REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

REVIEW OF FIRE SERVICES FUNDING

At Sydney on Friday 21 November 2003

The Committee met at 9.30 a.m.

PRESENT

Mr M. J. Brown (Chair)

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

GRAEME ANTHONY ADAMS, General Manager, Product and Underwriting, IAG, 388 George Street, Sydney, affirmed and examined,

LEANNE MARGARET STAGNITTA, National Home Products Manager, IAG, 388 George Street, Sydney, and

IAN FORBES BROWN, Deputy Chief Executive Officer, Insurance Australia Group [IAG], 388 George Street, Sydney, sworn and examined:

CHAIR: I declare the hearing open and draw the public's attention to the Committee's terms of reference posted in the room. I also draw the public's attention to Legislative Assembly Standing Orders 332, 333 and 334 in relation to the procedure for the examination of witnesses by the Committee. The standing orders are also posted in the room. 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 334 that relate to the examination of witnesses. Is that correct?

Mr BROWN: That is correct.

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

Mr BROWN: Yes.

Mr JOHN TURNER: For the record, I am a holder of IAG shares. I have taken advice from the Clerk, who has given me permission to participate in this hearing.

CHAIR: I, too, am a holder of IAG shares. Can you please outline IAG's main concern with the current funding arrangements for fire services in New South Wales, and if you have an opening statement, please proceed with that?

Mr BROWN: Yes, I would like to make an opening statement. The Insurance Australia Group welcomes the opportunity to comment on the review of the New South Wales fire services funding arrangements. As our submission indicated, we contend that New South Wales is well placed to build on the experience of other States in relation to fire service funding reform. We submit that the primary motivation for reform in the current fire services funding system in New South Wales is equity and fairness.

The current system unfairly places a financial burden on insurance policyholders for a service that benefits the entire New South Wales community. Reliance on funding from insurers has a number of shortcomings from a community perspective. The main problems are that the system is inequitable because the funding burden falls only on those consumers who are insured by an Australian insurer, even though all members of the community benefit from the fire service protection. Therefore, the system increases the cost of insurance for New South Wales' householders and businesses.

Reform of the current insurance-based fire services funding model would also overcome the problem of commercial property owners who insure in offshore insurance markets and avoid paying a fire services levy at all, even though they benefit from the protection of fire services in New South Wales. The Insurance Australia Group believes that a fire services funding system that encourages full-value insurance would result in economic and community benefits, especially as regards under-insurance. A system that is fair, consistent and more understandable to taxpayers and to the community at large is needed, and the Insurance Australia Group believes the most effective way of achieving this end is to implement a system that sees all New South Wales property owners sharing the responsibility for funding of fire services.

The Insurance Australia Group appreciates the opportunity to raise this important public policy matter with the Committee and reiterates our company's readiness to continue to assist the New South Wales Government to find an equitable and practical solution to fire service funding in New South Wales.

Mr PAUL McLEAY: You made reference to other States. Could you describe the advantages and disadvantages of the funding systems adopted in other jurisdictions, and not just those that use a property levy?

Mr BROWN: Each State has different arrangements.

Mr PAUL McLEAY: If you could offer your opinion.

Mr BROWN: I will deal with Western Australia first, because it is one of the States that has most recently changed its funding model. The Western Australian system was changed only last year. It goes right across collecting emergency services funding, not just fire service funding. The benefits of and what was learnt from the process of change in Western Australia derive from the fact that the State did a fairly extensive examination of modelling to determine what the costs would be of one system staying as it is compared with a wider system of collection. There were various changes to that model—and there will be changes going forward because there are some quite significant changes effected by the change in collection in one way or another.

One of the issues that really stood out as needing some special attention related to vacant land property owners. They were getting protection from the fire services levy even though there was no property on their vacant land—but quite a number of fires still do occur on vacant land. The question was how to encourage them to contribute towards the cost. That had to be done on a staged basis. I think the Western Australian Government has approached that issue quite sensibly, because he did it on a flat fee basis to start with and will gradually build it up based on the experience it has, on a user pays system, with exactly how much fire services funding is applied to vacant land.

CHAIR: I understood the Western Australian model also increased that flat fee in accordance with the rental that could be gained from that property.

Mr BROWN: Correct. But, if it was completely vacant, there was a different fee for that compared to the rental value, and that was taken into account when doing the calculation of the contribution. What they also looked at at the time was the difference between rural communities and central business district communities, and the difference in funding requirements there. They also took into consideration the volunteer bush brigades that were funded—mostly, on a volunteer basis, and quite often by local government in their own right before that—to bring them into the system at the same time. Other issues to do with volunteer risk, and things like that, were all taken into consideration in their funding model. So the Western Australian model went wider than just fire service funding. It looked at emergency services across the board. So that was quite a different model than that in South Australia, which was introduced two years before that.

CHAIR: Which one would you like to see in New South Wales?

Mr BROWN: I think the basis of the Western Australian model is very good, because it simplified the changes for the general public. That is part of what we are recommending in our submission. First, it is important to do the modelling, so that you can make sure who are the people who will pay less and who are the people who will pay more, and what effect that has on the overall community, but you must keep it as simple and easy as you can so that people can understand exactly what is involved in paying for the service so that they understand that it is a fair system across the board.

CHAIR: What weaknesses do you see in the Queensland and South Australian systems compared with that in Western Australia?

Mr JOHN TURNER: Mr Chairman, could I ask a question on the Western Australian system first?

CHAIR: Yes.

Mr JOHN TURNER: Is the Western Australian system based on rents?

Mr BROWN: Yes.

Mr JOHN TURNER: Perhaps you could explain why that system is more desirable, if it is, than a model based on property value?

Mr BROWN: Property values are changing, and if you base a funding arrangement on property value alone I think the burden on private householders becomes unfair, because the value of household properties is going up at quite a dramatic rate while commercial property quite often are valued on only a historical basis. Therefore, rental is a fairer system.

CHAIR: What are the weaknesses in the Queensland and South Australian systems?

Mr BROWN: I think South Australia had problems with the transitional phase, going from one system to another. In hindsight, it is easy to see what could have been done better. That is why the Western Australian one was slightly better, because it looked at the transitional phases in going from one system of collection to another, and that was able to be handled fairer and with less burden on people who were either under-insured or not insured before.

CHAIR: When they changed systems, did you notice a change in the people getting insurance policies?

Mr BROWN: No. One of the things we have said in our submission is that the price of insurance comes down because you do not have to include a fire service levy in the price of insurance. We contend that as the price of insurance is going up, as with most other services provided to the general public, if people see a method that will bring that price down that will encourage them to take out full-value insurance rather than not insuring. I do not think there is too much non-insurance applicable in property ownership because most banks that are lending money to buy property insist on insurance notification being in place. I think something like 42 per cent of houses are insured but there is a lot lower contribution towards insurance from people who are only insuring on a contents basis because they do not own the property. There is no obligation on people to protect that value because of a mortgage situation.

There are quite a number of people who are renting houses, for instance, who do not take out contents insurance at all. However, if you look through the fire statistics you will see that they have as many disastrous fires as anyone else but they do not have any protection. We think that bringing the price of insurance down will encourage those people who have not had insurance before to take it out. It will also encourage people, because things are tight financially, to look at making sure that they have full insurance to cover the total value of contents and the things that are insured.

Mr ADAMS: If I could add to that, in New South Wales one in four households does not have contents insurance. Even in South Australia, which has not had the fire service levy for some time, our market research indicates that the level of uninsurance is much lower. In fact, it is something like about 90 per cent of households in South Australia have insurance, and 10 per cent do not. So we think there is a direct correlation between the affordability of insurance and the number of people taking it out.

Mr PAUL McLEAY: Do you believe that relates to crime rates or socioeconomic factors, does it come down to the fire service levy, or is it coincidental?

Ms STAGNITTA: When fire service levies were first introduced insurance premiums were pretty much flat across the board; everybody paid a similar amount. Domestic and commercial are obviously different. Over time the methods for setting rates have changed significantly so our rates are very much are based on burglary rates and storms. Buildings are very much around storms and contents are very much around burglary. So on the contents side of things where crime rates are higher insurance premiums are higher. It does not correlate to the risk of fire. I guess those who are less able to afford insurance and who are potentially living in higher risk areas, the insurance premiums are much higher. So we have sort of lost that equity between property owners but also within the insurance pool as well.

Mr PAUL McLEAY: I guess that is my point. Is it a coincidence that they do not have a fire service levy in South Australia and there is a higher rate of insurance premiums, or do you believe there is a direct correlation between no fire service levy in insurance products and greater levels of people taking insurance?

Mr BROWN: I do not think we can definitely say that that is the logic of the version you should take. I think there are other socioeconomic factors available for us to back up what happens in South Australia compared to, say, New South Wales. If you look at the demographic age of the population in South Australia, there is a higher tendency towards older people living in South Australia and a number of them own property and therefore they make sure they take out insurance protection. Burglary rates are also lower there because people do not go out as much. So there are other socioeconomic reasons as to why there is more insurance there than what there is in New South Wales. But I would also say that everything has a cost these days and the more competitive we can get our costs down, the more opportunity we have to speak to more people.

CHAIR: On the figures you have provided and the competitive side of the argument, where did you get your one in four figure from? Is that your figure or is that from some research you have undertaken?

Ms GLADYS BEREJIKLIAN: Is that Australia-wide or New South Wales?

Mr ADAMS: It is Australia-wide research. It was conducted in October 2001 by a company called M. J. Powling Research Consulting.

CHAIR: Can you provide the Committee with a copy of that?

Mr ADAMS: Yes.

Ms GLADYS BEREJIKLIAN: Just in relation to your comments regarding underinsurance, how do you reconcile that with the survey results you provided in your submission which show that 60 per cent of people would not alter their policy if these duties and charges were removed? In your submission you provide survey results which show that 60 per cent of consumers would leave their policy as is even if tax and charges were reduced from their policy. I am just wondering how you reconcile that with your argument that current levels of underinsurance might be addressed if tax and charges were reduced.

Ms STAGNITTA: I guess price is not the only motivator for insurance. I guess it goes back historically to when premiums were based on sum insured rather than other types of risk. People had a perception that if they doubled their insurance sum insured then they would also double their premium. So there is an education piece needed around that to ensure that customers understand that an increase in their sum insured only relates to a very small increase in premium. Some of that attitude is driven by the fact that they think they will be paying a lot more to insure for full value.

Ms GLADYS BEREJIKLIAN: So presumably if there were changes to the fire service levy arrangements you would send out information.

Ms STAGNITTA: Yes. We did a fair bit in the media trying to get people to insure for the full value and that certainly increased. Because the fire levy is a percentage loading on premiums, it sort of amplifies any change in the base premium.

Mr STEVE WHAN: It seems to me that a lot of underinsurance is about education. How much underinsurance is simply because people are not keeping up with the rate of increase in property values and are not aware of how much the property value has increased? It is not related to the fire service levy but to other factors such as education.

Ms STAGNITTA: And it varies by region as well. In rural areas where property prices have not been increasing so dramatically there is a much larger underinsurance problem, compared to Sydney, where property prices have increased and people are more aware of the value of their property. But contents is probably the key area where underinsurance exists.

Mr BROWN: That is the point I wanted to make. Property prices on buildings are down because of inflation and other things, and people do not review their sums insured. The sum insured or underinsurance issue is more of an issue in contents than it is in buildings. Sure, building values have gone up in New South Wales but the average length of property ownership for houses in New South Wales is only seven years. People hold onto their houses for about that period of time, so every seven years or so they are buying a new property, getting a new mortgage and therefore getting the sum insured up to a level that is at the current market value at the time of taking out the new policy. It then it gradually deteriorates because it does not keep up with inflation.

But on contents there is not any valuation of what the contents are worth, other than what we try to send out to them on their renewal notice. Have they done a review of what they now own, and what have they done to upgrade their contents? If people go through and complete that inventory they will find that they are generally underinsured by up to 50 per cent. During the recent bushfires in the Australian Capital Territory that was amplified quite dramatically. People were having to supplement the total loss they incurred by their contents insurance as well, paying for the total loss of what they had in their building so they could get the rebuilding done at a similar level they had done before but they were miles underinsured on contents.

Mr PAUL McLEAY: What is your view of Victoria's review of fire service funding and the proposed outcomes they announced? One of the arguments that Victoria made to us was that while renters might have no insurance or considerable underinsurance, the value of where they lived was considerably insured. For example, the landlord would own the dwelling and that would be worth $100,000 or whatever, and there may be $2,000 worth of men's clothing in the building. So even though they had no insurance, if you took it global, the $100,000 unit and $2,000 worth of property inside, the $100,000 was still insured. It was really only less than 2 per cent of the value of the dwelling that was not insured.

Mr BROWN: Certainly, the sum of the contents insured within the dwelling is of a lot less value than the overall property. The issue that was flawed within the Victorian system is that they had not done enough work on modelling as to what the differences were and the costs incurred by people who do not have insurance or people who have insurance now. That is the only thing I would say about the Victorian system. They have not done enough work on sorting out which part of the community was going to be affected more by the change in funding rather than making a decision about property or any other system. They have not done enough work on modelling—where the collection is coming from and what is the true value of what should be insured and not insured and therefore where they should collect premiums from.

Mr PAUL McLEAY: You look a bit worried, Mr Adams. Do you want to make a comment?

Mr ADAMS: Renters who have only a few thousand dollars worth of contents can probably least afford to lose it. Arguably, they need insurance more than those who can afford to lose it.

Mr PAUL McLEAY: That is an argument for your organisation when it comes to the fire service levy.

Mr ADAMS: We would argue that the fire service levy makes insurance for that demographic less affordable. Removing the fire service levy would make it more affordable for that demographic to take out insurance.

Mr RICHARD TORBAY: But if you remove it from property, as you suggested in your submission, how do you guarantee that savings will be fully passed on to the customers?

CHAIR: What indication do you have that your premiums will come down?

Mr RICHARD TORBAY: How do you guarantee that? What are you basing that on?

Ms STAGNITTA: Base premium. We calculate a base premium based on the risk that that property presents and then the fire service levy is added on to that as a percentage loading on top. I guess within the system that is removing that percentage loading. Structurally it is no issue for us. Obviously, we want to pass that on to our customers anyway. It is removed from our expense line and our accounts

Mr BROWN: We have done some work on what is the average cost of this.

CHAIR: To finish off Mr Torbay's question, would APRA or the ACCC monitor you if that levy were taken off and you decided to pass on—

Mr BROWN: The ACCC certainly would. It would show up in the statistics that we give to APRA on a quarterly basis. They would see it straightaway.

Ms STAGNITTA: The West Australian Government has proactively implemented a process of auditing insurance companies to ensure that, as the fire levy was being wound down, it was calculated correctly and the savings were being passed on.

CHAIR: You would be aware of the Alliance of which peak bodies are members. Is it correct that you were asked to join and did not join? Are you a member of the Alliance?

Mr ADAMS: I do not know.

Mr PAUL McLEAY: The Alliance for Equitable Funding for Fire Services.

Mr ADAMS: I am not aware of the details.

Mr BROWN: We are part of the Insurance Council of Australia, so we are a party to it through the ICA.

CHAIR: Does IAG see any merit in retaining the current insurance-based systems, but providing some enhancements to it, such as increased user charges on hazardous materials call-outs, imposing a levy on motor vehicles, possibly changing the amount raised from insurance and charging those who require fire services or cause the need for fire services to be employed and educating the community by saying, "If you are not insured and you require fire services or you cause them to be required the Government will send you a bill for that"?

Mr BROWN: I would not support that for two reasons. I do not think the equity situation would be sorted out. How do you post fund the cost of that for somebody who, at that stage, has suffered a loss and cannot afford to pay you anyway? The Government would end up—

CHAIR: It happens with ambulances. Often when you can least afford it is when you are sick. If you are not insured to travel in an ambulance you cop a pretty large bill. It happens now. Why would a person in the fire situation be any different?

Mr BROWN: They would not be any different to the ambulance situation, I agree with you. But I would like to know what the ambulance collection fees are for people who have been billed and who cannot afford to pay. How hard will they push for recovery against those people? It would be very difficult for someone who has lost probably the biggest investment and probably still owes money on that investment from the house point of view, to find the money to pay for the costs of the fire protection afterwards. It would be very difficult.

CHAIR: What about motor vehicles and heavy commercial vehicles that use a lot of resources from the Fire Brigades?

Mr BROWN: Equity is the basis of our submission. At this stage we suggest that the change in funding needs to be considered across the board. It is over to the Government to decide on which method is the best to collect it. We suggest that under the insurance, which is the biggest cost towards the collection of this thing at this stage, it is better to change these things on a progressive basis. It would be worthwhile reviewing the overall collection irrespective of whether it is property based or not.

CHAIR: Do you absorb the 1 per cent for motor vehicles or do you pass that on through your policies?

Mr BROWN: We pass it on through our policies.

Mr PAUL McLEAY: The Treasury submission states that 6 per cent of the current fire service levy is collected from motor vehicle insurance, which amounts to $20 million. Are you able to tell the Committee what rate of fire service levy IAG applies to motor vehicle insurance?

Mr ADAMS: Off the top of my head I do not have that number. I could come back to the Committee with it, but it is a small percentage.

Ms STAGNITTA: It is less than 1 per cent.

Mr PAUL McLEAY: Do you have a reason?

Mr ADAMS: It is a small percentage.

Ms STAGNITTA: The average premium on motor vehicles is much higher than for home insurance.

CHAIR: Could you outline to the Committee your views on administering the current system? Could you set out how you administer the current system?

Ms STAGNITTA: At the beginning of the calendar year we receive notification from the ICA, which gives advice to the insurance industry on by what percentage they should load insurance premiums. Obviously, that is about six months after the date on which the levy is collected. We are already collecting levies on the basis of the prior year collection rate. Early in the year, around January or February, we take up the ICA notification.

Mr PAUL McLEAY: Try not to use acronyms.

Ms STAGNITTA: The Insurance Council of Australia advises insurance companies what levy to collect. That comes through in about January or February each year. We make changes in our system, which are tabled in changes. It is a six-week lag time before that comes through to insurance policyholders—the renewal period, when the notification is advanced as to when the renewal is due. At the end of the year we then get notification as to how much of the levy we incurred. We may be over or under paying depending on the amount we have been paying to the Government during the year. It is a quarterly statement provided to the New South Wales Government.

Mr PAUL McLEAY: Do your premiums highlight the amount that is the fire service levy?

Ms STAGNITTA: Historically we have included a note as to how much in dollar terms that levy has been. Under legal advice we removed that from all our documentation on the basis that, although we were calculating a set percentage, we had no way of knowing whether that was the correct amount we needed to collect.

Mr RICHARD TORBAY: Your submission touched on that and you said there is no way of collating the two. Have you been over levying or under levying fire service levy in the most recent period?

Mr BROWN: In the past two years we have been over collecting, but then we effected a reduction in our rating to counteract that. But, in the three previous years we were under collecting, so it depends on what is notified to us halfway through the year. We do an estimate at the start of the year and at the end of the year we have to make an adjustment.

Mr STEVE WHAN: Do you account back to the Government about how much you collect overall and how much you have returned?

Ms STAGNITTA: No. We only report on what premium we have collected and therefore the calculation of what our share is.

Mr STEVE WHAN: The premium you collected, is that the amount you return to government?

Ms STAGNITTA: No. It is very highly unlikely that the amount we collected from customers was the exact amount we paid to the Government. Sometimes it is over and sometimes it is under.

Mr STEVE WHAN: You say you adjust your premiums for that so you do not just retain that money, you return it?

Ms STAGNITTA: Yes.

CHAIR: I would like to get a better understanding of self-insurance and people who insure offshore. Can you explain the issue of offshore insurance and the extent to which it occurs? If you have any figures on how much fire services levy is lost through this offshore insurance, I would appreciate that information.

Mr BROWN: No accurate statistics are kept by government or anybody else on how much business goes out of Australia but there is a trend when insurance markets change internationally that for some of the larger commercial businesses in particular, they place their business with the broker and that business is placed offshore because the rates are cheaper at the particular time. I cannot give you the figures of what they are or how much business goes out of Australia or how much goes with insurers that are not Australian Prudential Regulatory Authority [APRA] registered insurers here in Australia. There is a significant amount now of the larger risk in particular being reinsured in jurisdictions outside of Australia.

CHAIR: Do you know any companies that do this?

Mr BROWN: Yes.

CHAIR: Can you identify them?

Mr BROWN: I do not think it would be my place to do so. They do not insure with us.

CHAIR: We would like to get some evidence from these companies, but I will not pursue that line of questioning.

Mr BROWN: I think the most appropriate body to ask that question might be the Insurance Brokers Association of Australia, because it would have records of its clients that place business within Australia and outside Australia. We are not privy to that information.

CHAIR: From your understanding, most of these companies would be quite large publicly listed companies?

Mr BROWN: Yes, publicly listed and privately owned companies, a combination of both.

CHAIR: Moving onto self-insurance, there is an organisation called the Self Insurers Association. Are you aware of this association?

Mr BROWN: Yes.

CHAIR: How does self-insurance work?

Mr BROWN: Larger companies may decide to take the risk on themselves and carry the particular cost of the risk should something occur in their own balance sheet. Most of the people involved in self-insurance are doing it for compulsory insurance classes, sometimes workers compensation as an example, where they must take out workers compensation insurance, but they can get exemption from the Government to self-insure provided they submit a return to the Government to say they will carry that risk themselves and absorb the cost of any claims incurred through the self-insurance system. Those people decide that rather than pay the cost of insurance away to another organisation, I would rather retain the premiums for themselves and build up their own fund to cover any particular event that may occur and then sometimes purchase reinsurance, for the larger catastrophe loss that may occur, directly with a reinsurance company—again, not always a resident of the Australian community.

CHAIR: I have a list of the members of the self-insurers association, and it includes quite large companies like Collex, Mobil Oil, National Australia Bank, Qantas, CSR and BHP. Some of these organisations, should an accident happen, would require an enormous amount of resources to put out a fire or to contain an environmental hazard.

Mr BROWN: Yes.

CHAIR: For them not to be contributing to the fire services levy is quite alarming to me.

Mr BROWN: I do not think all the people on that list may be self-insuring for their property risk. Certainly they may be insuring for some of their other risks that are not covered under the fire services levy. But, you are right, some of them are global companies and therefore have their own global insurance programs and allow the local subsidiary companies to take out self-insurance and fit within that global program, and therefore do not contribute to any local fire services levy funding from a property point of view. I think Mobil is one of those.

Ms GLADYS BEREJIKLIAN: Can I just go back to the issue of the regulatory framework that might come into place if, for example, the collection of levy was taken out of the hands of the insurers?

Mr BROWN: Yes.

Ms GLADYS BEREJIKLIAN: What appropriate regulatory framework would you consider acceptable to monitor the premiums in relation to no increases beyond the consumer price index in the first few years? For policymakers, there would be a concern that if one or two of the larger players moved the competitive environment would cause all the players to move. What would you consider an acceptable regulatory framework that the insurance companies would be able work within.

Mr BROWN: We are already under fairly close regulation through the Australian Competition and Consumer Commission, and with the Australian Prudential Regulatory Authority as well. I would think any change in regulation of this kind would require the Government to have an internal audit of the companies to make sure they comply with any change that goes on. We would be quite happy to comply with any internal audit.

CHAIR: The IAG supports local councils collecting any proposed property levy. Can you explain to the Committee why you suggest councils and why could it not be the Office of State Revenue? I am asking this because at the moment there are probably three main insurers in the New South Wales market. Why move that three to a system of 172 collectors rather than potentially one?

Mr BROWN: Again, it is the equity issue about making sure you are picking up all the property owners contributing to the overall cost of the fire services levy. They already have in place, through their collection of rates and other matters, a system that is applicable for people to pay their rates on a basis of collection that is convenient to most property owners, whether they have it on an annual collection or quarterly or monthly or some other system. They go across the wider areas of the community and know exactly what should be able to be borne by the community in relation to the risk they have.

Mr STEVE WHAN: With a system of councils collecting, obviously if they are simply collecting it on the unimproved value of the land, the basis they do their rates on, it is very simple, but surely that is inequitable and does not bring in a lot of the issues of risk, fire risk of properties, and once you start to bring in some of those elements of risk, would that not bring in a large administrative cost?

Mr BROWN: That is a very good point, but again it was addressed quite soundly by the Western Australian Government when it did its review. It made sure it did a lot of work on sorting out what was the best way to pick up the different categories of collection, whether it be on improved value or unimproved value or on rented property or on vacant land. A lot of work needs to go on and I compliment Treasury for being involved in a modelling process to collect that data first so it can be evaluated properly before a decision is made on the best way to collect.

Mr STEVE WHAN: You were talking earlier about your analysis of risk with insurance policies—and obviously that is something you are an expert at—suggesting that fire risk is not very high in the components of setting your premiums at the moment. How much does fire risk come into your premium setting? Is the fact that it is not a very high component a result of the good service from the fire services? If that is the case, is that not a legitimate business expense for insurance companies in that it is reducing the risk by so much?

Ms STAGNITTA: There is no doubt that having a fire service available reduces our insurance costs in total, and there is no doubt that it is required. I guess the issue comes back to the inequity with those members of the community that do not insure and therefore do not contribute to the funding of fire services but have to look to other sources of recompense within the community, such as governments or charities, to get them back on their feet after a significant loss.

Mr BROWN: If you ask the question about what percentage of the risk rating is based on fire, on buildings I think it is 24 per cent of the risk rating which is attributable to fire.

Mr JOHN TURNER: Is that the single largest component?

Mr BROWN: No it depends on the areas because in certain other areas you have issues to do with burglary and now there is climatic change and things like that coming in as well. There are lots of other issues coming into our rating factors.

Mr ADAMS: Particularly storm.

Mr BROWN: Yes.

Mr STEVE WHAN: So it is still a significant portion of it. I guess the question that is in my mind is, given that you are the experts in making those risk assessments and already have a mechanism established to do that, why would we not leave that risk assessment with you rather than set up another mechanism to do it?

Ms STAGNITTA: With the proportion of fire costs that we pass on to our customers, the metropolitan or general house fire contributes more to that cost than rural bushfires over an average period. Although in rural areas we can ask rural customers to pay more for fire premiums, in actual fact most of the cost is borne in metropolitan-type areas. There is no evidence to suggest that there are more fires in one particular area and in another, so it is averaged out across the portfolio rather than being targeted at those who may be more at risk. The proportion is that a high frequency is so very, very low. One of the issues with fire is that you need to have those services available for everybody, but there is a tiny proportion of the community that actually needs them. With insurance, it is a matter of sharing that across a smaller group within the community.

Mr PAUL McLEAY: Would you say in general terms that fire services offer value for money?

Mr ADAMS: The fire service itself?

Mr PAUL McLEAY: Yes.

Mr ADAMS: Yes.

Mr BROWN: Yes. That is a value judgment, I suppose.

Ms STAGNITTA: Yes.

Mr BROWN: But I think you can only adjudge these things after a major event. When we see the last two years of large fires, particularly bushfires, that occurred in New South Wales, I think the fire services have done an outstanding job on the efficiency and effectiveness bases, yes.

Mr ADAMS: Yes.

Mr STEVE WHAN: I represent the area around Kosciuszko Park. Certainly one would have to say that in the New South Wales portion of that fire, the fire services managed to prevent any homes being lost. That must have been of huge value to you. Had that fire gone further out of control and wiped out Jindabyne or something like that, the insurance companies would have been up for huge costs. Do you think that is worth something for insurance companies to continue to contribute to?

Mr BROWN: Yes, I do. We do, and we go over and above the fire collections, of course, in supporting the fire brigades and sponsorships in other areas.

Mr PAUL McLEAY: Can you tell us how much?

Mr BROWN: I have not got the figures with me.

Mr PAUL McLEAY: May be at a later time?

Mr BROWN: At a later time, we could tell you that. I mean, the major one we did in the past two years was sponsorship of the heli-tankers that came in from America. We put up $500,000 towards those.

CHAIR: Towards *Elvis*?

Mr BROWN: Yes.

Mr STEVE WHAN: The discussion about people who have or do not have contents insurance—a lot of those people are renting properties, of course. If you are renting property and we move to a system where the council makes a levy on rateable land, those people still will not be making a direct contribution to that fund. How does that improve the equity of the system, if they are paying rent and it is actually the landlord who is paying?

Mr BROWN: That is why I think that the regulation needs to make sure that it is fair across-the-board. People who are renting will in fact contribute towards it because their rents will go up. The costs will go onto the landlord and he will pass on the costs to people who rent his property.

Mr STEVE WHAN: Which makes it all the more important to ensure that, if it happens, the insurance policies will actually go down.

Mr BROWN: Transparency is important.

Ms STAGNITTA: I just want to comment on the previous question that dealt with our costs and the relationship between fire services and insurance premiums. Because insurance is basically an insurance pool, if fire costs were to go up, premiums would therefore rise to compensate. I am not sure that keeping the levy on is actually going to solve that issue. The community will still be paying, whether it is through insurance or the costs incurred.

CHAIR: In conclusion, in the event that the system changes to a property base, would the Insurance Australia Group [IAG] be prepared to release to the relevant department in the government on a commercial-in-confidence basis or otherwise details of emergency incident risk assessment on properties and the value of economic and property losses from emergencies so that the relevant bureaucracy can better target fire and emergency services and better measure their cost effectiveness?

Mr BROWN: We would be happy to do that.

Ms GLADYS BEREJIKLIAN: This question is more in terms of seeking further information. I would be interested in relation to know the insurance and non-insurance levels as to what proportion of those exist in high fire risk areas. Is that data available at all? For example, if people are underinsured in areas where there is likely to be less risk—

Mr ADAMS: Of a bushfire?

Ms GLADYS BEREJIKLIAN: Correct, I would be interested to know if that data exists and whether you are able to give it to us?

Mr ADAMS: I think it is in the process of being assembled.

Ms STAGNITTA: Bushfire presents a much lower cost compared to house fires, so the real issue is house fires. We cannot target an area. It is a random occurrence.

Ms GLADYS BEREJIKLIAN: That was something I wanted to know.

Mr ADAMS: We are assembling data in relation to bushfires, but we do not have it yet.

Ms STAGNITTA: I would like to table some information which looks at the average premium and the amount by which that premium is made up of fire services levies and other taxes. If it were removed, you can actually see what the dollar impact would be on the average customer.

CHAIR: Thank you. Thank you very much for appearing. Is there a closing statement you would like to make?

Mr BROWN: Only that we support a total review of fire funding and we would like to see it on a more equitable basis. We are happy to co-operate with this Committee, or with the Government anyway, in making sure that we come up with something that seems to be fair to all people.

CHAIR: Thank you very much for your time and for the effort you have put into your submissions.

(The witnesses withdrew)

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

ALLAN JOHN HANSELL, Manager, New South Wales and Australian Capital Territory, Insurance Council of Australia, Level 3, 56 Pitt Street, Sydney, affirmed and examined:

CHAIR: Thank you for appearing before the Committee today. We are looking forward to your evidence. I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of Legislative Assembly Standing Orders 332, 333 and 334, which relate to the examination of witnesses. Is that correct?

Mr MASON: Yes.

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

Mr HANSELL: It is.

CHAIR: Would you like to make an opening statement?

Mr MASON: Thank you, Chair. We thank members of the Committee for inviting us along today. We see the review being conducted by this Committee as a major opportunity for the citizens and businesses of New South Wales to reform the method of funding the fire services to achieve fairness, equity and transparency in the system, and particularly to modernise a funding system which I think has its origins back in the nineteenth or eighteenth century. I think New South Wales, Victoria and Tasmania are probably the last places in the world that fund their fire services by this method.

CHAIR: New Zealand as well.

Mr MASON: I bow to your greater knowledge. I think that the issue is that this method of funding the fire services has not kept pace with the changing needs of the community. It has not kept pace with the changing role that the fire services play in our community. The fire services protect the whole community, not only against the threat of fire—whether it is bushfire or property fire—but they provide a first-response emergency service, they attend traffic accidents, they are part of the State disaster recovery arrangements, they are part of antiterrorism arrangements, they deal with hazardous chemical spills and hazardous incidents, and they do school education. They provide an enormous range of services to the community, not just attending fires in property.

So our concern is that it is a whole-of-community good being funded by a narrow and potentially shrinking funding base, the people who buy insurance. We believe that if we can change to move away from an insurance-based mechanism to a broad-based mechanism on all property owners that we will achieve greater equity, fairness and transparency. The State's fire service is primarily funded by the insurance industry at the moment. We contribute 73.7 per cent of the budgets of both the rural fire service and the metropolitan fire service. Insurers pass through those costs to policyholders, basically because the risk premiums that companies charge for the insurance risk would be totally incapable of absorbing this cost. At pages 10 and 11 of our submission we provide examples of the levies and other taxes. To the extent that they are charges on the insurance mechanisms, they come out of insurance premiums instead of being on top of them, and that money would then not be available to pay claims. That is the trade-off in the simplest terms.

The other problem is that the levels of tax have reached a point where the budgets of the fire services have increased, of necessity, at rates far exceeding both the CPI increase and the rates of increase in insurance premiums over recent years so that the level of taxation on insurance products—when you add in State stamp duty and GST—is at levels that we would regard as penal and which in other areas are the sorts of levels of tax that are designed to be a disincentive to people to use the goods and services they are imposed on. We believe that insurance is actually a good product, it is a necessary product for the community. The community is looking after its own interests by buying insurance, and it should be encouraged not discouraged. The tax is not flexible. That is one of the other problems insurers face with it. They have no certainty in setting the amount they have to collect as to whether that will be sufficient or insufficient to meet their obligations to the fire services in the following year. That causes distortions and inefficiencies.

As I mentioned earlier, on numbers available to us, the metropolitan fire service budget has grown by 25 per cent over the last four years; the rural fire service budget has grown by 50 per cent. That shows the demands the community has for added services compared with the insurance mechanism. We do not argue against the necessity of what the fire services do: we regard them as absolutely essential, not only protecting property but protecting life. But we do think that the whole of the community should share in that cost. It is mainly a point about an expectation and a need to provide a level of service, and a standard of service across the community rather than a risk-based system, which is what the insurance system tries to do, but we believe the community needs to achieve this if we are to achieve real equity.

As the Committee knows, other State governments have progressively changed their system— Queensland, South Australia, Western Australia and the ACT—over recent years. That has been covered in our submission and, we are aware, in the Alliance's submission. The other two points I would like to highlight in this opening statement are that there are obviously concerns about, were there to be a change to the system, whether the community would actually benefit in terms of reduced premiums. I think that the short answer to that is very much a firm yes. In South Australia and Western Australia the legislation requires insurers to pass on the savings—audit arrangements are in place. But also just in a general commercial marketplace insurers charge premiums to cover the cost of claims, the cost of their doing business and a profit margin to themselves. They do not have the ability to charge a tax which does not otherwise exist. So there would be no incentive for insurers to continue to charge this tax because, apart from anything else, in a competitive marketplace if you continue to charge a 20 per cent increase in premiums to absorb a change in the fire service levy and your competitor down the road does not the customers would talk with their feet.

The greatest assurance we could give the Committee is that if you make a change to the legislative requirements and the audit requirements, the willingness of the industry to meet the changes would be there; you could place huge confidence in the fact that consumers will realise the benefits. Last but not least, if the Government did go forward and made changes to the system, our member companies have advised us that they would probably need a lead time of at least three months to make any necessary changes to their systems to deliver that. Insurers are severally and collectively willing to sit down and assist Government in any transitional arrangements that need to be put in place. That concludes my opening remarks.

CHAIR: In your submission you mentioned other jurisdictions in Australia. Would you explain in detail some of the advantages and disadvantages of them and which Australian system you consider works the best?

Mr MASON: At a high level probably the purest system is the Australian Capital Territory Government's system where it funds fire brigade out of consolidated revenue.

Mr STEVE WHAN: Although it did not want to do that; it introduced an insurance levy and the insurance industry ran a massive advertising campaign against it. Under that political pressure they ditched it, coincidentally at the time of an election.

Mr MASON: I am aware of that, that system was in place for less than two years. Prior to that they had, and subsequently they have, a consolidated revenue funding mechanism, which means that they have to raise tax out of whatever other tax mechanisms they have to fund the fire services. The Queensland model is based on an expectation of service and risk model, particularly in the commercial business sphere. It has been in place for many years, since some time in the 1980s. It is complex, it was difficult to introduce at the time, and it has some of the unsatisfactory features of the insurance-based model in that they are trying to align what people pay for the fire service against a risk of fire.

It is our view that the more equitable basis to spread the costs is on the total expectation of service. Notwithstanding that a householder in one suburb has an expectation that there is a fire brigade available to deal with a fire if it happens in that house, someone in another suburb has a fire.

That expectation does not change, no matter what activities are carried on in one's house. We think a more broad-based system is better. In our view the South Australian Government made one unfortunate decision in its move from an insurance-based system to property-based system, which included motor vehicle registrations. In the same breath they sought to fund a whole range of other government services out of the new levy. The result was that the South Australian community, whilst it saw a reduction from its insurance premiums, did not experience any net gain because the tax went up.

That was a transitional issue. Current information from people in South Australia—it is now in its second year—is that those issues have subsided and there is widespread acceptance of the new system. In our eyes the best model is in Western Australia. It is a very broad-based property system, collected by local government, which has an existing database, funding-base, taxation-base to apply it to. It achieves the principles of transparency and equity. One of our problems with transparency is that people have a very poor understanding of the fact that they are paying for fire brigades through their insurance premiums and are also paying for it through their council rates, currently. The Government itself is paying a share of the fire service levy.

CHAIR: In Western Australia?

Mr MASON: No, here in New South Wales; I am sorry, I have jumped. The system in Western Australia is a good model. All these different models work at the end of the day.

CHAIR: In Western Australia, would there not have been some complicated changeover process? In my electorate there are schools, churches, et cetera, and obviously the local council knows they exist but do not rate them. In Western Australia is every property rateable or are there exemptions for State departments, churches and the like?

Mr MASON: I do not have the answer to that question. I will take it on notice and get back to the Committee. In the insurance mechanism, churches, schools, et cetera, are insured. Currently they pay through their insurance mechanisms.

Mr HANSELL: If they are private schools.

Mr PAUL McLEAY: The scheme in Western Australia was introduced over two years. If that were to be done in New South Wales, do you see that that is an appropriate time frame? Will you describe to the Committee the financial options available that would overcome that two-year problem?

Mr HANSELL: Are you referring to the transitional arrangements?

Mr PAUL McLEAY: Yes.

Mr HANSELL: The industry, via the Insurance Council, has considered the issues related to the transitional arrangements. We consider that there are three potential ways to overcome it. In terms of timing of implementation of the new system it could be either a big problem or a much smaller problem. The three options are that the State would fund it from consolidated revenue; that local councils would over-collect in the first year or two of the system, although that would require some sort of bridging funds to be sourced from either government or private industry; or that during the transitional year, when the new local government system would come online, you would also have a transitional levy on insurance policies that would help fund that, or bridge that funding gap.

As an industry we are happy to countenance any of those options. If the Government decides that it does not want to fund the transitional process, or decides that the over-collection with respect to the new local government system was not desirable, we would certainly be happy to talk with the Government about how we could facilitate the insurance industry to provide the necessary funds during the transitional year.

Mr JOHN TURNER: Have you spoken to local government about that?

Mr HANSELL: Not in great detail, but certainly it is aware that this is an issue and that those three options are on the table.

Mr PAUL McLEAY: Earlier you said that it is unfair that only a portion of the population pays a fire service levy, via insurance. You said also that the insurance companies pay only 70 per cent of the cost. In fact, the State Government pays 12 per cent and local government pays approximately 14 per cent. They are rough figures. In your opening submission you said that the fire brigade has grown and now provides a lot of other programs such as community education. Would you guess what is that mix? Is it about 26 or 27 per cent of other functions?

Mr MASON: We have not looked at the New South Wales detail. In analysing the Victorian situation we took evidence from some Victorian fire brigades, and one we quoted in our response was that the fire brigade itself said that 12 per cent of its call-outs and resources were devoted to responding to fires.

Mr PAUL McLEAY: Is that all?

Mr MASON: Yes. Therefore, 88 per cent of its activities were across all the other emergency functions they performance.

Mr STEVE WHAN: Presumably many of those other functions would also be beneficial to the insurance industry. A cleanup of a hazardous chemical spill might involve someone insured with you. The vehicle might be insured or the damage it causes might fall back on insurance.

Mr MASON: It may or may not. The ultimate point from our perspective is that people buy insurance to cover them against their risk and financial exposure and insurance reimburses them when it happens. In terms of the provision of services that the community expects, that service must be available to the entire community. Whether or not people choose to insure, they still expect to receive that service. That is my response in the sense that when things happen, the insurance mechanism pays for it anyway. When a house burns down we pay a fire insurance claim. If there is a hazardous chemical spill and that causes some insured loss, we pay for it anyway. That does not alter the fact that the community expects someone to make roads and property safe.

CHAIR: What is your opinion of the Victorian review?

Mr MASON: The Victorian review was disappointing from our point of view in that, notwithstanding the original indications from the Victorian Government, it was by no means thorough. The Victorian Treasury did not take up the industry's offer to do the detailed modelling and assessment of different options and testing of different people's assertions. It made some theoretical desktop assumptions, which lead to conclusions with which we do not agree. The problem with the conclusion is that it is left with what it has now because the proposals for finetuning the system still leaves the equity and under and non-insurance problems. The real problem, which is greater in Victoria than in New South Wales, is that the future projections as to where fire brigade funding needs are going in Victoria will become more and more onerous if it continues to be funded out of the insurance mechanism.

To be completely up-front, the Victorian Government review highlighted something we highlighted to it in our submission; that is, that the methodology for calculating the fire service levy is fundamentally flawed because the system itself is flawed. Therefore, depending on what is happening in the insurance market, insurance companies either under or overcollect what they need to give to the fire brigades at any given point in time. The Victorian review involved a desktop calculation and came up with a number suggesting the insurance industry overcollected by $50 million. We have been through that with most of our major members in Victoria, and over time, if we take a longer view, there is little doubt that last year companies generally overcollected because of the rising commercial insurance market. In previous years it was exactly the reverse. Over a 10-year spread, companies have found that they neither under nor overcollect, other than by very marginal amounts.

Mr PAUL McLEAY: Surely you will get back into that pattern. What is the problem?

Mr MASON: The problem in Victoria is that there is a suggestion emerging from the Government that the companies should refund overcollections. However, there is no suggestion about undercollections.

CHAIR: We are fairer in the Premier State.

Ms GLADYS BEREJIKLIAN: I want to pursue the Western Australian model given that it is the industry's preferred model. Presumably, in theory contents insurance in Western Australia should be higher than in other States because the cost of the fire service levy is borne by the owner of the property as opposed to someone renting, because it is done through council rates. Is that correct?

Mr MASON: These issues must be tested using the modelling that I am aware the committee is using. They did it in Western Australia. Unfortunately there is no exact answer because it depends on people's current insurance behaviour. Some people fully insurance buildings and contents, others insurance their buildings but not the contents and others do not insure anything. There is no single answer to that.

Ms GLADYS BEREJIKLIAN: I am interested from a public policy perspective and the impact of that model on the underinsurance and noninsurance market. If there has been a sizeable shift either way because of that policy the committee should look at it.

Mr MASON: Unfortunately the industry will be able to monitor that only over time. Apart from anything else, the insurance cycle takes us over 12 months and it takes two years for one year's worth of business to wash through.

Mr HANSELL: There is a complicating factor in Western Australia in that the Government has removed the fire service levy from premiums, but it also increased the level of stamp duty take-up in the last budget.

Ms GLADYS BEREJIKLIAN: Its consolidated revenue has gone up.

CHAIR: If the Government were able to target the under and noninsured, which you have identified as a problem, with a view to obtaining fairer contributions by working with the insurance industry, that would probably lower the amount required from contributors. Would the insurance industry be satisfied with that approach?

Mr MASON: Not really, because some of the other adverse features of the system would remain. The level of the tax is driven by insurers' pricing and risk assessments, which only partially have anything to do with fire and the risks of fire. In the small business and commercial area, people buy package policies and industrial special risk policies, which cover a range of business risks, not only fire risks. It does not address that issue and it still does not address the equity issue in terms of community expectation of service. If you have an insurance mechanism that is levied on the one hand and a range of people not in the insurance mechanism, how do you determine on what basis you will charge those people to achieve equity with those who are insured? That is a real failing in that approach.

CHAIR: Your council supports a property-based system. Does it see merit in imposing a levy on motor vehicles, given that they consume a number of services provided by fire service?

Mr HANSELL: We do not necessarily oppose it. We are aware that over time there have been certain sensitivities at the government level about increases in CTP insurance. The Government has spent a lot of time introducing legislation aimed at limiting the costs associated with that scheme. We do not have a view one way or the other. If the Government decides to proceed down that route, that is fine. However, we would prefer it to be linked to motor registration rather than CTP systems.

Mr PAUL McLEAY: You have said that fire is only one element of the risk assessment. If I lived in an area that had a high crime rate my premium would probably be higher than the premium paid by someone living in an area with a low crime rate. Is the proportion spread equally? Would I be paying a higher fire service levy even though the rate of fire was no different?

Mr HANSELL: That is correct.

Mr MASON: If you lived in a suburb that had a high crime rate as opposed to somebody who lived in a low crime rate area, you would pay double the amount of contributions for the fire risk.

Mr PAUL McLEAY: Would you support a proposal that adjusted it with a weighting for fire-risk ratings?

Mr HANSELL: We would still have the problem of mainly only insurance paying for the fire services, which we think is an inherent problem in the system. You could change things around the edges, as the Victorians are seeking to do but, at the end of the day, you will still have an inherently unfair system.

Mr MASON: The other problem relates to the business, commercial and industrial area and the way that insurance premiums are calculated. There are far more opportunities for businesses to reduce premiums and reduce risk than there are for the average household. That could be by having deductibles or self-insured amounts on the policies and by layering the policy. As we know, many people insure overseas because there are other taxes and imposts that they can avoid through that mechanism. So you have all those distortions as well. We therefore do not think that trying to rely on it purely with the fire risk is feasible or that it will achieve the best outcome.

CHAIR: You suggested that concessions should be given to pensioners. Are there any other groups to whom you think concessions should go? Why would you want to narrow the tax base by providing such concessions?

Mr MASON: We are saying that there is an opportunity because that is what the Western Australian Government did. It is a policy decision of government; it is not a decision of the insurance industry as to who may or may not bear a new tax.

CHAIR: I see it as a bit of a contradiction in your argument. You want to broaden the tax base but then you suggest in your submission that it should be narrowed.

Mr HANSELL: That is correct.

Mr MASON: Inherently there is a contradiction.

Mr HANSELL: But at the same time you would expect the Government to take into consideration the socioeconomic standing of certain citizens in society when it was applying the new system.

CHAIR: John Howard did it with the GST.

Mr MASON: One clear point is that the more exceptions and the more exemptions you put into a system the more distortions you create and the more difficult it is for those who carry the load. But obviously that is a matter for government at the end of the day.

Mr STEVE WHAN: Do you know what will be the total value of premiums collected by insurance companies in New South Wales in the next financial year? What were the figures for the last financial year?

Mr MASON: I do not have those figures at the top of my head. We certainly could tell you. Unfortunately, the main source of industry data is the Australian Prudential Regulation Authority. It has not produced any publicly available statistics since June 2002. Our numbers will be a little out of date, but we can certainly give them to you.

Mr PAUL McLEAY: Could you supply figures relating to the total value of insurance that actually attracts a fire service levy? For example, you could have workers compensation insurance, but that would not attract a fire service levy.

Mr MASON: No. So you require information relating to the types of insurance that attract the levies.

Mr PAUL McLEAY: Yes.

Mr STEVE WHAN: You mentioned earlier rates of increases in funding for the fire services. What has been the rate of increase in insurance premiums over the past few years? It has been said anecdotally that insurance premiums are going up.

Mr MASON: It is a very mixed scenario. I think that the rate of increases has varied enormously by class of business. I think the true cost of green slip insurance has actually come down over recent years. The basic consumer products of household and car insurance, as a generalisation, would have had an increase more in line with the consumer price index. The big increases have been in the commercial and industrial area. As we all know, in liability insurance the increases have been huge. The Australian Competition and Consumer Commission has been doing price monitoring of insurers. It issued two reports about this—reports that we might make available to the committee. I think you will find some of the answers in there.

Mr STEVE WHAN: How competitive is the insurance market now? You said that the cost of policies basically would come down as a result of competition. It seems that there are fewer players in the market. It is certainly a much tougher market for reinsurers at the moment. Is there real competition, or are just a few players governing the rates because of the reinsurance problems that have been occurring overseas?

Mr MASON: Currently 110 insurance companies are authorised by the Australian Prudential Regulation Authority. In addition, you have Lloyds and all the cover holders that Lloyds operates in the market. In New South Wales the major insurers that are household names would be the major providers of car and home insurance. The commercial insurance market tends to access not only the range of insurers that are available here. There are no restrictions on people accessing foreign markets either, so there is an enormous amount of competition. One of the industry's major concerns at the moment is the amount of insurance leaving Australia and going offshore to insurers and countries where the regulatory systems are not all that robust. The Federal Government is inquiring into that right now.

Mr STEVE WHAN: Do you have any figures or percentages of the business that is going overseas?

Mr MASON: No. One of the key issues that the inquiry that is being conducted by the Federal Treasury is trying to establish is what volume of business is going overseas. There is a lot of anecdotal evidence.

CHAIR: Are you talking about people insuring offshore?

Mr MASON: Yes, either directly or through brokers, agents, underwriting agencies and other mechanisms that operate here.

CHAIR: So you would not be able to comment on what percentage of the fire services levy is lost due to offshore insurance?

Mr MASON: We would not with any confidence be able to give you a number. We do not have any guess at all. I think the only useful reference might be if the Office of State Revenue were able to you tell you how much it is collecting under the insurance protection tax from intermediaries and respective businesses going offshore.

Mr PAUL McLEAY: You are supposed to use a broker.

Mr MASON: You are still supposed to make a return.

Mr HANSELL: But if you are a multinational company based in the United States or in Europe you can basically get a policy to cover your operations globally. There is no way we have of tracking down what the arrangements are.

Mr STEVE WHAN: One of key things in relation to fairness or equity is that linkage and also underinsurance. Are there other ways of tackling that to ensure that it is compulsory on property or something like that? I know that it is the big stick approach.

Mr MASON: Making insurance compulsory is probably a discussion for another day. The core thing from our point of view on underinsurance is that we are confident that, unfortunately, most people make their insurance buying decisions based on cost. We would prefer that they made it on security, scope of cover and other issues, but most people make their decisions based on cost. We have a tax regime that compounds with GST and stamp duty. Twenty per cent or more of the cost is actually added on because of the tax system.

In the commercial sphere you have tax at 50 per cent of the risk premium. Clearly, if you are a customer and you find ways of minimising or reducing that, you will. All our surveys on underinsurance and non-insurance tell us is the level of lack of equity in the system. It cannot directly tell you how much more insurance you will sell if you reduce the tax, but it certainly does tell you what proportion of the population is not paying its fair share of the fire services. Therein lies our starting point.

CHAIR: I am interested to know a little more about the Alliance—for example, why and when was it formed; how many organisations were asked to join it; and on what grounds were organisations chosen? Why did you join the Alliance?

Mr HANSELL: This dates back to about November last year. Actually I will go back a little further. A similar Alliance was developed in Victoria in the lead-up to the Victorian State election. Essentially, the reason that the Alliance formed was that there were obviously several industry organisations, including ourselves, who had common issues with the application of the fire service levy in that State. The formation of that Alliance led to that State Government's review.

In New South Wales, in November last year we had preliminary discussions with the local government sector, who had raised with us concerns about the application of fire service levies on councils around the State. I think in late January of this year local government issued a wide-ranging discussion paper to its constituent councils, and after a period of consultation they developed a policy in support of reforming the State's fire services levy and recommended to the Government that there be an inquiry into it.

By February local government was in a position to say that councils were interested in working with the Insurance Council to lobby all political parties in support of a review of fire services levies in New South Wales. Essentially we thought that the best way of progressing those arguments would be to approach other organisations that have had poor experiences under the fire service levy as it currently operates.

I think about 14 to 16 groups are listed in the front of the Alliance submission. Those groups include the Property Council of Australia, the Housing Industry Association, the Australian Retailers Association, the Australian Bankers Association, the Commonwealth Bank, brokers, insurance advisers, the Minerals Council and NSW Farmers, just to name a few.

CHAIR: It is quite a diverse group. How did you reach such a unified submission?

Mr HANSELL: It simply occurred over a period of months. I acted as the quasi secretary—

CHAIR: Did you draft the submission?

Mr HANSELL: By and large, yes, obviously after consultation with local government and the other bodies that were sitting around the table.

Mr RICHARD TORBAY: I would be interested to hear your views about the fact that the industry does not contribute to the State Emergency Services.

Mr MASON: The short answer, I suppose, is that you could make a case for the industry to fund almost every public activity. For example, you could make a case for the industry to pay for the police service. The SES does a wonderful job. Not funding it does not represent any lack of enthusiasm from the industry for what the SES does, but it is for all the same reasons that we think we need to have a change in the method of funding the fire brigades. Adding on the SES, then adding the maritime rescue people, surf lifesaving—

Mr RICHARD TORBAY: I suppose what galls some people is that sometimes when policyholders phone the insurance company they are referred to the SES, to reduce the impact on the policy.

Mr MASON: The SES does a fantastic job. The best example is when we had the hailstorm here in April 1999. Thousands of people had holes in their roofs, tiles gone, and many other problems. The SES simply went out to people's homes, put up tarpaulins, and helped everybody. If you ended up with the system whereby the SES knocked on the door and said, "Are you insured? Who are you insured with? Okay, we'll put the tarp on your roof", "You're not insured, we'd better move on", you would destroy the social good that you got out of that service.

Mr PAUL McLEAY: In paragraph 6.1.2 at page 17 of your submission you make reference to a minimum and maximum property levy. You say that setting caps would improve equity. Can you explain your justification for that?

Mr HANSELL: When moving to a property-based system where calculations are developed using the unimproved value of a particular property, presumably you will have properties in New South Wales that are much more expensive than other properties. Essentially, the reason why you would bring minimum and maximum payments into it is to recognise that advantage and disadvantage. It would mean that everyone pays a minimum payment, but at the same time at the higher end of the spectrum you would ensure that people who might be property or asset rich are not paying too much.

Mr PAUL McLEAY: The Kerry Packers and the like?

Mr HANSELL: Not necessarily.

Mr MASON: And a lot of retirees.

Mr HANSELL: Yes, or even perhaps people who live in the eastern suburbs.

CHAIR: We have not been able to get through all the questions. Would you be happy for the Committee to provide further questions to you in writing and to provide answers at your convenience?

Mr MASON: Certainly.

Mr HANSELL: Over the years we have conducted quantitative research into the attitudes of people to insurance and their knowledge of the incidence of taxes on insurance. I would like to table some of that research if I may.

Documents tabled.

(The witnesses withdrew)

MICHAEL JAMES CLARK-LEWIS, Senior Director, Revenue Strategy Branch, New South Wales Treasury, 1 Farrer Place, Sydney, affirmed and examined, and

JULIAN CARTER, Senior Economist, Revenue Strategy Branch, New South Wales Treasury, 1 Farrer Place, Sydney, sworn and examined:

CHAIR: Thank you for appearing before the Committee today; we are pleased to hear your evidence. 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 332, 333 and 334, which relate to the examination of witnesses. Is that correct?

Mr CLARK-LEWIS: Yes.

CHAIR: The Committee has received a submission from Treasury. Is it your wish that the submission form part of your formal evidence?

Mr CLARK-LEWIS: Yes, it is.

CHAIR: Would you care to make an opening statement?

Mr CLARK-LEWIS: Yes, thank you. I thought it might assist the Committee if I spoke briefly to the submission. Essentially, the perspective that we have taken as tax policy advisers is to look at the nature of the service and the design of one form of tax—the fire service levy—used to fund that service. Fire services are available to all members of the community in New South Wales. When we look at the design of the key tax that is used to fund this service we see that it applies only to those who are insured. So there is clearly an equity issue in terms of those who benefit from the service compared with those who pay for the service. Leaving aside that equity concern, we did some analysis, which we present in the submission. I draw the Committee's particular attention to table 6 and to the chart on page 18, where we look at how much fire claims contribute. Table 6 is interesting. It uses data that we got from the Insurance Statistics Australia group and gives some information about the relative importance of fire claims in terms of insurance claims.

Of the total claims that insurance companies pay out in relation to residential insurance, only 22 per cent of them relate to fire. If we bore down into the composition regarding building and contents insurance, we see that only 15 per cent of contents insurance claims relate to fire. The premiums are clearly set to recover the cost of paying out these claims. Essentially, that tells us that 85 per cent of the fire service levy contribution that is made through contents insurance bears no relation to fire risk. Turning to the chart, we show the variation between suburbs of the premium that is being paid across each local government authority in the greater metropolitan area—we focus mainly on Sydney. There are huge variations in premiums and that flows directly into huge variations on the contents side as to how much fire service levy each individual pays.

There is an equity issue in terms of who pays and who does not pay but there is an equally important equity issue regarding the extent to which the fire service levy on insurance premiums has some relationship to fire risk. There is some relationship but contents, in particular, are substantially swamped by non-fire risk concerns. In summing up, when we looked at the issue we felt that it was somewhat deficient in terms of equity on those two grounds. It is easier to get residential data but I think there are equally important commercial issues—the ability of commercial businesses to insure offshore and how they can do that through a broker. If businesses go through a broker the fire service levy is meant to be paid. However, if they do it directly or if their head office simply covers Australia on their behalf with no specific reference to Australia, I do not think we can capture that. Given the high-value nature of the sorts of companies that might be doing this, we suspect that there could be some substantial equity issues on the commercial side.

When we looked at the fire service levy we found that it does not seem to score very highly on equity. It is charged on insurance premiums and would influence to some extent people's take-up of insurance. So it is potentially distorting people's behaviour in the community. We looked at the property levy as being a relatively simple mechanism that would resolve most of those problems. There are other ways of trying to shore up the system—we refer to them in our submission—but they all seem to be a lot more complicated and difficult than a property levy, which could be relatively straightforward. However, even with the property levy there are lots of options and many degrees of complexity that we could bring to its design. There are inherent trade-offs in sophistication and simplicity.

CHAIR: What is your recommendation regarding a property-based levy and should there be concessions?

Mr CLARK-LEWIS: I favour a property levy. I think some concessions would probably be advisable, but that would be a matter for governments to decide.

CHAIR: Which property-based model do you favour?

Mr CLARK-LEWIS: I am attracted to some simplicity; that is my preference. The Western Australian model is relatively simple so it has some attractions. There is no particular model that I would pick up across the States and say, "That's the model". But I would be looking for a model that is relatively simple to administer.

Mr STEVE WHAN: On what basis would you work out the amount of levy on a property: on unimproved capital or on rental value?

Mr CLARK-LEWIS: There might be some theoretical advantages in using the gross rental value system. That valuation system effectively takes account of the value of the structures on the land and the unimproved value system specifically does not. It is the structures on the land that will burn down so there is a logic in applying that kind of valuation system. But the fact is we do not have that valuation system in New South Wales and I think it would be unnecessarily expensive to try to change the valuation system. There would be a correlation between the value of the property and the structure on it.

Mr STEVE WHAN: How much would it cost to set up the valuation system that looked either at the gross rental value or at fire risk factors in assessing how much the levy should be on certain types of properties or in certain areas where properties are located?

Mr CLARK-LEWIS: I would have to defer to the Valuer-General's office to advise just what would be involved in changing the nature of the system. It would essentially be a completely different approach. My expectation is that it would be expensive.

CHAIR: Did Western Australia have to change completely? They did not have their rental base up and running before the system was introduced.

Mr CLARK-LEWIS: No, I think they did, and similarly South Australia. South Australia has a different valuation system but it is similar in effect: It looks at the capital value rather than the land value. They have built their systems around existing valuation systems.

Ms GLADYS BEREJIKLIAN: How will current processes that determine how much total fire services levy is collected be maintained under a new structure? Will the authority as to how much is collected reside in the same body?

Mr CLARK-LEWIS: Yes, I see no need to change that. The change is just in how money is collected from the taxpayer; it need not change the determination of how much needs to be funded.

Ms GLADYS BEREJIKLIAN: Because presumably if Treasury and the other people we have heard from are collecting in terms of their level of non-insurance the actual rates that everybody pays currently through premiums would be massively reduced if that is spread across a greater number of people?

Mr CLARK-LEWIS: That is right. The rates that each person pays should come down, that is one of the attractions.

Ms GLADYS BEREJIKLIAN: How can the public have confidence that in a short space of time that will not eventually increase what they are paying now? You might just be broadening the tax base because you are making everybody pay for something but what assurance does the public have that this is not just a broadening of the tax base?

Mr CLARK-LEWIS: The assurance is really in the mechanism by which they determine how much is to be collected, which is an estimate of the cost of providing fire services. Currently, once that cost is determined the insurance company is notified of their contribution based on their market share. Under this system they would work out the amount that needs to be collected and under the property system they would determine what is the average contribution based on the valuation of property. Once the system is up and running they will be able to determine what percentage rate would apply to a property to collect that amount of money.

Under the current system and under any other system there is always the capacity for variations in valuations and in the case of insurance premiums, insurance companies may over-collect or under-collect. I do not think you can avoid that, but the way you address it is that any over-collection the Government would have, at least under the property system, could be factored into next year's collection. Under the insurance system you just have to have some hope that insurance companies do that themselves.

Ms GLADYS BEREJIKLIAN: But under the current system the insurance companies do not really have an option, they estimate it on what they have paid the previous year or what they had needed to collect the previous year, and under the current system there is no other assessment procedure for them to follow. But an issue I have is what assurance does the public have if we adopt the Treasury's recommendation to increase the broad base nature of the tax, which will satisfy the equity requirement because everybody is paying for the service that is provided? But just as we have asked the insurance companies how can we be sure they will pass on savings to the consumer, how can we be sure that Treasury is not simply increasing its tax base or revenue base moving forward? How can we mitigate against potential tax creep in terms of bringing it up to eventually what people are paying at the moment?

Mr CLARK-LEWIS: I guess under the current system it is a determination of the funding required. How we establish their bona fides—and we are not going to change that system of determining—I am not sure. But there is nothing under the current system to stop the Government collecting more revenue if they believe that is needed. I do not see that this is necessarily changing.

Mr STEVE WHAN: It does not go to general revenue, it is hypothecated for that specific purpose, is it not, and you suggest it should remain so under that system?

Mr CLARK-LEWIS: That is right. It is certainly correct that they could not use that broader-base to fund other activities. It is limited to fire services.

Ms GLADYS BEREJIKLIAN: But the hypothecation is not an amount, it is just a category of service, which I understand is currently subsidised so there is nothing to prevent that service not being as subsidised because presumably the hypothecation just increases.

Mr STEVE WHAN: To me the logical extension of the equity argument which you put forward of saying that you need a broader base of people actually paying because everyone is receiving a service is that you just get it out of general revenue. Why are you not arguing that? Obviously we need greater taxes to do it.

Mr John Turner: That is a question I would ask.

Mr CLARK-LEWIS: I am really just working within the committee's terms of reference.

CHAIR: Just moving along, as interesting as this discussion is, why is New South Wales so different to Victoria in that the Treasury in Victoria did a detailed analysis of this and they wanted to remain with the status quo. New South Wales Treasury want to change to a completely new system. I just want to know why there is that difference.

Mr CLARK-LEWIS: I do not think there is a simple answer to that. I cannot really speak for the Victorian Treasury.

CHAIR: You would have to criticise their findings and report, or at least not accept it.

Mr CLARK-LEWIS: That is right. I do not accept their findings. You could say that they are looking at a half empty glass: they see it half full and we see it half empty. It could be interesting to run this but if you look at the report and some of the analysis that we have done of insurance premiums and look at the issues that they have raised, the essential premise is that there is a fire risk embedded in premiums and therefore the fire service levy on insurance premiums is equitable because there is, on the one hand, a risk assessment done by the insurance companies and contribution. But even in their own analysis I think their conclusions were that there was a "moderate" relationship between costs and benefits—not a strong term: moderate—and their executive summary talked about a "broad" correlation between costs and benefits. One of the concerns I had when I looked at the work was it is done at a purely aggregate level.

So they are happy if, on average, households are paying 20 per cent. Say we take, for the sake of argument, that 20 per cent of the cost of the fire service is being funded by residential properties and 20 per cent of households account for fire events or fire costs in terms of fire claims—I would use the fire claims measure because that takes account of not only the incident but the value of the incident which I think is the best measure of benefit of the fire services—if they were the same at the aggregate level, and they are not if you look at the Victorian one, but if they were, they would be happy that that is a good match. But in fact I think the example we have given on contents insurance shows that the amount that individuals are paying will vary quite widely depending on their location, and it is varying because of risk of theft, which is completely unrelated to fire services. At the aggregate level they found a broad relationship or a moderate relationship. At the detailed level I do not think it holds up very well at all.

Mr STEVE WHAN: From what you said before**,** on the issue of people paying more for insurance on the basis of risk of theft, surely if you go to a property system then people are going to be paying more on the basis of property value rather than on the risk of fire as well, and we really do not have a basis in New South Wales to do much other than make the charge based on property value?

Mr CLARK-LEWIS: I think you have got a couple of options: one is you could just determine a fixed dollar amount per household, you could make it related to value or you could do a combination of the two. I guess I would be attracted to a combination of the two, which might be a fixed dollar amount, and all properties might pay a percentage of the property value, with perhaps a maximum amount. Because at the end of the day you are trying to cover the costs of providing a fire service. I think you want the relationship to the value of property. In a sense that builds in a capacity to pay more and I think there is an equity argument for doing that.

Mr STEVE WHAN: Can I just clarify from what you said before that without setting up a new system you would only be able to do that on the unimproved capital value of the property?

Mr CLARK-LEWIS: Yes, that is right, but I think it is fair to say that there is a pretty good correlation between the unimproved value and the improved value for properties with structures. The unimproved values on the harbour foreshore are high and so is the cost of the whole property. I think there is a relationship there. Where you might find the relationship a bit weaker is if there is actually a valuable parcel of land with no structure on it whatsoever. That is why I would perhaps suggest that you might have a fixed fee for those, and a contribution related to property value might only apply to properties that have structures on them. But that would be a mechanism for trying to take account of those concerns, at least at a broad level.

Mr JOHN TURNER: Are you suggesting a set price for vacant land?

Mr CLARK-LEWIS: Yes.

Mr JOHN TURNER: You are moving away from your submission.

Mr CLARK-LEWIS: Not really. I think we covered this in our submission as an attractive way to go. I think it is consistent with Western Australia and South Australia who have that fixed amount and they bring in the variable contribution.

Mr STEVE WHAN: If we were to put in place a property based system, presumably that would replace the contribution that councils make at the moment. Would you expect them to continue to make their normal contribution to the fire services levy? If it replaces it would you expect a reduction in rates from councils? If so, how much in percentage terms?

Mr CLARK-LEWIS: Essentially the contribution they are making now is embedded in the rates they are charging, so I would think the logical thing to do would be to remove that contribution from them and they would have to make a contribution based on their property holdings, on the same basis as commercial and residential property. Essentially all that would happen is they would make their explicit contribution in that form and the amount already embedded in rates would simply become more explicit on the rates notice and would be part of the contribution, separately identified. If you collect it through local government logically you would put it on the bottom of the rates notice, perhaps, "This is the fire services levy contribution". There would be an education campaign to explain that. "There was an amount embedded in your rates which is now down below" and they would need to be required to reduce their rates.

CHAIR: Do you differentiate these days amounts between residential and commercial properties?

Mr CLARK-LEWIS: We certainly could.

CHAIR: In your submission you suggest, and we have heard evidence, that removing the levy from insurance will encourage more consumers to take up insurance. What is the evidence to support that claim?

Mr CLARK-LEWIS: There is some evidence cited in the submission of a study in the United States of America that looked at the price sensitivity of insurance. They found a surprising degree of sensitivity. I am a little bit cautious in this whole area because of the fact that there is substantial insurance in New South Wales, which suggests that most people like to have insurance, but there is a significant minority that do not.

CHAIR: The Government reduced the tax from 11.50 per cent to 5.00 per cent but we have not seen evidence anywhere that a reduction in tax actually saw more people take up insurance policies.

Mr CLARK-LEWIS: It may be early days, I suspect, to track that. I am not really disagreeing with you. I think people take account of the cost of insurance. But people have fundamental differences in their desire to take risks. They have to make a judgment of the likelihood of them needing to claim on the policy versus the cost of the policy, and that is the trade-off. It may well be that it is that probability factor that dominates the decision rather than the cost. It is a hard one to call. I think there would certainly be some effect. The effect may be greatest for under insurance because that is where people may make their decision at the margin. They want to have insurance in case of calamity but if they can skimp a bit on the valuation of the assets insured to save a bit on the premium they will.

CHAIR: If we moved to a property-based system, how would the assets and properties of the State be constituted under your preferred model?

Mr CLARK-LEWIS: I think that requires a bit more examination. The experience in Western Australia is interesting. They said to me that under the old system the State Government contributed approximately $30 million to funding the fire services, and they have valued all their assets for contribution on the same basis as other taxpayers. The contribution they would contribute there is only $6 million so they are contributing a lot more than the value of their assets. I think the Government is committed to a revenue-neutral approach—certainly that was referred to in your terms of reference. Under that approach I envisage the Government will continue to make its existing contribution, regardless of the value of the assets. If it is determined that the value of the assets is less, and here, the contribution being less, the question arises "Is it worth the trouble of valuing all the assets?" There might be some administrative gains from just keeping the State Government on the same basis they are now.

CHAIR: You seem to favour a beneficiary-pays system. What are the advantages of that system compared with a user-pays system or a cost-recovery option?

Mr CLARK-LEWIS: One reason I obviously focus on beneficiary pays is that it looks at not just the incidence of fire, but the value of assets at risk as a measure of the benefit to an individual from the fire service. It is not just a benefit if a house is burned down, the benefit is greater if they had more valuable property at risk. The attraction of the beneficiary pays is that it would ensure that those who have high-value properties would contribute more. A user-pays model would simply base it on the cost of the attendance of the Fire Brigades at any fire. The very valuable properties might be paying the same contribution as the relatively low-value properties. I think it is an equity issue. We do want those with more valuable properties to pay a little bit more.

CHAIR: Could the establishment of the Fire Fighting Reserve Fund jeopardise any Commonwealth Government contributions under the natural disaster relief arrangements?

Mr CLARK-LEWIS: No, our understanding is that it is entirely a matter for State Government how it goes about funding its services and there would be no conflict of those arrangements. It is not my area but I have spoken to the people who work there and they do not see any problem.

CHAIR: With the introduction of this property levy, and the removal of the FSL, on my basic mathematics, we would see a reduction in stamp duty. How would this proposed model maintain the cost-neutral aspect of our terms of reference? How could that work?

Mr CLARK-LEWIS: If you want to be absolutely cost neutral you would estimate the amount of tax on tax you would forego, and you might factor that into the model. In doing that, you would maintain essentially the status quo but the Government would continue to get that amount of money and taxpayers would effectively still be paying. No-one will be worse off doing that and you would preserve the neutrality for both taxpayers and the State Government.

Mr PAUL McLEAY: Would that mean that you could not then hypothecate the percentage? If it was to be broad-based property this could not be a hypothecated funding situation because then all you are doing is taking money out of consolidated revenue and putting it into the fire service?

Mr CLARK-LEWIS: I think you could address that issue by reducing the contribution by the amount of the tax on tax but only to maintain the status quo and the level of neutrality.

CHAIR: Do you submit that it is hypothecated?

Mr CLARK-LEWIS: We did not look at the issue of hypothecation per se. I guess we took the existing system as a given, and just looked at the mechanism for collecting the tax, and the taxpayers—

Ms GLADYS BEREJIKLIAN: Yes, but that is why I asked the previous question about the authority of who determines the amount. If it is not a hypothecation there is no public assurance it will not go up or down. I think it is a huge issue. In relation to nobody being worse off, clearly those who do not insure now will have to pay when they previously did not. I guess I am still unclear as to revenue neutrality moving forward.

Mr CLARK-LEWIS: On the hypothecation issue, I guess what I am saying is that I see no reason to change the current system. All we looked at was maintaining the current system but instead of being a tax on insurance, being a tax on property. I see no necessity for there to be any change and I do not think the terms of reference have implied any change. I am not aware of any Government statement implying any change.

CHAIR: Your submission outlines a number of figures for levels of non-insurance and underinsurance. Do you have figures on the value of that? The Victorian submission looked at value rather than percentages and found that value was a more useful factor than percentages.

Mr CLARK-LEWIS: We have not gone through that exercise.

CHAIR: But would you agree that just looking at the percentage of underinsured or non-insured is not a great reflection of risk? Would not value be a better measure?

Mr CLARK-LEWIS: I think it depends on what you are trying to measure. If you are really interested in equity between individuals, and certainly there it is quite a bit of angst in the community about paying a fire service levy and the fact that some people are not paying it. In many people's minds, what matters to them is the fact that a number of people out there are not paying this. They are not actually worried about the value that they may have paid. It is part of the Australian ethos that they do not mind paying the tax if they think it is fair, and I think there is the perception that this tax is not fair because a significant number of people, irrespective of the value, are simply not making their own contribution. The value estimate is relevant if you are looking at how much extra money will we get if they were taxed. My perception of community concerns seems to be more on the actual numbers side of things and the number of payers and non-payers.

Mr RICHARD TORBAY: I challenge your comments about public concern. We have received 55 submissions but only one from the public. On what do you base your comments about public concern?

Mr CLARK-LEWIS: We get representations from members of the public about taxes and post-GST the environment has really put the spotlight on insurance taxes. The insurance companies put on their notices the premium and their estimate of the fire service levy, GST and stamp duty and we have had quite a lot of correspondence, disproportionately on that tax, compared to most other taxes. Up until the budget that was probably the largest area that we received correspondence on.

Mr RICHARD TORBAY: That is interesting because I remember reading information in 2000 when the joint select committee raised some issues as well. We were all surprised by how little that issue was touched upon in all the submissions. In fact, it was almost nothing.

Mr CLARK-LEWIS: I suspect it may be a person-in-the-street issue. They are not the sorts of people who come to committees and make their concerns known, but certainly we have seen representations on the issue and, actually, that is what got us interested in this whole area. We got those representations and we thought that maybe they had a point, so we started looking at it.

CHAIR: Why do you think councils are the best people to collect the proposed property tax. I also challenge your statement that if the Office of State Revenue were to collect the levy, it is unlikely to prove as cost effective as collection by local government. Surely one collection agency would be better than 172?

Mr CLARK-LEWIS: The distinction that I would make is that 172 councils currently send statements to every household in New South Wales and the Office of State Revenue does not have a relationship with every household in New South Wales. That would be something they would have to start. They would have to establish a database and start a relationship with each householder. The marginal cost, once set up—and I accept that there will be transitional costs—of this being identified on council rate notices would be pretty much the ink at the bottom of the page times the number they send out, plus clearly some overheads in terms of remitting the revenue to the State Government and presumably some debt collection arrangements.

Ms GLADYS BEREJIKLIAN: Arguably, there are 110 collection points now for insurance companies.

CHAIR: There are really only three to six insurers that collect in this State. We are moving potentially from 6 to 172. Of those 172, they will have to set up separate systems because their current systems do not have a direct relationship with every person that probably should be charged the insurance. You have suggested that an annual fee could be given to the councils for administration costs. How will that fee be calculated? Surely there is a risk that those costs will increase substantially, as they did in South Australia?

Mr CARTER: In South Australia they are collected by the State Revenue Office.

CHAIR: There is allegedly a blow-out in South Australia in the cost of recovery and setting up the administration.

Mr CLARK-LEWIS: I think it is fair to say that the current system is paid purely by the insurance companies, but one of its biggest attractions is that, from an administrative point of view, it is very simple. You only have to take your club to a small number of companies, bang them over the head and they will pay you the money. Under this system you would establish through the councils a relationship with every taxpayer in the State. It is a big administrative exercise. Our thinking on this was that there is no real impediment to the Office of State Revenue doing that and the costs need not necessarily be prohibitive, but they would be higher than the current system. That is one of the trade-offs.

If you see some advantages in terms of equity, transparency and efficiency, one of the trade-offs would be slightly higher administrative costs, but those costs could be minimised by taking maximum advantage of the existing mechanism of councils, providing they are willing to do it. In terms of how much to pay them, I think that is very much an issue for negotiation. They would have to convince the Government that the marginal cost of collecting it was X figure that gives them some reasonable return and makes them willing to do it. If they charge too much, the Government always has the option of collecting it directly through the Office of State Revenue, so there is an out there in terms of limiting the costs.

Mr PAUL McLEAY: What you imagine it would be, roughly—$2, $10?

Mr CLARK-LEWIS: I could not really estimate but I think both Western Australia and Queensland, which collect through councils, it is in the $2 to $3 range. It is relatively small, but whether that is the right level or not—I would hope to get it for less than that.

CHAIR: I want to properly understand a sentence in your submission on page 20 about transparency. You say that the contributions to the fire service levy would be transparent for those companies that record this information on their premium notices however there is no requirement to report that information and not all companies may do so. Under section 80 of the Fire Brigades Act is there not a requirement that they must include a statement of how much of the premium is attributable to the levy?

Mr CLARK-LEWIS: I was not aware of that. I based that statement on anecdotal advice that I had in talking to the Insurance Council, which believes that not all of the companies did that. I am not sure if the provision you are referring to is actively policed.

Mr RICHARD TORBAY: Did not IAG in evidence this morning say that they had ceased putting something on their premium notices after legal advice?

Ms GLADYS BEREJIKLIAN: That is right.

Mr RICHARD TORBAY: Were you aware of that?

Mr CLARK-LEWIS: I had a conversation with the Insurance Council of Australia and they advised me that there had been an issue about whether putting that information on breached privacy legislation. I am not sure of the details of it.

Ms GLADYS BEREJIKLIAN: It is primarily because they cannot assess exactly how much they have to collect.

CHAIR: You mentioned the possibility of concessions for volunteers and pensions. What is Treasury's view on the provisions of concessions if there is a move to a property-based system?

Mr CLARK-LEWIS: That is essentially a policy decision that the Government will have to make. The observation we make in the submission is the more concessions that are made the more that has to be collected from others. So there is definitely a trade-off involved in providing concessions.

CHAIR: There are no concessions at the moment that you are aware of, are there?

Mr CLARK-LEWIS: That is right. Currently, there are no concessions, so it is not clear why you would need to introduce concessions, for example, for volunteers. If you wanted concessions for them, you would have had them now. But there are none. The fact that you might make a change in relation to property does not of itself mean you have to make a change to provide concessions.

Mr PAUL McLEAY: We have spoken about broadening the base, preventing some people from escaping the net and so on. I would have thought moving to a property-based system would reduce the number of payers. At the moment, for a flat, there are three types of insurance that now attract the fire service levy: contents insurance, which the individual pays the premium along with a levy; building insurance, which the body corporate pays, and which attracts the fire service levy; and insurance for furnishings and so on, which is paid by the landlord, and that also attracts the levy. The evidence from the Insurance Council is that with owners of property there is very good compliance. In fact, IAG said that the number of people who do not pay is quite small, and I think the evidence is that about 97 per cent of owners will pay insurance. If we are talking about property owners here, we are talking about a leakage of only 2 or 3 per cent. So what is the basis of the argument that all these people are missing the net?

Mr CLARK-LEWIS: I am not sure I fully understand your question. Legally, under the Act, the number of taxpayers is currently the number of insurance companies that are writing business in New South Wales, and all that needs to be done now to collect the revenue is to approach those companies. But, in terms of economic incidence, that cost is passed on to policyholders. I think you are right: there are many multiple policyholders, and under a property-based system the levy would be on a narrower group of people. I thought the issue about non-payers was really about the number of non-insured and under-insured, which is even harder to estimate.

Mr PAUL McLEAY: But, if we move to a property-based system, we will have just one point of collection per property, and it is obvious that the rate may go up.

Mr CLARK-LEWIS: I think it is simpler in that there is only one collection per property, rather than multiple collections through different policies. If you look at the administration of the new system and say, "We will have a relationship with every household," we already have a relationship with every household now through the insurance companies but the cost of that is borne by the insurance companies, and of course is passed on to the policyholders. So the policyholders will get two benefits from the change in the system: they will get one through the direct removal of that levy from their insurance policy and they will get the reduction in the costs faced by the insurance companies in passing on that levy.

Ms GLADYS BEREJIKLIAN: Have you done any economic analysis of the two scenarios? You will be excluding rental policyholders. Anyone who pays rent has a policy, and they will be excluded from the new levy. Has Treasury done any modelling to enable comparisons? This follows on from Paul McLeay's point: it is highly unlikely, though potentially possible, that current property owner policyholders might end up paying more because you might only have a couple of policies at the moment that cover your property costs, but then your current lessors might be paying off their policies and subsidising the levy that way. So this could actually be a further cost on some people; they could be paying more than they are paying at the moment. I do not think we can make a decision without having some analysis of that. Some people are now arguing that the current system is not fair. Arguably, you are going to a more equitable system, but they could be paying more.

Mr PAUL McLEAY: There may be just as many winners and just as many losers under the new system.

Ms GLADYS BEREJIKLIAN: Correct.

Mr CLARK-LEWIS: I am not disputing what you say. The one clear difference is that the 10-odd per cent of people who pay nothing now will pay something.

Ms GLADYS BEREJIKLIAN: That is right.

Mr CLARK-LEWIS: That addresses the largest inequity in the present system. But, you are right: the number of winners or losers will depend on whether effectively the fire service levy rate charged on the insurance premium gives greater or less than the fixed-dollar amount, or the fixed-dollar amount plus a percentage of the value of the unimproved land value of their property. Whether that is greater or smaller is an issue for empirical analysis. I think that was one of the reasons that Treasury has been dealing with the Insurance Council of Australia to try to do some of that analysis and make that information available to the Committee. That has proved to be quite difficult.

Mr JOHN TURNER: You mention in your submission the levels of insurance following the Sydney hailstorms. Do you have any other figures available following the recent bushfires in Sydney and Canberra or other major emergencies that might validate the hailstorm figures? Is there a trend?

Mr CLARK-LEWIS: We have not got any additional figures for New South Wales. We did start looking at the Australian Capital Territory, but we decided it was not going to be very useful in the sense that the ACT does not have a tax on insurance, so it is not a comparable system. It has a different amount of non-insurance, and we cannot explain the extent to which that is related to their insurance system, or whether it is not. It might be a good question to ask Fire Brigades, because that is where we would be looking to get that sort of data.

CHAIR: If there are no further questions from the Committee, I thank you very much for appearing before the Committee this morning and for the time and effort you have put into your submissions.

(The witnesses withdrew)

KEN MORRISON, Executive Director New South Wales Policy, Property Council of Australia, Level 26, Australia Square, 264 George Street, Sydney, and

CHERYL ANNE THOMAS, Senior Policy Advisor, Property Council of Australia, Level 26, Australia Square, 264 George Street, Sydney, affirmed and examined:

CHAIR: In what capacity are you appearing before the Committee?

Mr MORRISON: I am appearing in a professional capacity.

Ms THOMAS: I am appearing before the Committee as a representative of the Property Council of Australia.

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 332, 333 and 334, which relate to the examination of witnesses. Is that correct?

Mr MORRISON: That is right.

Ms THOMAS: Yes.

CHAIR: The Committee has received a submission from your organisation. Is it your desire for that submission to form part of your formal evidence today?

Mr MORRISON: Yes it is.

CHAIR: Would you like to make an opening statement?

Mr MORRISON: Yes, thank you. As you said, we have presented a submission, and we are also signatories to the Alliance submission on this issue. We have had the opportunity to meet with the Committee informally prior to that, and we appreciate that as well. I will keep my comments brief to give more time for questions. I thought that for the record I should just outline what the Property Council is and what we bring to this issue. The Property Council of Australia is a national industry association representing the property industry, primarily the investors, owners, managers, developers, those who risk money in the property sector. Most of that money is retirement savings in one form or another either through listed property trusts, superannuation vehicles or insurance.

To this issue, I guess the main direct role our members have here is as owners of non-residential property in the main who currently pay their levy through insurance and are very interested in whatever reforms may follow from the Committee's deliberations. As I said, we have made our own submission and we are also a signatory to the alliance submission. As you would have seen from that, we support reform. We believe that the current system is inefficient. There are free riders. There is some inequity in the current system. We think that there is opportunity through reform to provide savings to taxpayers. Our preferred model is that the current system be replaced with a property tax and a motor vehicle tax, recognising that about 17 per cent of callouts currently come through on motor vehicles.

We believe that the savings would appear through obviously insurance premium savings and the elimination of free riders who currently exist in the system, the non-insured and the underinsured. We also think that there are inefficiencies in the current mechanism, primarily the tax on tax impost, which has been diabolical for the fire services levy. As you know, you have GST in a fire services levy and then on the top you have stamp duty as well. So we believe that that alone would provide some savings benefit. However, if the modelling shows that there is not that benefit to be achieved then we would support maintaining the current system. Our support for change is that change is better and part of being better is that it should provide savings to those taxpayers who are contributing adequately at the moment.

CHAIR: Just so I am clear on that, you have a theoretical desire for change according to the reasons you have just outlined but that is subject of course to what the modelling shows.

Mr MORRISON: That is exactly right. We all hoped that the modelling would have been in front of us now so we could speak on the basis of those facts. That is not the case. We understand that the modellers' access to data is quite poor when it comes to non-residential property, and we are very keen to assist the Committee in providing case studies for wide range of properties so that the modelling can be as accurate as possible. One of the things that concerns us is that in Western Australia when the move was made to a property levy the Government saw it as an opportunity to raise a significant amount of more revenue and the actual impost on some owners, such as shopping centres, went up 200 per cent and 300 per cent in some cases. Of course, that impost washes around the system and many retail tenants ended up bearing the cost of that.

That ended up a very messy situation for the Government, which then had to go back in and retrospectively apply caps to deal with part of that issue. It was a political mess for the Government as well. We are keen to avoid that sort of situation. You are exactly right. If the numbers do not fall out that there are savings which can be passed through to those who are contributing appropriately at the moment then we do not think there should be change. But on the evidence we have seen we think there should be capacity for change.

CHAIR: Can you perhaps describe some further advantages and disadvantages you have seen in other jurisdictions? What are some of the best features that you think New South Wales should take on board should we change our system?

Mr MORRISON: The main advantage is the motor vehicle component, recognising that motor vehicles are a significant drain on the current system, and that in an allocation of cost type model they should also contribute to the funding of fire services. That would be one. The tax on tax issue is uppermost in our industry's mind. They are probably the two.

CHAIR: Why did the council join the Alliance?

Mr MORRISON: Because we believe those efficiencies could be there. I mean, if you just take a theoretical economic approach to it, and we have had a lot of that just from Treasury, clearly it is not an efficient mechanism to collect a tax. So we believe the savings could be there, so it was in pursuit of savings to our members that we joined that. However, we did not feel that because of the makeup of the alliance enough focus was put to what this thing may look like, assuming reform does occur, so we thought it was necessary also to put in our own submission.

CHAIR: Earlier you spoke of free riders. Your organisation represents a lot of multinationals around the country. Are you aware that any of your members self-insure or insure offshore and therefore are not paying the levy?

Mr MORRISON: A lot of our members insure offshore. Once you get to a certain scale that becomes an efficient way of doing it. However we understand that most of those deals are brokered on-shore, the insurance levy is paid through the on-shore brokering. But if people in the industry are avoiding the fire services levy through offshore insurance, we have no wish to necessarily protect that practice.

CHAIR: Obviously you would not know the commercial arrangements of all your members. You could not confidently say that there are people who do not insure offshore and avoid a local broker. I am trying to explain that without using double negatives and triple negatives. There is a possibility that some of your members insure offshore.

Mr MORRISON: Yes, there is a possibility and we discussed that. But as I said, we are not looking to protect that practice. Our understanding is that that is probably minor and, because most of the insurance is brokered offshore, then in fact the levy would be paid.

Mr STEVE WHAN: You referred to motor vehicle contributions. Do you see that being collected through the third party property insurance or through registration fees?

Mr MORRISON: Whatever is most efficient. I guess in our minds that would probably be an additional levy on registration. But, presumably, it would be a relatively small amount of money distributed across the population. Rather than putting it through insurance we would have thought that most efficient way would be through registration. But as with the property tax, levy or whatever you want to call it, whatever is most efficient should be the one proceeded with.

Mr PAUL McLEAY: But with motor vehicle insurance premiums with the levy of less than 1 per cent, the premiums are much higher compared to the value of assets. It is not necessarily an inequitable collection. The value that you are paying for the fire service levy compared to the value of the asset is not necessarily out of proportion to the value of the levy you are paying compared to the value of your asset.

Ms THOMAS: Under the current model?

Mr PAUL McLEAY: Yes.

Mr MORRISON: If it is switched to a property-only levy without having a loading them that would be equitable, I think that is what we are saying. If it were only 2 or 3 per cent of the cost of the fire services you would not worry about it, but because it is 17 per cent or more—

Ms THOMAS: It is more than 20 per cent.

Mr MORRISON: That is a significant cost. If we are going to something that is a more efficient useer-pays method then that should include motor vehicles.

Mr RICHARD TORBAY: Recommendation 9 in your submission says that the New South Wales Government’s 14 per cent contribution towards the fire levy should be fixed in legislation. Yet in recommendation 11 you say that the State of New South Wales should continue in its capacity as a property and vehicle owner. It reads as though you are asking the State to pay twice. What is the position?

Mr MORRISON: Currently, the State would pay through its insurance as well as the contribution is makes. The point of recommendation numeral nine is that we feel it is important that the State make an appropriate contribution to fire services funding. We would not like to see the State withdraw from that commitment. We would want to see any property or vehicle assets that the State held, as a point of competitive neutrality, also pay that levy.

Mr PAUL McLEAY: Is it proposed that the 14 per cent in the legislation be the maximum?

Ms THOMAS: Are you proposing to take it further?

Mr PAUL McLEAY: No more than 14 per cent.

Mr MORRISON: The Western Australian experience is in front of our minds. We do not want to see the Government withdraw from its commitment.

Ms THOMAS: We would say that it is essentially maintaining the status quo so far as the government's contribution is concerned.

Mr STEVE WHAN: I refer to your recommendation 18, which states that unimproved capital value should be used to calculate property-owner contributions. Recommendation 19 states that proximity and risk factors should be used to calculate levy contributions by property owners. Is that within an overall amount that is determined on the unimproved capital value of the property?

Mr MORRISON: You need to go to some sort of value basis, and we think UCVs the appropriate value basis—it is a basis for rates and land tax, therefore it makes sense that it be the basis here. Clearly, there needs to be some normalisation factors, and proximity is one of those. If you have a farm in the back of Bourke somewhere not getting adequate fire services then it is not very equitable that you should be asked to pay the same rate as someone in the middle of the CBD would.

Mr STEVE WHAN: You see that as something that is calculated by the Government on the basis of the area you are in rather than factors like the risk of the business you operate on the land?

Mr MORRISON: Yes, it would be more simple if it were geographically defined. If the Government or someone had to make some assessment of risk factors on an individual basis it would be a highly costly system and burdensome.

CHAIR: Are you aware of the complex issues and disputes that have occurred in Queensland where they have this risk-based system?

Mr MORRISON: Yes, our members are not particularly keen on the Queensland system. I cannot say that I am an expert on the Queensland system, but I know that when our members are acquiring portfolios that go across jurisdictions they shudder at dealing with the Queensland system.

Mr RICHARD TORBAY: What about the Victorian system, the deductibles and sharing some of that risk?

Mr MORRISON: I would need to come back to you on some of that level of detail. It may be that we bring one of our property managers, a major owner, who can provide that level of experience.

CHAIR: I raise a question following on from Mr Whan's question, because if you go down the line of risk as a hybrid with property you then have to start drawing lines right across the State as to what categories different areas are according to risk and then set up a dispute process so that people can seek exemptions from that category. Queensland seems to have been bogged down in disputes.

Ms THOMAS: We would not want to see it overly complicated by the risk factor. Something that is in the forefront of our mind is that it is not just fires that fire services are attending, it is unpredictable events such as hail storms, floods and wind storms, things that cannot be factored into the risk calculation. That is why we are trying to keep it relatively simple. Proximity is the main factor there, but with some consideration given to risk. We are not experts in risk management.

Mr JOHN TURNER: Earlier you mentioned that the CBD would have a higher risk factor than a place at the back of Bourke. We now have fire prone land legislation and I would suspect that the city of Sydney is not covered it. But where I live, in Foster, the whole Shire of the Great Lakes is classed as fire-prone land. Someone has already drawn a line on the map to say that it is a high-risk area. We may have to clarify some aspects of that so that we do not get confused.

Mr MORRISON: You raise a good point in terms of risk, particularly with commercial property. Although a lot of the CBD buildings we can see out of the windows—

Mr JOHN TURNER: If a CBD building goes up it is a lot different from—

Mr MORRISON: It is probably less likely to go up than an individual home because it is professionally managed.

Ms THOMAS: It has fire sprinklers throughout.

Mr MORRISON: There is a lot of legislation, there is a lot of effort on the part of the owners and managers to ensure that risks are minimised and therefore it is always likely to have fire risks in like buildings.

Mr PAUL McLEAY: We are yet to do modelling. I would have thought that it is possible, it may not be likely, that at the moment your members might already get a subsidised rate. My argument is that if we have a property owner who has household insurance and as the property, if it were to move to a property-based situation everyone would be treated equally and there would not be cross-subsidisation where you have three levels of insurers in the one property. Managing agents would not have to pay and strata fees would not involve insurance. If it were just one property the person and the property would have to pay for their share and they would not be able to subsidise their share through their tenants.

Mr MORRISON: Currently, land tax or other like taxes are distributed. It comes out in the rent somehow. Depending on the list structure, it can be either passed on directly or it can be part of the underlying rental.

So, any costs like that will be part of the lease structure and tenants will pay some contribution to that, either directly or indirectly. In reality, if current insurance premiums were rolled into the same sort of property levy, that would occur as well. It would depend on how the lease was structured but that would be direct or indirectly through the rental premium. Just to restate what I said at the start, we think there are opportunities for savings to our owners. We think the model will be really important, particularly with non-residential property, because residential property is a much easier thing to model. You do not have the variety in residential property that you do in non-residential property. Clearly, an industrial shed somewhere has a different profile to a central business district office building and to a corner shop. So, a vast array of different things need to be modelled. We are aware of the fact that the models have poor access to that data so we would like to look very closely at that.

Ms THOMAS: Having said that, it is important that we do perceive from a theoretical basis that we are proposing to get rid of a very inefficient tax structure and replace it with a more efficient tax structure, but until the modelling is done to bear that out we think there should be a commitment to go through that process and look at the different types of buildings, the different proximity issues, and see how it bears out.

Mr MORRISON: The bottom line is, if no savings are to be made, we should stay with the current system.

Ms GLADYS BEREJIKLIAN: I would have thought you would be concerned about the residential and commercial investment property owners, who would bear a disproportionate burden of levy, given that currently people who rent would not contribute.

Ms THOMAS: It could be passed on through the rents.

CHAIR: On page 9 of your submission you suggest that the commercial sector contributes more towards insurance coverage than households. Do you have any of your own figures to back that up or are you using Insurance Council figures?

Ms THOMAS: We are using Insurance Council figures, on the basis that our understanding is that commercial property owners tend to insure their property. There is more under insurance and non-insurance among households. Theoretically, it seems to make sense, but those figures come from the Insurance Council.

CHAIR: Do you have any evidence that suggests that the cost of insurance leads to non or under insurance?

Mr MORRISON: In the commercial sector? That may be at the lower end of the market but at anything but the lower end of the market it would not be an issue. You are talking about significant investment.

Ms THOMAS: Sorry, I have had discussions with the Department of State and Regional Development that I should have followed through more. Apparently it has instances where it had people threatening to leave the State, regional investors who had to get a special proviso from the Treasurer to be exempted from some of the insurance levies. They were thinking that it was so exorbitant—it had tripled in one case and they scaled back to a doubling instead. So the Department of State and Regional Development has had this issue.

Mr MORRISON: This is new businesses coming into New South Wales?

Ms THOMAS: This is businesses existing, suddenly found that their insurance policies have over a small period tripled, and have approached the Government and said that "without some sort of intervention we are looking at leaving the State, we cannot afford this". It has had other instances where major investors looking to locate here have examined it and come across the levy as an issue.

Mr MORRISON: We will provide the committee with contact details.

CHAIR: To put that into context, the levy would have increased because the premium would have substantially increased for many factors. One might be lack of competition in the insurance market and the conservative approach of the insurance companies in the market at the moment?

Ms THOMAS: I am not sure what triggered the increase but I just know it has been an issue. There was an approach made to Government and concessions provided, so we will definitely follow that up.

Mr STEVE WHAN: Your recommendation 23 is that any funding shortfall resulting from the transition or as a result of budget supplementation to New South Wales Fire Brigades or fire services should be funded by the New South Wales Government from Consolidated Revenue. You are saying there that you believe the levy should not rise in the future?

Mr MORRISON: No. Because of the current way the insurance levy operates, there is forward funding and back funding of the fire services, which causes essentially what the property owner pays currently just to be an estimate of what is going to be needed for fire services. If you reform the system, one of the options would be to continue running with some form of insurance as well as a property tax, concurrently, so that the insurance could perform that back funding function. We would not want to see those two, we would not want to see double taxation effectively, by having an insurance levy and a property levy running concurrently. I do not know what the numbers would be but we do not think they would be substantial. We think the Government should step in and cover them.

CHAIR: Commercial properties generally have much more valuable items in them than residential properties. Would you agree that commercial property owners therefore should contribute more to funding fire services, given the nature of their operations and the value of their assets compared to residential property owners?

Mr MORRISON: We want to see a simple basis for funding fire services. We think that is the unimproved capital value basis. It is the basis used for land taxes and rates, as I said. In terms of the computers, machinery or plant or whatever else may be in a commercial building that may or may not be in residential building, that gets you towards assessing risk and assessing some form of cost, and our figures provide the mitigating factors in terms of professional management of those facilities. To jump into that area would be to jump into a very detailed discussion of how risk and costs might be assessed, which is a complicated system.

Mr PAUL McLEAY: So, you are looking at ways of discounting, not ways of improving or increasing?

Mr MORRISON: The fundamental view is that we think it is a fairly inefficient system at the moment. Currently a lot of our members, as well as the rest of the community, are paying for that inefficiency. We think if there is reform of the system is seems to us that if those inefficiencies are passed back to the taxpayers as well as a free ride on tax, it is another inefficiency. If it is found through the modelling that that is not there, then let us stay with the current system.

Ms THOMAS: When you say the contents of the building, in a lot of cases those contents are owned by the person who is leasing the building, so it is not the building owner who would suffer that loss if they are damaged. I guess we are removing a levy on those tenants, but it would be definitely coming through their rents based on property values and the underlying property values, used as a basis for land tax and rates at the moment, and should reflect, hopefully to a good degree, the contribution those people should make.

CHAIR: You make a very good point, that many commercial tenants are the ones who pose the greatest fire risk and have a lot of value in their premises. The property-based system would have them avoid paying the levy unless they were subsidising it by rent.

Mr MORRISON: It would certainly be rolled into rent, either directly or indirectly.

Mr STEVE WHAN: The unimproved capital value basis for this levy could not reflect the difference in the risk of what is inside the building or even the difference in the risk of the types of commercial activity.

Mr MORRISON: But does insurance reflect the level of risk for fire services? It is probably a very approximate risk.

Ms THOMAS: Despite insurance.

Mr MORRISON: Because it is theft, or a whole range of other things.

Mr STEVE WHAN: Although the evidence we heard this morning suggested it was about 24 per cent of the estimates of the premium, so that is at least an estimate of the risk involved.

Mr MORRISON: But you are pointing to a fundamental difference between the current system and the proposed property/motor vehicle levy. One is something which includes some attempt at correlating the risk, although it is pretty poor, and the other is just a far simpler system.

Mr PAUL McLEAY: So that there is not any?

Mr MORRISON: Yes.

Mr PAUL McLEAY: Particularly given the fact that they have said that, with a bushfire service in comparison with the city, the city service or the town service is so random that you cannot even estimate it.

Mr MORRISON: Yes.

Mr STEVE WHAN: In your experience, do insurance companies, when they are determining premiums for major commercial clients or property owners, look at factors in individual buildings, such as what sort of fire control systems they have in the buildings? Is a 70-year-old building with no sprinklers rated the same as a brand new building with good fire systems?

Mr MORRISON: I do not know.

Ms THOMAS: I do not know.

Mr MORRISON: We will write to you on that. I would have thought so.

Mr JOHN TURNER: It would be no different from household insurance. You get a different premium if you have a deadlock or you have not got a deadlock.

Mr MORRISON: I would have thought so, but we will follow up on that and write to you.

CHAIR: Talking about efficiencies, do you think it is more efficient having about half a dozen insurance companies collecting and spreading that, instead of six people collecting it? You have 172 councils.

Mr MORRISON: That is a good question. We do not necessarily think that. One of the things we have raised in our submissions is that collecting it through councils should be assessed against collecting it through the Office of State Revenue [OSR]. If it is more efficient to collect it through OSR, then that is what it should be. OSR does have access to unimproved capitalised values [UCVs] through the office of the Valuer-General [VG]; it is just a letter and a bill with whatever normalisation factors would be applied for geographical or risk issues, or whatever else. They could be applied as easily at OSR as at a council, so whatever is more efficient should be proceeded with.

CHAIR: I am pleased that the Property Council has turned its mind to motor vehicles as well.

Mr MORRISON: Yes.

CHAIR: Some States such as South Australia have a different levy or fee for normal cars as distinct from commercial cars, such as trucks.

Mr MORRISON: Yes.

CHAIR: No doubt they would argue that that is because trucks, should an accident occur—especially those carrying hazardous materials—would require much greater services from the Fire Brigade. Would you recommend a difference in the levy between normal residential vehicles and those for business use?

Ms THOMAS: I think it needs to be examined. Based on the preliminary analysis which I did looking at Fire Brigades, the growing area of demand for fire services among motor vehicles is through cars—motor vehicle cars, not commercial. Again, it could be the risk management practices.

CHAIR: Is that based on a number of accidents, or the cost?

Ms THOMAS: No, it is the number of call-outs. It is the number of fires actually attended.

CHAIR: That would make sense because there are many more cars than there are trucks.

Mr MORRISON: But it is the growth rate?

Ms THOMAS: But it is growing significantly. That is where the growth rate is. The trend is with motor vehicle cars generating the greatest demand.

CHAIR: But they also generate the most levies, when it is added up: all the levies are on cars.

Ms THOMAS: Yes. I guess in terms of—

CHAIR: You can argue that, but your argument does not—

Ms THOMAS: But I have approached it from a risk angle. The risk is probably more so among just the family car.

CHAIR: When you say "risk", do you mean of an accident?

Ms THOMAS: Of an accident occurring, than among commercial vehicles.

CHAIR: When I say "risk", I mean the expensive job. You could probably use one fire truck to clean up a couple of car wreckages, but you would need a number of fire trucks with expensive and professional equipment if a tanker fell over.

Ms THOMAS: But the frequency with which they occur needs to be considered.

Mr MORRISON: The bottom line is that we have not gone into this in great detail, but obviously it is something that you should consider.

Mr PAUL McLEAY: In your submission you gave weight to what you call the tax effect.

Mr MORRISON: Yes.

Ms THOMAS: Yes.

Mr PAUL McLEAY: Our terms of reference are that they be at no cost to government. Therefore, if there was to be a reduction in what you call the triple tax effect, there could be a higher rate paid into fire services. Would that be right?

Mr MORRISON: If the government builds in the current inefficiency through triple taxation in any new system, then the only result of that can be that taxpayers pay more. We just think it would be diabolical, really, to fold in a triple tax inefficiency into any new payment system. That has got to be part of the benefits that are sold. I am aware of that term of reference but whether that term of reference is actually intended to apply to the contribution the government makes as direct funding or whether to the incidental tax-on-tax benefit is another matter and probably open to the Committee's interpretation. But the other thing to note with the triple tax issue is that the Federal Government's terrorism levy applying through insurance commenced last month. There is also a tax-on-tax impact on that. So the Government has just picked up a nice little windfall there, so I think there is plenty of scope for the Government to pick up on that windfall, and let this one go.

CHAIR: You discussed setting maximum charges, should the Government move towards a property-based levy. How would you look at setting that maximum levy? How would you review those maximum caps? What sort of factors should be considered in reviewing those caps?

Mr MORRISON: This is where we need to get our hands on the modelling and really run case studies through. This is the difficulty of not having the modelling.

CHAIR: We will endeavour to get back to you with that as soon as it is ready, and maybe hear from you after that.

Mr MORRISON: Yes. We are very keen to provide you with a wide range of case studies, from the smallest to the largest to different property centres, so you can see the numbers of all those.

Mr PAUL McLEAY: Are you aware that section 80 of the Fire Brigade Act has a requirement that the fire service levy should be put on policy premiums?

Ms THOMAS: We are now, but we were not. The advice from the Insurance Council was that certain companies had started not putting it on their policy premiums for legal reasons, given that they tend to over-collect or under-collect. If they over-collect, then it is misleading to the customers to say that this money is going towards the levy when in fact the organisation or the company keeps it. We are aware that some companies have stopped doing it for legal reasons, but up until today we were not aware that it was actually part of the Act.

CHAIR: Thank you so much.

(The witnesses withdrew)

ROSS JONES, Executive Director, Northern Sydney Regional Organisation of Councils, care of Lane Cove Council, Epping Highway and Longueville Road, Lane Cove,

NICHOLAS ASHLEY TOBIN, Northern Sydney Regional Organisation of Councils and Director Corporate Services Willoughby City Council, 31 Victor Street, Chatswood, and

ROY GARY NEWSOME, Northern Sydney Regional Organisation of Councils and Group Manager—Corporate Services, Ryde City Council, 1 Devlin Street, Ryde, sworn and examined:

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

Mr JONES: That is correct.

CHAIR: The Committee has received a submission from your organisation. Is it your desire for that submission to form part of your formal evidence?

Mr JONES: Yes, it is.

CHAIR: Would you care to make an opening statement?

Mr JONES: I would like to make a brief opening statement on behalf of my colleagues. They may wish to add something also. Then we would be happy to take questions. We are very appreciative of Parliament holding this inquiry. We have believed for quite some time that the current system of fire service levy charges is not appropriate. We are a small organisation: we have one full-time staff member, and you are talking to him now. So we have not attempted to cover all the possibilities. For the technicalities I will defer to my two colleagues. The history of the fire service levy is clearly explained in the paper produced by the Local Government Association [LGA]. We did not intend to go over that but we do not think that because that is the history that is the right way to do it; in fact it is time for change, and it has probably been time for change for a very long period.

In our short submission we have not gone into a lot of the technicalities. We certainly do not pick a preferred means of doing this, because we simply did not have the time and resources. We also recognise the fact that an organisation such as ours, which is a voluntary group of councils, will not necessarily always be able to find a common position with regard to preferred methods of charging a levy or whatever else you might call it. So we have left it alone and we have tried to concentrate on showing a few other things that we hope will illustrate the iniquitous position that the current system results in. Then we would like to take questions. Page 3 of our submission has a small table. It was prepare by our member Ku-ring-gai and forms part of its submission.

We included that table merely because we think it is extremely illustrative of the position that local government areas find themselves in when looking at this levy. We have not done it with any others, other than Ku-ring-gai. Our member picked those two councils, probably, and I say that advisedly, because it was probably the worst illustration. However, that does not mean that it is not an appropriate way to show the problems, imbalances and inequities in the system. I cannot go to queries about that because we did not produce it, but we think it is a fair representation.

There is another table which we show, again, for illustration purposes. That is our main attachment of the Financial Assistant Grant [FAG] table. We have two of those. This is produced by our member, Ku-ring-gai Council, not originally to go into this submission; it was done as an exploration of what dollars mean to different groups. FAGs come from the Federal Government to local government; you all know that and you all know the system so I will not go through it. From that we attempted to show how much of that particular grant simply disappears in the fire service levy. The short table on attachment (1), the Ku-ring-gai Council table, you will see that the worst example is Hunters Hill Council—96 per cent of its FAG goes to pay its fire service levy. I put it no higher than that. On the second page we have visited all the suburban councils.

CHAIR: You do not mean fire service levy there, you mean they are statutorily required to pay 12.3 per cent towards the cost of local fire services.

Mr JONES: No, the fire levy is that.

CHAIR: That is what you mean by "levy".

Mr JONES: Yes.

CHAIR: What the general public calls a levy is what appears on their insurance contracts?

Mr JONES: Correct. This is how much by percentage goes out the door as soon as it comes in. There are other ways to compare things, but we thought that that was appropriate. Another table was prepared by our member, Ryde. It is a question of the levy as it relates to rate pegging. I will go back a few years, and will not bore you with a long table. In 1999-2000 the fire brigade levy increased by 10.24 per cent, and the rate pegging increase was 2.4 per cent. In 2000-01 the fire brigade increased by 10.93 per cent, and the rate pegging increase was 2.7 per cent.

In 2001-02 the fire brigade levy increase was 6.08 per cent, and the rate pegging increase was 2.8 per cent. In 2002-03 the fire brigade increase was 13.3 per cent, and the rate pegging increase was 3.3 per cent. This is not a transparent levy, it is not fixed in a way that people can understand, argue and debate. A figure is given by the Minister. We have to live with that. There is no consultation, there is no provision for debate. It is not clear, it is not transparent.

CHAIR: On rate pegging, what budgetary constraints does that provide to your council? Did you cut back on other services or seek other areas in which to gain revenue?

Mr NEWSOME: Yes we do. We seek all those opportunities, but the rate-pegging limit has been in place in New South Wales since the mid-1970s. The rate-pegging limit requires a council to prioritise the services that it provides to the community and to make adjustments within the scope of that funding.

Mr RICHARD TORBAY: I have been part of local government as well. The Local Government Act allows councils to request a variation on the basis of something so clearly inequitable as an increase above the CPI or the rate put in place by the Minister. Have variation applications been made?

Mr JONES: I am not aware of any. It would be extremely difficult to do because every council would want to do it, so there would be no system. Everyone would apply and everyone would expect to get it if it were based on that premise. Therefore, they would not get it. It is done, but some councils have success and some do not. It is usually for specific purposes. It would not be granted simply to pay the fire service levy.

Mr TOBIN: It is not that substantial each year; it is 1 per cent or 2 per cent of the rates. Over 5 or 10 years council makes a large submission saying that the rates must be increased because infrastructure is failing and it needs to do a major works program, or the environmental issues are out of hand and money must be spent. It is all part of the catch up. The submissions are based on something different such as infrastructure or other works.

Mr RICHARD TORBAY: It would make the point to Government that if costs increase by 13 per cent and income is capped at 2.6 per cent or whatever, the industry, the association or, in your case local government, would be asking how long this could go on without other areas suffering.

Mr NEWSOME: I have no doubt that some councils have applied for a variation based on State Government levies or charges.

Mr PAUL McLEAY: Surely the process of rate pegging includes increased costs such as the fire service levy.

Mr NEWSOME: The Local Government Association rate task force has been working and reporting to the Minister for Local Government. It has prepared a model that reflects a local government index supposedly showing—I have not seen it—that had the proper index been applied local government statewide would have received an additional $800 million. There is a deficiency in the rate-pegging limit. That is obviously up for conjecture or debate.

Mr PAUL McLEAY: Perhaps not in this committee.

CHAIR: The table you referred to indicated a very large difference between Ku-ring-gai's annual contribution of $1.15 million and Blacktown's contribution of just over $700,000. Is that contribution the amount legislated or the amount the council wishes to contribute?

Mr NEWSOME: It is the amount required to be contributed according to the formula and based on the valuations of each local government area. That table highlights deficiencies in the system and the inequity between the populations.

Mr JONES: I am aware, and we have alluded to it in our submission, that some councils pay significantly more, particularly those in bushfire prone areas. Ku-ring-gai and Hornsby pay more out of their own pockets, but they get no credit. The amount is not small, but I cannot provide the exact figures.

Mr PAUL McLEAY: However, the benefit they get is that their ratepayers are satisfied.

Mr JONES: Yes. But there is still no incentive for them to do that financially because they still get hit with exactly the same amount of money as they would have been, whether or not they had done it. There is a feeling that somewhere along the line that is not proper.

Mr RICHARD TORBAY: But local government has a shared responsibility. I have seen all the facilities and I know what happens when there is an emergency. All councils' resources are used. They have a shared responsibility. How far does that responsibility go?

Mr JONES: I do not know. I cannot answer that question. In a private capacity, I am captain of the bushfire brigade at Baulkham Hills, so I have done it for a long time. Baulkham Hills council, which is not subject to what we have heard today, provides a lot of subsidies to the system and it works really well. There is no obligation to do that. The community wants it, the community can do it, and it works. However, on the other side of the spectrum there is no credit for that.

Ms GLADYS BEREJIKLIAN: NSROC has clearly articulated to us the problems being experienced in the current system. What is your preferred model? What do you want to replace it with? We have heard today from Treasury and others that they would like to go to a model whereby councils collect the levy from ratepayers as opposed to insurance companies. In that structured model presumably there would be an adjustment to the way that rate-pegging is done under current arrangements. Could you state briefly what you think NSROC's views would be on alternative models and what you think of that specific model?

Mr JONES: I cannot really do that because, as I have said in the submission, we have not taken a preferred model on that. Some of our members had already decided to put in their own submissions. In an organisation such as ours, which is a voluntary organisation, you have to take the common ground where you can find it. In the one month that we had to write or put in our submission we were not in a position to consult to a point where we got a common approach to this. My colleagues can talk about what is the position of their councils and maybe we can draw some comparisons out of that. I cannot answer that question specifically.

CHAIR: The main argument put forward by the Insurance Council and the Property Council is that it should be removed from their premium and collection umbrella and it should be thrown onto councils. That represents 75 per cent of the funding. Their submission does not address your concern. Your concern is about topping up that 75 per cent with around 12.5 per cent, or whatever the Government chooses for that year. I can see a big difference between your argument and the other argument.

Mr JONES: Part of the problem with insurance—I briefly heard this mentioned this morning and we have written about it and put an emphasis on it—is that not everybody is paying. The current system is iniquitous. It does not treat people equally. People escape the net in various ways. They do not insure; they underinsure; or they insure offshore. We have put some real guesstimates in our submission about what it might mean using the Lgov paper that was circulated. It could mean a 20 per cent, 25 per cent or 15 per cent difference. I do not think anyone really knows that yet. But that has to be fixed for a start before we start to ask, "How much is all this really costing? How do we start to share out the cost burden?" We do not charge local government a levy to provide the local police service. We do not charge local government to provide the local ambulance service. I am not suggesting for one minute that we should. They are emergency services and they are there to protect life and property, and so is the fire service. However, it is funded differently. Why? Historically it was funded differently. We need to change that.

Mr STEVE WHAN: I refer to the alternative model that has been presented in the main by the Insurance Council. That is the model that it has been suggested will go to councils who will then put a levy on rates. It has been suggested to us that that should be based on unimproved capital value, which would then mean that some ratepayers would end up paying more. Do you think that that would result in the same inequity that you were complaining about, or do you believe that is a fair way of doing it? I have taken into your comment on other people's views, but what are your views?

Mr TOBIN: I think you are right. It builds in inequities. Someone in a small house on a highly valued piece of land would pay a lot more than someone in a big house on lower valued land. So maybe the process should be to have some sort of minimum charge per property, the same as we do with rates. We have a minimum rate and up to a certain land value you pay that minimum rate. After that you pay whatever it calculates out at. So there may be a way of levelling it out throughout the community. Where the debate needs to go is how we can get it more equitable across the community. I do not think you could justify it on land values alone, as a percentage of land value. You need to have a threshold in there. Then you would get a much more equitable system across the whole community.

Mr JONES: Nothing is perfect. We cannot devise a perfect system for this. But we have to be able to devise a better system than we have now.

Mr NEWSOME: The Lgov submission actually brought up that issue of the minimum and maximum amounts of the levy. So again, from an equity point of view, I support what Nick said about the valuation of rateable properties. The Lgov's submission also suggested and recommended that, if there was a levy, it would also apply to non-rateable State government-owned property so that the burden and the aspect of risk would be shared more broadly across the community. That may have the implication that charities, churches and schools would be required to make a contribution to the fire service, whereas in the past that has not been required of them. Moving away from the current insurance system to a more general property user-based system would be a fairer approach to take.

Mr PAUL McLEAY: Most of the submissions include the proportion that is collected by insurance being put to property. They make no comment on the contributions that you are talking about. So would that be in addition to those contributions?

Mr NEWSOME: I am not sure what they are proposing.

Mr PAUL McLEAY: Lgov said that if it moved to property all other sections would be excluded. It would just be obtained from one simple source.

Mr NEWSOME: As I understand it, there is still a proportion. The State Government is still contributing and there is a proportion from a property based approach.

Mr PAUL McLEAY: But not local government.

Mr TOBIN: Local governments would be added to the insurance companies and levied on the land value, which is really what is happening now. But you do not actually see that as a separate line item on their rate notices. At the moment it is a $1 million dollars for Willoughby, but it is just part of our general expenditure. That would be pulled out and added to whatever else. The formula is that Willoughby has to collect on land value and that is what you would have on the line item, the total amount to be collected and being remunerated straight to the New South Wales Fire Brigades.

Mr PAUL McLEAY: So there are not three collection points. There is not a State Government contribution, a local government contribution and insurance. Are you saying that there should be one collection point for all, or are you saying that there should be one collection point for all, plus the State Government contribution?

Mr TOBIN: I do not think we have a position on that.

Mr NEWSOME: As I understood it, the State Government would say, "X percentage to be recouped from a property based approach." That might not be the total 100 per cent. Therefore, whatever proportion that is, there would be one collection agency for that.

Mr TOBIN: If the State Government decided that that money was going to go elsewhere or other taxes were going down it could all come off the land value of the property. If the State Government is putting in a chunk what will it do with that chunk?

Mr PAUL McLEAY: We already do, and so does local government.

Mr TOBIN: I imagine that the Government would say to us that our rate-pegging limit would drop if we were going to put it all over onto a charge against the property. You are not going to let us have $1 million to spend on something else that year.

Mr PAUL McLEAY: If the Government gave you a direct government property tax, obviously that would reduce your rates because you would not be collecting that 13 per cent any more. Would you agree with that?

Mr TOBIN: Yes. The only point I would make is that although it has been 2.8 per cent, there have been 10 per cent increases in the levy. We need to make sure that that reduction reflects what it should be. Do not take $1 million from us because we have been paying that over a number of years. Let us work out what it should be. The new rate pegging task force has a formula that can prove all these things. The local government Minister sees merit in that formula. It may be that negotiations need to take place as to what that reduction in rate pegging should be.

Mr STEVE WHAN: If the system were to move to that, obviously councils would pay some sort of levy for their properties. Would you make a net saving?

Mr NEWSOME: I understand that this has been identified. The real impact on local government in that scenario is not clear. As I understand it, a commitment has been given for further financial modelling that needs to be undertaken between the State Government, the Insurance Council of Australia and the Local Government Association. That needs to happen because the total amount to be collected still has to be determined each year. I think that is the real issue. We need to have that financial modelling to understand what that is and how it should be spread.

CHAIR: How will non-rateable properties be addressed?

Mr JONES: We put that in there as a catch-all and as a thought-starter, because it is an issue that can be very emotional and it has been around for a long period of time.

CHAIR: Would you identify non-rateable properties in your area?

Mr NEWSOME: Churches, schools, hospitals.

Mr JONES: State Government departments, buildings, bus depots, railways. There are a whole range of things that are not rated.

CHAIR: Would it be difficult to impose the additional levy?

Mr NEWSOME: At the moment—and I am not sure that this is consistent across New South Wales—as I understand it non-rateable properties are not valued and therefore there is no valuation on them. But I would imagine that the Valuer-General's Office would be able to provide that information reasonably easily.

Mr JONES: We collected at a Regional Organisation of Councils level a fair amount of data on the amount of non-rateable property for the Federal Government inquiry into cost shifting. As part of our work in putting together a submission on that, we collected a very large amount of data on each local government association in our areas, the total non-rateable land and what categories it fell into. I may still have that data, and if I have you are welcome to it because we have already used it. But it would only cover, say, five of the seven councils, and none of it has any rateable dollars assigned to it because it is not rated and it has never been rated. It does not actually add to that debate; it simply tells you how much there is and where it is.

Mr TOBIN: Because councils control the land parcels and exactly what land is there, they all have a unique identifier. So there is a system there to be able to put a value on it and attach the levy. There is a process to go through to do that.

CHAIR: Do you think that councils would be better placed to collect the levy, or should a specific body such as the Office of State Revenue collect it?

Mr NEWSOME: There are some issues here. Earlier you asked what we thought about local government being the collection agency. May I raise some points that Ryde City Council raised in a submission we gave to the Local Government Association. If councils were expected to be the collection agency, the State Government would need to assure our communities that it is seen as a State Government tax, and not an income local councils. There would be a perception within the community when they saw it on their rate notices that it was another levy or income source for local councils. That is our real issue of perception that needs to be understood.

With regard to the rate pegging issue, if there were a change to the system in relation to how the levy was collected or distributed, there may be a perceived reduction for local government from its direct contribution, while it was paying its tax or levy on its individual properties in its area. I think the question is whether local councils would reduce their rate pegging amount.

Another view would be that there is a lot of suppressed demand for services in local government across the State. While at the moment our funds are allocated to pay the contribution to the State Government for a fire service levy, if that was not there those funds could be well used in providing other services, such as infrastructure for roads, drainage, community service, and so on. There is an enormous amount of suppressed demand. I think that is also the result of a long history of rate pegging. It is just sitting there, and each year councils try to struggle to balance the budget.

If councils were expected to be the collection agency, there is an issue here as to whether it would be classed as a debt against the land. There would be a requirement to change legislation. If that option were chosen the Local Government Act would be required to be changed to make sure that the amount of the levy was a charge against the land, that it would be shown against the relevant certificates, and that the local council would actually follow it up. So there are a fair amount of changes to our systems and costs associated with that process.

If this were not provided, it would be an unworkable situation whereby the council issued the notice for the levy but did not then follow through with the recovery of it. From Ryde City Council's perspective it would be totally unworkable. Another issue is that the State Government would be required to meet the costs of the initial set-up, making sure it was effective and unworkable, and meeting an appropriate charge.

CHAIR: What level of costs do you envisage?

Mr NEWSOME: I think more work is required to work out the cost. There has been a suggestion from some parties of 4 per cent or 5 per cent. I am not sure whether that is adequate. I am simply flagging that there is a need for more.

Mr PAUL McLEAY: Treasury officers gave evidence this morning that the ongoing cost, excluding set-up, would be about the cost of the ink for printing the additional page.

Mr NEWSOME: I would like to think that in that process representatives of local government, the State and other parties would be involved in reaching some understanding and agreement, making reference to the Tuckey inquiry and the cost shifting. If this process is put in place, whatever the revised system is, hopefully we can reach an outcome that is fair to both sides.

Mr TOBIN: Perhaps those Treasury officials would like to sit in the rates department when the rates go out, and perhaps then they will understand this a little better. The first year will be the worst. Year after year they hold inquiries about that levy, chasing up bad debts, and they have to put on more staff to do that and incur the cost of debt collectors. The cost is not over the top, but there are real costs involved. We need to work out what non-rateable properties are to have this levy, and structure it in such a way that it will work. But it is not out of the question that councils cannot do it. In some respects it is a good way for councils to do it. It may well be an income source for councils, to be able to help generate more income to do other things for the community. I think it is important to sit down with the Government and to work with it on the process. If Treasury thinks it is a line on a rate notice, its officers are kidding themselves. They might want to come out in August next year and spend some time with my rate guys to see how it works.

Mr PAUL McLEAY: We will pass on that invitation.

Mr NEWSOME: I understand that the Queensland system adds it to the electricity accounts. That is another alternative in the revised format. It should not necessarily be local government-led because it is property based. Electricity and perhaps even water rates present opportunities because a similar process occurs in both of those areas.

CHAIR: Water might be more appropriate than electricity because the electricity industry is so deregulated and there is no standard provider. A number of council areas provide water for citizens.

Mr STEVE WHAN: Not everyone pays water rates.

CHAIR: That is right. Does the organisation share the view of New South Wales Local Government and Shires Associations with regard to alternative funding options for fire services? Are you aware of that submission?

Mr JONES: We have not had the benefit of seeing any other submissions.

Mr STEVE WHAN: We have discussed that a little.

CHAIR: I am trying to pin you down to some models.

Mr NEWSOME: There was reference to the Office of State Revenue and the South Australian model. This inquiry could obviously consider that option. Is that what you are referring to?

CHAIR: I know that you do not speak for all councils, but what models do you wish to pursue? You seem to have ruled out the current model and want to move to a property-based model. Do you want it to be risk assessed, land value assessed or rental income assessed?

Mr PAUL McLEAY: Should there be concessions for seniors, Rural Fire Service volunteers and so on?

Mr NEWSOME: Should there be higher levies for commercial centres? That issue was raised in the local government association paper. Our council has supported the position whereby a differential rate or levy applies to commercial centres, industrial centres and residential centres. In that I think you would certainly have regard to pensioners. That is obvious. It may be covered by the minimum and maximum provisions in the paper. I think those thresholds and differentials must be in the system in order to spread the burden appropriately.

Mr PAUL McLEAY: I am assuming that you favour the property-based model.

Mr NEWSOME: It is like local government raising rates: it is not perfect system but every property has a value and it is a basis to work from. I do not know whether the outcome of this inquiry will be a perfect model. I suppose the acid test will be how it impacts on various sectors of the community.

CHAIR: We will probably achieve very close to perfection.

Mr TOBIN: The real issue for council is getting rid of this uncertainty about what contribution we have to pay and why it is so out of kilter with the rate-pegging legislation. That is where we are coming from. This could be a means of getting it out of the realm of local government being seen as some revenue-collection body that is always trying to put up rates. We are simply trying to fund other services and other levies hidden in the rates. We are saying that we want whatever you do that takes uncertainty out of our rate pegging.

Mr PAUL McLEAY: What proportion of your budget minus rebates goes to the fire service?

Ms GLADYS BEREJIKLIAN: It depends what proportion the financial assistance grant is of the overall budget. That is how you would work it out.

Mr PAUL McLEAY: Of your x-million dollar yearly budget, how much does it cost? Presumably it would vary, but are we talking 2 per cent or 3 per cent, 10 per cent or 15 per cent?

Mr TOBIN: It is 2 per cent of our total recurrent budget and 4 per cent of our rate levy. It is very significant.

Mr NEWSOME: We have a $35 million rate collection at Ryde and a $1.3 million contribution for the fire levy.

Mr JONES: That is roughly 3 per cent.

CHAIR: Thank you for appearing before the Committee today. I appreciate your time and your submission.

(The witnesses withdrew)

(The Committee adjourned at 2.05 p.m.)