

## **INQUIRY INTO FIRE AND EMERGENCY SERVICES LEVY**

**Organisation:** Combined Pensioners & Superannuants Association of NSW Inc  
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# **Submission to Inquiry into the fire and emergency services levy –**

Portfolio Committee No.4 – Legal Affairs  
NSW Legislative Assembly

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*CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 76 branches and affiliated organisations with a combined membership of 26,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.*

## **Key points in this submission:**

- From a social equity point of view, unimproved land value is a poor tax base for the FESL, because many cash-poor owner-occupier households would not be able to afford to pay. This would affect the efficiency with which the FESL would be collected and would cause economic and emotional hardship for some low-income households.
- The introduction of the FESL on 1 July 2017 would have meant that anyone whose insurance policy expired after 1 July 2017 would have doubled up on their 'old' levy to a greater or lesser extent.
- There is personal liability for emergency ambulance fees and most people take out insurance for that, with exemptions available to concession card holders. Similarly, there should be personal liability for fire and emergency services fees and an option to obtain insurance, with exemptions available to concession card holders.

CPSA welcomes the opportunity to respond to the *Inquiry into the fire and emergency services levy*. The Fire and Emergency Services Levy (FESL), if implemented using unimproved land values as its main base, has the potential to have a significant impact on the standard of living of low-income people who own and occupy their home. The following comments in response to the Inquiry's terms of reference are provided:

## **Policy process and financial modelling underlying the provisions of the Fire and Emergency Services Levy Act 2017**

CPSA's position in relation to the method of revenue collection to fund fire and emergency services proposed for the Fire and Emergency Services Levy Act was that it should not proceed. That position was informed by two main considerations.

First, a previous proposal<sup>1</sup> to raise a levy directly on land owners, rather than indirectly by imposing a levy on insurance companies, was found to be inadvisable as it would lead to cost increases for those paying the levy and would be administratively difficult to boot. While implementing the FESL would ensure that both insured and uninsured property owners would be liable for the levy so that cross-subsidisation would cease (at least between these two groups), the benefit to insured property owners would most likely be erased by higher collection costs.

Second, the proportion of residential property owners who did not insure was small at the time of a 2007 Insurance Council of Australia report<sup>2</sup>:

- 4% of households are not covered by building insurance;
- 28% of households do not have contents insurance;
- Most houses not covered by building insurance are priced below the median;
- 97% of households without contents insurance rent on the private market; 70% of those households consist of young singles;
- 6% of retiree households have no building insurance and 13 % have no contents insurance;
- Non-insurance is closely linked to income – the lower a household's income, the more likely it is to forego building and contents insurance.

This suggested that those who did not insure pre-dominantly could not *afford* to insure. Changing the levy to one imposed on property owners directly would cause further financial hardship on uninsured residential property owners.

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<sup>1</sup> Public Accounts Committee, NSW Legislative Assembly, Fire Services (Inquiry), 2004.

<sup>2</sup> The non-insured, who, why and trends, Dr Richard Tooth and Dr George Barker, Centre of Law and Economics, for the Insurance Council of Australia, 2007.

The NSW Government has only ever made the case for reforming the funding model for fire and emergency services by reference to fairness, or rather unfairness: it is unfair that those who insure should cross-subsidise fire and emergency services for those who don't insure.

However, the reform of the 'old' levy went further than attempting to ensure all property owners paid it. Effectively, the FESL reform also changed the basis of the levy from value insured to unimproved land value. As a result, property owners in urban areas, while jubilant about no longer having to cross-subsidise uninsured land owners, discovered that the amount of the levy they would pay increased dramatically, while those in rural and regional areas discovered that they would pay much less.

At the same time, the reform abolished the levy for other forms of property insurance, such as cars and boats, effectively introducing cross-subsidisation by land owners of owners of movable property, a large proportion of which would consist of luxury items and therefore generally not owned by owner-occupiers of land who currently do not insure their real property. In other words, while claiming to rid the levy of unfairness, the NSW Government prepared to introduce other unfairnesses.

When the public caught on to what was about to happen, the public debate centred on the shift in the basis of the levy from value-insured to unimproved land value and the significant increases urban owner-occupiers and owners of commercial property would pay. What did not get a proper airing was the fact that during the first year after its introduction the vast majority of land owners would be charged double, once under the 'old' levy and once under the FESL.

For example, someone whose insurance policy fell due on 1 January 2017 and expired on 31 December 2017 paid twelve months' worth of emergency services levy through their insurance policy on 1 January 2017. The FESL was to be introduced on 1 July 2017, collected by local government. The person in this example would have had to pay the new levy for 2017-2018, doubling up on six months. It was falsely claimed that the 'old' levy, part of this person's insurance premium paid on 1 January 2017, was for the 2016-2017 year and that it was paid in arrears, even though 1) the insurance premium as part of which the 'old' levy was paid, was by definition and by necessity paid in advance and 2) if the 'old' levy was paid in arrears, the person in this example would have paid the levy in respect of a period during which they were either not insured or covered by a premium paid on 1 January 2016, which would also have had an 'old' levy component. Whichever way it is presented, the person in the example would have paid double in the first year of their insurance policy or in the last. This means that anyone whose insurance policy expired after 1 July 2017 would have doubled up on their levy to a greater or lesser extent.

In summary, the policy process and financial modelling underlying the provisions of the FESL Act insofar as these were conducted publicly failed to address some key concerns and issues.

It is therefore disappointing that the NSW Government, when it announced it was deferring the introduction of the FESL, would not countenance the impact the FESL would have on cash-poor households, instead focussing on the effects on business.

### **Policy and financial implications for all stakeholders of repealing this Act**

Repealing the FESL Act 2017 and continuing with current arrangements would be consistent with CPSA's previously expressed comments on this issue.

### **Alternative models for ensuring that fire and emergency services are fully funded in a fair and equitable manner**

CPSA's policy preference is for essential Government services to be funded from Government consolidated revenue raised as part of a progressive income tax system. However, CPSA acknowledges that the NSW Government has limited ability to raise progressive income taxes and that unimproved land value as part of the FESL tax base is arguably a progressive approach of sorts, with the emphasis on: of sorts.

The decisive argument against the approach taken by the FESL is that unimproved land values do not in many cases reflect ability-to-pay on the part of the landholder. For example, a person whose sole source of income is the Age Pension but who has lived in an area that has gentrified around them over a long period of time and whose unimproved land value is quite high, would be unable to use the wealth the land on which their house sits to pay for an FESL as mandated in the Fire and Emergency Services Act 2017 other than by selling or reverse mortgaging their house and land.

From a social equity point of view, unimproved land value is a poor tax base for the FESL, because many cash-poor households would not be able to afford to pay. This would adversely affect the efficiency with which it would be collected and would cause economic and emotional hardship on low-income households.

It could be argued that improved value reduced by unimproved value component is a more appropriate tax base. It essentially equals the value of improvements. The tenuous attraction of using the value of improvements as the FESL tax base is that the higher the value of the improvements, the more recent those improvements are likely to have been created, reflecting recent financial liquidity on the part of their owner, justifying a levy based on their value, which will depreciate over time.

The method currently used to set the levy (i.e. indirectly on insurers who pro rata it for individual policy holders based on sum insured) effectively is a value-of-improvements method, although it is probably fair to assume that the majority of policy holders insure certainly buildings on the basis of new-for-old so that depreciation of improvements is not reflected in sums insured. As noted back in 2004<sup>3</sup>, such a method would very likely be administratively cumbersome and inefficient.

What has been absent from the FESL debate to date has the pricing of fire and emergency services. For example, the NSW Ambulance service approach to cost recovery and funding of emergency services operations is one of genuine fee-for-service. Ambulance fees are not covered under Medicare and persons using an ambulance are liable for a fee. Private health insurance covers ambulance services, while concession cardholders are exempt from fees.

However, given that emergency ambulance services and fire and emergency services attend the same emergencies by and large, there is an excellent case for the funding of fire and emergency services to work similarly to the funding of emergency ambulance services. Rather than property insurance premiums being inflated with an amount to enable insurance companies to recover the levy paid by them, people will have the option to insure themselves for fire and emergency services, while concession cardholders would be exempt. As a result of this exemption, low-income households would generally not need to insure against use of fire and emergency services. It would be a socially equitable, effective, administratively simple and efficient approach.

It would mean that owner-occupiers, lessors and tenants would have a responsibility to have an ability to pay for fire and emergency services, which they can discharge through paying an insurance premium specific to their individual risk profile, while low-income households would be wholly or partially exempt. The insurance premium could be offered both as a standalone and as an optional add-on to any property insurance policy.

It would also mean that the double-dip associated with the FESL would not occur, as fire and emergency services insurance policies would in most cases run concurrently with home and contents insurance policies and provide cover for the same period. In any case, the policy holder would determine when their fire and emergency services insurance policy commenced and ended.

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<sup>3</sup> Public Accounts Committee, NSW Legislative Assembly, Fire Services (Inquiry), 2004.

## **Any other related matter**

CPSA is concerned that the FESL reform, rather than the restructuring of an inefficient, non-transparent tax, was the NSW Government's first move in a campaign of sourcing more of its revenue from land tax, inspired no doubt by the recommendations of the Henry Review<sup>4</sup>. The logical next step would be the replacement of stamp duty with a land tax.

The economic benefits of land tax may be great in the mind of economists, but they tend to overlook that in a country like Australia, being an owner-occupier landholder is a necessity rather than one in a range of housing options. By taxing land used for owner-occupation, it is certain that those who have bought land for the sole purpose of having a roof over their head in a developed country without meaningful housing policies will be disproportionately disadvantaged if their income is low and they have no other assets of financial significance. Striking a land tax indiscriminately brings financial hardship to low income households.

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<sup>4</sup> Australia's future tax system, Report to the Treasurer, December 2009.