of thumb of 50/50 across the board, and we do not currently have any data to suggest that is right or otherwise, then you can model what the matching fire services contribution should be on that property under the new system so it is around about the same as what it is on the current system. So that is the key data set that is missing at the moment.

But currently, if it is a 2,000 per cent increase on that property owner, that is going to be significantly passed on to the tenant and increases of the order of 2,000 per cent are clearly well outside the ballpark of any distribution between tenant and owner.

CHAIR: And is it your understanding that most commercial leases would interpret this impost as an outgoing and that would be directed directly to the tenant?

Mr MORRISON: Yes. It depends on whether it is a net or gross lease. So if it is - some leases are structured and this again depends on the industry so industrial, retail, office will be a bit different but say about 75 per cent of leases in the office sector are net so that outgoings - this would be considered to be an outgoing and it would be passed straight through to the tenant. Where it is a gross lease those costs are sort of hidden within the rental structure. That is more common in retail areas. Some industrial areas it is a bit more common so with those then it takes time, I guess, for those lease arrangements to sort of equilibrium with the new cost built in but, certainly even under that structure, then yes, they would be built into rents.

CHAIR: Just so the Committee and I have a clearer idea. Many of these high value properties that your organisation represents, would it be correct to say that many of them have hundreds of tenants in each property?

Mr MORRISON: Yes, definitely. Yes. If you look at what is happening, say, in the Sydney CBD over the last five to ten years, in terms of tenant profile, ten years ago was the big trophy tenants which were the big catch and there was a lot of them around. With the change of business structures which has occurred since the 80s you are having a fragmentation of business. You are having outsourcing and downsizing. You are seeing functions which used to be performed within a company now being performed outside of a company. That is reflected in the tenant market so what you see is a much higher proportion of say a CBD office building made up by small to medium size enterprises than what it was say in 10 or 15 years ago.

Ms BEREJIKLIAN: Can I just ask: Apart from the examples you have already given are there any other solutions you might offer in terms of eradicating some of the distortions as you see them? You have mentioned risk and you have mentioned --

Mr MORRISON: Well risk, the motor vehicle and looking at differential levy rates. Those are the relative top three.

Ms BEREJIKLIAN: What do you base the differential levy rates on?

Mr MORRISON: These would need to be modelled to get the right numbers but it might be, to remove some of the distortion you might need to spread out some of the impact which currently, on the current modelling, is on that sector and perhaps increase the rate so you spread some of that impact out, either right through the commercial sector or perhaps through the commercial and the residential sector. Again, you need to model that to see what quantum of increases we are talking about and whether that was equitable to do that for those sectors but certainly that is something that needs to be modelled.

Ms THOMAS: I think part of the difficulty of what is occurring here is the vast range of difference between commercial property, whereas residential we can all envisage it is a house, whereas in commercial the size can vary greatly and the nature of the use can vary greatly and the modelling does not actually capture that. Risk would go some way to doing that but the rates would need to be varied as well, the ad valorem rates.

Mr WHAN: How would you propose assessing risk on commercial properties or how would you propose that the new system assess risk?

Ms THOMAS: Well, we would start by looking at potentially different property types, so you have got the industrial, you have got the retail, so dividing - at the moment we have got commercial properties as one big group. We need to actually differentiate the nature of those properties a great deal. Risk can be done in one category and then you might want to look at regions. I understand in Queensland they have got quite a complicated system, variety of regions. You might want to have a molding of the two. We anticipate that this is complicating the model to an extent but it is getting a better model. You cannot eliminate risk entirely from the equation because it is so fundamental to the use.

Mr MORRISON: At the end of the day there probably needs to be some sort of assessment from the fire services about the risk rating of that property.

Mr WHAN: I guess it comes back a bit to one of the fundamental questions I have which I have been concerned about the lack of risk in the models but surely the insurance industry assesses risk as part of its assessment of the premium that your members are paying on the building.

Mr MORRISON: Yes, it does.

Mr WHAN: So why not leave it with them?

Mr MORRISON: It also assesses risk on a variety of non- fire-related elements which I think is what has been shown is the fire-related element is becoming a less and less important - or other issues are becoming increasingly important in the assessment of the insurance risk. I mean, I do not think - certainly the current system has got many flaws. Moving to a property based system theoretically should be a cleaner, simpler, more equitable system. I think what the modelling has highlighted is a big disjuncture in that theoretical case which needs to be resolved. If it is not resolved then, really, I think you are going to have a lot of business concern about that and if it is resolved then it is probably going to take complicating the model somewhat to resolve it.

Mr McLEAY: You said you thought that different regions would help with the risk but their differentiations are not on risk, it is on service provision.

Mr MORRISON: Yes.

Mr McLEAY: So the risk may be the same or different, it is just the level of service they receive from their fire services and we have not looked at that at all. If you get a less speedy response time should you pay less? Is that what you are suggesting with your regions?

Ms THOMAS: That could be - what we are proposing is that property type plus potentially where they are located so it would be response, so to the degree to which the fire might be put out quicker, so a combination.

Mr McLEAY: Because that would probably even further enhance your top 2 per cent and make the figure, the quickest response and most effective response in that top 2 per cent of number of --

Ms THOMAS: But that would not be the major weighting, it would be in consideration with other factors.

Mr MORRISON: I think there would need to be an assessment from the fire services about what the fire risk is and this is not my area of expertise, but if you have an A, B, C rating, or something like that, which the fire service provided to a building, and a rating meant it was a low risk for whatever, that that might be because of the building type, because of its use, because of the sprinkler and other fire systems involved in it. It might be its proximity to a fire station, so it is more likely to be - a fire would more likely be addressed before it took hold. For example, I am not sure what the - then that would get a reduction. If it was a C perhaps those factors would operate in reverse. I think what we are pointing to is a new area of work which would need to be done and that should be done in conjunction with the fire services, we believe, to indicate this distortion.

Mr McLEAY: So you are saying you still support a move to a different system as long as it is not what is being proposed at the moment.

Mr MORRISON: Yes. We recognise that, theoretically, a move to a land-based system should be fair and more equitable and more efficient, but I think what has been demonstrated by the modelling is that the current structure, the 2,000 per cent increase is highly distortionary and I am sure would not be what the government would wish to happen for those business users. So there clearly needs to be something done to address that.

Mr WHAN: So if you were to move to a risk-based system which would add, I will not say significant administrative costs, presumably you would have to have inspectors or something, I do not know, or WorkCover style people wandering around the place, or would you prefer it was just a blanket thing where regardless of what you did within the building - sorry, I am getting to this in a roundabout way. Would you want it to be a system where they assessed each individual building and said: "Well, this person has done this to avoid risk in their building"--

Mr MORRISON: Yes.

Mr WHAN: --or would you want it to be a blanket shopping centres are in category A, industrial sites are in category C?

Mr MORRISON: To tell you the truth, we do not have a defined model to put to you today. Perhaps it is something we should do more work on and come back to you in a pretty quick manner. Anything that requires lots of inspectors running around the State knocking on doors and peering at sprinklers et cetera is obviously going to be a very expensive system to run and I would not imagine the government would be very keen on implementing that type of system, so it would need to be more efficient than that outcome.

CHAIR: If your members paid for it the government might.

Mr MORRISON: What you are pointing to is perhaps some sort of certification process, where the cost of getting that certification perhaps was not in the hands of government, and that might be an option.

Mr TURNER: We already have something similar in the bushfire assessment in bushfire prone land, but you would want to do some work because, as I understand it, the entire CBD area of Penrith and certainly my home town of Foster are rated as bushfires areas. How that occurred and who made that decision I do not know, so there are certain anomalies.

To multiply your situation out with all the varieties that you have would be difficult and we would hate to see blankets put over the top of them.

Mr McLEAY: Further, you could not get insurance if you had a fireworks factory which does not have a sprinkler system. It is not as if there is a list of categories of properties which are potential tinder boxes. I do not know if what you are arguing is not necessarily already happening.

Mr MORRISON: Clearly the way a building is managed can lessen fire risk. If it is managed professionally it will have a lessened fire risk than one that is managed poorly.

We would submit that amongst that 2.6 per cent, they are very professionally managed buildings, and pretty much everything that could be done to reduce the fire risk is probably being done in those buildings, whereas you are more likely in a cheaper more marginal sort of property type in some areas, with less professional management, I think it is highly likely the fire risk is going to be greater for that example. How you assess that is not easy.

At the end of the day the Committee has to determine whether a land based model with tweaks to it to alleviate these distortions is better than our current distortionary system.

Mr McLEAY: To get these distortions down, is it right to say that your submission is that we put a motor vehicle levy and the State Government continues to maintain the 13.7 increase and purely target that at reducing your two per cent of lesser properties?

Mr MORRISON: And examine the differential rate on commercial. Perhaps that needs also to consider whether the residential rate is increased marginally. Those options need to be costed, and the risk assessment.

Mr McLEAY: We should be viewing these other mechanisms to keep that end of the market down?

Mr MORRISON: Yes. There is a new modelling task which needs to be undertaken here.

Mr TURNER: One of the problems we have in relation to foregoing the $31 million in stamp duty, in particular leaving GST aside, our terms of reference so it has to be revenue neutral for the government so we would have to disregard that.

Mr MORRISON: Yes, I am aware of that.

Mr WHAN: Western Australia's system bases its assessment on the improved value of the properties over there because they have that capacity to take into account the buildings and all that sort of thing. Have your affiliates or members over there found that is a better way of doing it? Does that reduce some of this problem at all, or has it exacerbated the problem by making a bigger bill for the bigger buildings?

Mr MORRISON: I understand that the reason they did that is because their land tax system is based that way, so their rates and land tax system is valued that way, so you do not have a point of comparison.

The Western Australian example was probably the case in point in terms of this. They went to a land value system. They did not do the sort of consultations being done here in New South Wales. The outcome was a highly distortionary result, similar to what we are looking at with the interim modelling here.

There was outrage from the business community, including the property council, because the cost increases were very significant for the owners and those tenants within them and retrospectively they came back and applied for a cap, so the whole Western Australian approach was a poor way to go from the government's part and necessitated some remedial action which still, I think, capped the increases.

I cannot remember what the top increases were from say shopping centres over there, but the order or still 400 or 500 per cent. They were very significant increases, even with a cap on there.

The whole issue about whether the valuation base was best done on improved capital or unimproved capital was very much a third or fourth order issue. I do not know whether it received attention or not.

(The witnesses withdrew)

SEAN O'BRIEN, Corporate Member, ARIMA Limited, 38 Ellingworth Avenue, Box Hill, Victoria,

TIMOTHY ALLEN BANKS, Immediate Past Director, ARIMA Limited, 38 Ellingworth Avenue, Box Hill, Victoria,

JASON CHARLES HALL, Special Interest Group Coordinator, ARIMA Limited, 38 Ellingworth Avenue, Box Hill, Victoria, and

CHRIS MICHIE, Special Interest Group Representative, ARIMA Limited, 38 Ellingworth Avenue, Box Hill Victoria, sworn and examined:

CHAIR: I have been advised that you have been issued with our terms of reference as well as the Legislative Assembly's Standing Orders
332, 333 and 334. Is that correct?

Mr O'BRIEN: That is correct.

CHAIR: We have received a submission from your organisation. Is it your desire that this form part of your formal evidence?

Mr HALL: Yes.

CHAIR: Would you care to make an opening statement?

Mr HALL: Yes. Thank you for the invitation to attend today's public hearing and the opportunity to provide the evidence in regard to the review of the fire services funding.

By way of brief introduction, ARIMA Limited is the peak body for Australasian Risk and Insurance Management Professionals and was founded in 1975 and is a non-profit organisation dedicated to advancing the discipline and practice of risk management.

ARIMA has links with similar organisations overseas through its membership of the International Federation of Risk and Insurance Management Association.

ARIMA will, subject to final court approval, amalgamate later this year with the Australasian Institute of Risk Management to form the Risk Management Institution of Australasia.

ARIMA's mission is to lead and promote risk management in industry, commerce, government and the community.

ARIMA has around 700 corporate and individual members nationally and our corporate members include public and private companies and not for profit organisations and local, State and Federal Government entities. Our members are property owners and ratepayers.

We would also like to take the opportunity to provide the Committee with a list of corporate members and I have provided some copies to an attendant.

As risk and insurance managers our members arrange various forms of insurance in respect of our employers' liabilities, assets and operations. ARIMA estimates that its members expend annually approximately $4 billion on insurance premiums.

Our local government members in New South Wales are required to not only pay the fire services levy component of their relevant insurances, but also directly contribute to fire services funding.

Additionally, some member organisations have elected or are required to provide in-house fire services in their various facilities.

The current system for funding fire services in New South Wales is, in ARIMA's view, unfair to insurance buyers. Firstly, it penalises prudent insurance buyers by forcing them to subsidise the contribution of those who do not obtain any or sufficient insurance.

Secondly, as property owners, our members contribute to the local government contribution through the payment of land rates.

Thirdly, insurance buyers contribute to the State Government contribution through the payment of stamp duty on premiums. All of these factors create an unfair and adverse financial impact on New South Wales businesses that insure prudently.

The current system is inequitable because of the ease with which insurance buyers can manipulate their insurance portfolios with the result that less FSL contribution is made by those insurance buyers. This is an increasingly common situation as organisations attempt to minimise insurance costs and adopt other more proactive methods of managing their risks.

It is ARIMA's belief that this situation will result in a continuing cycle where insurance buyers will seek to minimise their insurance premiums, placing a greater FSL impost on subsequent premium levels and thus creating even greater pressure to minimise their premiums. This will create undue pressure on New South Wales businesses and organisations that buy insurance.

The current system is inequitable because the rate of services provided in relation to motor vehicles, as noted in testimony by Rural Fire Services Commissioner Koperberg, is disproportionate to the funding contribution from motor vehicle insurance.

The current system is discriminatory in that the FSL applies to premiums paid in respect of insurance coverage unrelated to the risk of fire and indeed unrelated to the services provided by the Metropolitan Fire Brigade and Rural Fire Service.

Another area of discrimination is service creep by the fire services. There are several examples, including the provision of underground search and rescue, road crash rescue, and participation in natural disaster responses such as flooding.

These issues create a further financial burden on businesses and organisations as they are providing funding for services that they may never require.

The current system is not transparent and creates uncertainty in that a business cannot determine the amount of FSL it can expect to pay until it receives a notice from its insurer each year of the amount of premium in respect of cover for the following year.

ARIMA supports a funding system that is based on a broad tax base that fairly and equitably targets all potential users of the fire services, including ARIMA members. ARIMA supports a system that minimises or avoids the opportunity for manipulation of contributions payable, and it also provides fairness for all businesses, organisations and individuals.

CHAIR: Thanks, Mr Hall. Your first submission commented that with the development of risk management techniques managers were relying less on traditional insurance markets. What sort of techniques are you talking about and does that have any effect on the levy being paid by some of your members now?

Mr HALL: Do you want to answer that, Tim?

Mr BANKS: Several things here, I guess. Technique could mean the way that a company, or an organisation, structures their risk financing for their entity. If it is insurance they may, one thing may be to elect to have a higher deductible, excess, and therefore self-insure the first part of any loss. Large companies are doing this more and more and the amounts are increasing.

They may go offshore and purchase insurance there because the market is cheaper. They may have a structured approach inasmuch as several layered policies.

CHAIR: So these members that are doing this at the moment you would like to bring them into a tax system where they are paying their fair share?

Mr BANKS: Well, at the moment, my company is a large company and we do this at the moment because we make the declarations as per the Act in every state of Australia for what we call a non-resident insurer return and we declare our premiums that we pay offshore and we pay the appropriate duty so there is no question of trying to avoid the duty. So perhaps --

Mr McLEAY: Are you suggesting others are not?

Mr BANKS: I was just about to say perhaps there may be. I am not aware of any companies. Most of the companies that I speak to, the larger companies within the ARIMA organisation, are declaring at the moment. I do not know of anyone that is deliberately avoiding paying it but that is not to say there may be, there may be companies there that either through ignorance or, which is no excuse, or by design are not declaring. I could not comment on that.

Mr McLEAY: We have heard that theoretical suggestion that there could be the potential for people, or not, to insure offshore and therefore not pay but we have had many witnesses, and we have spoken to many and every time it was raised we have said do you have any examples that you can give us? And we have not had anyone that can come up with --

Mr BANKS: Examples of?

Mr McLEAY: Of people that are avoiding the fire service levy by insuring --

Mr O'BRIEN: It is not the sort of thing that would be openly declared, I would suggest.

Mr BANKS: Could I just add, sorry? With corporate governance the way it is today it is not behoving for any, particularly large companies that are in the public eye, to purposely avoid paying a duty by not declaring it. It is just like, well, we are not going to pay tax. You might want to minimise your tax but that is within the rules of the tax laws. Here there is no flexibility. There are no rules that you can use to avoid or lessen the duty you pay. The duty is leviable on the premium you pay for a certain risk.

CHAIR: What if you self-insure? Do you have to also sign a statement saying that if I did not insure it would be this much, therefore, my fire services levy is this much?

Mr BANKS: No, no.

CHAIR: So those who self-insure can theoretically escape paying levies but those who insure offshore have to sign a declaration.

Mr BANKS: Yes. Companies such as, and I will name one, BP, or BP Amoco, and one of my previous employers, they have a philosophy of self-insurance globally, so their refineries, large risks like that, they just wear it. They burn it down and they wear it. Whilst they may have to maintain their own fire fighting services as per regulations, I think it is Occupational Health and Safety, within those refineries they would not pay a contribution. Not through - well, there is no insurance to be levied on them.

Mr WHAN: Following on from that question, the other thing we have asked people often is do you have any idea of the scope of the number of people who are doing that? What percentage of business are insuring offshore or self-insuring?

Mr BANKS: Well, you could probably go through that list. I think all the people that are in that category would probably be on that list, they are members of ARIMA. I would be guessing. Quite a lot. It does not help you.

CHAIR: What is more prevalent; self-insurance or insuring offshore?

Mr O'BRIEN: I think price is a big driver of that type of situation. If you are a large corporate you can achieve a lot lower rate by going direct to the market through an offshore captive or utilising areas such as the London market and Lloyds and places like that where your prices are going to be cheaper in the first place, so that is going to be a commercial decision that organisations will take and make, or be forced to actually go and do, but the issue of the price being cheaper you can make a declaration, but whereas a local insurer may go and charge you an amount of X by going offshore you will be charged a lower amount being Y which is good for you commercially but then, if you then make the declaration, you are still paying a different level of fire services levy duty although at a price that you have achieved for your premium.

Mr McLEAY: Of course, but that is just market forces.

Mr O'BRIEN: That is market forces but it still goes and reduces what could be actually captured.

CHAIR: It is the self-insurance that I am interested in. Are more of your members, are you aware, self-insurers or do they insure offshore?

Mr MICHIE: I think it would be true to say that nearly every major corporation is a self-insurer in that it insures the first X dollars of every loss. By doing that it assumes some of the risk itself but to a limited extent. It is a technique. I think that the other aspect, to answer your original question, what are the risk management techniques, the risk management techniques do not finish with insurance. In fact, if an organisation installs fire protection in its factory that is a risk management measure which enables it to assume some of the risk itself because it has a greater assurance, that is, sprinkler system will control the fire before the brigade arrives, so there are all manners of methods of manipulating the risk which of course has an effect on premium.

Mr McLEAY: But also those kind of factors would then reduce the need for - if someone puts in a sprinkler system or puts in fire prevention or crime prevention measures to reduce their ability of insurance premiums it is also going to reduce the need for these services.

Mr MICHIE: Yes, it will.

Mr McLEAY: So it could be a zero sum gain or in fact it could be even more beneficial for the state.

Mr MICHIE: A company like BP does not take the decision to self-insure without providing risk management so it prefers to spend its money on that rather than buying insurance.

Mr BANKS: The case of BP is, I think they are about the only global company that has taken that route and they did this about 12 years ago, and in hindsight it has worked out to be a very profitable exercise because there was about 100 million pounds in the Lloyds market alone per year that they have saved. Had they had a big loss immediately it would not have been such a good idea but they took the risk and yes, as mentioned, their risk management techniques have been stepped up and that was a business decision that they made. A lot of companies expressed interest. I know Shell was interested in that but no-one has gone the whole mile.

Mr O'BRIEN: One of the things I think needs to be clear is people's insurance arrangements are often very private. It is not something that is necessarily put out in the public market so to go and get the type of information of who is doing what and where, it is not really well known. It maybe something that comes up in networking meetings and things like that, or in annual reports, but it is not something that is generally put out in the market to say we self-insure, or we do not self-insure, or where the insurance arrangements come from. It is not something that is openly declared.

Mr BANKS: Just adding to that, quite often, a large deductible is sometimes imposed by the insurer. It is not by choice to reduce premium. The insurer will say: Well, I will carry your risk but you will have this amount of deductible.

Mr McLEAY: But there is a difference between their competitive edge and their discounts they can get for insurance to the other corporate governance issues. That if Westfield Holdings, for example, decided that this year we were not going to buy insurance, their board and their gunners will say: Well, that is not going to happen.

Mr BANKS: Well, that is right.

Mr McLEAY: It is not as if there is going to be a flee from the insurance industry because people are thinking that: Oh, I can avoid a fire service levy.

Mr HALL: No, no. I think the issue is that, in part in answer to your question, is that it is not necessarily a case of you insure all of your assets for the entire value or that you do not insure any of your assets. It can be a matter of degrees and there are circumstances and situations where organisations will only insure some of their assets or they will only insure them up to a certain value and indeed they are worth more. That then has a consequential effect on the premium that they pay and therefore on the levy that they pay.

The use of self-insurance or insuring overseas is they are only a couple of the options for minimising your insurance premium. It is only as a matter of consequence that your fire services levy is reduced. That is the attitude that insurance buyers take. How do they minimise their insurance premium? The taxes and levies that are imposed on that premium are reduced only as a consequence.

Mr BANKS: The other reason why large companies might go offshore for their insurance is not so much the lower premium because markets around the world they are hardening and quite often it might be the same, it is a question of capacity which means how much cover can an insurance company provide? Some companies have risks that are so big the Australian market might only be able to take 20 per cent of it so they have to seek capacity and may have to go around all the global markets to fill up that risk.

Mr McLEAY: Does this have any impact at all on the fire service levy? We are getting confused - sometimes we are getting confused - I guess does the fire service - do your members think that they are not getting value for the fire service levy or they are obviously paying way too much because the levy on the insurance has made it --

Mr HALL: I think the two biggest issues for ARIMA is that the vast majority if not all ARIMA members pay insurance and pay for insurance and therefore are paying, for the most part, they are paying a fire services levy.

The issue we have is that the method of funding is unfair because we know that there are individuals, and probably organisations that are not a member of ARIMA, that do not have insurance and yet the service is provided on a community basis for them to use.

Mr O'BRIEN: I think a really good example of that are our state government members. Whilst the state government contributes 12 per cent to the fire services, if you look at the treasury managed fund and the scope of its cover as far as national parks for one example, and I believe Commissioner Koperberg mentioned the number of fires that came out of national parks that required a huge amount of resources to suppress came from the treasury managed fund as far as their insurance arrangements and there was no fire service levy paid other than the 12 per cent state government contribution which, as we have said before, we believe we have attributed to as payment of our stamp duties on top of our fire service, or insurance premiums generally.

Mr WHAN: Can I move to your comments on the proposal for fire services levy on unimproved land value? I notice that you said that with further manipulation of the models put forward by the consultants to take into account geographic location and industry anomalies it will be an improvement on the existing system. What industry anomalies are you referring to there?

Mr MICHIE: You can have, to take an extreme example, city properties and country properties where the value per acre of land is vastly different. That is probably the most dramatic difference. What we were suggesting there, and this was suggested by the consultants themselves, that by manipulating the formula one can introduce greater equity between, say, a central business district property and a country property at Mudgee or further west.

Mr WHAN: As risk assessors does it worry you that that flat system does not have an element of risk assessment in it?

Mr MICHIE: It does. It is true to say that if you look at both systems, whether you levy it on insurance systems or on unimproved value, there has to be a degree of equity introduced somewhere because just as you can have a vastly different risk between a city office block and a country outhouse, so you can in terms of the premium related to that risk, so you can in terms of the land that it sits on.

We recognise that it is not a simple matter to do this but we believe that we are supporting the consultants in their view, that by manipulating the formula that is applied to that base, you can introduce greater equity.

Our position is that we are landowners. We are property owners. We expect to contribute and we are not trying to avoid that, but we do not think the present method is fair and neither do we think that it is sustainable and it is patently unfair in the sense that it is charged on policies that cover fire, amongst other things, and it relates to the service which includes fire and other things.

It is just an unsustainable system and it has been abandoned in most of the world.

Mr WHAN: Except in Victoria.

CHAIR: And New Zealand.

Mr McLEAY: The new system would have nothing to do with fire risk at all.

Mr MICHIE: What has it got to do with insurance premiums? Most of our members buy industrial special risk policies, which include fire, which is probably the least of their worries in most cases. As members of ARIMA they are switched on to the risk management techniques to reduce their risks. They do not want a fire. They never want to see a fire brigade.

Mr O'BRIEN: In some of the areas that you look at as your burglaries, you might have let us take for example local government areas, you have burglaries occurring in gardener's sheds and things like that, that is not something that we have had to pay in that particular portion of our premium. It has nothing to do with the fire brigade. We call the police. We do not have to pay a levy for the police to turn up.

The same thing extrapolates out if you are looking at some other instances we have had with where we use the ambulance service for our workers. That is another insurance policy.

CHAIR: I appreciate those comments but we are very well aware that there are lots of anomalies like that. The trick is though the problem that we are finding is that we have had incredibly detailed and rigorous modelling done. We still have some big problems there. For instance, you might have heard evidence from the property council before morning tea.

You mention manipulating the model, but how can you manipulate it in a way for it to work by using this word equitable, and that word means a lot of different things to different people.

Mr O'BRIEN: You have asked us about the risk management techniques and have heard how Queensland runs theirs, with its risk profiling tool, but that brings problems with it as well. We know Western Australia has its combination of risk profiling and things of that nature.

We accept from modelling option number 4, which is a bit of this and a bit of that and if you look at, say for example, workers compensation the same type of formula is applied, where there is a risk factor on the size and type of industry you are in. Yes, there has been some fiddling with workers compensation over the years but it has not been that frequent or that often and there are a lot of external factors involved with workers compensation as far as trying to fund that workers compensation deficit.

The fire services planning can be a whole lot more progressive. They know where they are going to be next year, three years, five years and that type of funding can be quite easily modelled into that type of situation where you have your base levy plus your bits and pieces to reflect the type of risk and the level of service.

CHAIR: How?

Mr O'BRIEN: If you take the Western Australian model where they have used a category 1, 2, and 3, if you have got that unimproved land where it is all going to be grass, you have only the local bushfire brigade that turns out, that is the standard of service.

Mr WHAN: A geographic based categorisation you are saying?.

Mr O'BRIEN: That is what they have done in Western Australia and that is fine. The geographic base often turns into expectation of service.

Mr WHAN: Is that the only way you would want to build in the risk?

Mr O'BRIEN: You need to make sure that it is transparent and equitable. That is our base line. To use the workers compensation example, we know what it is going to be. We can sit there, work out our premiums and formulas ourselves and make the appropriate calculations and budget ourselves for those sorts of things. We know that we are paying into a fund that everyone else is paying into and everyone else is drawing out of. It is not just you are in, you are out, you are in, you are out. That is the unfairness and inequity that says we are in but the person next door might be out, but we still get the same level of service.

Mr WHAN: With the risk model, Western Australia does not for instance say that this type of industry is more prone to fire therefore their risk gets higher. We have had suggestions that that should be the case, that we should look at types of property and their fire risk and categorise them like that. Is that something you think is appropriate, or is that too complicated?

Mr MICHIE: The difficulty with that is that there are some engineering shops which are fine. There are some that I would not set foot in. They are both engineering shops, so you cannot classify things by type. The same as my farm and your farm. I do not think that that is necessarily a good basis. It introduces too many individual characteristics.

A general geographic model is probably simpler to administer and probably just as fair.

Mr McLEAY: Are all your members commercial members?

Mr MICHIE: No. We have government, non-profit.

Mr O'BRIEN: Jason and I are both from local government. We are both from councils that run rural fire services. I have roughly $6 million worth of rural fire services properties that I have to insure that I then go and pay a fire service levy on top of that.

My area was hit rather significantly by bushfires in December of 2002 and we actually lost two fire vehicles to overrun, and I had to insure those fire vehicles and I paid fire service levy on those fire vehicles. That is on top of everything else that we paid through there.

You have the list of corporate members. We roughly make a quarter. We are probably the most active area of ARIMA as a group.

Mr McLEAY: Is that on behalf of your ratepayers though or only on behalf of yourselves?

Mr O'BRIEN: I am here as a corporate member of ARIMA. My council has made a decision of its own accord and made a resolution to that effect but I am not here to talk other than that council has made a decision, but as a buyer of insurance with ARIMA that is why I am here.

Mr HALL: The other point about that is on behalf of local government Sean and I are aware that representations have been made by the representative body for local government, so we are not second guessing or making conflicting statements about that.

The other thing I will add is you were asking about how to make any new system equitable in terms of having some form of rating structure or some other feature to make it more equitable for people.

The fact is that the current system itself does not lend itself to that in that you can have two organisations that are insured for the same amount, $500 million, for example, and as a result they are paying the same amount of fire services levy. One of those organisations might have $400 million worth of property covered under that policy and $100 million in business interruption, whereas the other organisation may have the reverse, only $100 million in property risk and $400 million in business interruption. At the end of the day they are paying the same amount of fire services levy for two very different risk profiles.

Coming back to what our view is, the current system has significant inequity already, in addition to the fact that not everyone is contributing to the funding in the first place.

(The witnesses withdrew)

GARY MOORE, CEO, New South Wales Council of Social Services, 66 Albion Street, Surry Hills, affirmed and examined:

CHAIR: I am advised that you have been issued with a copy of our terms of reference and the Legislative Assembly Standing Orders, is that correct?

Mr MOORE: Yes.

CHAIR: Are you appearing in that capacity?

Mr MOORE: Yes.

CHAIR: Would you like to make an opening statement?

Mr MOORE: I wanted to touch on a few points in terms of the modelling and the proposal particularly to move to a property based levy to fund fire services. These are probably questions as much as comments.

Certainly as you would be aware in New South Wales at the moment, about 30 per cent of households are private tenants. About five per cent are public housing tenants. Whilst NCOSS in principle would support a move towards broadening the base on a property levy basis or to contribute towards the cost of this service, I guess some of the impacts we are not so sure of if they are not handled and managed well.

There is one particular group that we wonder about and that is private tenants who currently do not have contents cover, and the question will be whether a property based levy will be passed on as increased rents, whether actual or otherwise and therefore penalise this group of people because they make no savings from the cessation of insurance policy based levy.

CHAIR: The argument the insurance council might put back to that is that the landowner already pays building insurance.

Mr MOORE: Yes.

CHAIR: And therefore if the insurance is paid, or the levy taken away from that, there might even be a saving for the tenant.

MR MOORE: I guess looking at the modelling as much as we could that was done, and looking at trying to be about various situations, one is not exactly sure that that behaviour would automatically follow. As we are aware of at the moment there are a range of, I guess, increases in changes to property taxes and levies taking place and this is a significant difference I think as to what is claimed about the impact and what the real impact is in some other areas. We would simply say that is a significant area to think about because something like 65 per cent of the private tenants in New South Wales are, household incomes are in fact less than male average weekly earnings in total, so whilst I appreciate your comment, I think we would want to see some further evidence of that before simply saying that this would be cost neutral to those tenants or an improvement.

CHAIR: Do you think, though, that the costs of any of these government or private charges that business owners have actually have, in effect, on rent in the commercial sector? It has been argued by many people in the property market that a landlord will simply extract what the market will bear.

Mr MOORE: Look, our view is the greatest determiner is demand and supply; full stop.

CHAIR: Yes.

Mr MOORE: We think there are a lot of claims that are difficult to substantiate made about the impacts of levies and charges but, having said that, as you may well be aware, the arbiter in this, which is the State Residential Tenancies Tribunal is not constituted in such a way that actually allows a tenant or puts the onus on a landlord to actually have that proposition tested. You can certainly as a tenant go to the Residential Tenancies Tribunal in relation to excessive rent but simply, if an owner says or their representative does say that this is what the market in this area bears, irrespective of what the input costs are, you basically do not have an opportunity to challenge that further so I accept what you are saying. The reality is the regulatory arrangements do not allow the proposition to be properly tested.

Mr McLEAY: Do you think the people, whether they be their real income or not, should contribute to the fire service levy or do you think that there should be some form of means testing?

Mr MOORE: Well, there are two bits of questions. In principal we think that everybody should make a contribution because it is an essential service within the community. Now, obviously, our preference is that perhaps the majority of it should be funded out of general taxation arrangements but the principle is we all enjoy benefits from fire service protection and risk management so, therefore, we should all contribute towards it so that is the first thing.

Mr McLEAY: Do you know at the moment there is no general --?

Mr MOORE: I appreciate that and that is why we are supportive of looking at moving from the current situation to a more broad based taxation system on this. But, having said that, and for the comment that I have made before, it would be terrible to think that those that can least afford would in fact be negatively impacted.

If, for example, taking another proposition in the paper, that if you levied a flat rate levy on all 4.6 registrations, 4.6 mean registrations, that we would certainly say that what you really should be looking there at, and we do not have a problem with that proposal either I should say, but either you should be looking at a two-tier arrangement, in terms of a recognition of people's economic circumstance or you should be looking at a robust concession arrangement.

CHAIR: Do you think there is any validity in the proposition that the insurance council put this morning that if it went to a property based system all those tenants, 75 per cent of them who are paying contents insurance now and contributing to the levy would no longer have a levy and therefore the people better off in the scenarios would actually increase significantly?

Mr MOORE: Once again, the issue is whether or not what happens with the rent but, in principle, as I said, we are supportive of the move.

Mr McLEAY: Do you find that the people you represent have expressed a view that they do not purchase insurance at the moment because there is a fire service levy on it and therefore it makes it unaffordable?

Mr MOORE: Can I say what evidence that we have from quantitative and qualitative work in this area suggests - and I guess this is one of the geographic issues about ratings and about risk and about the price of policies - we have an unfortunate, I guess, connection at times between disadvantaged communities and higher rate insurance premiums. I do not want to discuss that necessarily that connection or not but what it means is that often people who are more stretched financially, lower income households, potentially would be paying higher premiums for which the levy goes on top because of the risk rating arrangements in the insurance industry and that is a very difficult circumstance because in a sense it perpetuates inequality, in our view.

CHAIR: Could you maybe just briefly touch on the role that the organisation plays in regards to pensioners and the disabled and those who currently receive rate concessions?

Mr MOORE: Yes. NCOS itself, as you are aware, is the peak body for the broad social and community services sector. Pensioners and people with disabilities are one portion of the disadvantaged groups serviced by our constituent members and I guess one of the problems, and I know we have had this discussion in I think a previous issue, is that we have still not anywhere in this country a concession-based system which recognises the realities of the growing numbers of people who are working poor or sit between the social security and the labour force situation.

The best we get is Centre Link beneficiaries. Generally we get pensioners, we get full pensioners, then another bring out Centre Link beneficiaries, but we do not deal effectively with the growing number of households that find themselves in the bottom wage band or sitting between the welfare system and the wage system. All concession regimes have this problem. This will be another example here as well too. So I guess I would simply say that no-one has the magic bullet in relation to that but would want to go on record to say if you are looking in broadening the base that it would suggest the Committee at least have some thoughts about beyond pensioners, how you might fence the other group of people, particularly these private tenants many of whom are in fact low earning wage households.

Mr WHAN: Do you think a system like that should have concessions at all or as soon as you start to introduce the concessions do you simply push up the burden for those in that other category that is left?

Mr MOORE: I guess my argument is that you should broaden the base of the concessions but I recognise the difficulty that we have got in terms of an administratively easy system to do that.

CHAIR: As well as the cost implications.

Mr MOORE: The cost implications. I appreciate that. Can I touch on two other areas which I am not sure have been raised, and I know colleagues from local government are speaking after me, but one of them relates to local government, in terms of whether or not how this property based levy is introduced, whether there will be the sort of impact on local government that would flow through to pressures on it to either reduce current concessions or increase fees for use of community facilities.

I also accept that of course there are savings on the insurance side in this equation but, across New South Wales, we have a non-consistent concession system. Probably the most basic one is pensioner concessions on rates and some fees but, once again, it is quite differential and quite inequitable.

I suppose it is more of a question or at least raising this issue about whether there would be any flow on effects there because once again lower income people tend to be the principal users of subsidised council services across the state.

The other issue would relate to state government trading enterprises, the utilities, and in terms of the raising of one and the reduction of others, that is the other for insurance based charges. What impacts pressures on prices once again in basic utilities and once again for lower income people that raises through that set of issues.

Mr McLEAY: We can ask the question of the Local Government and Shires Association on the Committee's behalf.

CHAIR: Any other questions?

Mr WHAN: We have not discussed this for a while but one of the notes we have here reminds me that we have talked early on about if we did not change this system but we tried to find ways of plugging the hole, I suppose, in the current system, one of which might be to charge people who are not insured but receive the service from the fire brigade; do you have a view on the equity on that and how that might --

Mr MOORE: Yes. Look, I think our position would simply be well, we prefer to see the broadening of the base because we think that achieves a more equitable arrangement with the appropriate management of impacts rather than trying to plug the holes in a variety of ways.

(The witness withdrew)

SHAUN CHRISTOPHER McBRIDE, Senior Policy Officer, Economics and Development, Local Government and Shires Association, 215-217 Clarence Street, Sydney affirmed and examined:

ALLAN JOHN SMITH, Executive Member, Local Government, 215-217 Clarence Street, Sydney, and

WARREN IRVINE TAYLOR, Acting Director Strategic Services, Local Government and Shires Associations, 215-217 Clarence Street, Sydney sworn and examined:

CHAIR: I have been advised that you have been issued with a copy of the Committee's terms of reference and a copy of the Legislative Assembly Standing Orders 332, 333 and 334 that relates to the examination of witnesses, is that correct?

Mr SMITH: Yes.

CHAIR: I understand that you have provided the Committee with another submission. Is it your desire that this submission form part of your formal evidence?

Mr McBRIDE: Yes.

CHAIR: Can I firstly thank you again for your interest and the efforts you have provided to the Committee throughout the conduct of this inquiry. I know there was a local government election in the midst of it and congratulations to you, Councillor Smith, in your re-election and sticking with this inquiry and its interests.

Mr SMITH: Thank you, Mr Chairman.

Mr WHAN: We had on Wednesday the Rural Fire Services and the Fire Brigade in giving further evidence and one of the issues which the RFS raised was that they felt that by moving to a property based system for levying the fire services levy, that would reduce the flexibility that they had currently to get, I suppose, budget increases when circumstances determined that they would need those, and by that I think they meant firstly the time that it might take to actually pass an increase in the amount of the levy. They also were referring, I think, to political difficulties in raising levies.

I was interested to know what the Local Government Association's view would be firstly in terms of administration, how much lead time would there be for you to pass through an increase in a levy if the government said that one was required, and are there any other issues relating to that which you want to give us some feedback on?

Mr SMITH: I do not believe that there would be any more time required than is required at the present moment through an insurance-based process because it is a one year out process in relation to that. Again, with notification by the government that the percentage, whatever it may happen to be, per dollar on land values, that again would be under the same type of processes, so the same increases that could be required for special one-off events, and we hope we do not have those disasters but we do live in Australia and they do happen, could easily be accounted for the same way it is under an insurance-based process without any expansion on the timeframes whatsoever.

Mr WHAN: It would be virtually instant once the government told you?

Mr SMITH: That is correct.

Mr WHAN: You might wish to offer an opinion. Is the system currently too easy to increase perhaps?

Mr SMITH: The system is very easy to increase. I have a belief, and I think it is fairly widespread throughout the local government industry, that the accountability, because it is fairly easy to increase, is less than what it would be under any other government departments.

The government departments that have scrutiny through Treasury and that have access to consolidated revenue is very, very high and rightfully so.

In the fire services though I believe there is scrutiny. The scrutiny level, because of the ease of moving the levy up, takes the pressure off those departments, and that is what they are, government departments, to conform as tightly to their budget restrictions that other government departments do.

CHAIR: Would you care to make an opening statement to the Committee?

Mr SMITH: The association, as you would be aware, have strongly advocated the need for reform of the current fire service levy agreements and we continue to advocate those reforms.

The association also welcomes the Public Accounts Committee’s review of the fire service funding and the commitment that they have made to resources to undertake a very complex financial modelling task that was required for the review.

We do, however, state that local government has always been of the view that if changes are to be made local government has to be part of the review process and get the benefit of the removal of the fire service levy from local government.

Some of the modelling that has been presented, and I know there has been further modelling done, does not necessarily commit itself to removing the fire service levy from local government. We think that it would be wrong if there was a review that took place and a new system put in place of property based levies, to not remove the levy from local government.

If it was not removed local government's contribution at the present time of some $64 million would then have a further base put upon it, or could have a further base put upon it, if there was a property base type of component, of another $8 million.

Of course, under that process it would increase our contribution from local government up to some 14 per cent. By the same token the possibility is that State Government's contribution could be reduced from the now 14 per cent down to 7.6 per cent. We would find that something that we could not live with.

It is clear to us that reform is needed and it is clear that we will work through the processes with government to get the right reforms if it is properly based, but we cannot accept an outcome that leaves local government in the levy-type processes.

It would put us in a position, if we were still having a levy placed upon us, as a form of a dual system where the insurance levy would be replaced but there would still be the levy on us and we would then become also, most probably, a part of a property based scheme, which our ratepayers at the end of the day do pay for through their rates. Our money is our ratepayers' money.

I keep emphasising that we do support a new funding model, contingent on the removal of the existing direct fire levies from local government. We believe that it is the only way to come forward to a property levy in the interests of equity and transparency and for better management in the longer term of those funds and the fire services.

Mr McLEAY: What level of contribution to the fire services does your organisation consider that the State Government should be making?

Mr SMITH: I do not know.

Mr McBRIDE: I think in our initial submissions our view was that it should be maintained as is, representing the broader community.

Mr McLEAY: That is what I thought your view was. Under the model we say no change to the cost to the State and whilst our rate, you point out declines from 14 per cent to 7.6, we are also foregoing stamp duty, so the value of the transaction means that it still costs us the same amount of money. Do you have a judgment on that?

Mr McBRIDE: We understood why that was factored into the modelling, because the criteria were that the terms of reference were that the outcomes had to be revenue neutral, as is the case with almost every government inquiry these days.

Mr McLEAY: Prudent government inquiries.

Mr McBRIDE: We have also heard some arguments or information presented this morning by other bodies that show that perhaps the discount that has been applied in the model is too great. The loss of GST revenue and stamp duty reflected in the model, the actual loss would not be as great as, for example, somebody mentioned with the GST, the money that consumers or insurers save is likely to be spent elsewhere.

Mr McLEAY: Do you have any evidence of that?

Mr McBRIDE: No, we do not have any specific evidence on that. Our organisation is not in a position to draw out that type of evidence. Other organisations have made that point and, based on the interstate experience, I think that is probably something worth further investigation for modelling purposes.

Mr McLEAY: If that is not the case, does the association have a view that the government should be contributing, or are not paying our fair share? Is that your view, or not necessarily?

Mr McBRIDE: Our preference would be that the government maintain its current contribution for other reasons. It is our preference but we can understand, given the revenue neutrality criteria, that there is a case for the government's contribution to be reduced by some extent to reflect that loss. That is the absolute criteria as it may very well stand.

I think we have also raised a question of the adequacy of the government contribution, particularly in relation to things like national parks and State forests, particularly at that lower level, based on evidence or anecdotal evidence at least that a considerable amount of RFS resources and metropolitan resources are expended on controlling fires either within or originating within national parks.

This is an issue which our members in regional areas raise frequently, and many of our members are quite critical of fire control practices and such within national parks or lack thereof, as has been our assessment, so we also think in that costing national parks and probably to a slightly lesser extent the State forests demand on fire resources might still be not adequately costed in the State Government's contribution.

Again we are not in a position to quantify that. We raise that as something that could be or should be further investigated and perhaps quantified.

I know the fire services have vast banks of data on fire incidents and so on which could be a starting point for establishing what proportion of fires and what type of expenditure is related to fires in those two situations, or originating in those situations.

Mr McLEAY: If the levy was changed do you think any council properties may be exempt from paying the levy?

Mr McBRIDE: I would think, well, there are certain properties in that model that have, types of property that have been exempted, be they state or local. I think there were, I do not have the model in front of me, there were certain things like road reserves and things like that. There were things like, I think, open space, open space areas, like football fields and so on, public recreation areas, and there were a couple of other criteria. But I would imagine most other buildings, primarily those that I guess would probably be defined by those that are currently insured, would be subject to a property levy in the same way as --

Mr McLEAY: So you would actually broaden the base for your equipment or properties, for example?

Mr McBRIDE: We accept that local government would pay a property levy like any other property owner on its buildings and such that are currently insured, and that might even be stretching it a little, I am not sure, and we do not have a problem with that. The proviso being that the general levy of 12.3 even 13, or 12.6 and 13.3 per cent as we currently now paid be removed. We are firmly of the view if the system is going to be reformed the primary funding mechanism is one levy not a mixture of different funding sources.

Mr McLEAY: Do you think that there is capacity that council may be, the members might actually end up paying more under the annual system and, if so, on the arguments of equity, are you happy to meet that --

Mr McBRIDE: Under the combined scenario we cannot see that any of our members would be paying more. We would expect that there would be probably net savings to council across the board. That is under the combined scenario. There is another scenario in there that has a less positive outcome from local government perspective, but the combined scenario, which seems to be the focus of consideration, it would certainly be hard to conceive of any council being worse off under that, given the current levels of contributions they pay, particularly those who are funding both services and subject to levies of both.

Mr SMITH: But could I just add there as well: As a principal, I do not believe anybody in local government, if they are such a large land owner, that it had an increase as a principal that they now have one levy based on a fairer and more equitable principle across the whole state that they would be opposed to that process. Of course there could happen to be someone like that. It could even happen small landowners, small property owned councils could finish up extremely better off but as a principal, and based on equity and transparency, we could not oppose anything like that.

Mr McLEAY: Thank you. If it was introduced do you think that councils would have a change of the role of supporting the rural fire service? For example, should equipment be divested and handed over to the state, for example? Do you have any comments on that aspect of it?

Mr SMITH: Only if it is in relation to - there have been some moves afoot in relation to our - sounds a bit funny - in relation to our relationships with the RFS, with changes to legislation, and the fire control officers leaving the employment of council and becoming direct employees of the department and then further development from that of the memorandums of understandings that we do have in different places, different local government areas. Even though the relationship has changed, it has become more of a department and controlled from Sydney and the fire control officers have become part of the organisation of the department. The relationship, the foundation relationship has not changed in any of the local government areas that I know of where, upon the ownership of the equipment and whether extra resources should be given by local government in the case of emergencies and things like that, has never become a question.

When extra equipment is required local government has fell in behind and helped in any way it can and continues to supply resources in the way of buildings and things like that for the RFS to operate out of, and I do not believe that would ever change, that would ever change. So that is the further in kind support that local government already gives and will continue to give and, in my view, those in kind supports are strengthening year-to-year rather than weakening.

Mr McLEAY: But at the moment you have certain ownership over your rural fire service and contribute significantly to it and many councils contribute over and above. I live in the Sutherland Shire Council and their last year $400,000 was contributed to that, their component. You do not believe if it was a change that you would no longer have that 13 per cent contribution or that ownership and you were simply just a contributor to a general levy that those relationships would break or change?

Mr SMITH: No, I do not believe so. I do not believe that to be the case. Relationships are about both parties working together. The bonds between the RFS and local government have always been very strong, and I would believe to continue to be very strong because there is that tie where we have a good working relationship. The tie between the New South Wales Fire Brigades and local government is not as strong but that is not because of any lack of will from local government or I believe the New South Wales Fire Brigades.

Some years ago there was some slippage in our contact basically, but I note in more recent years the New South Wales Fire Brigades have been working very hard to rekindle that relationship and with that rekindling we are getting assistant, local government is giving assistance to even the New South Wales Fire Brigades to build its resource base in every way we can as well. Again, the same relationship applies there: When they need specialist equipment and things like that there is never any questions when they need bulldozers, when there is trucks gone over to pick up chemicals and all sorts of things, we are there with our equipment. There is no question of cost or price. We worry about that later on.

Mr TAYLOR: The question of ownership has certainly been a factor that some councils have looked at but that is more from the professional accounting point of view about custody of assets, who is the main controller of them on a day-to-day basis. If it be the RFS, for instance, then the view has been, well, maybe the assets should be in the books of the RFS rather than the council, and if the funding process has never really clarified that, and there have been a number of reviews, the department of local government and some of the accounting professional people have reviewed the process but at the moment they are quite happy to leave it as it currently is.

CHAIR: Pensioner concessions; we will touch on that subject for a minute.

Mr McBRIDE: As you are aware, the local government already subsidises pensioner concessions for land rates, council rates. The concession in New South Wales, the total concession for council rates is $250 maximum. That is capped by the state government. It has not changed in probably 11 or 12 years, despite the change in property values and rating levels. Local government funds approximately 50 per cent of that so $125 and the state government funds the balance. There is a small margin for the expansion of pensioner concessions to veterans that the Commonwealth topped up a little a couple of years back so that concession is quite a major expense, even though it is capped at 250. For a lot of councils, particularly where they do have large concentrations of pensioners, and pensioners are defined as people with the Commonwealth Health Benefits Card, that is the criteria that is used for defining that.

In many areas it is costing several million a year to fund that subsidy. Councils like Eurobodalla, Blacktown and Sutherland, for example, have old established populations and Eurobodalla has a lot of new retirees have very high pensioner concessions; some of them see it as unsustainable for too far into the future. The state treasurer, I know, thinks it is a scheme that should never have been introduced. He said it should have a sunset clause on it when we have sought to have that amended. We would also note that in the other states the pensioner concession schemes are fully funded by the state governments and they do not require local government to contribute towards them. New South Wales is the only state to do that and that has happened, I think, during the Wran government in, yes, back in the late 70s.

So local government generally supports the concept of pensioner concessions. We recognise the need to provide assistance to people with low incomes. We do not think they should be funding welfare mechanisms like that, it should not be a local government responsibility, primarily because our funding base is very narrow. It is primarily rates and some user fees and charges and for regional councils financial assistance, grants from the Commonwealth can be a significant per cent. We do not have a broad range of taxes we can apply. That said, we support the concept of assistance but we can argue about who should be paying for it.

As far as in relation to the insurance premiums we think, yes, that probably would be desirable to provide concessions but we do note that no such concessions --

Mr McLEAY: For the property levies you mean?

Mr McBRIDE: For the property levy, yes, fire services levy on property, but we would note that in terms that no such concession already exists currently for pensioners in relation to the fire services levy on insurance. They pay their insurance anyway and they pay the same amount of levy as somebody who is not a pensioner through that mechanism. But we would not object to, as a community measure, as a welfare measure, for concessions to be made to pensioners under a new scheme provided, the proviso being that it is fully funded within the new scheme or, if the government sees it as a community service obligation, the government makes a CSO payment to fund that concession.

Mr McLEAY: Okay. Fair enough. Do you also, taking up on the question that was asked through the Committee from NCOSS, you heard Mr Moore ask if there were to be changes in structure will it lead to more pressure on your ability to provide community resources and services? Would you think that would be a factor in changing from the current scheme to a new scheme?

Mr McBRIDE: If the new scheme is - we would prefer - there should not be a net loss of revenue to councils. So there would not be a loss of services or infrastructure related to that. I suppose that is the key to the question. The new scheme, there should be net savings under a new scheme that would be available to be passed onto the community, one way or another.

Mr TAYLOR: There is already an existing great variety of community services which councils provide to ratepayers. Largely it is a geographic country local needs type of situation and there are probably no two councils that are identical in the extent of assistance on community matters given to the community.

I do not see that this would change that formula any material way. Council would still weigh up their local needs, their local people and their ability to pay in the same way as they do now. I do not see it as a factor involved.

Mr McLEAY: The model provides for an administration charge of $2 per annum per property. Your written submission considers the arbitrary administration charge to be reasonable for modelling purposes. However, the actual charge would need to be determined when the costs are fully assessed.

I guess this is just an initial reaction. Very early on in the piece we heard evidence from New South Wales Treasury that the cost of collecting the fire service levy on a rate system, the additional cost could be as low as the amount of print on the rate notice, the extra cost of ink for the rate notice, compared to one of your member councils which said it might be a little bit more substantial.

CHAIR: That is the generous view of Treasury.

Mr McLEAY: One of your member councils also looked at it as an opportunity for an income stream, that member councils could make money from providing that service to government. Does your association have a view on that and, if so, were you consulted on the $2 ballpark figure?

Mr SMITH: To lead in, may I say that our association is not in the business as a general industry of increasing the revenue stream from this process. We are always looking for extra revenue, but on this occasion it is not about that. It is about moving to a more transparent and accountable process.

IT depends on what we finish up with in what the costs were, but our base line, what we are really interested in, is just basically cost recovery, so it becomes cost neutral because a setup cost may be high but then the ongoing maintenance and collection process may be low, so it is a matter of working out a balance there so that we can fund that initial bit and continue on with that process. At the present time the costs will depend upon what is required to be done.

Naturally the more that is required to be done through the processes, that would increase the administration charge.

Mr TAYLOR: Particularly if there are arrears of contributions that need to be recovered from former owners, details may need to be put on certificates upon transfers of properties.

In our submission originally we said that local government did not wish to be involved in that detailed follow up and collection process, but if indeed it were the decision that councils would have the obligation of providing rating certificates and follow up actions in the same way as it does on its other rates and charges, indeed the administration process, bearing in mind a pensioner property can involve a fair degree of administration detail, that would contribute to the costs council would be facing. I do not have a figure on it.

Mr McLEAY: A figure of $2?

Mr TAYLOR: $2 would be inadequate for a large council with a lot of pensioner assessments. Pensioner assessments are not a computer driven application. They are a hands on process, looked at individually. Some councils have a philosophy of recovering the balance of a pensioner's account, whereas some councils permit it to be accumulated against the estate. There is a whole range of different ways that councils deal with it.

To many councils $2 may cover a normal rate assessment but it may certainly not cover a property which has a serious arrears, or a high area of pensioner population.

Mr SMITH: From what you hear we could say it does not need to be tens and twenties of dollars, there may be a variation over the whole industry, but it is not going to be $30 or $40 type processes.

Mr McLEAY: Were you asked to comment on that?

Mr McBRIDE: We were consulted and the figure was mentioned to us and we were asked whether we thought that was reasonable. We thought for working purposes, in the absence of a full blown cost scheme, there was no purpose in doing that before we had an indication of the way the recommendation was going.

CHAIR: Have you got any closing statements you would like to make?

Mr SMITH: Yes, if I could. This is the best opportunity that this State has had for a long, long time to become in this area much more effective and efficient managers of the funding of the fire service and to become a more transparent and accountable fire service funded process.

I have had personal experience with the Queensland process, because I had a property in Queensland and had seen it appear on my rate notice as a charge, and could see that it was very transparent and gave me an idea as a citizen that this is for this particular purpose and it was very open and clear. There was no problem.

As I said, the State has the best opportunity it has ever had. It does give the State Government, in conjunction with the fire services, an opportunity to raise the revenue it needs in the case of those disasters that do happen within our country, and to raise those revenues in a short period of time and give the community a better understanding of what they are paying for in relation to disaster. You do not have that possibility at the present time.

I think that the community would have better ownership of their emergency services, or emergency services fire brigade type processes, if they actually knew what they were paying for, and they do not at the present time. It is a hidden tax.

Of course, I believe that the fire services themselves would be much more accountable in relation to expenditure and expenditure directions which I think in the short-term may cause some pain, but in the long-term would give us, as a State, better, more efficient, and more effective fire services.

(The witnesses withdrew)

(The Committee adjourned at 12.35 p.m.)